



Mark Scheme

June 2018

Pearson LCCI Level 3 Certificate in
Cost and Management Accounting
(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.

Question Number	Answer (AO2) 5						Mark
1(a)(i)	Award 1 mark for each correct column of figures						(5)
	Order size (kg)	No of orders	Order costs (\$)	Average inventory (kg)	Holding costs (\$)	Total costs (\$)	
	500	12	2 400	1 250	1 125	3 525	
	1 000	6	1 200	1 500	1 350	2 550	
	1 500	4	800	1 750	1 575	2 375	
	2 000	3	600	2 000	1 800	2 400	
	3 000	2	400	2 500	2 250	2 650	
		(1)	(1)	(1)	(1of)	(1of)	

Question Number	Answer (AO4) 1 (AO5) 1	Mark
1(a)(ii)	Award 1of mark for answer. 1 500 kg (1) as this has the lowest total cost (1of)	(2)

Question Number	Answer (AO1) 1	
1(a)(iii)	The most efficient re-order level in terms of ordering and holding costs	(1)

Question Number	Answer (AO2) 1	Mark
1(b)(i)	Award 1 mark for correct answer. Reorder level = $280 \times 21 = 5\,880$ kg (1)	(1)

Question Number	Answer (AO2) 2	Mark
1(b)(ii)	Award 1 method mark and 1of for answer. Minimum control level = $5\,880$ (of) – (250×18) 4 500 (1) = 1 380 kg (1of)	(2)

Question Number	Answer (AO2) 3	Mark
1(b)(iii)	Award 2 method marks and 1of for answer. Maximum control level = $5\,880$ (of) – (220×15) 3 300 = 2 580 (1of) $2\,580 + 8\,000$ (1) = 10 580 kg (1of)	(3)

Question Number	Answer AO1 (2) AO3 (2)	Mark
1(c)	<p>Answers may include</p> <p>Having too little inventory could lead to a 'stock-out' (no available inventory) (1) resulting in lost production/lost sales/lack of customer confidence (1) If you want repeat custom, you need to meet customer demand quickly (1) TWO max</p> <p>Having too much inventory might tie up working capital (1) and lead to expensive handling and storage costs (1) There is also the risk that the inventory might become obsolete or damaged (1) TWO max</p> <p>TWO required x 2</p>	(4)

Total marks for Question 1 = 18 marks

Question Number	Answer AO2 (6)	Mark																																				
2(a)(i)	<p>Calculation of net cash flows:</p> <p>\$375 000 x 0.40 = \$150 000 for each of the first three years (1) \$200,000 x 0.40 = \$80 000 for years four and five (1) Residual value of \$60 000 added to end of year five (1)</p> <p>Net present value (NPV)</p> <table><tr><th>Year</th><th>Net cash flows</th><th>Disc. Factor</th><th>Present values</th></tr><tr><td></td><td>\$000</td><td>12%</td><td>\$000</td></tr><tr><td>0</td><td>(510)</td><td>1.000</td><td>(510.00)</td></tr><tr><td>1</td><td>150</td><td>0.893</td><td>133.95</td></tr><tr><td>2</td><td>150</td><td>0.797</td><td>119.55</td></tr><tr><td>3</td><td>150</td><td>0.712</td><td>106.80</td></tr><tr><td>4</td><td>80</td><td>0.636</td><td>50.88</td></tr><tr><td>5</td><td>140*</td><td>0.567</td><td><u>79.38</u></td></tr><tr><td colspan="3">NPV =</td><td>(19.44)</td></tr></table> <p>*Years 1 - 3 can be combined to give a PDV of \$360.30</p>	Year	Net cash flows	Disc. Factor	Present values		\$000	12%	\$000	0	(510)	1.000	(510.00)	1	150	0.893	133.95	2	150	0.797	119.55	3	150	0.712	106.80	4	80	0.636	50.88	5	140*	0.567	<u>79.38</u>	NPV =			(19.44)	<p>1of* (for all 3)</p> <p>1of (for 4 and 5)</p> <p>1of</p> <p>(6)</p>
Year	Net cash flows	Disc. Factor	Present values																																			
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Question Number	Answer AO2 (4)	Mark																																				
2(a)(ii)	<p>Internal rate of return (IRR)</p> <table><tr><th>Year</th><th>Net cash flows</th><th>Disc. Factor</th><th>Present values</th></tr><tr><td></td><td>\$000</td><td>10%</td><td>\$000</td></tr><tr><td>0</td><td>(510)</td><td>1.000</td><td>(510.00)</td></tr><tr><td>1</td><td>150</td><td>0.909</td><td>136.35</td></tr><tr><td>2</td><td>150</td><td>0.826</td><td>123.90</td></tr><tr><td>3</td><td>150</td><td>0.751</td><td>112.65</td></tr><tr><td>4</td><td>80</td><td>0.683</td><td>54.64</td></tr><tr><td>5</td><td>140</td><td>0.621</td><td><u>86.94</u></td></tr><tr><td></td><td></td><td>NPV =</td><td><u>4.48</u></td></tr></table> <p>IRR = 10% + (2% × $\frac{4.48}{(4.48 + 19.44)}$) (1) = <u>10.37%</u></p>	Year	Net cash flows	Disc. Factor	Present values		\$000	10%	\$000	0	(510)	1.000	(510.00)	1	150	0.909	136.35	2	150	0.826	123.90	3	150	0.751	112.65	4	80	0.683	54.64	5	140	0.621	<u>86.94</u>			NPV =	<u>4.48</u>	<p>1of 1of 1of</p> <p>(4)</p>
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Question Number	Answer AO2 (3)	Mark																					
2(a)(iii)	<p>Discounted payback (12%)</p> <table border="1"> <thead> <tr> <th>Year</th><th>Present values</th><th>Cumulative DCF</th></tr> </thead> <tbody> <tr> <td>0</td><td>(510.00)</td><td>(510.00)</td></tr> <tr> <td>1</td><td>133.95</td><td>(376.05)</td></tr> <tr> <td>2</td><td>119.55</td><td>(256.50)</td></tr> <tr> <td>3</td><td>106.80</td><td>(149.70)</td></tr> <tr> <td>4</td><td>50.88</td><td>(98.82)</td></tr> <tr> <td>5</td><td>79.38*</td><td>(19.44)</td></tr> </tbody> </table> <p>The investment fails to pay back within the five years (1).</p>	Year	Present values	Cumulative DCF	0	(510.00)	(510.00)	1	133.95	(376.05)	2	119.55	(256.50)	3	106.80	(149.70)	4	50.88	(98.82)	5	79.38*	(19.44)	(3)
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3	106.80	(149.70)																					
4	50.88	(98.82)																					
5	79.38*	(19.44)																					

Question Number	Answer AO4 (3)	Mark
2(b)	<p>The investment in new machinery should NOT be undertaken: (1of)</p> <p>It earns an IRR of 10.37% which is lower than the cost of capital of 12% (1)</p> <p>It generates a negative NPV of \$19 440 which doesn't recover the initial cost.</p> <p>It doesn't provide a discounted payback within the five-year life of the investment (1).</p> <p>Max 3</p>	(3)

Question Number	Answer AO5 (4)	Mark
2(c)	<p>Using a discounted payback approach takes into account the time value of money (1). This overcomes the weakness of the traditional payback method as a means of appraising an investment (1).</p> <p>In this instance the discounted payback shows that the project does NOT make a positive return within the estimated five-year life (1).</p> <p>Had the traditional method been used it would have shown that the investment made a payback sometime within the fourth year (1)</p>	(4)

Total marks for Question 2 = 20 marks

Question Number	Answer (AO2) 16	Mark																																																								
3(a)	<table><tr><th></th><th>Budget \$</th><th>Actual \$</th><th>Variance \$</th><th></th></tr><tr><td>Production Costs</td><td>8 400 units</td><td>8 400 units</td><td></td><td></td></tr><tr><td>Direct materials</td><td>33 600 (1)</td><td>36 900</td><td>3 300 Adverse</td><td>(1of)</td></tr><tr><td>Direct labour</td><td>25 200 (1)</td><td>23 100</td><td>2 100 Favourable</td><td>(1of)</td></tr><tr><td>Prod Overheads</td><td>30 975 (3)</td><td>32 175</td><td>1 200 Adverse</td><td>(1of)</td></tr><tr><td>Selling and Dist</td><td>15 825 (2)</td><td>16 680</td><td>855 Adverse</td><td>(1of)</td></tr><tr><td>Administration</td><td>10 725 (2)</td><td>10 310</td><td>415 Favourable</td><td>(1of)</td></tr><tr><td>Total Costs</td><td>116 325 (1of)</td><td>119 165</td><td>2 840 Adverse</td><td>(1of)</td></tr></table> <p>Workings</p> <p>Direct materials: $\\$37\,800 / 9\,450 = \\4 per unit $\times 8\,400 =$ \$33 600</p> <p>Direct labour: $\\$28\,350 / 9\,450 = \\3 per unit $\times 8\,400 =$ \$25 200</p> <p>Production overheads:</p> <table><tr><td></td><td>Costs</td><td>Units</td><td></td></tr><tr><td>High</td><td>35 175</td><td>10 500</td><td>Variable cost = $\\$2\,100 / 1\,050 =$ \$2 per unit (1)</td></tr><tr><td>Low</td><td><u>33 075</u></td><td><u>9 450</u></td><td>Fixed Costs = $\\$33\,075 - (9\,450 \times \\$2)$ 18 900</td></tr><tr><td>Diff</td><td>2 100</td><td>1 050</td><td>= \$14 175 (1)</td></tr></table> <p>$8\,400 \text{ units} \times \\$2 = \\$16\,800 + \\$14\,175 =$ \$30 975 (1)</p> <p>Selling and dist $\\$17\,400 - \\$3\,225 =$ VC $\\$14\,175 / 9\,450 \text{ units} =$ \$1.50 VC p.u. (1) $8\,400 \text{ units} \times \\$1.50\text{pu} = \\$12\,600 + \\$3\,225 =$ \$15 825 (1)</p> <p>Admin: $\\$11\,565 - \\$4\,005 =$ VC $\\$7\,560 / 9\,450 \text{ units} =$ \$0.80 VC per unit (1) $8\,400 \text{ units} \times \\$0.80\text{pu} = \\$6\,720 + \\$4\,005 =$ \$10 725 (1)</p>		Budget \$	Actual \$	Variance \$		Production Costs	8 400 units	8 400 units			Direct materials	33 600 (1)	36 900	3 300 Adverse	(1of)	Direct labour	25 200 (1)	23 100	2 100 Favourable	(1of)	Prod Overheads	30 975 (3)	32 175	1 200 Adverse	(1of)	Selling and Dist	15 825 (2)	16 680	855 Adverse	(1of)	Administration	10 725 (2)	10 310	415 Favourable	(1of)	Total Costs	116 325 (1of)	119 165	2 840 Adverse	(1of)		Costs	Units		High	35 175	10 500	Variable cost = $\$2\,100 / 1\,050 =$ \$2 per unit (1)	Low	<u>33 075</u>	<u>9 450</u>	Fixed Costs = $\$33\,075 - (9\,450 \times \$2)$ 18 900	Diff	2 100	1 050	= \$14 175 (1)	(16)
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Question Number	Answer (AO1) 1	Mark
3(b)	Any one: The budget could be flexed on a planned production level (1) . The budget could be flexed on a planned level of service e.g. hotel rooms (1)	(1)

Question Number	Answer (AO1) 1	
3(c)	Any one : The size of the company might dictate the length of the budget period (1) . The complexity of the company - many departments/offices/factories (1) . The requirement of external agencies, like a bank (1) . Government requirements - tax rules (1) . A rolling/continuous budget might have a specific timescale (1) .	(1)

Question Number	Answer (AO1)2 (AO3)2	Mark
3(d)	Award one mark for point made and a second mark for development. In terms of behaviour, costs (in the short-term) can be thought of as variable, semi-variable or fixed (1) . Cost behaviour dictates that not all costs change in direct proportion to the increases or decreases in output (1) . As time progresses, all costs are thought to be variable (1) . An example of this is factory rent, which in the short term is fixed. However, this cost could change in the long-term (1) .	(4)

Total marks for Question 3 = 22 marks

Question Number	Answer AO2 (3)	Mark																				
4(a)(i)	<p>Award 1 mark for both correct entries on the debit side.</p> <p>Award 1 mark for both correct entries on credit side and 1 mark for correct calculation of WIP on credit side.</p> <table><tr><th colspan="4">Raw Materials Control Account</th></tr><tr><td>Balance b/d</td><td>69 100</td><td>WIP control</td><td>434 290</td></tr><tr><td>Financial ledger control</td><td>482 040</td><td>Prod ohs control</td><td>35 200</td></tr><tr><td></td><td><u> </u></td><td>Balance c/d</td><td><u>81 650</u></td></tr><tr><td></td><td><u>551 140</u></td><td></td><td><u>551 140</u></td></tr></table>	Raw Materials Control Account				Balance b/d	69 100	WIP control	434 290	Financial ledger control	482 040	Prod ohs control	35 200		<u> </u>	Balance c/d	<u>81 650</u>		<u>551 140</u>		<u>551 140</u>	(3)
Raw Materials Control Account																						
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	<u>551 140</u>		<u>551 140</u>																			

Question Number	Answer AO2 (2)	Mark																
4(a)(ii)	<p>Award 1 mark for correct balance on debit side.</p> <p>Award 1 mark for both correct entries on the credit side.</p> <table><tr><th colspan="4">Wages Control Account</th></tr><tr><td>Financial ledger control</td><td>202 400</td><td>WIP control</td><td>134 500</td></tr><tr><td></td><td></td><td>Prod ohs control</td><td><u>67 900</u></td></tr><tr><td></td><td><u>202 400</u></td><td></td><td><u>202 400</u></td></tr></table>	Wages Control Account				Financial ledger control	202 400	WIP control	134 500			Prod ohs control	<u>67 900</u>		<u>202 400</u>		<u>202 400</u>	(2)
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Question Number	Answer AO2 (3)	Mark																												
4(a)(iii)	<p>Award 1 mark for all correct entries on debit side (excluding Bal c/d). Award 1 mark for correct entry on credit side. Award 1 mark for correct Balance c/d and placement on debit side.</p> <table><tr><th colspan="4">Production Overheads Control Account</th></tr><tr><td>Balance b/d</td><td>4 350</td><td>W I P control</td><td>155 250</td></tr><tr><td>Raw materials control</td><td>35 200</td><td></td><td></td></tr><tr><td>Wages control</td><td>67 900</td><td></td><td></td></tr><tr><td>Financial ledger control</td><td>45 800</td><td></td><td></td></tr><tr><td>Balance c/d</td><td><u>2,000</u></td><td></td><td></td></tr><tr><td></td><td><u>155 250</u></td><td></td><td><u>155 250</u></td></tr></table>	Production Overheads Control Account				Balance b/d	4 350	W I P control	155 250	Raw materials control	35 200			Wages control	67 900			Financial ledger control	45 800			Balance c/d	<u>2,000</u>				<u>155 250</u>		<u>155 250</u>	(3)
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Question Number	Answer AO2 (3)	Mark																								
4(a)(iv)	<p>Award 1 mark for first two entries on debit side (allow OF for Materials control). Award 1 mark for second two entries on the debit side. Award 1 mark for OF calculation of FG control and correct balance on credit side.</p> <table><tr><th colspan="4">WIP Control Account</th></tr><tr><td>Balance b/d</td><td>36 500</td><td>Finished good</td><td>740 440 of</td></tr><tr><td>Materials control</td><td>434 290 of</td><td></td><td></td></tr><tr><td>Wages control</td><td>134 500</td><td></td><td></td></tr><tr><td>Prod ohs control</td><td><u>155 250</u></td><td>Balance c/d</td><td><u>20 100</u></td></tr><tr><td></td><td><u>760 540</u></td><td></td><td><u>760 540</u></td></tr></table>	WIP Control Account				Balance b/d	36 500	Finished good	740 440 of	Materials control	434 290 of			Wages control	134 500			Prod ohs control	<u>155 250</u>	Balance c/d	<u>20 100</u>		<u>760 540</u>		<u>760 540</u>	(3)
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	<u>760 540</u>		<u>760 540</u>																							

Question Number	Answer AO2 (2)	Mark			
4(a)(v)	Award 1 mark for correct balance b/d and allow OF for WIP control.				
	Award 1 mark for correct balance c/d and allow OF for Prod cost of				
	Finished Goods Control Account				
	Balance b/d		53 100	Prod cost of sales	750 140 of
	WIP control		<u>740 440</u> of	Balance c/d	<u>43 400</u>
			<u>793 540</u>		<u>793 540</u>
	sales.	(2)			

Question Number	Answer AO2 (5)	Mark																																
4(a)(vi)	<p>Award 1 mark for sales on debit side and 1 mark for balance provided that workings are shown if incorrect. Award 1 for first two credit entries. Award 1 for further two entries Award 1 mark for profit provided that workings are shown if incorrect.</p> <table><tr><th colspan="4">Financial Ledger Control Account</th></tr><tr><td>Sales</td><td>851 650</td><td>Balance b/d</td><td>163 050</td></tr><tr><td></td><td></td><td>Raw mats control</td><td>482 040</td></tr><tr><td></td><td></td><td>Wages control</td><td>202 400</td></tr><tr><td></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td>Prod ohs control</td><td>45 800</td></tr><tr><td>Balance c/d (W1)</td><td><u>143 150</u></td><td>Profit c/d (W2)</td><td><u>101 510</u></td></tr><tr><td></td><td><u>994 800</u></td><td></td><td><u>994 800</u></td></tr></table> <p>W1 Balance = \$81 650 + W-I-P \$20 100 + FG \$43 400 – Prod o/h \$2 000 (OF) = \$143 150 (OF)</p> <p>W2 Sales \$851 650 less Production cost of sales \$750 140 (OF) = Profit \$101 510 (OF)</p>	Financial Ledger Control Account				Sales	851 650	Balance b/d	163 050			Raw mats control	482 040			Wages control	202 400							Prod ohs control	45 800	Balance c/d (W1)	<u>143 150</u>	Profit c/d (W2)	<u>101 510</u>		<u>994 800</u>		<u>994 800</u>	(5)
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	<u>994 800</u>		<u>994 800</u>																															

Question Number	Answer AO1 (1) AO3 (3)	Mark
4(b)	<p>In a non-integrated system the cost accounts are kept separate from the financial accounts and it will be necessary for the two sets of accounts to be reconciled with the use of control accounts (1).</p> <p>Using control accounts will enable the company to frequently check the accuracy of the accounts and highlight any errors (1).</p> <p>Any over or under absorbed production overhead can be carried forward as a balance into the next period's accounts (1).</p> <p>The financial ledger control account will keep a record of all the individual control account balances, as a further means of checking on the accuracy of the control accounts (1).</p>	(4)

Total for Question 4 = 22 marks

Question Number	Answer (AO2) 2	Mark
5a(i)	<p>Award 1 mark for each correct answer.</p> <p>Rate of inventory turnover =</p> <p>Year 2016 = $78(000) \times 365 = 28\,470 / 468 = \mathbf{61\ days\ (1)}$</p> <p>Year 2017 = $96 \times 365 = 35\,040 / 458 = \mathbf{77\ days\ (1)}$</p>	(2)

Question Number	Answer (AO2) 2	Mark
5a(ii)	<p>Award 1 mark for each correct answer.</p> <p>Trade receivables collection period =</p> <p>Year 2016 = $51 \times 365 = 18\,615 / 788 = \mathbf{24\ days\ (1)}$</p> <p>Year 2017 = $88 \times 365 = 32\,120 / 876 = \mathbf{37\ days\ (1)}$</p>	(2)

Question Number	Answer (AO2) 3	Mark
5a(iii)	<p>Award 1 mark for each correct answer.</p> <p>Trade payables repayment period</p> <p>Year 2016 = $48 \times 365 = 17\,520 / 485 = \mathbf{36\ days\ (1)}$</p> <p>Year 2017 = $67 \times 365 = 24\,455 / 490 = \mathbf{50\ days\ (1)}$</p>	(2)

Question Number	Answer (AO2) 3	Mark
5a(iv)	<p>Award 1 mark for each correct answer (two decimal places).</p> <p>Current ratio</p> <p>Year 2016 = $(51 + 78 + 38) 167 : 48 = \mathbf{3.48 : 1} \quad (1)$</p> <p>Year 2017 = $(88 + 96) 184 : (67 + 24) 91 = \mathbf{2.02 : 1} \quad (1)$</p>	(2)

Question Number	Answer (AO2) 3	Mark
5a(v)	<p>Award 1 mark for each correct answer (two decimal places)</p> <p>Acid test ratio</p> <p>Year 2016 = $(51 + 38) 89 : 48 = \mathbf{1.85 : 1} \quad (1)$</p> <p>Year 2017 = $88 : (67 + 24) 91 = \mathbf{0.97 : 1 OR 1 : 1.03} \quad (1)$</p>	(2)

Question Number	Answer (AO3) 3 (AO4) 3 (AO5) 2	Mark
5(b)	<p>Answers may include:</p> <p>The company's rate of inventory turnover measured in days has increased/worsened, indicating that the company is taking more time to sell its inventory (1) so too much working capital is being tied up (1) [*award this point only once]</p> <p>The trade receivables collection period has increased/worsened indicating that debtors are taking longer to repay (1). The company needs to take action (credit control) to recover its debts sooner (1)</p> <p>The trade payables payment period is taking longer. There could be a risk of a supplier refusing to deal with the company (1). On the other hand this may help the cash flow position (1).</p> <p>The current ratio has reduced but the accounts show that too much working capital is tied up in inventory and trade receivables (1) [*award this point only once]</p> <p>The acid test appears to be reasonable but the accounts show that the company has a bank overdraft (1)</p> <p style="text-align: right;">6 max.</p> <p>Conclusion (AO5)</p> <p>The company has a liquidity problem. (1) It has a bank overdraft in year 17 and has no immediate means to pay its trade payables (1)</p>	(8)

Total for Question 5 = 21 marks
Total for Paper = 100 marks

