Mark Scheme

## September 2018

## Pearson LCCI Cost and Management Accounting L3 (VRQ) ASE20098

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September 2018
Publication Code: *****_MS
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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.

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.

O
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.

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
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
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: <br> $\$ 175500 / 5000=\$ 35.10 / 3 \mathrm{~kg}=\mathbf{\$ 1 1 . 7 0}$ per kg (1) <br>  <br> Alternative answer = 6 600kg x \$35.10 = \$231 660 | (2) |
| Question | Answer (AO2) 2 | Mark |
| 1(a)(ii) | Direct labour <br> $\$ 121500 / 5000=\$ \mathbf{2 4 . 3 0}$ per unit $\times 6250=\quad \$ 151875$ <br> (6 600-6 250) $=\mathbf{3 5 0}$ units $\times(\$ 24.30+40 \%) \$ 34.02 \$ 11907$ ( $\mathbf{1}$ ) of <br> \$163 782 (1) of | (2) |
| Question | Answer (AO2) 3 | Mark |
|  | Variable production overheads $\begin{aligned} & \text { (244 350-13500) } 230850-218250=\$ \mathbf{1 2} \mathbf{6 0 0}(\mathbf{1 )} / 2000 \text { units } \\ & (7000-5000)=\$ 6.30 \text { variable cost per unit (1) } \\ & \text { Variable element }=6600 \times \mathbf{\$ 6 . 3 0}(\mathbf{o f})=\mathbf{\$ 4 1 5 8 0} \quad \text { (1) of } \end{aligned}$ | (3) |
| Question | Answer (AO2) 2 | Mark |
| 1(a)(iv) | Fixed production overheads <br> Fixed element = \$218 250 less $\$ \mathbf{3 1} \mathbf{5 0 0}$ (5000 $\mathbf{0} \$ 6.30$ of) $=$ \$186 750 (1of) $+\$ 13500=\$ 200250$ (1) of | (2) |
| Question | Answer (AO2) 3 | Mark |
| 1(b) | Margin of safety <br> SP 40 - VC $20=\$ \mathbf{2 0}$ Contribution (1) <br> $175000 / 20=\mathbf{8 7 5 0}$ units break even (1) <br> $12000-8750=\mathbf{3} \mathbf{2 5 0} / 12000=\mathbf{2 7 . 0 8 \%}$ (10F) | (3) |
| Question | Answer (AO1) 1 (AO3) 1 | Mark |
| 1(d) | Answers may include: 1 mark for point made, 1 mark for development <br> 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) <br> 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) <br> 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) |



| Question | Answer (AO2) 14 |  |  |  |  | Mark |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2(a) |  Cep <br> Cash inflow  <br> Cash sales  <br> Debtors  | tember | October | November | MARKS | (14) |
|  |  | \$ | \$ | \$ |  |  |
|  |  | 15,400 | 16,100 | 13,300 | $1+1$ |  |
|  |  | 132,300 | 138,600 | 144,900 | $1+1$ |  |
|  |  | 147,700 | 154,700 | 158,200 |  |  |
|  | Cash outflow |  |  |  |  |  |
|  | Labour | $\begin{aligned} & 60,000 \\ & 45,000 \end{aligned}$ | $\begin{aligned} & 63,000 \\ & 46,000 \end{aligned}$ | 40,000 | $1+1$ |  |
|  | Taxation |  |  | 80,000 | 1 |  |
|  | Machine | 20,000 |  | 20,000 | 1 |  |
|  | Variable overhead | 33,000 | 34,500 | 31,500 | $1+1$ |  |
|  | Fixed overhead $\quad \underline{26,000}$ |  | 26,000 | 26,000 | 1 |  |
|  | 184,000 |  | 169,500 | 266,500 |  |  |
|  | Net <br> inflow/(outflow) <br> Opening balance | $(36,300)$ | $(14,800)$ | $(108,300)$ | 10F |  |
|  |  | $(28,000)$ | $(64,300)$ | $(79,100)$ |  |  |
|  | Closing balance | $(64,300)$ | $(79,100)$ | $(187,400)$ | 10F |  |
|  | Note to typesetting please align 10F on text above |  |  |  |  |  |
|  | Workings: |  |  |  |  |  |
|  | September cash sales $=1100 \times \$ 140=\$ 154,000 \times 10 \%=\$ 15,400$ <br> September credit sales $=\$ 154,000 \times 90 \%=\$ \mathbf{1 3 8 , 6 0 0}$ payable in October |  |  |  |  |  |
|  | Materials July $1,000 \times \$ 60=\mathbf{6 0 , 0 0 0}$ payable in September |  |  |  |  |  |
|  | Labour previous month 25\% current month 75\% | $\begin{array}{ll} 10,500 \\ \% & 34,500 \end{array}$ | $\begin{gathered} \text { October } \\ 11,500 \\ 34,500 \end{gathered}$ | Novembe <br> 11,500 <br> 28,500 |  |  |
|  | Variable overhead previous month 50\% current month 50\% | $\begin{aligned} & 15,750 \\ & 17,250 \end{aligned}$ | $\begin{aligned} & 17,250 \\ & 17,250 \end{aligned}$ | $\begin{aligned} & 17,250 \\ & 14,250 \end{aligned}$ |  |  |
|  | Fixed overhead $=\$ 30000$ less $\$ 4000=\$ 26000$ (1) |  |  |  |  |  |


| Question | Answer AO1 (2) AO3 (2) | Mark |
| :--- | :--- | :---: |
| 2(b) | Answers may include: 1 mark for point made, 1 mark for <br> development <br> The costs that might result from an inability to pay bills as they fall due (1) such <br> as interest charged or the loss of discounts receivable. (1) <br> If a loan or overdraft has to be taken out (1) interest payments will need to be <br> made. (1) | (4) |


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

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. |  |
| 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. | (3) |
| Question | Answer (AO2) 2 | Mar $\mathbf{k}$ |
| 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. | (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. | (4) |


| Question | Answer (AO2) 4 |  |
| :---: | :---: | :---: |
| 3(a)(v) | Award 1 mark for first two correct entries on the debit side. <br> Award 1 mark for next two correct entries on the debit side. <br> Award 1 mark for profit figure. <br> Award 1 mark for both entries on the credit side. | (4) |


| Question | Answer (AO1) 2 (AO3) 2 |  |
| :--- | :--- | :--- |
| 3(b) | Answers may include: $\mathbf{1}$ mark for point made, $\mathbf{1}$ mark for development <br> The non-integrated system has a set of cost accounts (1), which are <br> kept separate from the financial accounts (1) <br> It uses control accounts (1) to check the accuracy of the ledgers (1) |  |
| It uses a financial ledger control account, to maintain a set <br> of balances (1), and which also calculates a profit according to <br> the cost accounts (1). | (4) |  |

Total for question 3 = 20 marks

| Question | Answer AO2 (3) | Mark |
| :---: | :---: | :---: |
| 4(a)(i) | Production budget (units)    <br>  Product Aye Product Bee  <br> Budgeted sales units 1675 2780  <br> Add Closing inventory 180 325 $\mathbf{1}$ <br> Less: Opening inventory $\underline{(215)}$ $\underline{(235)}$ $\mathbf{1}$ <br> Budgeted production $\mathbf{1 6 4 0}$ $\mathbf{2 8 7 0}$ $\mathbf{1}$ | (3) |
| Question | Answer AO2 (5) | Mark |
| 4(a)(ii) | Purchases budget (kilos for Material Gamma) <br> *Usage per unit of product: Product Aye $\$ 4.10 \div \$ 8.20=\mathbf{0 . 5} \mathbf{~ k g ~ p e r ~ u n i t ~}$ Product Bee $\$ 6.56 \div \$ 8.20=\mathbf{0 . 8 0} \mathbf{~ k g}$ per unit | (5) |
| Question | Answer AO2 (4) | Mark |
| 4(a)(iii) | Direct labour budget (Skilled) <br> Hours per unit of product: <br> Aye $\$ 9.60 \div \$ 12.80=0.75$ Bee $\$ 3.84 \div \$ 12.80=0.30 \quad 1$ | (4) |


|  | Answer (AO1) 2 (AO3) 2 | Mark |
| :--- | :--- | :--- |
| 4(b) | Award 1 mark for explanation / 1 mark for development <br> for TWO suggestions. Accept other reasonable <br> suggestions. <br> Provides a means of communicating management's <br> plans/targets (1) so that levels of the workforce are <br> aware of the company's intentions. (1) <br> Forces managers to think/plan for the future (1). Without <br> the necessity to prepare a budget, they might spend time <br> dealing with daily issues. (1) |  |
| Provides a means of allocating resources (1) to those <br> parts of the organisation where they are required and <br> used most effectively. (1) | Co-ordinates activities by integrating the plans of <br> departments (1) thus ensuring everyone is pulling in the <br> same direction. (1) <br> Define goals and objectives (1) that can serve as <br> benchmarks for evaluating subsequent performance. (1) |  |
| Accept other reasonable answers, e.g. linked to: <br> Decision-making; Organisation of finances; Judging <br> performance | (4) |  |

Total marks for Question 4 = 16 marks

| Question | Answer AO2 (4) | Mark |
| :---: | :---: | :---: |
| 5(a) | Workings: 3,000 units of Exe $\times 4$ hours $=12,000 ; 2,500$ units of Whye $\times 5$ hours $=12,500$; and 2,000 units of Zed $\times 3$ hours $=6,000$. <br> This equals $\mathbf{3 0 , 5 0 0}$ direct labour hours (1) <br> Overheads = \$683 200 / 30500 (1) Direct labour hours = $\$ 22.40$ per labour hour (1) <br> Workings: <br> Exe $=4$ lab hours $\times \$ 22.40=\$ 89.60 ;$ Whye $=5 \times \$ 24.40=\$ 112.00$; <br> Zed $=3 \times \$ 22.40=\$ 67.20$ | (4) |


| Question | Answer (AO2) 10 | Mark |
| :---: | :---: | :---: |
| 5(b) |  | (10) |


| Question | Answer AO4 (6) AO5 (2) | Mark |
| :--- | :--- | :--- |
| 5(c) | Answers may include the following: <br> Advantages of ABC <br> Changing to ABC would produce a more realistic allocation of costs <br> Exe would change from 89.60 down to 76.65. Whye would also decrease. (1) <br> Zed's costs would increase from 67.20 to 107.61, as it would bear the extra costs <br> associated with all the additional activities (1) <br> Changing to ABC would make the costs more accurate, leading to potential <br> improvements (1) to any of the following: <br> pricing decisions/sales strategies/performance management/decision making (1) <br> (3 marks maximum) <br> Disadvantages of ABC <br> ABC is expensive and time consuming to implement (1). The benefits gained might <br> not justify the costs (1) <br> ABC might be difficult to identify appropriate cost drivers (1) It might not be possible <br> to allocate all overheads to specific activities (1) <br> The choice of both activities and cost drivers might not be appropriate (1) <br> (3 marks maximum) <br> Conclusion: decision in favour or against (1) with an appropriate rationale (1) |  |

## Total marks for Question 5 = 22

