

Mark Scheme

September 2018

Pearson LCCI Cost and Management Accounting L3 (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. Or Equivalent rule oe 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. 'Anything Which Rounds To' rule awrt This rule is used when the candidate supplies a figure which rounds to the

value determined by the mark scheme.

Question	Answer (AO2) 2	Mark
1(a)(i)	Direct materials	
	$\$175\ 500\ /\ 5\ 000\ =\ \$35.10\ /\ 3kg\ =\ \$11.70\ per\ kg\ (1)$	
	6 600 x 3kg = 19 800 kg x \$11.70 (OF) = \$231 660 (1) of	
	Alternative answer = 6 600kg x \$35.10 = \$231 660	
		(2)
Question	Answer (AO2) 2	Mark
1(a)(II)	Direct labour	
	$$121\ 500\ /\ 5\ 000\ =\ $24.30\ per\ unit\ x\ 6\ 250\ =\ $151\ 875$	
	$(6\ 600\ -\ 6\ 250) = 350\ units\ x\ ($24.30\ +\ 40\%)\ $34.02\ \underline{$11\ 907\ (1)} of$	
	\$163 /82 (1) of	(2)
Question	Answer (AO2) 3	Mark
1(a)(iii)		
	Variable production overheads $(244, 250, -12, 500, -218, 250, -218, 250, -612, 600, (1), (2, 000, units)$	
	$(7\ 000 - 5\ 000) = $ \$6.30 variable cost per unit (1)	
	Variable element = 6 600 x \$6.30 (of) = \$41 580 (1) of	
Question		(3)
	Answer (AU2) 2	магк
1(4)(10)	Fixed production overheads	
	Fixed element = \$218 250 less \$31 500 (5 000 x \$6.30 of) =	
	\$186 / 50 (10f) + \$13 500 = \$200 250 (1) of	(2)
Question	Answer (AO2) 3	Mark
1(b)		
	Margin of safety SP 40 – VC 20 – \$20 Contribution (1)	
	$175\ 000\ /\ 20\ =\ 8\ 750\ units\ break\ even\ (1)$	
	12 000 - 8 750 = 3 250 / 12 000 = 27.08% (10F)	
Question	Apswor $(A01)$ 1 $(A02)$ 1	(3) Mark
1(d)		Mark
- \ /	Answers may include: 1 mark for point made, 1 mark for development	
	It is assumed that the selling price per unit will not change (1) – changes in total	
	revenue will change the break-even/margin of safety/profitability (1)	
	It is assumed that variable cost per unit will not change as output increases (1) - if so this would change the contribution, the break-even point and profitability (1)	
	It is assumed that fixed costs will not change as output increases (1) – whereas in fact there are likely to be stepped increases in fixed costs (1)	
		(2)



Total for Question 1 = 19 marks

Question	Answer (AO2)	14				Mark
2(a)		September	October	November	MARKS	
	Cash inflow	\$	\$	\$		
	Cash sales	15,400	16,100	13,300	1 + 1	
	Debtors	132,300	138,600	144,900	1 + 1	
		<u>147,700</u>	<u>154,700</u>	<u>158,200</u>		
	Cash outflow					
	Material	60,000	63,000	69,000	1	
	Labour	45,000	46,000	40,000	1+1	
	l axation Machino	20,000		80,000	1	
	Variable overhead	33 000	34 500	31 500	1+1	
	Fixed overhead	26,000	26,000	26,000	1	
		184.000	169.500	266.500		
			<u> </u>			
	Net	(36,300)	(14,800)	(108,300)	105	
	Opening balance	(28.000)	(64.300)	(79,100)		
	Closing balance	(64,300)	(79,100)	(187,400)	405	
	J J				10F	
	Note to typesettir	ng please alig	n 10F on te	<mark>ext above</mark>		
	Workings:					
	September cash sales September credit sale	s = 1 100 x \$140 s = \$154,000 x 9	= \$154,000 x 90% = \$138,60	10% = \$15,40)0 payable in (0 October	
	Materials July 1,000 x	: \$60 = \$60,000 p	bayable in Sep	tember		
		Septer	ber Octobe	r Novembe	r	
	Labour previous mon	th 25% 10,50	0 11,500	11,500		
	current month	n 75% 34,50	0 34,500	28,500		
	Variable overhead					
	previous mon	th 50% 15,75	0 17,250	17,250		
	current month	n 50% 17,250	0 17,250	14,250		
	Fixed overhead = \$3	0 000 less \$4 00	0 = \$26 000 (1	I)		
						(14)

Question	Answer A01 (2) A03 (2)	Mark
2(b)	Answers may include: 1 mark for point made, 1 mark for development	
	The costs that might result from an inability to pay bills as they fall due (1) such as interest charged or the loss of discounts receivable. (1)	
	If a loan or overdraft has to be taken out (1) interest payments will need to be made. (1)	
		(4)

Question	Answer AO4 (3) AO5 (2)	Mark		
2(c)	Answers may include:			
	Positive factors:			
	 The majority of the direct costs appear to be stable (1) 			
	• The business appears to be increasing its sales revenue each month (1)			
	Negative factors:			
	• The business has a growing overdraft requirement * (1)			
	 The tax liability (due in November) will have a serious impact on the company's liquidity (1) 			
	• The payments for the new non-current assets will have an impact on the			
	company's liquidity (1)			
	Indeterminate factors:			
	• The cash budget only covers a 3-month period – it is difficult to assess			
	how reliable the information is going to be (1)			
	Maximum 3 marks for this section. Maximum of 2 marks for positive factors.			
	Maximum of 2 marks for negative factors.			
	Maximum of 1 mark for theoretical actions to improve cash flows			
	The company's cash flow is not good and (1) Overdraft requirement * is			
	urgently needed (1).			
	2 marks			
		(5)		

Total for Question 2 = 23 marks

Question	Answer (AO2) 3	Mar k
3(a)(i)	Award 1 mark for both entries on the debit side. Award 1 mark for all three entries on the credit side. 1 mark for the work in progress figure.	
	Raw Materials Account	
	\$ \$ Balance b/d 92 700 Work-in-progress 288 120 (1) Creditors 275 850 Materials written off 2 820 Prod o/heads 14 650	
	Balance c/d <u>62 960</u> 368 550 368 550	
		(3)
Question	Answer (AO2) 3	Mar k
3(a)(ii)	Award 1 mark for first two correct entries and 1 mark for next two correct entries on the debit side. Award 1 mark for correct balance and finished goods (of) on the credit side.	
	W I P Account	
	\$ \$ Balance b/d 54 580 Finished goods 448 730 (of) Production overheads 64 880 Wages 56 050	
	Raw materials 288 120 463 630 (of) Balance c/d 14 900 463 630	(2)
Question	Answer (AO2) 2	Mar k
3(a)(iii)	Award 1 mark for both correct entries on the debit side. Award 1 mark for both correct entries on the credit side.	
	Finished Goods Account	
	Balance b/d 68 940 Factory cost of goods 489 230 (of) Work-in-progress <u>448 730 (of)</u> Balance c/d <u>28 440</u> 517 670 517 670 517 670	(2)
Question	Answer (AO2) 4	Mar k
3(a)(iv)	Award 1 mark for first two correct entries and 1 mark for next two correct entries on the debit side. Award 1 mark for over recovery o overheads. Award 1 mark for correct entry on the credit side.	
	Production Overheads Account	
	\$\$Indirect raw materials14 650Work-in-progress 64 880Indirect wages20 800Indirect expenses9 680Machinery depreciation19 200Over recovery of o/h – P & L550	
	<u>64 880</u> <u>64 880</u>	(4)

Question	Answer (AO2) 4				
3(a)(v)	Award 1 mark for first two correct entries on the debit side. Award 1 mark for next two correct entries on the debit side. Award 1 mark for profit figure. Award 1 mark for both entries on the credit side.				
		Profit & Loss	s Account	•	
		\$		\$	
	Finished goods	489 230 (of)	Sales	660 100	
	Admin o/heads	81 300	Over rec'd prod o/h	550	
	(of)		· ·		
	S & D o/heads	48 900			
	Materials written off	2 820			
	Profit c/d	38 400			
		660 650		660 650	
					(4)

Question	Answer (A01) 2 (A03) 2				
3(b)	Answers may include: 1 mark for point made, 1 mark for development				
	The non-integrated system has a set of cost accounts (1) , which are kept separate from the financial accounts (1)				
	It uses control accounts (1) to check the accuracy of the ledgers (1)				
	It uses a financial ledger control account , to maintain a set of balances (1), and which also calculates a profit according to the cost accounts (1) .				
		(4)			

Total for question 3 = 20 marks

Question	Answer AO2 (3)	Mark
4(a)(i)	Production budget (units)	
	Product Aye Product Bee	
	Budgeted sales units 1 675 2 780	
	Add Closing inventory 180 325 1	
	Less: Opening inventory (215) (235) 1	
	Budgeted production 1 640 2 870 1	(3)
Question	Answer AO2 (5)	Mark
4(a)(ii)	Purchases budget (kilos for Material Gamma)	
	Product Ave Product Bee Total	
	Budgeted production units 1 640 (of) 2 870 (of)	
	*Material required per unit x 0.5 x 0.80 1	
	kg required for production 820 2 296 3 116 1 of	
	Add Closing inventory 265	
	Less Opening inventory (361) 1	
	Budgeted purchases (quantity) 3 020 1 of	
	x cost of material per kg <u>x \$8.20</u>	
	Budgeted purchases (cost) \$24 764 1of	
	*Lloggo por unit of product: Droduct Avo \$4.10 . \$9.20 - 0.5 kg por unit	
	Product Bee, \$6.56 \pm \$8.20 = 0.80 kg per unit	
	1 100000 Dee \$0.00 ÷ \$0.20 - 0.00 kg per unit	(5)
Question	Answer AO2 (4)	Mark
4(a)(iii)	Direct labour budget (Skilled)	
	Product Aye 1 640 × 0.75 1 230.00	
	Product Bee 2 870 × 0.30 <u>861.00</u> 1of	
	Budgeted direct labour hours2 091.001of	
	X <u>\$12.80</u>	
	\$26 764.80 1of	
	Aye $39.00 \div 312.80 = 0.75$ Bee $33.84 \div 312.80 = 0.30$ 1	(4)
		(4)

	Answer (A01) 2 (A03) 2	Mark
4(b)	Award 1 mark for explanation / 1 mark for development for TWO suggestions. Accept other reasonable suggestions.	
	Provides a means of communicating management's plans/targets (1) so that levels of the workforce are aware of the company's intentions. (1)	
	Forces managers to think/plan for the future (1). Without the necessity to prepare a budget, they might spend time dealing with daily issues. (1)	
	Provides a means of allocating resources (1) to those parts of the organisation where they are required and used most effectively. (1)	
	Co-ordinates activities by integrating the plans of departments (1) thus ensuring everyone is pulling in the same direction. (1)	
	Define goals and objectives (1) that can serve as benchmarks for evaluating subsequent performance. (1)	
	Accept other reasonable answers, e.g. linked to: Decision-making; Organisation of finances; Judging performance	
		(4)

Total marks for Question 4 = 16 marks

Question	Answer AO2 (4)				Mark
5(a)	Workings: 3,000 units of Exe x 4 hours = 12,500; and 2,000 units of Zed x 3 h This equals 30,500 direct labour hours Overheads = $683 \ 200 \ / \ 30 \ 500$ (1) Dir Production overhead cost per unit Workings: Exe = 4 lab hours x $22.40 = 889.60$; V Zed = 3 x $22.40 = 67.20$	= 12,000; 2, ours = 6,000 (1) ect labour ho Exe 89.60 Vhye = 5 x \$2	500 units of Whye ours = \$22.40 per Whye 112.00 24.40 = \$112.00;	e x 5 hours Iabour hour (1 Zed 67.20 (1)	
					(4)

Question	Answer (AO2) 10					Mark
5(b)	<u>Inspection</u> \$199 200 / 600_= \$332 p	er produ	uction ru	n 1		
	Exe = \$332 x 150 = \$49 800 / 3 000 units = \$16.60 per unit Whye = \$332 x 200 = \$66 400 / 2 500 units = \$26.56 per unit Zed = \$332 x 250 = \$83 000 / 2 000 units = \$41.50 per unit					
	Machining\$186 600 / 24 500 = \$7.6Machine hours = 2.5 x 3 000 + 4 x 2 500 +	2 per m 3.5 x 2 (achine h)00 = 24 ,	our 1 500		
	Exe = 2.5hrs x \$7.62 = \$19.05 Whye = 4hr	s = \$30.	48 Zed =	3.5hrs =	\$26.67	
	Packaging \$99 000 / 550 = \$180 pe	er order	1			
	Exe = \$180 x 150 = \$27 000 / 3 000 units = Whye = \$180 x 175 = \$31 500 / 2 500 units Zed = \$180 x 225 = \$40 500 / 2 000 units =	= \$9.00 s = \$12.0 = \$20.25	per unit 60 per ui 5 per unit	nit t		
	<u>Material Handling</u> \$198 400 / 31 000_ = \$6.40 per kg used 1					
	Quantity: (3,000 x 5kg) 15,000 + (2,500 x 4kg) 10,000 + (2,000 x 3kg) 6,000 = 31,000					
	Exe = 5 kg x \$6.40 = \$32.00 Whye = 4 kg = \$ 2	2 5.60 Z	Zed = 3 kg	= \$19.20		
	Production overhead cost per unit	Exe	Whye	Zed		
	Inspection	16.60	26.56	41.50	1	
	Machining	19.05	30.48	26.67	1	
	Packaging	9.00	12.60	20.25	1	
	Material handling	<u>32.00</u> 76.65	<u>25.60</u>	<u>19.20</u> 107.62	1 2 of	
		10.05	JJ.24	107.02	2 01	(10)

Question	Answer A04 (6) A05 (2)	Mark
5(c)	Answers may include the following:	
	Advantages of ABC Changing to ABC would produce a more realistic allocation of costs Exe would change from 89.60 down to 76.65. Whye would also decrease. (1) Zed's costs would increase from 67.20 to 107.61, as it would bear the extra costs associated with all the additional activities (1)	
	Changing to ABC would make the costs more accurate, leading to potential improvements (1) to any of the following: pricing decisions/sales strategies/performance management/decision making (1) (3 marks maximum)	
	Disadvantages of ABC	
	ABC is expensive and time consuming to implement (1). The benefits gained might not justify the costs (1)	
	ABC might be difficult to identify appropriate cost drivers (1) It might not be possible to allocate all overheads to specific activities (1)	
	The choice of both activities and cost drivers might not be appropriate (1) (3 marks maximum)	
	Conclusion: decision in favour or against (1) with an appropriate rationale (1)	
		(8)

Total marks for Question 5 = 22