

Mark Scheme

June 2019

Pearson LCCI Cost and Management Accounting (VRQ) Level 3 (ASE20098)



LCCI Qualifications

LCCI qualifications come from Pearson, the world's leading learning company. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information, please visit our website at <u>www.lcci.org.uk</u>.

Pearson: helping people progress, everywhere

Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

June 2019 Publication Code: 64195_MS All the material in this publication is copyright © Pearson Education Ltd 2019

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 (AO2) 2				
Q1a(i)	Award 1 mark for both correct entries on the debit side.				
	Award 1 mark for all correct entries on the credit side.				
	Raw Materials Control Account				
	\$ \$				
	Balance b/d 86 500 W I P control 341 180				
	Financial ledger control 367 800 Production ons control 19 540				
	<u> </u>				
	454 500	(2)			
Question	Answer (AO2) 2	Mark			
Question Q1a(ii)	Award 1 mark for the correct entry on the debit side.	TIATIK			
4 -4(1)	Award 1 mark for both correct entries on the credit side.				
	Wages Control Account				
	\$				
	Financial ledger control 112 320 W I P control 74 720				
	Production ohs control <u>37 600</u>				
	<u>112 320</u> <u>112 320</u>	(-)			
		(2)			
Question	Answer (AO2) 3	Mark			
Q1a(III)	Award 1 mark for all FOUR correct entries on the debit side.				
	Award 1 mark for of balance c/d				
	Production Querkeede Control Account				
	Balance b/d 5 360 W I P control 86 450				
	Raw materials control 19 540				
	Wages control 37 600				
	Financial ledger control25 430Balance c/d1 480 (1of)				
	<u>87 930</u> <u>87 930</u>				
	Award OF for balance if an entry on the left is missing or contains an alien				
		(3)			
Question	Answer (AO2) 3	Mark			
Q1a(iv)	Award 1 mark for all FOUR correct entries on the debit side.				
	Award 1 mark for the correct entry on the credit side.				
	Award 1 mark for of balance c/d on credit side.				
	W I P Control Account				
	\$ Balanco h/d 50 800 Einishad goods control 512 300				
	Materials control 341 180				
	Wages control 74 720				
	Production oheads control <u>86 450</u> Balance c/d 40 850 (1of)				
	<u>553 150</u> <u>553 150</u>				
	Award OF for balance if an entry on the left is missing or contains an alien				

Question Number	Answer (AO2) 2				Mark
Q1a(v)	Award 1 mark for both correct entries on the debit side Award 1 mark for both correct entries on credit side.				
	Fini	shed Good	s Control Account		
	Balance b/d WIP control	\$ 58 520 <u>512 300</u> <u>570 820</u>	Production cost of sales Balance c/d	\$ 516 640 <u>54 180</u> 570 820	
					(2)
Question	Answer (AO2) 4				Mark
Q1a(vi)	Award 1 mark for correct entry on the debit side. Award 1 mark for all FOUR entries on credit side. Allow 1of mark for balance on the <u>debit side</u> provided that <u>full workings</u> are shown if the answer is incorrect. Allow 1 of for the Profit c/d on the <u>credit side</u> , provided that <u>full workings</u> are shown if the answer is incorrect.				
	Fin	ancial Ledg	ger Control Account	¢	
	Sales	[⊅] 674 200	Balance b/d Raw materials control Wages control	³ 201 180 367 800 112 320 (of)	
	Balance c/d (W1)	<u>190 090</u> 864 290	Profit c/d (W2)	<u>157 560</u> <u>864 290</u>	
	W1 = RM \$93 580 + W I P	\$40 850 + F	G \$54 180 + prod o/h \$1 480	= \$190 090 (1of)	
	W2 = Sales \$674 200 less	production c	ost of sales \$516 640 = Prof i	it \$157 560 (1)	(4)
Question	Answer (AO1) 2 (A	03) 2			Mark
Q1b	Answers may include: 1 mark for point made, 1 mark for development TWO required				
	The non-integrated system has a set of cost accounts (1) , which are kept separate from the financial accounts (1)				
	The non-integrated system uses control accounts (1) to check the accuracy of the ledgers (1)				
	The non-integrated system uses a financial ledger control account , to maintain a set of balances (1) , and which also calculates a profit according to the cost accounts (1) .				
					(4)

)Total for Question 1 = 20 marks

Question Number	Answer (AO2) 17	Mark				
Q2a						
	Flexible budgetActual costsVarianceSales/Production (units)8 7008 700					
	Sales Revenue (\$s) 804 750 1 780 825 23 925 Adverse					
	Direct material 262 080 3 272 000 9 920 Adverse 1					
	Direct labour 114 140 2 115 900 1 760 Adverse					
	Production overheads 89 000 3 89 950 950 Adverse 10					
	Administration overheads 91 300 2 89 450 1 850 Fav					
	Selling overheads 65 790 2 63 590 2 200 Fav					
	Total Costs 622 310 OF 630 890 1 both					
	Two variances for 1of mark					
	Workings					
	Sales Revenue \$763 125 / 8 250 units = \$92.50 x 8 700 units = \$804 750 [1]					
	Direct material					
	\$ 234 000 / 7 500 = \$ 31.20 / 10 = \$ 3.12 per kg (1) 8 700 units x 10 kg pu = 87 000 kgs x \$ 3.12 = \$ 271 440 (OF) less \$ 9 360 (OF)					
	= \$ 262 080 (1)OF					
	12 000 kgs (87 000 less 75 000) x \$ 0.78 (\$ 3.12 x 25%) = 9 360 (1) OF [3 in total]					
	Direct labour \$ 97 500 / 7 500 = \$ 13 per unit 8 500 units x \$ 13 = \$ 110 500 (1)					
	plus (200 units x \$ 13 x 1.40) = \$ 3 640 = \$ 114 140 (1) OF [2 in total]					
	Costs Units					
	High 90 500 9 000					
	Low <u>83 000</u> <u>7 500</u>					
	Difference 7 500 1 500					
	7 500 / 1 500 = \$ 5.00 variable costs per unit (1).					
	$7\ 500\ x\ 5=37\ 500-83\ 000=\ 45\ 500\ fixed\ costs\ (1)\ OF$					
	$10tal costs = 45 500 + (8 700 \times 55) 43 500 = 5 89 000 (1) OF [3 in total]$					
	Admin overheads: 80 500 - 67 500 (7 500 x \$9) = \$ 13 000 fixed costs (1)					
	$10tal costs = (8\ 700\ x\ \$9)\ 78\ 300\ +\ 13\ 000\ =\ \$\ 91\ 300\ (1)\ OF\ [2\ in\ total]$					
	Selling overheads: $58 / 10 - 14 460 = 44 250 / 7 500 = $ 5.90 variable costs (1) Total costs = (8 700 \times 5.50) 51 330 + 14 460 = $ 65 700 (1) OE [2 in total]$					
Question		(17) Mark				
Question	Allswei (AOI) 2	Mark				
QZD	Fixed budgets are set for one level of activity (1)					
	A flexible budget has all costs and revenues adjusted to take account of					
	different levels of activity (1)					
Question		(2) Mark				
	Two required:	Malk				
Y 20	1. The budget could be flexed on a planned production level, i.e. output (1)					
	0. The budget equilibre fleved on a planned level of any loss but have set (1).					
	2. The budget could be flexed on a planned level of service e.g. notel rooms (1)	(2)				
L	1	<u>\-/</u>				

Total for Question 2 = 21 marks

Question	Answer (AO2) 4					
Q3a	Calculation of overhead absorption rate					
	Machine hours = 2 x 4 800 = 9 600. 1.5 x 4 000 = 6 000. 2 x 2 000 = 4 000. = 19 600 hours in total (1). \$370 800 / 19 600 = \$18.92 per machine hour (1of)					
	Alpha = \$18.92 x 2 = \$37.84 per unit (1of) Beta = \$18.92 x 1.5 = \$28.38 per unit (1of)					
	Delta = $$18.92 \times 2 = 37.84 per unit (1 mark for Alpha and Delta)					
		(4)				
Question	Answer (AO2) 13 Production overhead cost per unit	Mark				
QSD	Alpha Beta Delta \$/unit \$/unit \$/unit					
	Machine set up 15.00 12.00 15.00 1 OF** Production inspection 8.00 6.40 8.00 1 OF Machine maintenance 6.00 4.50 6.00 1 OF Product packaging 3.75 3.00 6.00 1 OF					
	Material handling 2.50 5.00 4.00 1 OF TOTAL 35.25 1 OF 30.90 1 OF 39.00 1 OF					
	Machine set up = \$150 000 / 25 orders = \$6 000 per order. (1) Alpha = \$6 000 / 400 (4 800 / 12) = \$15 per unit. Beta = \$6 000 / 500 (4 000 / 8) = \$12 per unit. Delta = \$6 000 / 400 (2 000 / 5) = \$15 per unit					
	Production inspection = \$80 000 / 50 production runs = \$1 600 per order (1) Alpha = \$1 600 / 200 (4 800 / 24) = \$8 per unit. Beta = \$1 600 / 250 (4 000 / 16) = \$6.40 per unit. Delta = \$1 600 / 200 (2 000 / 10) = \$8 per unit					
	Machine maintenance = $$58\ 800\ /\ 19\ 600\ hours$ (see a) = $$3\ per\ hour$. (1) Alpha = $$3\ x\ 2$ = $$6\ per\ unit$. Beta = $$3\ x\ 1.5$ = $$4.50\ per\ unit$ Delta = $$3\ x\ 2$ = $$6\ per\ unit$					
	Product packaging = \$42 000 / 280 crates (4 800 / 40 = 120 + 4 000 / 50 = 80 + 2 000 / 25 = 80) = \$150 per crate. (1) Alpha = \$150 / 40 = \$3.75 per unit. Beta = \$150 / 50 = \$3 per unit Delta = \$150 / 25 = \$6 per unit					
	Material handling = \$40 000 / 80 000 kg (4 800 x 5 + 4 000 x 10 + 2 000 x 8) = \$0.50 per kg (1) . Alpha = \$0.50 x 5 = \$2.50 per unit . Beta = \$0.50 x 10 = \$5 per unit Delta = \$0.50 x 8 = \$4 per unit					
	** For OF marks to be valid the answers MUST be in the correct proportions, e.g. Material handling: Alpha 50%, Beta 100% and Delta 80% See scanned example for an alternative model answer					
Question	Answer (AO1) 2 (AO3) 2					
SED	T mark for the initial point and I mark for development. I wo required					
	a more accurate overhead cost for each product (1)					
	It changes led to more accurate costs this could lead to improvements in the company's performance/ profit (1) via pricing decisions/ sales strategies / performance management / decision making (1)					
	Accept any other reasonable comment					

Question	Answer (AO2) 10	Mark			
Q4a(i)	Year One Year Two				
	$\frac{\text{Inventory x 365}}{\text{Cost of sales}} \qquad \frac{85 \times 365}{966} = 32.12 \text{ days (1)} \frac{160 \times 365}{957} = 61.02 \text{ days (1)} $				
	Average Inventory40.81 days (1)46.72 days (1)				
	ALL the answers must be to TWO decimal places	(2)			
Question	Answer	Mark			
Q4a(ii)	Trade rec x 365 105 x 365 = 27.77 days (1) 280 x 365 = 62.47 days (1) Sales 1 380 1 636				
Question	Answer	Mark			
Q4a(iii)	Trade payables x 365 Purchases 120×365 920= 47.61 days (1) 1032 160×365 1 032= 56.59 days(1) a 032Accept cost of sales = Year One 45.34 days and Year Two 61.02 days	(2)			
Question	Answer	Mark			
Q4a(iv)	Current assets 240 = 2.00 : 1 (1) 440 = 1.44 : 1 (1)Current liabilities120305Ratio answers MUST be complete				
Ourseties					
Question	Answer	Mark			
Q4a(v)	$\frac{\text{Current assets -Inventory}}{\text{Current liabilities}} (240-85) 155 = 1.29:1(1) 440-160) 280 = 0.92: 1(1) 305$	(2)			

Question	Answer (AO4) 3 (AO5) 5	Mark
Q4b	The company's inventory holding period has worsened (1) [not longer or bigger] This indicates that too much working capital may be tied up unnecessarily (1*) There may be issues with stock holding costs (wastage/damage/security) which will affect the profitability of the company (1) 2 max	
	The trade receivables collection period has worsened (1) [not longer or bigger] This indicates a poor credit control system is operating (1) . (Once again too much working capital is being tied up*) This may lead to an increase in non payments (bad debts) (1) 2 max	
	The trade payables period is too long , based on the standard of 30 days credit (1) . There is a positive point that delaying payments helps the cash flow (1) However, the company is at risk of a supplier refusing to deal with them / not giving reasonable discounts / thus having to seek alternative suppliers / who might charge a higher price (1) .	
	2 max	(8)

Total for Question 3 = 21 marks

Evaluation Although the current ratio and acid test appear to be healthy the company has a serious liquidity issue (1) The accounts show that the company has gone from a positive cash balance in year one, to an overdraft in year two (1), meaning they have NO immediate liquid funds to repay trade payables (1) The company needs to take action to improve its liquidity by reducing inventory levels (which should reduce trade payables) and chasing up trade receivables (1).	
2 max	

Total for Question 4 = 18 marks

Question	Answer (AO2) 6				
Q5a(i)	Calculation of net present value (NPV)				
	Accounting profit + depreciation = cash flows (\$000)				
	Year 1 40 + 135* = \$175				
	Year 2 60 + 135* = \$195				
	Year 3 75 + 135* = \$210				
	Year 4 $90 + 135^* = 225				
	Year 5 80 + 135* = \$215 (1 for all five)				
	*Annual depreciation = (825 - 150) 675 ÷ 5 years = \$135 000 (1)				
	Year Net cash flow Discount factor@15% Present values				
	\$000 \$000				
	0 (825) 1.000 (825.00)				
	1 175 OF 0.870 152.250				
	2 195 OF 0.756 147.420				
	3 210 OF 0.658 138.180				
	4 225 OF 0.572 128.700 (1)				
	5 365 ** 0.497 181.405 (1)				
	NPV = <u>(77.045)</u> (10F)				
	** Year 5 net cash flow = 215 OF + 150 = 365 OF (1)				
	Do NOT accept 10% calculations. Correct answer must be negative.				
Question	Answer (AO2) 4	Mark			

Q5a(ii)	Calculation of internal rate of return (IRR)				
	Year	Net cash flow	Discount factor (10% Present values	
		\$000		\$000	
	0	(825)	1.000	(825.00)	
	1	175	0.909	159.075	
	2	195	0.826	161.070	
	3	210	0.751	157.710	
	4	225	0.683	153.675	
	5	365	0.621	<u> 226.665</u> <u>(1)</u>	
			N	IPV = <u>33.195</u> (1)	
	IRR = 10%	+{5%×[33.20÷	(33.20 + 77.05)]]	} (1) = 11.51% (10F)	
	Correct answ a large negat	er must be posit ive IRR calculatio	ive. Negative NPV i on	n part ai and aii will likely lead to	
					(4)
Question	Answer (A	04) 2 (AO5) 1		Mark
Q5b	The investment should not be undertaken (1) it generates a negative NPV/will not recover the initial investment (1) and will earn an IRR of 11.51% which is lower than the cost of capital of 15%. (1)				
					(3)
Question	Answer (A	03) 2 (AO4) 2		Mark
Q5c	The origina and the alto which make	l proposal mak ernative propo es a total of \$1	kes a negative i sal makes a pos L 65 805 (1of).	return of \$77 0450 (of) sitive NPV of \$88 760 (1)	
	To justify that the pu (1of) (\$82	the purchase rchase price w 5 000 less \$16	e of the origina ould need to ree 55 805).	l equipment would mean luce (1) to \$659 195	
	Two mark overall ad	s for the basi vice	c calculations	and two marks for the	(4)
Question Number	Answer (AO1) 1 (AO3) 2		Mark
Q5d	Using the d money (1), method (1) project doe	iscounted met which overcor . In this exam s not make a p	hod takes into a mes any weakne ple the discount positive return o	ccount the time value of ess of a more traditional ed method shows that the n the investment (1)	(3)

Total for Question 5 = 20 marks

Total for Paper = 100 marks