

Mark Scheme

July 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.

Abbreviations

M1 Method Mark

This is used to reward candidates where there is evidence of the candidate having adopted the correct method for a calculation, but where the accuracy of the answer is not necessarily being awarded a mark.

A1 Accuracy Mark

This is used to reward candidates who have attained the answer to a specific calculation representing a method in the question. If stated in the mark scheme, the own figure rule can be used with the accuracy mark.

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.

oe Or Equivalent rule

This rule is used when the value of an answer may be presented in a variety of ways, such as fractions (simplified/non-simplified/mixed), decimals, percentages. The candidates' answer must be equivalent in value to the mark scheme answer.

awrt 'Anything Which Rounds To' rule

This rule is used when the candidate supplies a figure which rounds to the value determined by the mark scheme.

Question	Answer (AC	02) 6							Mark
1(a)									
	Material A	4 8	00 x 6.50	=	31 200) (1) for			
	Material B	3 5	00 x 9.70	=	33 950) all 3			
	Material C	17	00 x 3.90	=	6 630)			
	Labour	600) x 8.40 =	:	5 040) (1) for			
	Overheads	600) x 23.00	=	13 800) all 3			
	Total cost				90 620)			
	Scrap procee	eds 800) x 1.15 =	=	920	(1)			
	Net Cost			_	89 700	(1 of)			
	Expected out	tput 92%	% x 10 00	0 =	9 200	(1)			
	Cost per liti	re			9.75	(1 of)			(6)
	Workings: 10	000 less 9	200 = 80	0					(0)
Question	Answer (AC	02) 4							Mark
1(b)			_						
		Dura	Pro	cess Acc	ount	111	+	1	
	Mahavial A	litres	\$	`	O to t	litres	\$	(4)	
	Material A	4 800	31 200)	Output	9 360	91 260	(1)	
	Material C	3 300	55 950) (1)) for	Normal	800	020	(1)	
		1700	5 040) 101	Loss	800	920	(1)	
	Overheads		13 800) an S	L035				
	Abn Gain	160	1 560	, (1)					
		10 160	92 180	(-)		10 160	92 180		
		10 100	52 100			10 100	52 100	1	(4)
	Workings:								
	9 360 less 9 2	$200 = 160 \times$	(\$9.75 (C	DF) = \$15	60				
	9 360 x \$9.75	(OF) = \$9	1 260						
	800 x \$1.15 =	= \$920							
	Anguar (AC	1211							
Question	Allswei (At	5)1							магк
1(c)(i)			Norma	lloss					
			\$			\$			
	Process Acco	ount 9	920				(1of)		
									(1)
Question	Answer (AC	03) 1							Mark
1(c)(ii)									
				mal Gain	Г	÷ 1			
			⇒	Drococc ^	ccount	<u>ې</u>	(1.0.f)		
				Process A	ccount	1 JOC 1	(101)		(1)
									、 -,

Question	Answer (A01) 2 (A03) 2	Mark
1(d)	 1 AO1 mark for basic point and 1 AO3 mark for development. Answers may include: Process costing is suitable where production takes time / there is likely to be work-in-progress at the period end (1) - the use of "equivalent units" enables the value of finished product and work-in-progress can be calculated (1) Process costing is suitable when there are several stages to production / goods are transferred from one stage to another (1) - this will enable costs of each stage to be identified (1) Process costing is suitable where there are joint and or by-products (1) - this will enable the common-costs to be attributed to the relevant products (1) Maximum 2 points raised 	(4)
Question	Answer (AO1) 1 (AO3) 1	Mark
1(e)(i)	1 (AO1) mark for basic point and 1 (AO3) mark for development Joint-products are two or more products that are produced by a single manufacturing process that share common costs (1) and are separately unidentifiable until they reach a particular split-off point (1) .	(2)

Question	Answer (AO1) 1 (AO3) 1	Mark
1(e)(ii)	1 (AO1) mark for basic point and 1 (AO3) mark for development	
	By-products are secondary products arising from a manufacturing process whose main purpose is to produce a main product (1) – they usually have minor value when compared to the main product / they are not usually apportioned a share of any joint costs (1) .	(2)

Total marks for Question 1 = 20 marks

Question	Answer (AO2) 1			Mark
2(a)(i)	Selling price = $\frac{540\ 000}{80\ 000}$ or $\frac{742\ 500}{110\ 000}$ = \$6.75 per unit (1)			(1)
Question	Answer (AO2) 1			
2(a)(ii)	Labour fixed = 95 600 - 8 000 (80 000	x \$0.10) = \$8	37 600 (1)	(1)
Question	Answer (AO2) 1			Mark
2(a)(iii)	Heat, light and power variable = $(17 40)$	<u>) – 15 000) 2</u> 80 000	<u>400</u> = \$0.03 per unit (1)	(1)
Question	Answer (AO2) 1			Mark
2(a)(iv)	Cost of hiring 1 machine = \$31 600 / 4	= \$7 900 (1)		(1)
Question	Answer (AO2) 4			Mark
2(a)(v)	Variable cost per unit = $(\frac{\$149\ 100\ -\ 142\ 500\)\ 6\ 600}{(110\ 000\ -\ 80\ 000\)}$ (1) = \$0.22 per unit (1of) (110 000 - 80 000) 30 000 Fixed Cost = \$149 100 - 24 200 (110 000 x \$0.22) (1) = \$124 900 (1of) Or \$142 500 - 17 600 (80 000 x \$0.22)			
Question	Answer (AO2) 8			Mark
2(b)			_	
		Revised Budget		
	Revenue Costs:	864 000	(OF) (1)	
	Materials	275 200	(OF) both	
	Labour	100 400	(10F)	
	Heat, Light & Power	18 840	(10F)	
	Machine Hire	47 400	(1)	
	Production Overheads	152 060	(10F)	
	New Desidentian Orestande	133 000		
	Non-Production Overheads	88 300 683 200	(1) (1)	
	Non-Production Overheads Total Costs Net Profit	88 300 683 200 180 800	(1) (1of) (1of)	
	Non-Production Overheads Non-Production Overheads Total Costs Net Profit Revenue = 128 000 x 6.75 (OF) = \$864 Materials = 128 000 x 2.15 = \$275 200 Labour = 87 600(OF) + 12 800 (128 000 x 2.15)	133 000 88 300 683 200 180 800 000 x 0.10) = \$10	(10) (10f) (10f) 0 400 (10F)	
	Non-Production Overheads Non-Production Overheads Total Costs Net Profit Revenue = 128 000 x 6.75 (OF) = \$864 Materials = 128 000 x 2.15 = \$275 200 Labour = 87 600(OF) +12 800 (128 000 Heat, Light & Power = 15 000 + (128 000 Machine Hire = 6 x 7 900 (OF) = \$47 40 Prod overheads = 124 900 OF + 28 160 0 Full workings must be shown for all own for fown for all own for all own for all own fown for all ow	88 300 683 200 180 800 000 000 x 0.10) = \$10 x 0.03 OF) 3 00 (10F) DF (128 000 x igures.	(10) (1) (1of) (1of) 0 400 (1OF) 3 840 = \$18 840 (1OF) 0.22 OF) = 153 060 (1)	(8)

Question	Answer (AO3) 2	Mark
2(c)	Answers may include:	
	Differences between fixed and flexed budgets:	
	 Fixed budgets assume that output / level of activity will be at a given (or original) level (1) whereas flexed budgets are changed to reflect the amount of activity actually undertaken (1). 	
	• Fixed budgets do not take into account the fact that some costs are variable and that increases in output require more input / cost (1) whereas Flexed budgets recognize that some costs are variable / that increases in output require more cost (1).	(2)
Question	Answer (AO4) 2 (AO5) 2	Mark
2(d)	Answers may include:	
	Case for Flexed budgets	
	 Flexed budgets are more likely to enable more appropriate targets to be set (1) which will give more meaningful variances that can be investigated (1). 	
	 Flexed budgets are more likely to enable more appropriate targets to be set (1) which will enable performance to be judged more fairly / this will improve the motivation of the workers (1). 	
	 Fixed budgets will not reflect some costs are variable and that increases in output require more input / cost and so if output varies less appropriate targets are set (1) which will result in less meaningful variances being calculated (1). 	
	 Fixed budgets are less likely to enable appropriate targets are set if output varies (1) which will may result in performance being judged less fairly / this will damage motivation of the workers (1). 	
	Two marks maximum	
	Case for Fixed budgets	
	 Fixed budgets are easier to produce (1) and therefore take less time and cost less (1) 	
	Two marks maximum	(4)
	One argument in favour and one argument against	

Total marks for Question 2 = 22 marks

Question	Answer (AO2	2) 1				Mark
3(a)(i)	Administrative ov	Administrative overheads:				
	Overhead Absorption Rate = $\frac{$126\ 000}{900}$ = \$140 per job (1) 900 jobs				(1)	
Question	Answer (AO2	2) 5				Mark
3(a)(ii)	Operational over	aade:	Total	OP	ner km	
	Licences and	5 x 3 880 =	\$19 400) 1 for	0.0485	
	Insurance		1) both		
	Servicing and Repairs	5 x (4 x 730) 2 920 =	\$14 600		0.0365	
	Depreciation (22 000)	5 x <u>(200 000 - 24 000)</u> = 8	\$110 000	(1)	0.275	
	Tyres	5 x (8 x 2 x 600) 9 600 =	\$48 000	(1)	0.12	
		Operational overheads	\$192 000	(1 of)		
	Divided by	5 x 80 000 km =	400 000	(4.0)		
		OAR per km	\$0.48	(1 01)	0.48	(5)
	Overneads (1 of) OAR (1 of) – mus Alternative answe (3 800 + 2 920)	er: (1) + 22 000 (1) + 9 600 (1)	s by 400 000 k = 38 400 / 80	km 000 (1) =	\$0.48 (1)	
Question	Answer (AO3)	2				Mark
3(D)	Answers may include: Operational overheads: Most of the operational overheads are costs that increase as distance increases or are related to usage of the lorries / one measure of the size of the job is how far the lorries have to travel (1).					
	Administrative ov of administration	verheads: Every job that is a charge regardless of the s	rranged requir i ze of the jol	es a certa o (1).	ain degree	(2)
Question	Answer (AO2)	2				Mark
3(c)(i)			1			
	Administrative ab	sorbed 510 x \$140 OF =	\$71 4	400) (1	.OF)	
	Administrative ov	erheads incurred	\$63	720) bo	oth	(2)
		Over-absor	ption \$70	680 (1	L Of)	. ,
Question	Answer (AO2)	2				Mark
3(c)(ii)						
	Operational absor	bed 193 500 x \$0.48 OF =	\$92	880) (1	.OF)	
	Operational overh	eads incurred	\$81	350) bo	oth	(2)
		Over-absor	ption \$11	530 (1	L of)	(-)

Question	Answer (AO4) 3 (AO5) 2	Mark	
3(d)	Answers may include:		
	 Positive factors: The company has over-absorbed by \$19 210 and is on track to over-absorb by \$38 420 for the year (1) – which means that the actual overhead costs per job / km are less than budgeted (1). If the company continues to do more work than budgeted (1) actual overhead costs per job / km are less than budgeted therefore more profit per job (1). 		
	 If the company is charging a cost plus price (1), then the over-absorption will result in more profit being made (1). 		
	 Negative factors: If the market is competitive then prices quoted might be higher than they should be (1) – and some customers might go elsewhere (1). 		
	General point: Both under- or over-absorption of overheads can cause a problem (1) – but it is better to over-absorb than under-absorb overheads (1).		
	Maximum of 4 marks for arguing only one side of the argument.		
	Award 1 mark for conclusion that is compatible with the points made.	(5)	

Total marks for Question 3 = 17 marks

Question	Answer (AO2) 3	Mark
4(a)(i)	Labour efficiency: (2 057 - 1 870) 187 (1) x 9.00 (10F) = 1 683 Fav (1of)	
	Standard quantity = (2 376 / 1 080) x 935 = 2 057 hours Standard rate = 21 384 / 2 376 = \$9.00	
	Variance must be correctly identified as favorable to get the final mark.	(3)
Question	Answer (AO2) 2	Mark
4(a)(ii)	Labour rate: (9.00 - 9.60) 0.60 (1) x 1 870 = 1 122 Adv (10f)	
	Actual rate = 17 952 / 1 870 = \$9.60	
	Variance must be correctly identified as adverse to get the final mark.	(2)
Question	Answer (AO2) 1	Mark
4(a)(iii)	Overhead expenditure: = $58320 - 56190 = 2130$ Eav (1)	
	The variance must be correctly identified as favourable to get the mark.	(1)
Question	Answer (AO2) 3	Mark
4(a)(iv)	Overhead volume: 54.00 (1) x 145 (935 - 1 080) (1) = 7 830 Adv (1of)	
	OAR = 58 320 / 1 080 = \$54.00	
	Variance must be correctly identified as adverse to get the final mark.	(3)
	Alternative answers:	
	58 320 (1) less 50490 (1) (58 320 / 1 080 x 935) = 7 830 Adv (1)	
	319 (1) (2 376 - 2 057) x \$24.545 (1) (58 320 / 2 376) = 7 830 Adv (1)	
Question	Answer (AO1) 1	Mark
4(b)(i)	Material usage (adverse): lower quality of material used, more wastage, more production problems than expected, lower skilled staff, inappropriate standard setting at the start of the process (1)	
	Candidates should only be rewarded once for using inappropriate standard.	(1)
Question	Answer (AO1) 1	Mark
4(b)(ii)	Material price (favourable): lower quality of material used, use of alternative supplier, market excess of material, inappropriate standard setting at the start of the process (1)	
	Candidates should only be rewarded once for using inappropriate standard.	(1)

Question	Answer (AO1) 1	Mark			
4(b)(iii)	Overhead expenditure (favourable):				
	Expected increases included in the budget may not have happened.				
	Budgeted expenditure e.g. repairs may not have taken place.				
	Inappropriate standard setting at the start of the process (10F)				
	Candidates should only be rewarded once for using inappropriate standard.	(1)			
Question	Answer (AO2) 2	Mark			
4(c)					
	Materials (65 664 / 1 080) x 935 = 56 848) (1) for				
	Labour $(21 \ 384 \ / \ 1 \ 080) \ x \ 935 =$ 18 \ 513) both Overheads $58 \ 320$ $58 \ 320$ $58 \ 320$				
	Standard Cost 133 681 (10f)	(2)			
		(2)			
Question	Answer AO2 (2)	Mark			
4(d)(i)	Distante di Distilit				
	Revenue $$149600$ (935 x \$160)				
	Budgeted cost \$133 681 (1 of) for both				
	(as per 4c) Budgeted profit \$15,919 (1 of)				
		(2)			
Question	Answer AO2 (2)	Mark			
4(d)(ii)					
	Actual Profit				
	Actual cost \$127 797 (given) (1) for both				
	Actual profit \$21 803 (1 of)	(2)			
Question	Answer AO2 (6)	Mark			
4(e)					
	Budgeted Profit 15 919				
	Material price 4 745 (1)				
	Labour efficiency 1 683 (1 of)				
	Overhead expenditure 2130 (1 of)				
	24 477				
	Less (1.122) (1.61)				
	Material use (1 552) 2 674 (1)				
	Actual Profit 21 803				
	(1 of) for both profit figures	(6)			
	Answers must show direction (plus/minus) of variances for the mark				

Total marks for Question 4 = 24 marks

Question	Answer (AO2) 6			
5(a)	MaterialsMarginalAbsorptionMaterials12.45) (1)12.45Labour (f)) for3.75(2)Labour (v)1.50) both1.50Overheads (f)65 700 / 9 000 =7.30(1)Labour (fixed) = (30 x 180 x 6.25) 33 750 (1) / 9 000 = \$3.75 (1)13.95			
		(6)		
Question	Answer (AO2) 7	Mark		
5(b)	Revenue 259 200 (1) Cost of Production 225 000 (1 of) Closing Inventory (22 500) (3 of) Cost of Sales (202 500) (1 of) Net Profit 56 700 (1 of)			
	Revenue 8 100 x \$32.00 = \$259 200 (1) Cost of Production = 9 000 x \$25.00 (OF) = \$225 000 (1) (DM 112 050 + DL 33 750 + DL 13 500 + Overheads 65 700) Closing Inventory = (9 000 - 8 100) = 900 (1) x \$25.00 (10F) = \$22 500 (1of)	(7)		
Question	Answer (AO3) 2 (AO4) 2	Mark		
5(c)	Answers may include: The closing inventory figure using marginal costing is valued at the variable production cost (900 x \$13.95) = \$12 555. (1) The closing inventory figure using absorption costing is valued at the total production cost (900 x \$25) = \$22,500, which makes the inventory valuation \$9 945 higher (900 x \$11.05) (1) This means that the cost of sales figure under absorption costing is lower (1) and the profit is therefore highe r - \$56 700 for absorption costing as opposed to \$46 755 using marginal costing (1).	(4)		

Total marks for Question 5 = 17 marks Total for Paper = 100 marks

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