

Mark Scheme

January 2018 Results

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



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- 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.
- Where marks are awarded for own figure answers, these marks can only be awarded if evidence of how the candidate arrived at their values has been provided (their workings).
- If candidate's fail to provide their workings when instructed in the paper, it may not be possible to achieve all marks associated with the question, even if the final answer is correct.
- For calculation questions full marks can be awarded where correct answer is seen with no workings shown, unless question states that candidate must provide workings.



Question	Answer AO2 (2)	Mark
1(d)	Target profit = \$102 400 + \$173 600 = \$276 000 (1) / \$20 (of) = 13 800 units (1of)	(2)
Question	Answer AO2 (3)	Mark
1(e)	Fixed costs \$173 600 x 110% = \$190 960 (1) Revised contribution = \$21.50 (1of) (\$20 (of) + \$1.50)	
	\$190 960 / \$21.50 = 8 882 units (1of)	(3)
Question	Answer AO4 (2) AO5 (1)	Mark
1(f)	As there is a \$17 360 increase in fixed costs, but a \$22 500 reduction in labour costs (1), there is an increase in profit of \$5 140. (1) Advise them to proceed with the proposal (1) Alternative answer: As they are spending more money on fixed overheads (\$17 360) in the short term (1) which results in the break even point increasing (from 8 680 to 8 882 units) (1) it is NOT worth undertaking the proposal(1)	
	Max 2 Marks for argument against proposal.	(3)
Question	Answer AO1 (1) AO3 (1)	Mark
1(g)(i)	 Award 1 mark for definition and 1 mark for development. No marks awarded for examples. A relevant cost is a future cash flow arising as a direct consequence of a new decision (1) These are costs that are changed / affected by a decision that has been taken (1). They can be avoided if the decision does not go ahead (1) 2 max 	(2)
Question	Answer AO1 (1) AO3 (1)	Mark
1(g)(ii)	Award 1 mark for definition and 1 mark for development. NO example Avoidable costs are defined as "the specific costs of an activity (or sector) of a business which would be avoided if that activity did not exist". (1) These are costs that would be affected if a business or activity was 'shut down' or discontinued (1)	(2)

TOTAL for Question 1 = 26 marks

Question	Answer AO2 (6)					Mark		
2(a)	Product	Δνε	Bee	Cee	Dee			
	1100000	/ yo	200	000	200			
	\$ per unit							
	Selling price	156	96	140	130			
	Less Variable costs:							
	Direct materials	54	36	45 25	36			
	Variable overhead	30 24	15	25 20	35 24 (1)			
		108	63	90	95 (1)			
	Contribution per unit	\$48	\$33	\$50	\$35 (1)			
	Direct labour hrs per unit	<u>440</u> 3	<u>\$35</u> 1.5	<u>\$30</u> 2.5	<u>405</u> (1) 3.5 (1)			
	Contribution per dir. lab hour	\$16	\$22	\$20	\$10 (1)			
	Order of priority	2		0	A (4-5)			
	Order of priority	3	1	2	4 (101)	(6)		
Question	Answer AO2 (4)					Mark		
2(b)	Production schedule							
	Hours available		16 700					
	Product Bee 2 600 units 3	(1.5 =	3 900	(1)				
	Product Cee 2 200 units	5 500	(1)					
	Product Aye 1 500 units >	<u>4 500</u>	(1)					
	Balance of labour hours	2 800						
	Product Dee							
	800 units x 3.5 labour hours =			(1)				
0						(4)		
Question	Answer AO2 (5)			\$		Mark		
2(0)				Ψ				
	Product Bee 2 600 x \$33	=		85 800				
	Product Cee 2 200 x \$50		110 000	(4 - 5)				
	Product Aye 1 500 x $$46$ -	-		28 000	(101) (10f)			
	Total contribution		295 800	(101)				
	Less fixed costs		<u>231 600</u>	(2)	_)			
	Profit			64 200	(10†) (5)		
	Fixed costs = (1 500 x \$36) \$54 000 + (2 600 x \$18) \$46 800 +							
	(2 200 x \$30) \$66 000 + (1 800 x \$36) \$64 800 = \$231 600 (2)							
	Note: \$195 600 = 1 mark.							
						(5)		

TOTAL for Question 2 = 26 marks

Question Number	Answer AO2 (16)		Mark			
3(a)	Drofit as par financial accounts	170.000 (4)				
	Profit as per financial accounts	178 280 (1)				
	Inventory adjustments	(2,200) (1)				
	Raw materials – opening $(55000 - 57000)$	$(2\ 200)$ (1)				
	Raw Indicinals - closing $(04\ 200\ -\ 00\ 500)$	3 900 (1) 4 600 (1)				
	WIP – Openning (43 500 - 38 900) WIP – closing (32 600 - 30 500)	4 800 (1) 2 100 (1)				
	$\frac{1}{1000} = \frac{1}{1000} = 1$	(2,600) (1)				
	Finished goods – opening $(62,900-65,500)$	(2000) (1)				
		185 380				
	Add					
	Depreciation (23 300 - 21 800)	1 500 (1)				
	Interest Charges	6 450 (1)				
	Discounts Allowed	<u>7 600</u> (1) <u>15 550</u> 200 930				
	Less					
	Dividends received	(11 250) (1)				
	Notional rent charge	(21 250) (1)				
	Profit on sale of asset	(13 500) (1)				
	Over absorbed overheads	(4 600) (1)				
	Sundry Investment income	<u>(8 250)</u> (1) <u>(58 850)</u>				
	Profit as per cost accounts	142 080 (1of)				
0			(16)			
Question Number	Answer AOI (2) AO3 (2)		Mark			
3(D)	 A non-integrated system has two, distinct, sets of accounts - cost accounts and financial accounts, which need to be kept in agreement by a reconciliation (or the use of control accounts) (1) Both sets of accounts may have different valuations for inventory (1). They may have also used different methods to calculate any depreciation charges. (1) There are items, such as discounts allowed or discounts received, which are only recorded in the financial accounts (1). There are items, such as notional rent, which are only recorded in the cost accounts (1) 					

Total marks for Question 3 = 20

Question	Answer AO2 (9)			Mark				
4(a)	FULL workings must be shown for ALL the marks							
	Working capital cycle:							
	Inventory holding period (\$188 / \$1 260) x 365 = 5	4 days (1of)						
	Add: Trade receivables (\$220 / \$1 365) x 365 = 5	59 days (1of)						
	Less: Trade payables (\$145 / \$1 300) x 365 = (41	l <u>)</u> days (1of)						
	Working capital cycle <u>7</u> 2	<u>2</u> days (1of))					
	Workings:	\$ 000						
	Average inventory = 168 + 208 = 376 / 2 =	188*	(1)					
	Average trade receivables = $164 + 276 = 440 / 2 =$	220*	(1)					
	Credit sales = $1\ 260 \div 0.60 = 2\ 100 \times 65\ \% =$	1 365	(1)					
	Average trade payables = 134 + 156 = 290 / 2 =	145*	(1)					
	Purchases = C O S + closing - opening inventory= = $(1 \ 260 \ + \ 208 \ - \ 168)$	1 300	(1)					
	* IF answer is correct accept 'formula' for averages							

Question	Answer	AO4	(5)	AO5	(3)		Mark
4(b)	Answers mu Candidates the context.	ist rela gain oi	ate spe ne ma	ecifical rk for e	ly to each	the scenario and part (a). relevant statement drawn from	
	An additiona valid consec In order to g the ability a	al two juence gain fu nalyse	marks and s II mar and e	per po uggest ks, car valuat	bint o ting a dida e the	can be gained for inferring a an appropriate action. ates must have demonstrated e scenario.	
	Example res	ponse	s:				
	Point: The financial increase in t Consequence	records :he inv & Actio	s show entory	that the	ere h ere a	as been a \$40 000 (25%) a justification for this increase? (1)	
	checking which essential item	the item the item the state of the state of	s need	to be s	old q	uickly, and then begin to only order	
						(3 max)	
	Point: Trade receiva more worki	bles ha 1g cap i	ive inc ital be	reased ing tie	by 9 d up	\$112 000 which has resulted in as extended credit is given to	
	Consequence The debt colle There is an in Action:	ction is	s 59 d a 1g risk	ays whi of debts	ich w s not	ould appear to be far too high - being repaid. (1)	
	The company	needs	to mal	ke an in	nmec	liate improvement to its credit	
			(-)			(3 max)	
	Point: Trade payable inventory. (1	es have)	e incre	ased b	y £2	2 000 as a result of the increases in	
	Suppliers mig runs the risk Action:	ht not of supp	be hap oliers re	py at e efusing	xteno to de	ding credit terms / the company eal with them. (1)	
	They need to (allow relevar	(re)-ne nt exam	egotiato nple fro	e with s om cont	uppli ext.)	iers, to offer more favourable terms (1)	
						(3 max)	(8)

TOTAL for Question 4 = 17 marks

Question	Answer AO2	2 (9)			Mark					
5(a)	Reconciliation state	ement								
	Actual costs (\$516 5 Variances:	00 + \$294 400 + \$18	\$ 30 500)	\$ 991 400 (1)						
	Direct mats \$516 500) - \$545 104 (1) (6 28	80 x \$86.80) = 28 6 0)4 Fav (1)						
	Direct lab \$294 400 - \$273 808 (1) (6 280 x \$43.60) = 20 592 Adv (1)									
	Fixed o/hs \$180 500 - \$185 260 (1) (6 280 × \$29.50) = <u>4 760 Fav (1)</u> Total <u>12 772 Fav (1of)</u>									
	Budgeted costs 6 28	0 x \$159.9 (\$86.80 + \$43.60	0) + \$29.50)	1 004 172 (1))					
	***Must show fa	avourable or adv	erse for the mai	·k ***						
	NOTE TO CENTRES:									
	 For the January 2018 Series, the Chief and Chair of Examiners noted that certain aspects of the working within this question allowed a handful of candidates who had used incorrect bracketing notation to provide some evidence that the concepts of favourable and adverse variance had been understood. On this occasion only, the Examining Committee determined that the alternative answer provided below was sufficient to gain 3 of 4 possible marks for the table, provided that all other workings and numbers were correct. Please note that using brackets to indicate adverse variance is not correct notation in a real-world accounting setting, and variance types should only ever be indicated with the notation "Fav" for favourable and "Adv" for adverse. 									
	The notation seen here was an unusual case, and will not be awarded marks in future series. Please ensure candidates are aware that Adv/Fav will be needed in the future.									
	Alternative Answer:									
	If all values and calculations are correct, the following layout can be used for the table portion of this item.									
	Details	Actual	Budget	Variance						
	Direct materials	516 500	545 104	28 604						
	Direct labour	294 400	273 808	(20 592)						
	Fixed overheads	180 500	185 260	4 760						
	Totals (Correct own figure total must not be bracketed) Candidate's work must be identical to version shown above in order to qualify for marks. Version shown here gains a possible maximum of (8) marks. Using L or to indicate positive or possible maximum of the product of brackets automatically losses the second sec									
	four marks for stating	A/V.		ickets automatically iOSES	(9)					

Question	Answer AO2 (3)	Mark
5(b)(i)	Production efficiency ratio	
	Standard hours of actual production (27 800 x 6.75 hours) = $187 650$ (1) x 100%	
	Actual hours of production 192 384 (1) = 97.54 % (1)	
	Accept 0.98:1	(3)
Question	Answer AO2 (3)	Mark
5(b)(ii)		
	Capacity usage ratio	
	<u>Actual hours of production</u> = $\underline{192\ 384}$ (1) x 100%	
	Budgeted hours of production (26 800 x 6.75) $180\ 900\ (1)$	
	- 100.35 % (1)	
	Accept 1.06:1	(3)
Question	Answer AO2 (2)	Mark
5(b)(iii)		
	Standard hours of actual production = 187650 (10f) x 100% = 103.73% (10f)	
	Budgeted hours of production 180 900	
	Own figure answers from (b)(i) and (b)(ii)	(\mathbf{a})
Question	Answer $A \cap 1$ (1)	(Z) Mark
5(c)		Plank
5(0)	The standard hour is the quantity of work achievable at standard performance	
	levels (1).	
	It is a measure of work performance and not time spent (1)	(1)
Question	Answer AO1 (1) AO3 (1)	Mark
5(d)(i)		
	A standard cost is a predetermined cost for one unit of activity (1). It is a target cost that should be achieved under standard operating conditions (1)	
	cost that should be achieved under standard operating conditions (1).	(2)
Question	Answer AO1 (1) AO3 (1)	Mark
5(d)(ii)	A budgeted cost relates to an entire activity or operation (1) It provides the cost	
	expectation for the total activity (1).	
	· · · · · · · · · · · · · · · · · · ·	(2)

TOTAL for Question 5 = 22 marks TOTAL for Paper = 100 marks