# Mark Scheme 

## January 2018 Results

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

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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.
- 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) | $\begin{aligned} \text { Target profit = \$102 } 400+\$ 173600 & =\$ 276000 \text { (1)/ } \$ 20 \text { (of) } \\ & =13800 \text { units (1of) }\end{aligned}$ | (2) |
| Question | Answer AO2 (3) | Mark |
| 1(e) | Fixed costs $\$ 173600 \times 110 \%=\$ 190960$ <br> Revised contribution $=\$ 21.50$ (1of) $(\$ 20 \text { (of) }+\$ 1.50)$ $\$ 190960 / \$ 21.50=8882 \text { units }$ | (3) |
| Question | Answer AO4 (2) AO5 (1) | Mark |
| 1(f) | As there is a $\$ 17360$ increase in fixed costs, but a $\$ 22500$ reduction in labour costs (1), there is an increase in profit of $\$ 5140$. (1) Advise them to proceed with the proposal (1) <br> Alternative answer: <br> 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 8680 to 8882 units) (1) it is NOT worth undertaking the proposal(1) <br> 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. <br> 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 <br> 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) |



| Question Number | Answer AO2 (16) | Mark |
| :---: | :---: | :---: |
| 3(a) |  | (16) |
| Question Number | Answer AO1 (2) AO3 (2) | Mark |
| 3(b) | 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) <br> Both sets of accounts may have different valuations for inventory (1). They may have also used different methods to calculate any depreciation charges. (1) <br> 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) | (4 max) |


| Question | Answer AO2 (9) | Mark |
| :---: | :---: | :---: |
| 4(a) | FULL workings must be shown for ALL the marks <br> Working capital cycle: <br> Inventory holding period (\$188/\$1260) x $365=54$ days (1of) <br> Add: Trade receivables (\$220/\$1 365) x 365 = 59 days (1of) <br> Less: Trade payables (\$145 / \$1 300) x 365 = (41) days (1of) <br> Working capital cycle $\quad \underline{72}$ days (1of) <br> * IF answer is correct accept 'formula' for averages | (9) |


| Question | Answer AO4 (5) AO5 (3) | Mark |
| :---: | :---: | :---: |
| 4(b) | Answers must relate specifically to the scenario and part (a). Candidates gain one mark for each relevant statement drawn from the context. <br> An additional two marks per point can be gained for inferring a valid consequence and suggesting an appropriate action. <br> In order to gain full marks, candidates must have demonstrated the ability analyse and evaluate the scenario. <br> Example responses: <br> Point: <br> The financial records show that there has been a $\mathbf{\$ 4 0} 000$ ( $\mathbf{2 5 \%}$ ) increase in the inventory - is there a justification for this increase? (1) Consequence \& Action: <br> The company needs to set about reducing its inventory levels (1) by checking which items need to be sold quickly, and then begin to only order essential items. (1) <br> Point: <br> Trade receivables have increased by $\mathbf{\$ 1 1 2} \mathbf{0 0 0}$ which has resulted in more working capital being tied up as extended credit is given to customers. (1) <br> Consequence: <br> The debt collection is $\mathbf{5 9}$ days which would appear to be far too high There is an increasing risk of debts not being repaid. (1) Action: <br> The company needs to make an immediate improvement to its credit control operation. (1) <br> (3 max) <br> Point: <br> Trade payables have increased by $\mathbf{£ 2 2} \mathbf{0 0 0}$ as a result of the increases in inventory. (1) <br> Consequence: <br> Suppliers might not be happy at extending credit terms / the company runs the risk of suppliers refusing to deal with them. (1) <br> Action: <br> They need to (re)-negotiate with suppliers, to offer more favourable terms (allow relevant example from context.) (1) |  |

TOTAL for Question 4 = 17 marks


| Question | Answer AO2 (3) | Mark |
| :---: | :---: | :---: |
| 5(b)(i) | Production efficiency ratio $\begin{aligned} & \begin{aligned} \text { Standard hours of actual production }(27800 \times 6.75 \text { hours }) & =\frac{187650(1) \times 100 \%}{192384(1)} \\ \text { Actual hours of production } & =97.54 \%(1) \end{aligned} \\ &=1 \end{aligned}$ <br> Accept 0.98:1 | (3) |
| Question | Answer AO2 (3) | Mark |
| 5(b)(ii) | Capacity usage ratio <br> Accept 1.06:1 | (3) |
| Question | Answer AO2 (2) | Mark |
| 5(b)(iii) | Production volume ratio $\frac{\text { Standard hours of actual production }}{\text { Budgeted hours of production }}=\frac{187650}{180900}(1 \text { of }) \times 100 \%=103.73 \% \text { (1of) }$ <br> Own figure answers from (b)(i) and (b)(ii) | (2) |
| Question | Answer AO1 (1) | Mark |
| 5(c) | The standard hour is the quantity of work achievable at standard performance levels (1). <br> 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). | (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

