

Mark Scheme

July 2017 **Results**

Pearson LCCI (ASE20098) Level 3 Certificate in Cost and Management Accounting



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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded.
 Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question	Answer (AO1) 2	Mark
1(ai)	Ideal Standard – is the standard set under the highest (or best ever) level of performance and efficiency (1) usually under perfect operating conditions (1)	(2)

Question	Answer (AO3) 2	Mark
1(aii)	Answers may include:	
	Given that perfect conditions rarely exist (or cannot be bettered) (1), it is likely that most variances arising from its use will be adverse (1)	(2)

Question	Answer (AO2) 2	Mark
1(bi)	Material price (SP – AP) x AQ Actual price = \$150 380 / 41 200 kg = \$3.65 / kg (1) (3.80 – 3.65) x 41 200 = \$6 180 Favourable (1)	(2)

Question	Answer (AO2) 2	Mark
1(bii)	Material usage (SQ – AQ) x SP Standard quantity = (45 000 / 12 000) x 10 760 = 40 350 kg (1) (40 350 – 41 200) x 3.80 = \$3 230 Adverse (1)	(2)

Question	Answer (AO2) 2	Mark
1(biii)	Labour rate (SP - AP) x AQ Actual rate = \$143 520 / 15 600 hours = \$9.20 / hour (1) (9.00 - 9.20) x 15 600 = \$3 120 Adverse (1)	(2)

Question	Answer (AO2) 2	Mark
1(biv)	Labour efficiency (SQ – AQ) x SP Standard quantity = (16 800 / 12000) x 10 760 = 15 064 hours (1) (15 064 – 15 600) x 9.00 = \$4 824 Adverse (1)	(2)

Question	Answer (AO2) 2	Mark
1(bv)	Fixed overhead expenditure Budgeted Overheads = 12 000 x 6.25 = \$75 000 (1) 75 000 - 78 150 = \$3 150 Adverse (1)	(2)

Question	Answer (AO2) 2	Mark
1(bvi)	Fixed overhead volume OAR x (actual – budgeted output)	(2)
	6.25 x (10 760 - 12 000) (1) = \$7 750 Adverse (1)	

Question	Answer (AO1) 1	Mark
1(ci)	Own figure rule applies. Based on answer to (b)(i).	
	Answers may include:	
	Material bought from an alternative supplier (1) Material might have been of a lower quality (1) Material might have been bought in bulk (1) Market prices for material might have fallen / excess supply on markets (1)	(1)

Question	Answer (AO1) 1	Mark
1(cii)	Own figure rule applies. Based on answer to (b)(iv).	
	Answers may include:	
	Workers may have been of a lower quality / skill level (1) There may have been material breakdowns / idle-time (1) Workers may have had difficulty using poor quality materials (1) Market prices for material might have fallen / excess supply on markets (1) Standard hours might have been based on an ideal standard (1)	(1)

Question	Answer (A01) 2 (A03) 2	Mark
2(a)	Award 1 AO1 mark for basic point and 1 AO3 mark for development. Answers may include:	
	Physical space (1) – the company may not have enough room to store the inventory / may not wish to spend money on renting space (1) Life-span of product (1) – to avoid wastage/ if too much inventory is held then some of it may perish and have to be thrown away (1) Financial constraints (1) – inventory is money tied up in the stockroom which could be better used elsewhere (1) Holding Costs (1) – for example heating, security cost which the company may have to keep to a minimum (1)	(4)

Question	Answer (AO2) 2	Mark
2(b)	Orders required (6 000 x 12) / 8 000 = 9 orders (1) 9 x \$200 = \$1 800 (1 of)	(2)
	For an of the number of orders must be a whole figure.	

Question	Answer (AO2) 2	Mark
2(c)	Average Inventory = 2 000 + (8 000 / 2) = 6 000 kg (1) 6 000 x \$0.75 = \$4 500 (1)	(2)

Question	Answer	(AO2) 6			Mark
2(d)	Costs	8 000 kg	24 000 kg		
	Purcha sing	\$648 000	\$628 560 (1)	97% x 72 000 x £9.00	
	Orderin g	\$1 800	\$600	72 000 / 24 000 = 3 (1) 3 x £200 = £600 (1 of)	
	Holding	\$4 500	\$10 500	2 000 + (24 000 / 2) = 14 000 (1) 14 000 x £0.75 = £10 500 (1 of)	(6)
	Total	\$654 300	\$639 660	(1 of for both)	
				Total must include all three items for the 'of' mark.	

Question	Answer (AO4) 2	Mark
2(e)	Own figure based on answer from 2(d). The company will save money (1) if the size of its orders is 24 000 kg. (1)	(2)

Question	Answer (AO1) 2 (AO3) 2	Mark
2(f)	Answers might include (TWO required):	
	 Business would hold enough inventory (1) – this would ensure that it never lost production/sales/customers as a result of running out (1). 	
	 Business would hold the right type of inventory (1) – this would help the business to maximize sales/reduce wastage (1). 	
	 The business would not hold too much stock (1) – ensuring that holding / ordering costs are minimized/less money is tied up/less wastage is suffered (1) 	

Question	Answer (AO2) 5			Mark
Question 3(ai)	Answer (AO2) 5 Operational overheads: Depreciation km/lorry km $4 \times (84\ 000\ -\ 12\ 000) / 5 =$ $400\ 0.24\ (1)$ Licenses/Insurance $4 \times 4\ 000 =$ $000\ 0.0667\ (1)$ Servicing / Repairs $4 \times 4 \times 850 =$ $400\ 0.0567\ (1)$ Tyres $4 \times 8 \times 2 \times 250 =$ $000\ 0.0667\ (1)$ Operational overheads 800	Total km \$57 600 \$16 000 \$13 600 \$16 000 \$16 000 \$103 200 <u>240 000</u>	\$14 \$4 \$ 3 <u>\$4</u> \$25 <u>60</u>	Mark (5)
	ОАК рег кт \$0.43 \$0.43 (1of)	\$0.4 3		

Question	Answer (AO2) 2			Mark
3(aii)	Administrative overheads: Office rent, rates and insurance	\$50 000		
	Administrative Jobs	\$16 000 \$66 000 300	(1)	(2)
	job	\$220	(1)	

Question	Answer (AO1) 2	Mark
3(b)	Answers may include: TWO required.	
	Using a pre-determined overhead absorption rate will ensure that indirect costs are included when setting prices (1)	
Assuming that budgeted overheads and output are accurately assessed, the indirect costs will be passed onto the customer (1)		(2)
	Including overheads will provide a more accurate cost of producing the product and will help with decision-making like assessing the viability of an activity (1)	

Question	Answer (AO3) 2	Mark	
3(c)	Advantages may include:		
	Operational overheads: Most of the operational overheads are costs that increase as distance increases or are related to usage of the lorries (1)		
	Administrative overheads : Every job that is arranged requires a certain degree of administration regardless of the size of the job (1)		

Question	Answer (AO2) 3		Mark
3(d)	Drivers Wages 40 x £15 = Fuel (900 / 6) x \$1.50 = Operational overheads 900 x \$0.43 (OF) = Administrative overheads (OF)	\$600) \$225)(1) \$387) £220)(1) \$1 (1 OF) 432	(3)

Question	Answer (AO2) 5				Mark
3(e)					
	Operational absorbed 27 200 x \$0.43 (OF)	\$11 696		(1of)	
	Operational Overheads \$103 200 (OF)/12	\$8 600		(1of)	
	Over absorption		\$3 096	(of)	
	Administrative absorbed 24 x \$220 (OF)	£5 280		(1of)	(5)
	Administrative Overheads \$69 960* /12	\$5 830		(1)	
	Under absorption		(\$55 0)	(of)	
	Over-al	bsorption	\$2 546	(1of)	
	\$66 000 x 1.06 = \$69 960				
	16 976 (2) less 14 430 (2) = 2 54	16 over-abs	orption	(1)	

Question	Answer (AO4) 4 (AO5) 2	Mark
3(f)	 Answers may include: Positive factors: At current rates, the company will over-absorb by \$30 552 (1) – which means that overheads costs per job / km were less than budgeted (1) If the company continues to do more work than budgeted then there will be more contribution made (1) – and therefore more profit (1) If the company is charging at a market rate, then the over-absorption will result in more contribution than expected (1) – and therefore more profit will be made (1) 	
	 Negative factors: If the market is competitive then prices quoted might be higher than they should be (1) – and some customers might be lost (1) Maximum of 4 marks for each side of the argument. Decision: Laburnum should re-calculate overhead absorption rate (1) which both should be made smaller (1of) Award 2 marks for conclusion that is compatible with the points made. 	(6)

Question	Answer (AO2) 1	Mark
4(ai)	Selling price = <u>595 000</u> or <u>892 500</u> = \$5.95 per unit (1) 100 000 150 000	(1)

Question	Answer (AO2) 1	Mark
4(aii)	Labour-related bonus = <u>65 000 - 60 000</u> = \$0.05 per unit (1) 100 000	(1)

Question	Answer (AO2) 1	Mark
4(aiii)	Heat, light and power fixed = 22 600 - (100 000 x \$0.10) = \$12 600 (1)	(1)

Question	Answer (AO2) 1	Mark
4(aiv)	Cost of hiring 1 machine = \$35 000 / 5 = \$7 000 (1)	(1)

Question	Answer (AO2) 2	Mark
4(av)	Variable = <u>\$154 000 - 147 000</u> = \$0.14 per unit (1) 150 000 - 100 000	
	Fixed = \$154 000 - (150 000 x \$0.14) = \$133 000 (1)	(2)

Question	Answer (AO3) 2	Mark
4(b)	 Answers may include: Flexed budgets will enable more appropriate targets to be set (1) performance to be more fairly judged (1). OR Flexed budgets will result in more appropriate variances (1) resulting in more appropriate action being taken (1). 	(2)

Question	Answer (AO2) 1	.2				Ма	rk
4(c)							
		Actual	Budget		Variance		
		162	162				
		000	000				
	Revenue	955	963	(1)	8 100		
		800	900		Adv		
	Costs:			(1)			
	Materials	286	291		4 860		
		740	600		Fav		
	Labour	69 450	68	(1)	1 350		
			100		Adv		
	Heat, light &	29 120	28	(1)	320		
	power		800		Adv		
	Machine hire	63 800	63	(1)	800		
			000		Adv		
	Prod overheads	153	155	(1)	1 930	(1)	רכ
		750	680		Fav	(14	2)
	Non-prod	123	123		500 Adv		
	overheads	500	000				
	Total Costs	726	730	(1	3 820		
		360	180	of)	Fav		
	Net Profit	229	233	(1	4 280		
		440	720	of)	Adv		
		_					
	Award 1 mark for	any 2 co	rrect varia	ances.			
	Award 2 marks to	r any 4 co	orrect var	iances.	1		
	Award 3 marks to	r any 6 co	orrect var	iances.	1		
	Award 4 marks to	r all 9 cor	rect varia	inces.			
	All variances are o	own figure	es.				

Question	Answer (AO2	3)			Mark
5(a)	Potential profit 4.70) \$7.80 (1) = \$ 2	= (10 000 - 6 500) 27 300 (1)	3 500 (1)	x (12.50 –	(3)
	Revenue:	10 000 x 12.50 =		125 000	(3)
	Variable costs: Fixed costs: (1) Potential Profit (1)	10 000 x 4.70 =	47 000 50 700	(97 700) 27 300	

Question	Answer (AO2 2)	Mark
5(b)	Target Profit = (\$55 590 + 27 300) \$82 890 / \$5.45 (1 of) = 15 210 units (1)	(2)

Question	Answer (AO2 2)	Mark
5(c)	Contribution = $$9.95 - $4.50 = $5.45 (1)$ Break-even (units) = $$55 590 / $5.45 = 10 200 units (1)$	(2)

Question	Answer (AO2 6)	Mark
5(d)	Option 1: Margin of safety (units) = 10 000 - 6 500 = 3 500 units (1) Margin of safety (%) = 3 500 / 10 000 (1 of) × 100 = 35.00% (1 of)	(6)
	Option 2: Margin of safety (units) = 16 000 - 10 200 = 5 800 units (1 of)	
	Margin of safety (%) = 5 800 / 16 000 (1 of) x 100 = 36.25% (1 of)	

Question	Answer (AO4) 2 (AO5) 2	Mark
5(e)	1 AO4 mark to be awarded for basic point and 1 AO5 mark for development.	
	Answers may include:	
	 In favour of option 2: Gives a higher possible profit (1) - \$31 610 exceeds the target profit of \$27 300 which is not achievable under option 1 (1) 	
	 Gives a slightly higher margin of safety (1) - 5800 units vs. 3500 units for option 1 (1) Give a higher margin of safety as a percentage of sales. (1) 36.25% vs. 35% for option 1 (1) 	
	 Under option 2, every unit not sold will only result in lost contribution / profit of \$5.45 (1) – which is less than the \$7.80 lost under option 1 (1) 	(4)
	 Against option 2 (assumptions): Contribution per unit for option 1 is higher (1) \$7.80 per unit vs. \$5.45 per unit (1) Breakeven point is lower for option 1 (1) 6 500 units vs 10 200 units for option 2 Assumes that the lower price will lead to sales of 16 000 units per month (1) – there is no guarantee that this demand will be there (1) 	
	 It has been assumed that the variable cost will be reduced under option 2 (1) – there is no guarantee of the bulk discounts on materials (1) 	
	 It has been assumed that the company has the capacity to produce 16 000 units per month (1) – and that fixed costs would only increase by \$4 890 (1) 	
	Decision: Option Two should/should not be selected. (1) (Must have justification provided).	

Total for paper = 100 marks