Pearson LCCI

Friday 18 January 2019

Time: 3 hours | Paper Reference **ASE 20098**

Certificate in Cost and Management Accounting (VRQ)

Level 3

Please check the examination details above before entering your candidate information

Candidate name

Centre Code

Candidate Number

Candidate ID Number

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen
  – *pencil can only be used for graphs, charts, diagrams, etc.*
- **Fill in the boxes** at the top of this page with your name, candidate number, centre code and your candidate ID number.
- Answer **all** questions.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*
- Answers should be given to an appropriate degree of accuracy.

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- You are advised to show your workings.
- Check your answers if you have time at the end.

Turn over

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Answer ALL questions. Write your answers in the spaces provided.

1 Larsson Tomori is starting up in business and has asked for your assistance in preparing a forecast cash budget.

You are given the following budgeted information for the first three months of trading:

	Sales (units)	**Material purchases** (units)	**Production** (units)
Month One	3 200	4 000	3 800
Month Two	4 000	4 000	4 000
Month Three	4 800	4 800	4 600

You are also provided with the following information.

- 50% of the sales value is to be received in the month of sale, 25% in the month after the sale and the remainder two months after the sale.

  The selling price is set at $30 per unit.

- It is estimated that only 80% of the ***amount*** outstanding for the second month after the sale will be paid, the remainder will need to be written off as a bad debt.

- 40% of material purchases are paid in the month of purchase, with the remaining 60% paid in the following month.

  The purchase cost per unit has been set at $15 for both Month One and Month Two; rising to $16 in Month Three.

- Direct wages will be $8 per unit. 75% of the total is paid in the month of production and 25% in the month following production.

- Variable overheads will be $5 per unit for both Month One and Month Two. This will rise to $6 per unit for Month Three. The policy is to pay 60% of the total amount incurred in the month of production, with the remainder paid in the following month.

- Fixed overheads will be $12,000, paid each month.

- Non-current assets with a total cost of $60,000 will be purchased in Month One when a 20% deposit will be paid. The balance is to be paid in four equal instalments, commencing two months after purchase.

- The non-current assets will be depreciated on a straight line basis over four years starting immediately. The depreciation charge has NOT been included in the fixed overheads.

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- If the company has a positive cash balance at the end of the month, interest will be receivable at a rate of **6% per annum**, paid in the following month (rounded to the nearest $).

  Any negative balance will result in interest being charged at a rate of **9% per annum**, being charged in the following month (rounded to the nearest $).

  Any interest is calculated on the balance at the end of each month.

- The company started with a cash balance of $45 000

(a) Prepare a Cash Budget for **each** of the first three months of trading, showing your answer in columnar format.

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As a new business, loans or an overdraft are **not** available to the company.

(b) Advise the owners of the company of **two** actions that they could take to minimise any short-term cash deficit.

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(Total for Question 1 = 18 marks)

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2 Irvine Hector Manufacturing Ltd operates an integrated accounting system and the following information is available for Period 6.

Opening inventories

	$
Raw materials	86 250
Work-in-progress	52 020
Finished goods	61 350

The following transactions took place during Period 6:

	$
Purchases of raw materials (on credit)	551 700
Production overheads absorbed	129 375
Direct wages incurred	112 125
Materials transferred to production	500 100
Indirect materials issued to production overheads	29 700
Indirect wages and salaries incurred	41 100
Factory cost of goods completed	732 435
Other production overheads incurred	24 375
Materials written off	11 250
Depreciation on production machinery	33 720
Cost of sales	662 345
Administration overheads incurred	54 200
Selling and distribution overheads incurred	32 600
Sales	694 500

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(a) Prepare the following for Period 6:

(i) raw materials account

(3)

Details	$	Details	$

(ii) work-in-progress account

(3)

Details	$	Details	$

(iii) finished goods account

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Details	$	Details	$

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(iv) production overheads account

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Details	$	Details	$

(v) profit and loss account.

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Details	$	Details	$

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(b) Explain **two** reasons for using control accounts when operating a **non-integrated accounting system**.

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3 Mazuch Odubaju Ltd manufactures a single product.

The production and sales for Month 6 will be between 2 500 and 3 500 units.

The following cost budgets for Month 6 have been prepared at these two levels of activity:

Units	**2 500**	**3 500**
Cost element	**$**	**$**
Direct materials	117 000	162 045
Direct labour	81 000	116 316
Production overheads	109 125	122 175
Administration overheads	71 325	71 325
Selling overheads	56 025	66 225

The following budgeted information is also provided.

- Each unit requires 6 kg of raw material.
- Any orders over 18 750 kg will receive a 10% cash discount on the quantity **over** 18 750 kg.
- The direct labour cost increases by 20% per unit on the units of production **over** 3 050 units per month.
- Production overheads consist of a variable element plus a fixed monthly element. In addition, there is a stepped increase of $6 750 in the fixed monthly element when production reaches 2 875 units.
- Selling overheads include a variable cost element of $10.20 per unit.
- No inventory of finished goods or raw materials is held.

During Month 6, there were 3 400 units manufactured and sold.

The following costs were incurred in Month 6:

	$
Direct materials	154 240
Direct labour	105 980
Production overheads	123 485
Administration overheads	70 025
Selling overheads	66 700

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(a) Complete the table for Month 6, showing the flexed cost budget for an output of 3 400 units, the actual costs and the variances.

Label the variances as adverse or favourable.

Use the space below the table for your workings.

(14)

	Budget $	**Actual $**	**Variance $**
Direct materials			
Direct labour			
Production overheads			
Administration overheads			
Selling overheads			

Workings

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The budget-setting process has produced variances.

(b) Advise the company of how effective its budget setting has been, taking into account the variances you have calculated in part (a).

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(c) Explain **two** possible benefits for the **internal management** of the company if it operates a system of preparing budgets.

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(Total for Question 3 = 22 marks)

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4 Henrikson Kingsley manufactures and sells four products that all use raw material XYZ.

The company is currently preparing its production schedule for the next period.

The details for these four products are as follows:

Product	**Aye**	**Bee**	**Cee**	**Dee**
Selling price per unit	$250	$340	$420	$480
Raw material per unit	2kg	3kg	4kg	4kg
Contribution per unit	$50	$90	$140	$160

Fixed overhead is $35 per unit and is calculated on the basis of the **total** sales demand.

The sales demand, in units, for the forthcoming period is expected to be:

Product	**Aye**	**Bee**	**Cee**	**Dee**
Units	800	700	700	800

The raw material is in short supply and will be limited to **8 100 kg** for the next period.

For the next period:

(a) (i) calculate the order of priority for production with the objective of **maximising contribution**

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(ii) prepare the optimum production schedule that will enable the company to **maximise profit**

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(iii) calculate the profit resulting from the production schedule you prepared in a(ii)

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(iv) calculate the break even in sales revenue assuming the product mix calculated in part a(ii) above.

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(b) Identify **two** limiting factors (other than direct materials).

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(c) Explain the effect of time on cost behaviour.

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(Total for Question 4 = 20 marks)

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5 Evandro Toral is considering whether to invest in one of two capital projects for a period of four years.

The net cash flows for the two projects are as follows:

	Project Exe **$000**	**Project Whye** **$000**
Year 0	(580)	(920)
Year 1	160	250
Year 2	350	440
Year 3	210	320
Year 4	120	180

Cost of capital is **15%** per annum.

Discount factors:

Year	**12%**	**15%**	**20%**
1	0.893	0.870	0.833
2	0.797	0.756	0.694
3	0.712	0.658	0.579
4	0.636	0.572	0.482

(a) Calculate for each of **Project Exe** and **Project Whye** the:

(i) net present value

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(ii) internal rate of return.

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(b) Evaluate which project should be undertaken.

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(c) State **one** example of **each** of the following and **one** costing technique that might be associated with that example.

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- short-term decision making

- long-term decision making.

(Total for Question 5 = 20 marks)

TOTAL FOR PAPER = 100 MARKS

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