Pearson LCCI

Friday 14 June 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 the 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 Elphick de Wijs Manufacturing Ltd operates a non-integrated accounting system.

Any balance remaining on the production overhead account in the cost ledger is carried forward to the next accounting period.

The following balances were in the cost ledger at the beginning of Period 3:

	$
Raw materials control	86 500
Work-in-progress	50 800
Finished goods control	58 520
Production overhead control (under absorbed)	5 360
Financial ledger control	201 180

The following transactions occurred during Period 3:

	$
Purchases of raw materials	367 800
Direct materials issued	341 180
Indirect materials issued	19 540
Direct wages incurred	74 720
Indirect factory wages and salaries incurred	37 600
Other indirect manufacturing expenses	25 430
Production overheads absorbed	86 450
Finished goods completed	512 300
Production cost of sales	516 640
Sales	674 200

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(a) Prepare the following cost ledger control accounts, balancing all accounts at the end of Period 3.

(Use the space on page 5 for your workings.)

(i) Raw Materials Control Account

(2)

Details	**$**	**Details**	**$**

(ii) Wages Control Account

(2)

Details	**$**	**Details**	**$**

(iii) Production Overhead Control Account

(3)

Details	**$**	**Details**	**$**

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(iv) Work-in-progress Control Account.

(3)

Details	$	Details	$

(v) Finished Goods Control Account

(2)

Details	$	Details	$

(vi) Financial Ledger Control Account

(4)

Details	$	Details	$

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Workings

(b) Explain **two** features of a non-integrated accounting system.

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(Total for Question 1 = 20 marks)

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2 Irvine Mazuch Ltd manufactures a single product.

The company produced an original budget for a period based on sales and production being 7 500 units.

The original budget was revised as the company expected to increase the sales volume by lowering the selling price.

The supplier of direct material agreed to offer a discount based on increased purchase volumes.

The original budget, the revised budget and the actual results for the period were as follows.

	Original budget	**Revised budget**	**Actual results**
Sales and production (units)	7 500	8 250	8 700
	$	**$**	**$**
Sales revenue	**712 500**	**763 125**	**780 825**
Cost elements			
Direct material	234 000	251 550	272 000
Direct labour	97 500	107 250	115 900
Production overheads	83 000	86 750	89 950
Administration overheads	80 500	87 250	89 450
Selling overheads	58 710	63 135	63 590
Total costs	**553 710**	**595 935**	**630 890**

The following budgeted information is also provided.

- Each unit requires 10 kg of direct material.
- A 25% quantity discount was received on purchases of direct material **over** 75 000 kg for the period.
- The direct labour cost per unit increased by 40% for **each** unit **over** 8 500 units for the period.
- The production overhead is a semi-variable cost, which at the maximum capacity of 9 000 units is $90 500
- Administration overheads include a variable element of $9 per unit.
- Selling overheads include a fixed element of $14 460 for the period.

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(a) Prepare the table showing the flexed budget for the actual output of 8 700 units, and the relevant variances. You must state if the variance is favourable or adverse.

(Use the space below the table for your workings.)

(17)

	Flexible budget	**Actual results**	**Variance**
Sales and production	8 700 units	8 700 units	
	$	**$**	**$**
Sales revenue			
Direct material			
Direct labour			
Production overheads			
Administration overheads			
Selling overheads			
Total costs			

Workings

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(b) Explain the main difference between a fixed budget and a flexible budget.

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(c) Give **two** of the bases for flexing a budget.

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(Total for Question 2 = 21 marks)

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3 Campbell and Martin Ltd makes three products.

At present, the company uses a traditional absorption costing system to establish the costs of production.

The budget for the three products for Period 10 is shown below.

	Alpha	**Beta**	**Delta**
Production units	4 800	4 000	2 000
Per unit			
Direct material at $5 per kg	5 kg	10 kg	8 kg
Direct labour hours at $9 per hour	2 hours	2 hours	3 hours
Machine time	2 hours	1.5 hours	2 hours

Production overhead costs for the period were $370 800 and were absorbed on a machine hours basis.

(Use the space below for workings if necessary.)

Workings

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(a) Calculate the production overhead cost (to two decimal places) for **one unit** of each product, using absorption costing.

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The company is now considering using activity based costing (ABC) to calculate the production overhead costs of each product.

The following information for the production overhead costs for Period 10 is shown below.

Activity	**Cost ($)**
Machine set up	150 000
Product inspection	80 000
Machine maintenance	58 800
Product packaging	42 000
Material handling	40 000

You are given the following additional information for the period.

- Machine set up costs will be based on the number of orders:

  Alpha 12 orders Beta 8 orders Delta 5 orders.

- Product inspection costs will be based on the number of production runs:

  Alpha 24 Beta 16 Delta 10

- Machine maintenance will be based on the number of machine hours used.
- The packaging costs will be based on the number of crates per product.

  Each product is packed in crates containing the following number of products per crate:

  Alpha 40 units Beta 50 units Delta 25 units.

- Material handling costs will be based on the total quantity of materials used.

(b) Calculate the production overhead cost (to two decimal places) for **one unit** of each product, using activity based costing (ABC).

(13)

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(c) Explain **two** advantages of using activity based costing (ABC).

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4 The following information has been extracted from the final accounts of Huddlestone Ltd.

	Year One $000	Year Two $000
Balances at end of year		
Inventory	85	160
Trade receivables	105	280
Cash at bank	50	NIL
Trade payables	120	160
Bank overdraft	NIL	145
Totals for the year		
Revenue (sales)	1 380	1 636
Cost of sales	966	957
Purchases	920	1 032

All sales and purchases are on credit.
Assume 1 year = 365 days

(a) Calculate the following ratios for **each** of the two years (to two decimal places):

(i) inventory holding period (in days)

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(ii) trade receivables collection period (number of days)

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(iii) trade payables payment period (number of days)

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(iv) current ratio

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(v) acid test (quick) ratio.

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(b) Evaluate the liquidity of the company, using the financial information provided and the ratios calculated in (a).

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Inventory

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Trade receivables

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Trade payables

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Conclusion

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(Total for Question 4 = 18 marks)

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5 Bromley Outdoor Adventures Ltd is planning to invest in new climbing equipment costing $825 000

This new climbing equipment is expected to have a useful life of five years with a residual value of $150 000 and would be depreciated on a straight line basis.

Estimates of cost savings (net of depreciation) are as follows:

Year	**$000**
1	40
2	60
3	75
4	90
5	80

The company's cost of capital is **15%** per annum.

Discount factors:

Year	**10%**	**15%**	**20%**
1	0.909	0.870	0.833
2	0.826	0.756	0.694
3	0.751	0.658	0.579
4	0.683	0.572	0.482
5	0.621	0.497	0.402

(a) Calculate, for the new climbing equipment, the:

(i) net present value

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(ii) internal rate of return.

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(b) Advise whether the company should invest in the new climbing equipment based on your calculations.

(3)

The company is considering an **alternative** capital investment project for new sailing equipment.

It has been calculated that the net present value of the sailing equipment over the same five-year period would be $88 760 positive.

(c) Advise the minimum that the initial purchase price of the climbing equipment would need to be adjusted to make it a better proposition than the sailing equipment.

Assume there are no changes in cost savings or residual value of the climbing equipment.

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(d) Advise why it is necessary to use a discounted cash flow method when determining whether an investment project should be undertaken.

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(Total for Question 5 = 20 marks)

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