# Mark Scheme 

## March 2019

## Pearson LCCI <br> Cost and Management Accounting <br> (VRQ) Level 3 <br> (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.


| Question | Answer AO1 (2) | Mark |
| :---: | :---: | :---: |
| 1(d) | Answers might include: <br> Two required. <br> - Reduction / elimination of the risk of running out of inventory (1). <br> - Reduction of holding / ordering costs (1). <br> - Reduction of risk of theft (1). <br> - Reduction of risk of wastage (1). <br> - Reduction of capital needlessly tied up in inventory (1). <br> - Enabling of advantage to be taken of bulk discounts (1). <br> Maximum 2 marks. | (2) |
| Question | Answer AO1 (1) AO3 (1) | Mark |
| 1(e) | 1 AO1 mark for basic description of principal limiting factor and 1 AO3 mark for development of why it is important when producing budgets. <br> Answers may include: <br> A Principal Limiting Factor is one that is in shortest supply / cannot be avoided / restricts the activities of the business (1). <br> Maximum 1 mark. <br> When producing budgets, budgets containing PLFs need to be produced first / budgets containing PLFs take priority over other budgets / other budgets have to work round those containing PLFs (1) <br> Maximum 1 mark. | (2) |



| Question | Answer AO3 (2) | Mark |
| :--- | :--- | :--- |
| 2(d) | Answers may include: <br> One required. <br> (This will ensure that costs are passed onto the customer as and when work is <br> done (1) which will hopefully ensure that all overhead costs are covered <br> during the period (1). <br> This will assist with cost-plus price-setting (1) as it will help to ensure that <br> even the indirect costs are considered when providing a quotation (1). | (2) |


| Question | Answer AO4 (4) AO5 (2) | Mark |
| :---: | :---: | :---: |
| 2(e) | Answers may include: <br> Positives: <br> - Each overhead is apportioned using an appropriate basis - this ensures that each cost centre is given a fair share of that overhead (1). <br> - Where possible, an overhead is allocated directly to the relevant cost centre t0 ensure that cost centres are only charged for the costs they cause (1). <br> - The choice of method is suitable as it represents the nature of the activities Manufacturing is machine/capital-intensive (1 200 machine hours) whereas Packing is more labour intensive (2 400 labour hours) (1) - also Manufacturing has a high value of machinery compared to Packing (\$490 000 to only $\$ 140$ 000) (1). <br> THREE maximum <br> Negatives: <br> - The number of machine and labour hours was over-estimated (1) - this means that Orcus Ltd might be pricing its products incorrectly / too low (1). <br> - The costs were greater than expected (1) - this meant that Orcus Ltd was struggling to cover its costs (1). <br> - Orcus Ltd under-absorbed its overheads by $£ 2408 / 6.5 \%$ (1) - which, if a regular occurrence, represents a major failing in the main objective of any method used to absorb overheads (1). <br> Alternative argument: <br> It is difficult to evaluate a method based on one month's data (1) - other months might see an over-absorption / costs and output may be difficult to forecast accurately (1). <br> Conclusion: The method used to absorb overheads is effective / ineffective (1). <br> The conclusion should reflect at least one of the points made by the candidate. | (6) |



| Question | Answer AO2 (2) | Mark |
| :---: | :---: | :---: |
| 4(a)(i) | Material price: (11.00-9.80) \$1.20×49600=\$59520 Fav (1) <br> Actual price $=486080 / 49600 \mathrm{~kg}=\mathbf{\$ 9 . 8 0} / \mathbf{k g} \mathbf{( 1 )}$ <br> Variance must be correctly identified as favourable/adverse for the final mark. | (2) |
| Question | Answer AO2 (3) | Mark |
| 4(a)(ii) | Material usage:(50 800-49600) $\mathbf{1} \mathbf{2 0 0 ( 1 o f ) \times 1 1 . 0 0 = \$ 1 3 2 0 0 ~ F a v ( 1 o f ) ~}$ <br> Standard quantity $=(44800 / 56000) \times 63500=50800 \mathbf{~ k g ~ ( 1 )}$ <br> The variance must be correctly identified as favourable or adverse to get the final mark. | (3) |


| Question | Answer AO2 (2) |  |  |  |  | Mark |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 4(a)(iii) | Labour rate: (7.50-8.25) \$0.75 x $9300=\$ 6975$ Adv (1) <br> Actual rate $=76725 / 9300$ hours $=\mathbf{\$ 8 . 2 5} /$ hour (1) <br> The variance must be correctly identified as favourable or adverse to get the final mark. |  |  |  |  | (2) |
| Question | Answer AO2 (3) |  |  |  |  | Mark |
| 4(a)(iv) | Labour efficiency: (9525-9 300) $\mathbf{2 2 5}$ (1of) $\times 7.50=\$ 1687.50$ Fav (1of) <br> Standard quantity $=(8400 / 56000) \times 63500=9525$ hours (1) <br> The variance must be correctly identified as favourable or adverse to get the final mark. |  |  |  |  | (3) |
| Question | Answer AO2 (4) |  |  |  |  | Mark |
| 4(b) |  |  |  |  |  |  |
|  | Budgeted Profit for Actual production |  |  | 105762.50 |  |  |
|  | Variances | Fav | Adv |  |  |  |
|  | Direct materials price | 59520 |  |  | (10f) for |  |
|  | Direct materials usage | 13200 |  |  |  |  |
|  | Direct labour rate |  | 6975 |  |  |  |
|  | Direct labour efficiency | 1687.50 |  |  | $\begin{array}{\|l} \hline \begin{array}{l} \text { (1of) for } \\ \text { both } \end{array} \\ \hline \end{array}$ |  |
|  | Fixed overhead expend |  | 6200 |  |  |  |
|  | Total variance | 74407.50 | 13175 | 61232.50 | $\begin{aligned} & \text { (1of) for } \\ & \text { all } 3 \end{aligned}$ |  |
|  | Actual Profit for Actual production |  |  | 166995.00 | (1of) |  |


| Question | Answer AO1 (1) | Mark |
| :--- | :--- | :---: |
| 4(c)(i) | Answers may include: <br> One required. <br> Surplus on world markets drove the price down (1) <br> Greater quantities bought leading to bulk-discounts (1) <br> Material used might have been of a lower quality (1) <br> Inappropriate standard (1) | (1) |
| Question | Answer AO1 (1) | Mark |
| 4(c)(ii) | Answers may include: <br> One required. <br> Workers may have been of a higher quality / skill level (1) <br> There may have been a pay-rise between budget-setting and work being done <br> (1) <br> There may have been unexpected overtime being paid (1) | (1) |
| Question | Answer AO1 (1) AO3 (1) | Mark |
| 4(d) | Award 1 AO1 mark for basic description of Attainable standard and 1 AO3 mark <br> for development. <br> Attainable Standard - is the standard set that is achievable under normal <br> effective operating conditions (1) and may often include an allowance for an <br> acceptable level of waste / inefficiency / idle-time (1) | (2) |
| Question | Answer AO1 (1) AO3 (1) | Mark |
| 4(e) | Award 1 AO1 mark for basic benefit and 1 AO3 mark for development. <br> Benefits: Answers may include: <br> Improved motivation / productivity from workers (1) - who believe that <br> they are being set targets that are reasonable / achievable (1) <br> Will often give a fairly accurate standard cost (1) - which is likely to lead to <br> better decisions eg price-setting / will lead to more appropriate variances <br> being generated / will ensure that rewards or penalties will applied for <br> genuinely good or bad performances (1) <br> 0NE required | (2) |


| Question | Answer AO2 (3) | Mark |
| :---: | :---: | :---: |
| 5(a) | ```Contribution = 17.75-9.25=$8.50 (1) Break-even point (units) = 205 700 / 8.50=24 200 units (1) Break-even (revenue) = 24 200 x 17.75 = $429 550 (1)``` | (3) |
| Question | Answer AO2 (2) | Mark |
| 5(b) | $\begin{aligned} & \text { Margin of safety (units) }=30000-24200=5 \mathbf{8 0 0} \text { units (1) } \\ & \text { Margin of safety }(\%)=\frac{5800}{30000} \times 100=\mathbf{1 9 . 3 3 \%} \end{aligned}$ | (2) |
| Question | Answer AO2 (6) | Mark |
| 5(c) | Marks should be awarded for the following features on the profit-volume chart: <br> - Vertical axis correctly labelled and numbered (1) words profit and loss (+ or -) must appear <br> - Horizontal Axis correctly labelled and numbered (1) sales or output is acceptable <br> - 1 mark for line clearly identified as RB53 <br> - 1 mark for line clearly identified as ZX68 <br> - RB53 break-even point identified at $\mathbf{2 4} \mathbf{2 0 0}$ units and ZX68 break-even point identified at $\mathbf{2 3} \mathbf{2 5 0}$ units (1) <br> - RB53 profit at 30000 units is shown as $\$ 49300$ and ZX68 profit at 30000 units is shown as $\$ 75600$ (1) | (6) |
| Question | Answer AO4 (3) AO5 (2) | Mark |
| 5(d) | Answers may include: <br> RB53 - In Favour: <br> - The forecast of sales being 30000 is fairly certain / demand for the ZX68 is only an estimate (1) - so Pandora knows that it will be making a profit if it continues to produce RB53 / it may make a loss on ZX68 if their forecasts are wrong (1). <br> - The fixed costs from producing RB53 are lower (1) - Pandora may not wish to commit themselves to higher fixed costs by launching the new product (1). <br> - Pandora do not need to make changes to their production processes if they continue producing the RB53 (1) - any changes needed to make the ZX68 might be expensive/take time/lead to production problems (1). <br> THREE maximum for only arguing case for RB53 <br> ZX68-In Favour: <br> - ZX68 will potentially yield more profit if 30000 units are sold each month $\$ 75600$ vs $\$ 49300$ ( $\$ 26300$ more) (1). <br> - The directors of Pandora want a profit of $\$ 60000$ per month (1) - ZX68 could achieve this / RB53 cannot achieve this target (1). <br> - ZX68 has a lower break-even point (by 950 units) - this suggests that this product would make it easier to make a profit / avoid losses (1). <br> - ZX68 has a higher margin of safety ( 6750 units or $22.50 \%$ ) - if sales are lower than expected, it is less likely to make a loss (1). <br> Three maximum for only arguing case for ZX68 <br> Conclusion: The company should continue making the RB53 / should launch the ZX68 . (1) The conclusion should reflect at least one of the points made.(1) | (5) |

## Total for Question 5 = 16 marks <br> Total for Paper= 100 marks

