Pearson LCCI

Wednesday 10 April 2019

Time: 3 hours | Paper Reference **ASE20098**

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 Despina Ltd produces the ZX66.

Budgets have been prepared, at two different levels of activity, for May 2019 as follows.

	Budget 1	**Budget 2**
Units produced and sold	40 000	70 000
	$	**$**
Revenue	**478 000**	**836 500**
Costs		
Materials	152 000	266 000
Labour	244 000	244 000
Production overheads	133 000	137 500
Non-production overheads	117 000	117 000
Total costs	**646 000**	**764 500**
Net profit / (loss)	**(168 000)**	**72 000**

(a) Calculate, for May 2019, the:

(i) selling price

(1)

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(ii) variable costs per unit

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(iii) fixed costs

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(iv) break-even point in units and revenue

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(v) margin of safety in units and as a percentage of sales, if Despina Ltd expects to sell 70 000 units

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(vi) number of units that would need to be sold to make a profit of $100 000

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(b) Describe the following terms.

(i) Relevant costs

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(ii) Sunk costs

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(Total for Question 1 = 18 marks)

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2 Thalassa Ltd manufactures a single product using a standard absorption costing system.

The budgeted information relating to March 2019 was as follows.

	Budget		Actual	
Production	**32 000 units**		**36 400 units**	
Materials	68 000 kg	$510 000	76 440 kg	$554 190
Direct labour	14 400 hours	$147 600	18 200 hours	$183 820
Fixed overheads		$278 400		$285 150
Total cost		**$936 000**		**$1 023 160**

Additional information.

- Material and direct labour are variable costs.
- Fixed overheads are absorbed on the basis of units of output.

(a) Calculate the budgeted cost of producing 36 400 units.

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(b) Calculate the following variances for March.

(i) Material usage

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(ii) Material price

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(iii) Labour efficiency

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(iv) Labour rate

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(v) Fixed overhead expenditure

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(vi) Fixed overhead volume

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One of the directors of Thalassa Ltd has stated:

'The secret of good profitability is keeping control of material and labour costs!'

(c) Evaluate whether the **labour** costs have been controlled during March, giving possible reasons for the variances.

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3 Halimede Ltd uses Material TX47 in its production.

The following information is available.

	Monthly usage	**Order quantity**	**Price**	**Minimum inventory**
Material TX47	3 000 kg	6 000 kg	$8.40 kg	4 500 kg

The annual holding costs are estimated to be $1.25 per kg.

Ordering costs are estimated to be $1 200 per order.

(a) Give **two** examples of inventory holding costs.

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(b) Calculate the ordering costs for Material TX47 for one year.

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(c) Calculate the holding costs for Material TX47 for one year.

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The supplier of Material TX47 has offered a 5% discount if Halimede Ltd increases the size of its orders to 18 000 kg per order.

(d) Complete the table showing the costs of ordering in quantities of 3 000 kg and 18 000 kg.

(7)

Order size	**3 000 kg**	**18 000 kg**
	$	**$**
Purchasing costs		
Ordering costs		
Holding costs		
Total costs		

Workings

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(e) Advise the company if it should change to the increased order size.

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(f) Explain **two** disadvantages of an **ineffective** inventory management system.

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4 Sao Ltd owns a business that manufactures hats.

The information relating to production in March was as follows.

- Inventory on 1 March was 16 400 hats that were valued at:
  $5.95 each using absorption costing **or**
  $2.30 each using marginal costing.
- Direct materials were $2.25 per hat.
- Labourers are employed on a permanent basis.
- There were 32 labourers who each worked 175 hours in the month at a rate of $10.00 per hour.
- Bonuses were also paid to labourers at $0.20 for every hat produced in the factory.
- Production overheads were $84 000 in March.
- Hats were sold for $7.50 each.
- During March, 35 000 hats were produced and 31 800 were sold.
- The business uses the First In First Out (FIFO) method of inventory valuation.

(a) Define the following terms.

(i) Marginal cost

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(ii) Absorption cost

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(b) Calculate, for March, the:

- marginal cost of producing one hat
- absorption cost of producing one hat.

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(c) Prepare a statement, for March, of profit or loss, in columnar format, using:

- marginal costing
- absorption costing.

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(d) Explain why the profit using marginal costing is different from the profit using absorption costing.

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(Total for Question 4 = 24 marks)

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5 The managers at Trinculo Ltd have developed the following controls to protect the security and confidentiality of its management information.

- All work carried out on any computer should be saved at least once per hour and all files should be backed up at the end of the day.
- Computers should be logged out or locked when users are not at their desks.
- Employees are given a password based on their initials and date of birth, and are prompted to change it once every six months.
- Employees are able to access all parts of the management information system by using their username and password.
- Employees are not allowed to bring in their own 'memory sticks' (USB drives).
- Employees are not allowed to access websites that are not related to work.

(a) Evaluate how effective these controls might be in ensuring that the security and confidentiality of management information is maintained.

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(b) Explain **two** actions that could be introduced to encourage the employees to follow the controls.

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One of the products made by Trinculo Ltd is the TZ25.

Management sets a production target for its 28 production-line staff of 40 units per labour hour. Each worker is contracted to work 175 hours per month.

During March 2019, 221 280 units of TZ25 were produced and a total of 4 760 labour hours were worked.

(c) Calculate, for March, the:

(i) standard hours for actual production

(1)

(ii) production efficiency ratio

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(iii) production capacity ratio

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(iv) production volume (activity) ratio.

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(Total for Question 5 = 18 marks)

TOTAL FOR PAPER = 100 MARKS

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