

Pearson LCCI

Certificate in Cost and Management Accounting (VRQ) Level 3

Friday 9 September 2016

Time: 3 hours

Paper Reference

ASE20098

Complete the details below in block capitals.

Candidate name

Centre Code

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Candidate Number

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Candidate ID Number

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You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, candidate number, centre code and 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 Halstead makes a single product, the DC43. Information relating to the DC43 for the last two quarters of Year 2 is as follows:

	Quarter 3	Quarter 4
Units made and sold	90 000	120 000
	\$	\$
Revenue	715 500	954 000
Costs:		
Direct materials	207 000	276 000
Direct labour	59 600	60 800
Heat, light and power	17 400	19 200
Machine costs	84 000	84 000
Production overheads	115 500	120 000
Non-production overheads	133 600	133 600
Total Costs	<u>617 100</u>	<u>693 600</u>
Net Profit	<u>98 400</u>	<u>260 400</u>

Additional information

- Direct labour is a semi-variable cost. Basic salaries are fixed at \$56 000 per quarter and the remainder is an output-related bonus.
- Heat, light and power is a semi-variable cost.
- Production overheads include a variable element of \$0.15 per unit.

(a) Calculate, for the last two quarters of Year 2, the:

- (i) selling price **per unit**

(1)



(ii) fixed cost **per quarter** for heat, light and power and variable cost per unit for heat, light and power

(2)

(iii) total variable cost per unit

(2)

(iv) total fixed cost per quarter.

(2)



The sales manager estimates that 125 000 units of DC43 will be sold during the first quarter of Year 3 but, because of increased competition, the selling price will need to be reduced by 20%.

The accountant believes that apart from a \$16 260 increase per quarter in non-production overheads, all other costs are likely to remain unchanged in Year 3.

(b) Calculate, for DC43 for the first quarter of Year 3, the:

(i) number of units that would need to be sold in order to break even

(3)

(ii) number of units required in order to make a target profit of \$100 000

(3)

(iii) margin of safety in units and as a percentage of sales.

(3)



(c) Explain **two** reasons why it may be inappropriate to use the information provided for the last two quarters of Year 2 to produce forecasts for the first quarter of Year 3.

(4)

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(Total for Question 1 = 20 marks)



2 Earls Colne manufactures a product, the LX42, and uses process costing.

Information relating to the inputs used in Month 10 is as follows:

Material A	4 500 kg at \$2.80 per kg
Material B	3 000 kg at \$2.30 per kg
Material C	500 kg at \$9.00 per kg
Direct labour	1 800 hours at \$6.50 per hour
Overheads	\$16 300

The expected output of LX42 is 90% of material inputs.

Any losses can be sold at a scrap value of \$2.00 per kg.

During Month 10, the amount of good output produced was 6 950 kg.

(a) Calculate the expected cost per unit of the good output of LX42.

(4)



(b) Prepare the Process Account for Month 10.

(7)

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Another department within Earls Colne produces the KV97. During Month 10, the cost of materials was \$13 870

Production in Month 10 amounted to 3 000 complete units and 2 000 units that were estimated to be 40% complete.

(c) Calculate, for Month 10, the:

(i) total number of equivalent units produced

(2)

(ii) material cost per unit.

(1)

(d) Explain the following terms:

(i) by-products

(2)

(ii) joint products.

(2)

(Total for Question 2 = 18 marks)



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Question 3 is on the next page.



P 5 1 6 7 6 A 0 9 2 0

- 3 Bures is setting up a new business and for Month 1 estimates that his inflows and outflows of cash will be as follows:

There will be \$4 000 in a business bank account on the first day of Month 1.

Sales and Purchases (in \$) will be as follows:

	Month 1	Month 2	Month 3
Sales	15 000	16 000	15 500
Purchases	6 000	6 400	6 200

- 30% of the sales income will be received in the month of the sale while the remaining 70% will be received one month later.
- Purchases will be on one month's credit.
- Rent will be \$600 per month, payable in the month in which it is incurred.
- Wages will be \$1 250 per month payable in the month incurred. A bonus of 2% of the month's sales is payable in the following month.
- Electricity will be \$110 per month and will be paid quarterly, starting in Month 3.
- Other administration costs will be \$420 per month, payable in the month in which they are incurred.
- Bures will draw a salary of \$1 500 per month.
- Fixtures and fittings costing \$6 000 will be bought and paid for in Month 1.
- A delivery van costing \$7 500 will be bought and paid for in Month 2.



(a) Prepare a cash budget for Bures for the first three months of trading, showing each month in a separate column.

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(6)

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(c) Explain **two** reasons why liquidity and cash flow management are important for the successful operation of the business.

(4)

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(Total for Question 3 = 22 marks)



- 4 Chappel Limited has two production departments (Manufacturing and Packing) and two service departments (Stores and Administration).

Production overheads for Period 3 were expected to be as follows:

Rent and rates	\$8 500
Machine depreciation	\$13 200
Stores salaries	\$2 500
Administration salaries	\$4 120
Heat, light and power	\$6 100
Other overheads	\$11 180

The following information about each of the departments is available:

	Manufacturing	Packing	Stores	Administration
Floor area (sq metres)	300	200	450	50
Machine value (\$000)	640	300	20	–
Other overheads (\$)	3 925	2 840	1 980	2 435
Electricity usage (%)	45	25	20	10
Direct labour hours	720	1 440	–	–
Machine hours	1 200	300	–	–
Stores requisitions (numbers of)	240	160	–	–

The company policy is to reapportion service department overheads to the production departments, using the direct method, on the following basis:

Administration – 50% to each department

Stores – number of stores requisitions

- (a) Complete the Overhead Distribution Table for Chappel Limited which is on page 15.

- Allocate and apportion overheads using the appropriate bases.
- Reapportion the Administration and Stores overheads to the production departments using the bases provided.
- All figures should be rounded to the nearest dollar (\$).
- Space for workings is available underneath the table.

(10)



Overhead Distribution Table

Expense	Basis	Total \$	Departments			
			Manufacturing	Packing	Stores	Administration
Rent and rates						
Machine depreciation						
Store salaries						
Administration salaries						
Heat, light and power						
Other overheads						
Total						
Reapportionment						
Administration overheads						
Stores overheads						
Total						



- (b) Calculate the overhead absorption rates for **each** of the Manufacturing **and** Packing departments using an appropriate basis, giving **each** answer to two decimal places.

(2)

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The actual overheads and the number of machine and direct labour hours worked for Period 3 were as follows:

	Manufacturing	Packing
Overheads incurred	\$27 360	\$21 240
Labour hours	660	1 380
Machine hours	1 130	275

- (c) Calculate the over or under absorption of overheads for Period 3 for **each** of the Manufacturing **and** Packing departments, giving **each** answer to the nearest dollar (\$).

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(d) Explain the implications for Chappel Limited of the over or under absorption of overheads that you calculated in (c).

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(Total for Question 4 = 22 marks)



- 5 Ash Green uses Material X in its production process.
The following information regarding Material X is available:

Monthly Usage	Current Order Quantity	Current Price	Minimum Inventory
2 000 kg	3 000 kg	\$7.00 per kg	1 000 kg

The holding costs are estimated to be \$1.20 per kg while ordering costs are estimated to be \$250 per order.

- (a) (i) State **one** example of an ordering cost.

(1)

- (ii) State **two** examples of holding costs.

(2)

1

2

- (b) Calculate the current ordering costs for Material X for a year.

(2)

- (c) Calculate the current holding costs for Material X for a year.

(2)



The current supplier of Material X has offered a 5% discount if Ash Green increases the size of its orders to 8 000 kg.

(d) Calculate the overall cost of Material X for one year if order quantities are:

(i) 3 000 kg

(2)

(ii) 8 000 kg

(4)



- (e) Evaluate, based on your calculations in (d) and any other relevant factors, whether Ash Green should order in quantities of 8 000 kg rather than in quantities of 3 000 kg.

(5)

(Total for Question 5 = 18 marks)

TOTAL FOR PAPER = 100 MARKS

