Pearson LCCI

Monday 19 November 2018

Time: 3 hours | Paper Reference **ASE20098**

Certificate in Cost and Management Accounting (VRQ)
Level 3

Please check the examination details above before entering your candidate information

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 Eucalyptus manufactures a product called the CR3. The owners of Eucalyptus are currently preparing the budgets for the three months ending 28 February 2019.

- Sales are expected to be:

	December 2018	January 2019	February 2019	March 2019
Units (CR3s)	9 120	7 220	7 980	9 500

- One CR3 requires 6.8 kg of material Q, costing $9.50 per kg.
- Management have made the following decisions concerning inventory.

	Inventory 1 December 2018	**Inventory Decision**
Finished CR3s	2 280 units	Closing inventory in any month should represent 25% of the next month's expected sales.
Material Q	25 200 kg	This is to be reduced to 19 200 kg by 28 February 2019 at a constant rate.

- 5% of CR3s produced are found to be defective and are scrapped as they have no value and cannot be reused.
- 15% of material Q is wasted in production.

(a) Prepare the Production Budget for CR3s, for **each** of the three months December 2018, January 2019 and February 2019. Your answer should be in columnar format.

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(b) (i) Prepare the Materials Purchases Budget for material Q for **each** of the three months December 2018, January 2019 and February 2019.

Your answer should be in columnar format and show the amount of material Q that needs to be purchased each month in kgs.

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(ii) Calculate the cost of purchases of material Q, in $, for each of the 3 months December 2018, January 2019 and February 2019.

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(c) Explain **two** benefits of effective inventory management and control.

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(Total for Question 1 = 16 marks)

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2 Yewtree had already apportioned and allocated its overheads for November 2018 to its two production and two service departments.

The following information is available for the four departments.

	Cutting	Finishing	Stores	Human Resources
Number of material requisitions	500	300	–	–
Number of employees	10	20	3	2
Machine hours	2 400	200	–	–
Direct labour hours	1 600	3 200	–	–

(a) Complete the table below:

- re-apportion the Human Resources and Stores overheads
- calculate the Overhead Absorption Rates for the Cutting and Finishing departments using the appropriate methods of absorption. If necessary, round your answers to the nearest $0.01

(8)

	Basis	Cutting	Finishing	Stores	Human Resources
		$	$	$	$
Overheads		89 000	53 000	65 100	42 900
Reapportionment of Human Resources					
Reapportionment of Stores					
	Total				
	Direct Labour Hours / Machine Hours				
	Overhead Absorption Rate ($)				

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The actual overheads and the number of machine and direct labour hours worked during November 2018 were as follows:

	Cutting	**Finishing**
Actual overheads	$147 600	$105 200
Machine hours	2 610	195
Labour hours	1 645	3 420

(b) Calculate the over or under absorption of overheads for **each** of the Cutting and Finishing departments. (Round your answers to the nearest $.)

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(c) Explain the following terms:

(i) allocation of overheads

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(ii) apportionment of overheads.

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Yewtree uses a cost-plus approach when setting selling prices.

(d) Evaluate for Yewtree the over or under absorption of overheads that you have calculated in part (b).

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3 Acacia Ltd is planning its cash flow for the next three months and the following information is available.

- The business will have an overdraft of $7 250 on 1 November 2018.
- Sales and Purchases will be as follows:

	September 2018	October 2018	November 2018	December 2018	January 2019
	$	$	$	$	$
Sales	14 000	14 300	15 200	16 100	16 600
Purchases	6 600	7 150	7 480	7 860	8 230

- 35% of the sales income will be received in the month following the sale and 63% will be received two months after the sale. The balance will be written off as an irrecoverable debt.
- Purchases will be made on one month's credit.
- Wages and salaries will be $2 240 per month, payable in the same month.
- Drawings of $1 500 will be taken each month.
- Heat, light and power will be $225 per month and paid quarterly in January, April, July and October 2019.
- Other costs will be $960 per month plus 5% of sales, payable in the same month as the sale was made.
- Bank charges are 2% per month on any overdrawn balance at the end of a month. This is charged in the following month.

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(a) Prepare the Cash Budget for **each** of the three months November 2018, December 2018 and January 2019. The budget should be in columnar format and all figures should be calculated to the nearest $.

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(b) Explain **two** reasons why it is important for Acacia Ltd to manage its cash flow efficiently.

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(c) Evaluate Acacia Ltd's expected cash flow, as shown in the Cash Budget in (a), for the period November 2018 to January 2019.

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4 Ash owns a business that manufactures dresses. The information relating to production in October 2018 was as follows.

- Inventory on 1 October 2018 was 1 300 dresses.
- The value of the inventory on 1 October 2018 was $8.00 per dress (marginal cost) or $15.00 per dress (absorption cost).
- Direct materials were $8.40 per dress.
- There were 24 workers who were contracted to work 175 hours per month.
- The wage rate paid to these workers is $6.00 per hour.
- Bonuses were paid to workers at a rate of $1.25 per dress.
- Production overheads were $42 400
- Dresses were sold for $20.00 each.
- During October 2018, 8 000 dresses were produced and 7 600 were sold.
- The business uses the First In First Out (FIFO) method of inventory valuation.

(a) Define the following terms:

(i) marginal cost

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(ii) absorption cost.

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(b) Calculate the cost of producing one dress in October 2018 using:

(i) marginal costing

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(ii) absorption costing.

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(c) (i) Prepare a statement showing the profit for October 2018, in columnar format, using:

- marginal costing

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(c) (ii) • absorption costing.

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(d) Explain why there is a difference between the marginal costing and absorption costing profit or loss calculated in (c).

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5 Larch manufactures chemicals and uses process costing. Information relating to the inputs used in October 2018 was as follows:

Material A	1 300 litres costing	$8.00 per litre
Material B	700 litres costing	$6.40 per litre
Material C	1 000 litres costing	$7.50 per litre
Direct labour	400 hours costing	$9.30 per hour
Overheads	Absorbed at a rate of $15.00 per direct labour hour.	

The expected output is 90% of material inputs.

Any losses can be sold at a value of $3.50 per litre.

During October 2018, the amount of good output obtained was 2 820 litres.

(a) Calculate the cost per litre of the good output of chemicals.

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(b) Prepare the Chemical Process Account for October 2018.

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(c) Complete the entries in the following ledger accounts:

- Normal Loss Account
- Abnormal Loss Account or Abnormal Gain Account.

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(d) Explain the characteristics of a business that may use process costing, giving reasons for your answer.

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(Total for Question 5 = 16 marks)

TOTAL FOR PAPER = 100 MARKS

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