Pearson LCCI

Certificate in Cost and Management Accounting (VRQ)
Level 3

Friday 19 January 2018
Time: 3 hours

Paper Reference
ASE20098

Complete the details below in block capitals.

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 Henrikkson Mazuch Ltd has budgeted to sell 15 000 units of its product in Month 6

The following standard cost and budgeted information has been prepared for Month 6:

Selling price	$40 per unit
Direct labour	$12 per unit
Direct materials	$8 per unit
Fixed production overheads	$173 600

(a) Prepare a budgeted profit statement in a marginal costing format for Month 6

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(b) Calculate for Month 6:

(i) the break-even point in units

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(ii) the margin of safety as a percentage of the budgeted sales (to two decimal places).

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(c) Prepare a conventional break-even chart, using the graph paper on the next page, for output from 0 to 15 000 units, clearly labelling the:

- total revenue line
- total costs line
- fixed costs line
- break-even point in units
- margin of safety in units.

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(d) Calculate the number of units that must be sold for the company to make a profit of $102 400 in Month 6

(2)

The company is considering installing new machinery, which would increase the fixed overheads by 10% per month, but would reduce the labour cost by $1.50 per unit.

(e) Calculate the revised break-even point (in units) for Month 6

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(f) Evaluate whether the company should proceed with this proposal.

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(g) Explain the meaning of the following terms:

(i) relevant cost

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(ii) avoidable cost.

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(Total for Question 1 = 26 marks)

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2 Campbell Diamonde Ltd manufactures and sells four products.

The company is currently preparing its production schedule for the next period.

The details for the four products are as follows:

	Product Aye	Product Bee	Product Cee	Product Dee
$ per unit				
Selling price	156	96	140	130
Direct materials ($18 per kilo)	54	36	45	36
Direct labour ($10 per hour)	30	15	25	35
Overhead costs	60	30	50	60

The overhead costs are estimated to be 40% variable and 60% fixed.

The sales demand for each product for the period is as follows:

- Product Aye: 1 500 units
- Product Bee: 2 600 units
- Product Cee: 2 200 units
- Product Dee: 1 800 units.

Direct labour is a limiting factor and there are only **16 700 hours** available for the period.

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(a) Calculate the order of priority for production in the period, with the objective of maximising contribution.

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(b) Prepare the product mix that will enable the company to maximise profit.

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The total fixed overhead cost (which is 60% of the overhead cost) will be calculated based on the original sales demand for each of the four products.

(c) Calculate the profit resulting from the production schedule identified in (b).

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3 Stewart Hector operates a non-integrated accounting system.

At the end of an accounting period the profit shown in the **financial accounts** was $178 280

Examination of the two sets of accounts revealed the following:

	Cost accounts	Financial accounts
	$	$
Opening Inventory valuations:		
Raw materials	57 800	55 600
Work-in-progress	38 900	43 500
Finished goods	65 500	62 900
Closing Inventory valuations:		
Raw materials	64 200	60 300
Work-in-progress	32 600	30 500
Finished goods	79 100	77 800
Depreciation	21 800	23 300
Profit on the sale of an asset		13 500
Dividends received		11 250
Discount allowed to customers		7 600
Sundry investment income		8 250
Notional rent charge	21 250	
Interest charges		6 450
Over absorbed overheads carried forward	4 600	

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(a) Calculate the profit that would be shown in the **cost accounts** for the period by preparing a profit reconciliation statement.

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(b) Explain why it is necessary to undertake a profit reconciliation in a non-integrated accounting system.

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4 The following information has been extracted from the financial records of Irvine Dawson Ltd for 2017.

	Start of year	End of year
	$ 000	**$ 000**
Inventory	168	208
Trade receivables	164	276
Trade payables	134	156

Additional information

- Cost of sales during the year was $1 260 000 and a gross profit of 40% was earned on all sales.
- 35% of all sales were for cash and the remainder were credit sales.
- Assume all purchases were on credit.
- Assume 1 year = 365 days.

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(a) Calculate the company's working capital cycle (rounded to whole days), using the **average** of the opening and closing balances for inventory, trade receivables and trade payables.

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(b) Evaluate the liquidity of the company with reference to each element of the working capital cycle. Consider how the company might be able to make improvements to its working capital cycle.

(8)

(Total for Question 4 = 17 marks)

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5 The elements of the standard production cost for a budgeted output of 6 280 units for Aina Toral's product DCF 215 are shown below.

	$ per unit
Direct materials	86.80
Direct labour	43.60
Fixed production overheads	29.50

Actual production in the period was 6 280 units of the product.

Actual production costs incurred in the period were:

	$
Direct materials	516 500
Direct labour	294 400
Fixed production overheads	180 500

No direct material inventory is held.

(a) Complete **all** boxes in the table below for the period, to show the actual production costs, the budgeted production costs and the variances for each element of the production costs.

(9)

Details	Actual	Budget	Variance
Direct materials			
Direct labour			
Fixed overheads			
Totals			

Workings

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Aina Toral also makes a product HGV 22305, and operates a standard costing system.

The production department's budget for Period 5 included the following information:

Production	26 800 units
Direct labour per unit	6.75 hours.

The **actual** results for Period 5 were:

Production	27 800 units
Direct labour	192 384 hours.

(b) Calculate the following production control ratios for Period 5 (to **two decimal** places).

(i) Efficiency

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(ii) Capacity (usage)

(3)

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(iii) Volume (activity)

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(c) State what is meant by the term "the standard hour".

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(d) Explain what is meant by the following terms:

(i) standard cost

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(ii) budgeted cost.

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(Total for Question 5 = 22 marks)

TOTAL FOR PAPER = 100 MARKS

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