Mark Scheme (working draft)
SERIES
Dec 2018

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Post Standardisation

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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.


| 1(c) |  |  |
| :---: | :---: | :---: |
| Question Number | Answer (AO1) 2 | Mark |
| 1(d) | Labour hours <br> Direct material <br> Accept any other reasonable answer Total for question 1 = 16 marks |  |


| Question Number | Answer (AO2) 16 |  |  |  | Mark |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 2(a) |  |  |  |  |  |
|  | Profit as per financial accoun |  | 260940 | (1) |  |
|  | $\underline{\text { Inventory adjustments }}$ Raw materias |  |  |  |  |
| $\begin{aligned} & \text { RM } \\ & 2540 \\ & =2 \end{aligned}$ | Raw materials - opening (74 480-77 100) (2 620) <br> (1) |  |  |  |  |
|  | Raw materials - closing (85 620-80 460) <br> (1) |  | $5160$ |  |  |
| $\begin{array}{\|l} \text { WIP } \\ 8970 \\ =2 \end{array}$ | $\begin{aligned} & \text { WIP - opening } \quad \text { ( } 58070-51 \\ & \text { (1) } \end{aligned}$ |  | $6210$ |  |  |
|  | WIP - closing (43 460-40 <br> (1) |  | $2760$ |  |  |
| $\begin{aligned} & \text { FG } \\ & (1650) \\ & =2 \end{aligned}$ | Fin Goods - opening (125 84 <br> (1) | 080) | (5 240) |  |  |
|  | Fin Goods - closing (158 050 <br> (1) | 5) | $\underline{275}$ |  |  |
|  | $\frac{8545}{269485}$ |  |  |  |  |
|  | Add |  |  |  |  |
|  | Depreciation (31 155-29 180) | 1975 |  | (1) |  |
|  | Interest charges | 6450 |  | (1) |  |
|  | Discounts Allowed | 5080 |  | (1) |  |
|  |  | 13505 |  |  |  |
|  |  | 282990 |  |  |  |
|  | Less |  |  |  |  |
|  | Profit on sale of asset | 4500 |  | (1) |  |
|  | Over absorbed overheads | 4600 |  | (1) |  |
|  | Dividends received | 7550 |  | (1) |  |
|  | Sundry investment income | 8250 |  | (1) |  |
|  | Notional rent charge | $\underline{22500}$ |  | $\begin{array}{r} (1) \\ (47 \\ \hline \end{array}$ |  |
|  | 400) |  |  |  |  |
|  | Profit as per cost accounts (10F) |  |  | 235590 |  |
|  | Must contain all 14 items for the OF total |  |  |  |  |



| Question Number | Answer (AO2) 6 | Mark |
| :---: | :---: | :---: |
| 3(a)(ii) | Internal rate of return @ 20\% <br> IRR for Project Aye $=15 \%+\{5 \% \times[71.78 \div(71.78+22.08)]\}(\mathbf{1 O F})=18.82 \% \quad(\mathbf{1 O F})$ <br> IRR for Project Bee $=15 \%+\{5 \% \times[38.84 \div(38.84+62.24)]\}(10 F)=16.92 \% \text { (1OF) }$ | (6) |
| Question | Answer (AO5) 2 | Mark |
| 3(b) | Management should purchase Machine Aye (1) as it has a greater positive NPV / higher IRR. (1) | (2) |
| Question | Answer (AO1) 2 (AO3) 2 | Mark |
| 3(c) | An example of a long-term decision might be the need to build a new production line to introduce a new (or improved) product <br> (1) <br> The techniques used: payback; discounted cash flow; average rate of return; and internal rate of return (1) NOT absorption costing <br> An example of a short-term decision might be "increasing production over the next three months in order to meet an unexpected increase in demand" (1) <br> Techniques used include: break-even analysis; limiting factors; and marginal costing (1) | (4) |


| Question <br> Number | Answer (AO3) 2 (AO4) 2 (AO5) 2 | Mark |
| :--- | :--- | :--- |
| $\mathbf{3 ( d )}$ | The NPV method recognises that money has a time value. (1) <br> This method calculates the present values of future cash flows <br> and selects projects that have a positive net cash flow (1) <br> It assumes that reinvestment occurs at the projects cost of <br> capital (1) <br> Two max <br> The IRR method calculates the interest rate at which the NPV is <br> zero. (1) This method chooses projects that have a rate of <br> return which is higher than the cost of capital (1) <br> It assumes that reinvestment occurs at the IRR rate (1) |  |
| Two max <br> The IRR does not rely on any external data (i.e. a discount rate), <br> it is purely a function of the inflows and outflows of that project <br> (1) The IRR does not assess the financial impact on a firm; it <br> only requires meeting a minimum return rate (1) | The NPV and IRR methods can rank two projects differently, <br> depending on the size of the investment (1) | There are differences when dealing with mutually exclusive <br> projects, if there are unusual patterns of cash flow, e.g. if there <br> are costs incurred at the end of the project (1) |
| Two max | Total for question 3 = 24 marks |  |$\quad$ (6)


| Question Number | Answer (AO2) 10 | Mark |
| :---: | :---: | :---: |
| 4(a) | Workings: Sales value $=50000 \times \$ 48.00=\$ 2400000 \quad$ (1) <br> Total production costs $=\$ 850000+\$ 460000+\$ 620000=\$ 1930000$ <br> (1) <br> All items must be present for the total mark | (10) |
| Question Number | Answer (AO4) 6 | Mark |
| 4(b) | Inventory: <br> Hold sufficient inventory to meet the customer's needs (1) <br> Don't hold excessive amounts, which would tie up working capital / holding <br> costs (1) <br> Trade receivables: <br> Offer attractive settlement terms to encourage customers to purchase products (1). However, cash must be collected early enough, in order pay creditors, <br> and purchase more inventory (1) <br> Trade payables: <br> The company needs to get the best possible terms, discounts and repayment <br> period (1), whilst ensuring that suppliers are still supply products (1) <br> $3 \times 2$ marks maximum | (6) |


| Question Number | Answer (AO1) 2 (AO3) 2 | Mark |
| :---: | :---: | :---: |
| 4(c) | 1 mark for initial point and 1 mark for development <br> Any two of the following: <br> Capable of being understood (1) by the person receiving it - so that it can be interpreted correctly. (1) <br> Must be relevant (1) - meaningful to the person relying on it (1) <br> Must be complete (1) - contain all the necessary information. (1) <br> Must be readily accessible (1) - in the desired form, when needed. (1) <br> Must be reliable (1) - it should be consistent and verifiable. (1) <br> Must be concise (1) - it should be 'to the point' and not over-detailed (1) <br> Must be cost-effective (1) - the cost of gathering/processing information must be weighed against the benefits derived from its use.(1) <br> Must be timely (1) - available when required (1) <br> Must be accurate (1) - so the person using the information is confident (1) | (4) |
| Question Number | Answer (AO2) 4 | Mark |
| 5(a) | Workings: 2500 units of Exe $\times 2=5000$ and 2000 units of Whye $x$ $=3000=\mathbf{8 0 0 0}$ machine hours (1) <br> Overheads $=\$ 176000 / 8000 \mathrm{~m} / \mathrm{c}$ hours $=\mathbf{\$ 2 2 . 0 0}$ per machine ho (10F) <br> Production overhead cost per unit: Exe \$44.00 (10F) Whye $\$ 33.00$ (10F) <br> Must be clearly labelled if the labour and materials are included |  |


| Question Number | Answer (AO2) 12 | Mark |
| :---: | :---: | :---: |
| 5(b) |  |  |
| Question Number | Answer (AO1) 2 (AO3) | (12) |
| 5(c) | 1 mark for initial point and 1 mark for development <br> Two required <br> It is expensive and time consuming to introduce (1) - the benefits obtained from an ABC system might not justify the costs <br> It might be difficult to identify appropriate cost drivers (1) - it might not be possible to allocate all overhead costs to specific activities (1) <br> The choice of BOTH activities and cost drivers might not be appropriate (1) - once again, it might not be possible to allocate all overhead costs to specific activities (1) <br> Only accept the model answer <br> Total marks for question $5 \mathbf{=} 20$ | (4) |

