## Mark Scheme

## March 2018 <br> Results

## Pearson LCCI Certificate in Cost and Management Accounting (VRQ) Level 3 (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 candidates 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.


## Abbreviation

## of Own Figure rule

Accuracy marks can be awarded where the candidates' answer does not match the mark scheme, though is accurate based on their valid method.
cao Correct Answer Only rule
Accuracy marks will only be awarded if the candidates' answer is correct, and in line with the mark scheme.

| Question | Answer (A01) 1 |  |  |  |  | Mark |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 1(a)(i) | Marginal cost - the extra / variable cost of producing one additional unit of output (1) |  |  |  |  | (1) |
| Question | Answer (AO1) 1 |  |  |  |  | Mark |
| 1(a)(ii) | Absorption cost - the total cost of producing one unit of output including fixed and variable costs (1) |  |  |  |  | (1) |
| Question | Answer (AO2) 2 |  |  |  |  | Mark |
| 1(b)(i) | Marginal costing:    <br> Materials $\$$  16.00  <br> Labour $\$$ $90 / 60 \times \$ 8.00=$ $\mathbf{1 2 . 0 0}$ (1) <br> Overheads (variable) $\underline{3.50}$   <br> Marginal Cost $\underline{\mathbf{3 1 . 5 0}}$ (10f) - must contain  <br>    all 3 elements |  |  |  |  | (2) |
| Question | Answer (AO2) 2 |  |  |  |  | Mark |
| 1(b)(ii) | Absorption costing:    <br> Materials $\$$ 16.00   <br> Labour 12.00   <br> Overheads (variable)  3.50  <br> Overheads (fixed) $\$ 280000 / 17500$ units $=$ $\underline{\mathbf{1 6 . 0 0}}$ $\mathbf{( 1 )}$ <br> Absorption Cost  $\underline{\mathbf{4 7 . 5 0}}$ (1of) |  |  |  |  | (2) |
| Question | Answer (AO2) 10 |  |  |  |  | Mark |
| 1(c) |  |  |  |  |  |  |
|  | Marginal |  |  | Absorption |  |  |
|  |  | \$ | \$ | \$ | \$ |  |
|  | Revenue |  | 900000 | (1) | 900000 |  |
|  | Cost of Production | 551250 | (1) | 831250 | (1) |  |
|  | Closing Inventory | (78750) | (1) | (118 750) | (1) |  |
|  | Cost of Sales | (1 of) | (472 500) | (1 of) | (712 500) |  |
|  | Gross Profit |  | 427500 |  |  |  |
|  | Overheads | (1) | (280 000) |  |  |  |
|  | Net Profit | (1 of) | \$147500 | (1 of) | 187500 |  |
|  | Revenue $15000 \times \$ 60.00=\$ 900000$ (1) <br> Cost of Production (marginal) = $17500 \times \$ 31.50$ (of) $=\$ 551250$ (1 of) <br> Cost of Production (absorption) $=17500 \times \$ 47.50$ (of) $=\$ 831250$ (1 of) <br> Closing Inventory (marginal) $=2500 \times \$ 31.50$ (of) $=\$ 78750$ (1of) <br> Closing Inventory (absorption) $=2500 \times \$ 47.50$ (of) $=\$ 118750$ (1of) |  |  |  |  | (10) |
| Question | Answer (AO3) 2 |  |  |  |  | Mark |
| 1(d) | The absorption costing profit is higher than the marginal profit because $\mathbf{\$ 4 0}$ 000 of the fixed overhead ( $2500 \times \$ 16$ ) (1) for the period will be carried forward to the next period in the closing inventory valuation (1) <br> AO3 - must make reference to profit difference |  |  |  |  | (2) |

Total for Question 1 = 18 marks


| Question | Answer (AO2) 4 |  |  |  |  | Mark |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2(c) | Budgeted cost for production of 49100 units <br> Variances |  |  |  | OF from 2b | (4) |
|  |  |  |  | 752414 |  |  |
|  |  | Fav | Adv |  |  |  |
|  | Direct materials usage | 6475 |  |  |  |  |
|  | Direct materials price |  | 9312 |  | (10f) for first 3 |  |
|  | Direct labour efficiency |  | 2067 |  |  |  |
|  | Direct labour rate | 1745 |  |  | (10f) for next |  |
|  | Fixed overhead expenditure |  | 9200 |  |  |  |
|  | Total variance | 8220 | 20579 | $12359$ ADV | (10f) |  |
|  | Actual cost for production of 49100 units |  |  | 764773 | (1) |  |
|  | Total variance of 12 359, must come from the other total amounts |  |  |  |  |  |
| Question | Answer (A01) 3 |  |  |  |  | Mark |
| 2(d) | 1 mark per variance. Answers may include: <br> Material usage (favourable): better quality of material used, less wastage, fewer production problems than expected. NOT higher skilled staff. Inappropriate standard set during budget period*. <br> Labour rate (favourable): lack of payment of overtime or lower grade of staff used. Inappropriate standard set during budget period*. <br> Overhead expenditure (adverse): unexpected changes in costs during time between budget preparation and actual period, increase in output / some overheads not fixed in nature, Inappropriate standard set during budget period* <br> Candidates should only be rewarded once for using inappropriate standard, and it must be as stated. <br> Award marks on own figure rule. |  |  |  |  | (3) |

Total for Question 2 = 22 marks


| Question | Answer (AO1) 2 (AO3) 2 | Mark |
| :--- | :--- | :--- |
| $\mathbf{3 ( b )}$ | Answers may include: <br> - $A O 1$ Mark awarded for basic point and 1 AO3 mark awarded for development. <br> The business will be able to identify potential cash flow problems (1) - and <br> be abrange the necessary loans / overdrafts etc (1) <br> - The business will be able to identify whether an action is affordable (1) - <br> and be able to make changes if they are not (1) | If the business runs short of money it will not be able to afford to pay its <br> day-to-day costs (1) such as wages and salaries (1) |
| If the business is unable to pay its creditors (1) then it will not receive any <br> more supplies / may face a winding up order (1) | (4) |  |
| No reference to investing money |  |  |


| Question | Answer (A04) 3 (A05) 2 | Mark |
| :---: | :---: | :---: |
| 3(c) | Answers may include: <br> Positive factors: <br> - The business will have a cash surplus every month (1) - the overdraft will potentially improve by $\$ 12009$ during the 3 months (1) <br> - The overdraft is forecast to reduce (1) and will potentially disappear during July (1) <br> - The business is potentially profitable (1) so it is unlikely that creditors will become worried and look to collect what they are owed before scheduled (1) <br> Negative factors: <br> - The business is forecast to be overdrawn for a several months (1) - and will continue to incur bank charges and interest (1) <br> - The non-current assets are nearing the end of their useful life (1) - and so the business is potentially facing a large cash out flow soon (1) <br> - Sales are expected to fall after May (1) - this may be a very seasonal business where cash inflows are likely to be poor in the next few months (1). <br> Indeterminate factors: <br> - The cash budget only covers a 3-month period (1) - it is difficult to assess how seasonal this business may be / it may be not be wise to rely on the improvement in cash flow to continue (1) <br> Maximum 3 marks for this section. Maximum of 2 marks for positive factors. Maximum of 2 marks for negative factors. <br> Conclusion: <br> Ganymede Ltd's cash flow is good (1) because the overdraft is reducing with cash surpluses every month (1) <br> OR <br> Cash flow is not good (1) because overdraft is still present and non-current assets needs replacing in the near future (1). | (5) |

Total for Question 3 = 21 marks

| Question | Answer (AO1) 1 (AO2) 9 |  |  |  |  |  |  |  | Mark |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 4(a) | Overhead Distribution Table |  |  |  |  |  |  | (1) <br> (1) <br> (1) <br> for both <br> (1) <br> (1) <br> (1 of) <br> (1 of) <br> (1 of) <br> (1 of) |  |
|  |  |  | (1) |  | Depa | ents |  |  |  |
|  | Expense | Total | Basis | Manuf'g | Packing | Stores | Admin |  |  |
|  | Rent \& rates | 8400 | Area | 3360 | 1680 | 2520 | 840 |  |  |
|  | Machinery depn | 9500 | M Value | 7885 | 1140 | 475 | - |  |  |
|  | Stores salary | 3900 | Direct | - | - | 3900 | - |  |  |
|  | Admin salary | 4200 | Direct | - | - | - | 4200 |  |  |
|  | Heat,light,power | 2700 | Usage | 1215 | 810 | 270 | 405 |  |  |
|  | Other Oheads | 8000 | Direct | 3420 | $\underline{2170}$ | 840 | 1570 |  |  |
|  |  | 36700 |  | 15880 | 5800 | 8005 | 7015 |  |  |
|  | Admin Overheads |  | 60/40 | 4209 | 2806 |  | (7015) |  |  |
|  | Stores Overheads |  | 320/80 | 6404 | 1601 | (8005) |  |  |  |
|  | Revised Total |  |  | 26493 | 10207 | 0 | 0 |  |  |
|  | Award (1) if appropriate bases used for rent \& rates, machine, and HL\&P <br> Totals - award (1 of) if all 6 expenses are attempted |  |  |  |  |  |  |  | (10) |
| Question | Answer (AO2) 2 |  |  |  |  |  |  |  | Mark |
| 4(b) | Manufacturing OAR = \$26 493 (of) $/ 800 \mathrm{MH}=\mathbf{\$ 3 3 . 1 2}$ per machine hour (1of) Packing OAR = \$10 207 (of) / 1600 DLH $=\$ 6.38$ per direct labour hour (1of) <br> Manufacturing must not be based on labour hours |  |  |  |  |  |  |  | (2) |
| Question | Answer (AO2) 4 |  |  |  |  |  |  |  | Mark |
| 4(c) | $\left.\begin{array}{lllll}\begin{array}{l}\text { Manufacturing Department } \\ \text { Overheads Absorbed }\end{array} & \begin{array}{l}\text { Packing Department }\end{array} \\ \begin{array}{lll}\text { Overheads }\end{array} \\ \text { Absorbed }\end{array}\right)$ |  |  |  |  |  |  |  | (4) |
| Question | Answer (AO3) 2 |  |  |  |  |  |  |  | Mark |
| 4(d) | Why pre-determined overhead absorption rates are used <br> Answers may include: <br> To ensure that costs are passed onto the customer as and when work is done (1) which should ensure that all overhead costs are covered during the period (1). <br> To assist with cost-plus price-setting (1) as it will help ensure that even the indirect costs are considered when providing a quotation (1). |  |  |  |  |  |  |  | (2) |
| Question | Answer (AO3) 1 (AO4) 1 |  |  |  |  |  |  |  | Mark |
| 4(e) | 1 AO3 mark to be awarded for basic point and 1 AO4 mark to be awarded for development. <br> The choice of method represents the nature of the activities going on in the department (1). Manufacturing department is capital intensive whilst the Packing department is labour intensive (1). |  |  |  |  |  |  |  | (2) |

Total for Question 4 = 22 marks

| Question | Answer (AO2) 10 |  |  |  |  |  |  |  | Mark |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 5(a) |  <br> Disposal costs $=200 \mathrm{~kg} \times \$ 2.50=\$ 500$ (1) <br> Credit side: Net Costs $=58700-1800=56900$ (1of) <br> Total product: <br> Product Aye = 4275 Product Bee $=3325$ Product Cee $=1900$ Total = $\mathbf{9} \mathbf{5 0 0} \mathbf{~ k g ~ ( 1 ) ~}$ <br> Apportionment of joint-costs: <br> Product Aye $=(4275 / 9500) \mathbf{0 . 4 5} \times 56900$ (of) $=\mathbf{\$ 2 5} \mathbf{6 0 5}$ (1of) <br> Product Bee $=(3325 / 9500) \mathbf{0 . 3 5} \times 56900$ (of) $=\$ 19915$ (1of) <br> Product Cee $=(1900 / 9500) \mathbf{0 . 2 0} \times 56900$ (of) $=\mathbf{\$ 1 1} \mathbf{3 8 0}$ (1of) <br> Accept \$5.99 per kilo |  |  |  |  |  |  |  | (10) |
| Question | Answer (AO3) 2 |  |  |  |  |  |  |  | Mark |
| 5(b) | Why apportioning joint costs on the basis of kg/output might not be the best approach Answers may include: <br> - Products do not sell for the same price (1) so products making a greater contribution are not currently bearing a higher share of the costs (1). <br> - The amount of costs incurred in making a kg of the more expensive products might be greater than that incurred in making a kg of the cheaper products (1) and the amount of costs apportioned does not, currently, reflect this (1). |  |  |  |  |  |  |  | (2) |
| Question | Answer (AO1) 2 |  |  |  |  |  |  |  | Mark |
| 5(c) | Answers may include: <br> - Physical size (1) Sales value (1) |  |  |  | Net sales value (1) |  |  |  | (2) |


| Question | Answer (AO4) 3 (A05) 2 | Mark |
| :---: | :---: | :---: |
| 5(d) | Answers may include: <br> Good controls: <br> - There is a very high (97\%) compliance with back-up and saving rules (1) which suggests the risk of work being lost in the event of a system crash is low (1). <br> Poor controls: <br> - Computers automatically lock after 15 minutes (1) which might not reduce the likelihood of someone accessing or tampering with a colleague's work (1). <br> - Low compliance (62\%) with logging out and locking rules (1) which gives someone 15 minutes to interfere (possibly maliciously) with a colleague's machine (1). <br> - Employees have access to all parts of the system with their own password (1) - this means that highly sensitive information is freely available to everyone (1). <br> 1 mark to be awarded for a conclusion and 1 mark to be awarded for reasoning that reflects the balance of the points made in favour of good or poor control. | (5) |

