



Mark Scheme

January 2019

**PEARSON LCCI (ASE 20098)
Cost and Management Accounting
(VRQ) Level 3**

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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 (14)					Mark
1 (a)		Month One	Month Two	Month Three	Mark	
	Sales Receipts	48,000 (1)	84,000 (1)	121,200 (1)		
	Interest Received		54		1	
	TOTAL RECEIPTS	48,000	84,054	121,200		
	Payments					
	Purchases	24,000	60,000	66,720	2	
	Wages	22,800	31,600	35,600	2	
	Overheads	11,400	19,600	24,560	2	
	Fixed overheads	12,000	12,000	12,000	For both	
	Asset Purchase	12,000		12,000	1	
	Interest Charged			213	1	
	TOTAL OUTFLOWS	82,200	123 200	151,093		
	Net Cash Flow	(34 200)	(39,146)	(29 893)	1	
	Open Balance	45,000	10,800	(28 346)		
	Closing Balance	10,800	(28 346)	(58 239)	1	
						(14)

Cash Budget – for marking purposes				
	Month One	Month Two	Month Three	Mark
Sales totals	96 000	120 000	144 000	
Sales receipts	48,000	60,000	72,000	1
(2nd Month)		24,000	30,000	1
(3rd Month)			19,200	1
Purchase totals	60 000	60 000	64 000	
Purchases	24,000	24,000	30,720	1
Purchases		36,000	36,000	1
Direct Wages	30,400	32,000	36,800	
Wages	22,800	24,000	27,600	1
Wages (2nd Month)		7,600	8,000	1
Overheads	19,000	20,000	27,600	
Overheads	11,400	12,000	16,560	1
Overheads 2nd Month		7,600	8,000	1

Question Number	Answer (AO4) 4	Mark
1 (b)	<p>Two required</p> <p>Offer discounts to customers to speed up payments (1). The company is too generous with its credit terms, offering as much as 60-90 days credit (1).</p> <p>The company should have been advised NOT to purchase a new non-current asset if possible, as this has used up vital cash flow (1). With so many companies offering assets for lease or hire, they should have taken this option (1).</p> <p>Any other reasonable answer.</p>	(4)

Total for Question 1 = 18 marks

Question Number	Answer AO2 (3)	Mark																								
2(a)(i)	<p>Award 1 mark for both entries on the debit side. Award 1 mark for three entries on the credit side and 1 mark for the balance.</p> <p style="text-align: center;">Raw Materials Account</p> <table><tr><td></td><td style="text-align: center;">\$</td><td></td><td style="text-align: center;">\$</td></tr><tr><td>Balance b/d</td><td style="text-align: right;">86 250</td><td>W I P</td><td style="text-align: right;">500 100</td></tr><tr><td>Creditors</td><td style="text-align: right;">551 700</td><td>Materials – P&L</td><td style="text-align: right;">11 250</td></tr><tr><td></td><td></td><td>Prod O/heads</td><td style="text-align: right;">29 700</td></tr><tr><td></td><td></td><td>Balance c/d</td><td style="text-align: right;"><u>96 900 (1)</u></td></tr><tr><td></td><td style="text-align: right;"><u>637 950</u></td><td></td><td style="text-align: right;"><u>637 950</u></td></tr></table>		\$		\$	Balance b/d	86 250	W I P	500 100	Creditors	551 700	Materials – P&L	11 250			Prod O/heads	29 700			Balance c/d	<u>96 900 (1)</u>		<u>637 950</u>		<u>637 950</u>	(3)
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	<u>637 950</u>		<u>637 950</u>																							

Question Number	Answer AO2 (3)	Mark																								
2(a)(ii)	<p>Award 1 mark for two correct entries and 1 mark for a further two correct entries on the debit side.</p> <p>Award 1 mark for correct entry on the credit and the correct balance.</p> <div><div><div>W I P Account</div><table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Balance b/d</td><td>52 020</td><td>Finished Goods</td><td>732 435</td></tr><tr><td>Production Overheads</td><td>129 375</td><td></td><td></td></tr><tr><td>Wages</td><td>112 125</td><td></td><td></td></tr><tr><td>Material</td><td><u>500 100</u></td><td>Balance c/d</td><td><u>61 185</u></td></tr><tr><td></td><td><u>793 620</u></td><td></td><td><u>793 620</u></td></tr></table></div></div>		\$		\$	Balance b/d	52 020	Finished Goods	732 435	Production Overheads	129 375			Wages	112 125			Material	<u>500 100</u>	Balance c/d	<u>61 185</u>		<u>793 620</u>		<u>793 620</u>	(3)
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Question Number	Answer AO2 (2)	Mark																
2(a)(iii)	<p>Award 1 mark for both entries on the debit side. Award 1 mark for both entries on the credit side.</p> <p style="text-align: center;">Finished Goods Account</p> <table><tr><td></td><td style="text-align: center;">\$</td><td></td><td style="text-align: center;">\$</td></tr><tr><td>Balance b/d</td><td style="text-align: right;">61 350</td><td>COS – P & L</td><td style="text-align: right;">662 345</td></tr><tr><td>WIP</td><td style="text-align: right;"><u>732 435</u></td><td>Balance c/d</td><td style="text-align: right;"><u>131 440</u></td></tr><tr><td></td><td style="text-align: right;"><u>793 785</u></td><td></td><td style="text-align: right;"><u>793 785</u></td></tr></table>		\$		\$	Balance b/d	61 350	COS – P & L	662 345	WIP	<u>732 435</u>	Balance c/d	<u>131 440</u>		<u>793 785</u>		<u>793 785</u>	(2)
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2(a)(iv)	<p>Award 1 mark for two correct entries and 1 mark for a further two correct entries on the debit side. Award 1 mark for over recovery of overheads. Award 1 mark for correct entry on the credit side.</p> <div><div><div>Production Overheads Account</div><table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Raw Materials</td><td>29 700</td><td></td><td></td></tr><tr><td>Wages</td><td>41 100</td><td>W I P</td><td>129 375</td></tr><tr><td>Creditors/Expenses</td><td>24 375</td><td></td><td></td></tr><tr><td>Machinery depreciation</td><td>33 720</td><td></td><td></td></tr><tr><td>Over recovery of o/h</td><td><u>480</u></td><td></td><td></td></tr><tr><td></td><td><u>129 375</u></td><td></td><td><u>129 375</u></td></tr></table></div></div>		\$		\$	Raw Materials	29 700			Wages	41 100	W I P	129 375	Creditors/Expenses	24 375			Machinery depreciation	33 720			Over recovery of o/h	<u>480</u>				<u>129 375</u>		<u>129 375</u>	(4)
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Question Number	Answer AO2 (4)	Mark																								
2(a)(v)	<p>Award 1 mark for two correct entries on the debit side. Award 1 mark for a further two correct entries on the debit side. Award 1 mark for both entries on the credit side. Award 1 mark for the LOSS figure on the credit side.</p> <p style="text-align: center;">Profit & Loss Account</p> <table><tr><td></td><td style="text-align: center;">\$</td><td></td><td style="text-align: center;">\$</td></tr><tr><td>Finished Goods</td><td style="text-align: right;">662 345</td><td>Sales</td><td style="text-align: right;">694 500</td></tr><tr><td>Admin o/heads</td><td style="text-align: right;">54 200</td><td>Over rec'd o/h</td><td style="text-align: right;">480 (OF)</td></tr><tr><td>S & D o/heads</td><td style="text-align: right;">32 600</td><td></td><td></td></tr><tr><td>Materials written off</td><td style="text-align: right;"><u>11 250</u></td><td>Loss c/d</td><td style="text-align: right;"><u>65 415 (OF)</u></td></tr><tr><td></td><td style="text-align: right;"><u>760 395</u></td><td></td><td style="text-align: right;"><u>760 395</u></td></tr></table>		\$		\$	Finished Goods	662 345	Sales	694 500	Admin o/heads	54 200	Over rec'd o/h	480 (OF)	S & D o/heads	32 600			Materials written off	<u>11 250</u>	Loss c/d	<u>65 415 (OF)</u>		<u>760 395</u>		<u>760 395</u>	(4)
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Question Number	Answer AO1 (2) AO3 (2)	Mark
2(b)	<p>Two required</p> <p>In a non-integrated system the cost accounts are kept separate from the financial accounts (1) 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 (1) of the accounts and highlight any errors (1).</p> <p>The financial ledger control account will keep a record of all the individual control account balances (1), as a further means of checking on the accuracy of the control accounts (1).</p>	(4)

Total for Question 2 = 20 marks

Question Number	Answer AO2 (14)	Mark																																				
3(a)	<p>Award marks for workings where figures in table are incorrect.</p> <p>Variance figure is of - must give correct indication of favourable or adverse</p> <table><thead><tr><th>Cost element</th><th></th><th>Flexible budget 3 400 units</th><th></th><th>Actual costs</th><th>Variance</th></tr></thead><tbody><tr><td>Direct materials</td><td>157 833</td><td>2</td><td>154 240</td><td>3 593 Fav 1of</td><td></td></tr><tr><td>Direct labour</td><td>112 428</td><td>2</td><td>105 980</td><td>6 448 Fav 1of</td><td></td></tr><tr><td>Production overheads</td><td>121 545</td><td>3</td><td>123 485</td><td>1 940 Adv 1of</td><td></td></tr><tr><td>Administration overheads</td><td>71 325</td><td></td><td>70 025</td><td>1 300 Fav 1of</td><td></td></tr><tr><td>Selling overheads</td><td>65 205</td><td>2</td><td>66 700</td><td>1 495 Adv 1of</td><td></td></tr></tbody></table> <p>Workings Direct materials:</p> <p>117 000 / 2 500 = \$46.80 per unit / 6 = \$7.80 per kg 20 400 kg (3 400 x 6kgs) x \$7.80 = \$159 120 (1) less 1 650 (20 400 - 18 750) x \$0.78 = <u>(1 287) (1)</u> \$157 833</p> <p>Direct labour \$81 000 / 2 500 = \$32.40 per unit x 3 050 = \$98 820 (1) (3 400 - 3050) = 350 units x (32.40 + 20%) \$38.88 = <u>13 608 (10F)</u> \$112 428</p> <p>Production overheads \$122 175 - \$6 750 = \$115 425 - \$109 125 = \$6 300/1000 = \$6.30 variable cost p.u (1) Fixed element = \$109 125 - \$15 750 (2 500 x \$6.30) = \$93 375 (10F) 3 400 x \$6.30 = \$21 420 + \$93 375 + \$6 750 = \$121 545 (10F)</p> <p>Selling overheads Fixed element = \$56 025 less £25 500 (2 500 x \$10.20) = \$30525 (1) plus \$34 680 (1) (3 400 x \$10.20) = \$65 205</p>	Cost element		Flexible budget 3 400 units		Actual costs	Variance	Direct materials	157 833	2	154 240	3 593 Fav 1of		Direct labour	112 428	2	105 980	6 448 Fav 1of		Production overheads	121 545	3	123 485	1 940 Adv 1of		Administration overheads	71 325		70 025	1 300 Fav 1of		Selling overheads	65 205	2	66 700	1 495 Adv 1of		(14)
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Question Number	Answer AO3 (2) AO4 (2)	Mark
3(b)	<p>Effective budget setting would mean the company has small variances. (1) As the company variances are quite small Mazuch Odubaju Ltd's budget setting is realistic. (1)</p> <p>Favourable variances might imply that the budgets set are too easy to achieve. (1)</p> <p>Adverse variances might suggest that the budgets set are too difficult to achieve. (1)</p>	(4)

Question Number	Answer AO1 (2) AO3 (2)	Mark
3(c)	<p>Award 1 mark for explanation and 1 mark for development for each of the TWO suggestions. Accept other reasonable suggestions linked to the characteristics of good management</p> <p>Budgeting provides a means of communicating management's plans throughout the organisation (1) so that various levels of the workforce are informed of the company's intentions. (1)</p> <p>Budgeting forces managers to think about and plan for the future (1). In the absence of the necessity to prepare a budget, managers might spend their time dealing with daily issues (1).</p> <p>The budgeting process provides a means of allocating resources (1) to those parts of the organisation where they have been proved to be required and can be used most effectively. (1)</p> <p>Budgeting co-ordinates the activities of the organisation (1) by integrating the plans of the various departments (1) thus helping to ensure that everyone is pulling in the same direction.</p> <p>Budgets define goals and objectives (1) that can serve as benchmarks for evaluating subsequent performance (1).</p> <p>The actual results can be compared with the budget (1) which might allow for corrective action to be undertaken (1).</p> <p>Budgets provide the means of controlling the direction of the departments (1) they can act as an incentive to motivate the workforce. (1)</p>	(4)

Total for Question 3 = 22 marks

Question Number	Answer AO2 (3)						Mark
4(a)(i)	Product	Aye	Bee	Cee	Dee		
	Contribution per unit		<u>50</u> <u>90</u>		<u>140</u>	<u>160</u>	(1)
	Material per unit		2	3	4	4	
	Contribution per kg		25	30	35	40	(1)
	Order of priority		4	3	2	1	(1)
							(3)

Question Number	Answer AO2 (3)	Mark
4(a)(ii)	Production schedule Kg material available 8 100 Dee 800 x 4 = 3 200 (10F) Cee 700 x 4 = 2 800 (10F) Bee 700 x 3 = <u>2 100</u> (8 100) (10F) Balance NIL	(3)

Question Number	Answer AO2 (4)	Mark
4(a)(iii)	Contribution schedule Dee 800 x \$160 = 128 000 Cee 700 x \$140 = 98 000 (1 for all three) Bee 700 x \$90 = <u>63 000</u> Total contribution 289 000 (10F) Less fixed cost <u>105 000</u> (1) Profit 184 000 (10F) Fixed overhead: Sales demand 3,000 units x \$35 per unit = \$105,000	(4)

Question Number	Answer AO2 (4)	Mark
4(a)(iv)	Sales revenue in optimum mix: Dee 800 x \$480 = \$384 000 Contribution from 4a(iii) = \$289 000 Cee 700 x \$420 = \$294 000 Bee 700 x \$340 = <u>\$238 000</u> Total \$916 000 (10F) \$289 000 / \$916 000 = 31.55% (10F) Break-even in sales revenue Fixed costs \$105 000 (OF) / 31.55% (10F) = \$332 805 (10F)	(4)

Question Number	Answer AO1 (2)	Mark
4(b)	<p>Answers may include:</p> <p>Direct labour (1) Machine hours (1)</p>	(2)

Question Number	Answer AO1 (2) AO3 (2)	Mark
4(c)	<p>In terms of behaviour, costs in the short-term can be thought of as variable, semi-variable or fixed (1) However, as time progresses, all costs are thought to be variable (1).</p> <p>An example of this is factory rent, which in the short term is fixed. (1) This cost will increase when (over time) output increases beyond the capacity of the existing premises and further premises have to be rented (1).</p>	(4)

Total for Question 4 = 20 marks

Question Number	Answer AO2 (4)	Mark																																																																													
5(a)(i)	<table><tr><th colspan="7">Net present value</th></tr><tr><th></th><th colspan="3">Project Exe</th><th colspan="3">Project Whye</th></tr><tr><th>Year</th><th>Cash flow</th><th>Factor</th><th>Present value</th><th>Cash flow</th><th>Factor</th><th>Present value</th></tr><tr><th></th><th>\$000</th><th>15%</th><th>\$000</th><th></th><th>15%</th><th>\$000</th></tr><tr><td>0</td><td>(580)</td><td>1.000</td><td>(580.00)</td><td>(920)</td><td>1.000</td><td>(920.00)</td></tr><tr><td>1</td><td>160</td><td>0.870</td><td>139.20</td><td>250</td><td>0.870</td><td>217.50</td></tr><tr><td>2</td><td>350</td><td>0.756</td><td>264.60</td><td>440</td><td>0.756</td><td>332.64</td></tr><tr><td>3</td><td>210</td><td>0.658</td><td>138.18</td><td>320</td><td>0.658</td><td>210.56</td></tr><tr><td>4</td><td>120</td><td>0.572</td><td>68.64</td><td>(1) 180</td><td>0.572</td><td>102.96 (1)</td></tr><tr><td></td><td></td><td></td><td>30.62</td><td></td><td></td><td>(56.34)</td></tr><tr><td></td><td></td><td></td><td>NPV = \$30,620 1 OF</td><td></td><td></td><td>NPV= \$(56,340) 1 OF</td></tr></table>	Net present value								Project Exe			Project Whye			Year	Cash flow	Factor	Present value	Cash flow	Factor	Present value		\$000	15%	\$000		15%	\$000	0	(580)	1.000	(580.00)	(920)	1.000	(920.00)	1	160	0.870	139.20	250	0.870	217.50	2	350	0.756	264.60	440	0.756	332.64	3	210	0.658	138.18	320	0.658	210.56	4	120	0.572	68.64	(1) 180	0.572	102.96 (1)				30.62			(56.34)				NPV = \$30,620 1 OF			NPV= \$(56,340) 1 OF	(4)
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Question Number	Answer AO2 (6)	Mark																																																																								
5(a)(ii)	<p style="text-align: center;">Internal rate of return</p> <table><thead><tr><th colspan="4">Project Exe</th><th colspan="4">Project Whye</th></tr><tr><th>Year</th><th>Cash flow</th><th>Factor</th><th>Present value</th><th>Cash flow</th><th>Factor</th><th>Present value</th><th></th></tr><tr><th></th><th>\$000</th><th>20%</th><th>\$000</th><th>\$000</th><th>12%</th><th></th><th></th></tr></thead><tbody><tr><td>0</td><td>(580)</td><td>1.000</td><td>(580.00)</td><td>(920)</td><td>1.000</td><td>(920.00)</td><td></td></tr><tr><td>1</td><td>160</td><td>0.833</td><td>133.28</td><td>250</td><td>0.893</td><td>223.25</td><td></td></tr><tr><td>2</td><td>350</td><td>0.694</td><td>242.90</td><td>440</td><td>0.797</td><td>350.68</td><td></td></tr><tr><td>3</td><td>210</td><td>0.579</td><td>121.59</td><td>320</td><td>0.712</td><td>227.84</td><td></td></tr><tr><td>4</td><td>120</td><td>0.482</td><td><u>57.84</u></td><td>180</td><td>0.636</td><td><u>114.48</u></td><td></td></tr><tr><td></td><td></td><td></td><td><u>(24.39)</u> (1)</td><td></td><td></td><td><u>(3.75)</u> (1)</td><td></td></tr></tbody></table> <p>Project Exe = 15% + {5% × [30.62 ÷ (30.62 + 24.39)]} 1OF = 17.78% 1OF</p> <p>Project Whye = 12% - {3% × [3.75 ÷ (56.34 - 3.75)]} 1OF = 11.79% 1OF</p> <p>Make sure IRR calculation is sensible if OF is being awarded</p>	Project Exe				Project Whye				Year	Cash flow	Factor	Present value	Cash flow	Factor	Present value			\$000	20%	\$000	\$000	12%			0	(580)	1.000	(580.00)	(920)	1.000	(920.00)		1	160	0.833	133.28	250	0.893	223.25		2	350	0.694	242.90	440	0.797	350.68		3	210	0.579	121.59	320	0.712	227.84		4	120	0.482	<u>57.84</u>	180	0.636	<u>114.48</u>					<u>(24.39)</u> (1)			<u>(3.75)</u> (1)		(6)
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1	160	0.833	133.28	250	0.893	223.25																																																																				
2	350	0.694	242.90	440	0.797	350.68																																																																				
3	210	0.579	121.59	320	0.712	227.84																																																																				
4	120	0.482	<u>57.84</u>	180	0.636	<u>114.48</u>																																																																				
			<u>(24.39)</u> (1)			<u>(3.75)</u> (1)																																																																				

Question Number	Answer AO5 (6)	Mark
5(b)	<p>Needs to look at both projects. Must indicate that Whye has a negative NPV and a poor IRR to gain the full marks.</p> <p>Answers are based on own figures.</p> <p>Project Exe has a positive NPV of \$30 620 (1) and an IRR of 17.78% which is above the 15% cost of capital (1) (2 max)</p> <p>Project Whye generates a negative NPV of \$56 340 (1) and an IRR of 11.79% which is lower than the 15% cost of capital (1) (2 max)</p> <p>The NPV method selects a project which has a positive cash flow. The IRR method takes a rate of return which is higher than the cost of capital.</p> <p>Project Exe would be selected (1) because it meets the above criteria (1)</p> <p>Project Exe also has the lowest capital cost which might make it more appropriate as finding the funding might be easier. (1)</p>	(6)

Question Number	Answer AO1 (2) AO3 (2)	Mark
5(c)	<p>An example of a short-term decision might be "increasing production over the next three months in order to meet an unexpected increase in demand" (1). The technique that is used here is marginal costing (1). Also accept answers that are examples of break-even analysis and limiting factors.</p> <p>An example of a long-term decision might be the need to build a new production line to introduce a new (or improved) product (1). The techniques that are used come under the heading of 'capital investment appraisal': payback; discounted cash flow; average rate of return; and internal rate of return (1).</p> <p>Accept any other reasonable answer.</p>	(4)

Total for Question 5 = 20 marks

Total for Paper= 100 marks