Pearson LCCI

Certificate in Cost and Management Accounting (VRQ)
Level 3

Friday 9 June 2017
Time: 3 hours

Paper Reference
ASE20098

Complete the details below in block capitals.

Candidate name

Centre Code

Candidate Number

Candidate ID Number

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen
  – *pencil can only be used for graphs, charts, diagrams, etc.*
- **Fill in the boxes** at the top of this page with your name, candidate number, centre code and your candidate ID number.
- Answer **all** questions.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*
- Answers should be given to an appropriate degree of accuracy.

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- You are advised to show your workings.
- Check your answers if you have time at the end.

Turn over

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Answer ALL questions. Write your answers in the spaces provided.

1 Marshall Ltd manufactures a product using Material X40, which it obtains from a supplier.

Each delivery of Material X40 consists of 3 000 kg at a cost of $50 per kg.

The lead time for delivery varies between 12 days and 18 days.

The rate of usage of Material X40 varies between 32 kg and 48 kg per day.

(a) Calculate, for Material X40, the:

(i) reorder level in kg

(1)

(ii) minimum inventory control level in kg

(2)

(iii) maximum inventory control level in kg

(3)

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(iv) average inventory in kg.

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Marshall Ltd uses Material A60 in a separate production process.

The following information relates to Material A60:

Order quantity	2 000 kg
Purchase price	$28 per kg
Monthly usage	4 500 kg
Minimum inventory	1 800 kg
Ordering costs	$380 per order

Inventory holding costs are 20% of the average inventory holding per annum.

(b) Calculate, for Material A60, the:

(i) annual ordering cost

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(ii) inventory holding cost.

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Confidentiality is important when dealing with management information.

(c) Explain **two** methods that could be used to keep management information confidential.

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(d) Explain **two** consequences of a business having inadequate data security procedures.

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(Total for Question 1 = 21 marks)

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2 Meyler and Clucas makes a single product.

The following budgeted information was available for a period:

Standard hours per unit	4.5 hours
Production	2 100 units
Fixed overheads	$132 300

The actual results for the period were as follows:

Production	2 416 units
Fixed overheads	$141 750
Hours worked	11 235 hours

Note: Standard hours are used as the basis for the fixed overhead recovery.

(a) Calculate the fixed overhead recovery rate for the period.

(2)

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(b) Calculate the following fixed production overhead variances for the period:

(i) expenditure

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(ii) volume

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(iii) capacity

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(iv) efficiency.

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(c) Prepare a statement, using the **four** fixed overhead variances you calculated in (b), to show the total fixed overhead variance.

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(d) Explain the differences between an ideal standard and an attainable standard.

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(Total for Question 2 = 16 marks)

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3 Bruce and Son Manufacturing Ltd operates an integrated accounting system and the following information is available for the year ended May 2017.

Opening balances of inventories:

	$
Raw materials	57 500
Work in progress	34 680
Finished goods	40 900

	$
Purchases of raw materials (on credit)	367 800
Production overheads absorbed	86 250
Direct wages incurred	74 750
Materials transferred to production	333 400
Indirect materials issued to production overheads	19 800
Indirect wages and salaries incurred	27 400
Factory cost of goods completed	488 290
Other production overheads incurred	16 250
Materials written off	7 500
Cost of goods sold	508 230
Administration overheads incurred	54 200
Selling and distribution overheads incurred	32 600
Depreciation on production machinery	22 480
Revenue	694 500

(a) Prepare the following accounts for the year ended May 2017.

(i) Raw materials

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(ii) Work in progress

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(iii) Finished goods

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(iv) Production overheads

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Details	$	Details	$

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(v) Profit and loss.

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Details	$	Details	$

(b) Explain the importance of using control accounts when operating a **non-integrated system**.

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(Total for Question 3 = 20 marks)

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4 Davies and Dawson has the possibility of investing in **one** of two projects, each costing $600 000. Both projects would have a life of four years, with no residual value.

The following are the estimated net cash flows for the two projects:

	Project Aye	**Project Bee**
	$000	**$000**
Year 1	260	140
Year 2	290	160
Year 3	150	220
Year 4	90	225

The company's cost of capital is 12% per annum.

Discount factors:

Year	**12%**	**15%**
1	0.893	0.870
2	0.797	0.756
3	0.712	0.658
4	0.636	0.572

(a) Calculate the net present value for **each** of Project Aye and Project Bee.

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(b) Evaluate, based on your calculations in (a), which of the two projects the company should invest in.

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(c) Calculate, for **Project Aye**, the:

(i) internal rate of return

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(ii) **discounted** payback period (in years and months).

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There are differences between long-term decision making and short-term decision making.

(d) Identify the following:

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Example of a long-term decision:

Costing technique(s) applied to a long-term decision:

Example of a short-term decision:

Costing technique(s) applied to a short-term decision:

(Total for Question 4 = 19 marks)

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5 Hernandez Ltd uses absorption costing, based on a labour hour rate, to establish the production costs for the three products it manufactures.

The budgeted details for the next period are as follows:

Product	**Exe**	**Whye**	**Zed**
Production (units)	3 000	2 500	2 000
Direct materials ($)	144 000	96 000	57 600
Direct labour ($)	134 400	112 000	67 200
Direct labour hours per unit	4	4	3
Direct materials per unit (kg)	5	4	3
Machine hours per unit	2	4	3

Exe, Whye and Zed all use the same direct material purchased at the same price.

Direct labour is paid at the same hourly rate for working on Exe, Whye and Zed.

Production overheads for the period are $408 800 and are absorbed on a direct labour hour basis.

(a) Calculate the production costs (to two decimal places) for **one** unit of **each** product using absorption costing.

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The company is now considering using activity based costing (ABC) to calculate the production costs of each product.

The following overhead information is available for the period:

Activities	**Costs ($)**	**Cost drivers**
Inspection	120 000	Number of production runs
Machining	112 200	Number of machine hours
Packaging	49 500	Number of orders
Material handling	127 100	Quantity of material used

	Exe	**Whye**	**Zed**
Number of production runs	150	200	250
Number of orders	150	175	225

(b) Calculate the production costs (to two decimal places) for **one unit** of **each** product using activity based costing.

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The Production Manager for Product Exe is arguing that the company should change from using absorption costing to activity based costing.

(c) Evaluate absorption costing and activity based costing, with reference to your calculations, and recommend to the company which method should be used to account for the overheads.

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(Total for Question 5 = 24 marks)

TOTAL FOR PAPER = 100 MARKS

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