Pearson LCCI

Certificate in Cost and Management Accounting (VRQ)
Level 3

Friday 10 March 2017
Time: 3 hours

Paper Reference
ASE20098

Complete the details below in block capitals.

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 The following information relates to the production costs for a company at three different levels of activity.

- Direct materials and direct labour vary directly with activity.
- The production overhead is a semi-variable cost.

The non-production overheads are semi-variable costs and include a fixed element of $14 460

(a) Complete the following table.

(10)

	16 800 units	**18 900 units**	**21 000 units**
Costs	**$**	**$**	**$**
Direct materials	67 200		
Direct labour	50 400		
Production overheads	61 950		70 350
Non-production overheads	53 100		
Total costs	**232 650**		

Workings:

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(b) Calculate the cost per unit for 18 900 and 21 000 units of production using the total costs calculated in part (a).

	16 800 units	**18 900 units**	**21 000 units**
	$	**$**	**$**
Total costs	**232 650**		
Cost per unit	**13.85**		

Workings:

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(c) Explain why the cost per unit decreases as production increases.

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(d) Explain what is meant by **each** of the following cost behaviour patterns and provide **one** example of **each**:

(i) semi-variable cost

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(ii) stepped fixed cost.

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(Total for Question 1 = 18 marks)

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2 Mbokani Ltd is budgeting to use 6 000 units of material LM55 during the year.

Production will be distributed evenly throughout the year.

The company does not carry any safety (buffer) levels of inventory.

The following additional information is available:

Cost of material LM55	$60 per unit
Ordering costs	$500 per order
Inventory holding costs	8% of the average inventory value per annum
Order sizes available	500, 1 000, 1 500, 2 000 and 3 000 units

(a) (i) Complete the table to show the total annual ordering and inventory holding costs of material LM55 for each order size.

(6)

Order size	**No of orders**	**Annual ordering costs $**	**Average inventory (units)**	**Annual inventory holding costs $**	**Total cost $**
500					
1 000					
1 500					
2 000					
3 000					

(ii) Identify the optimum order size that would minimise total cost.

(1)

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The supplier is now proposing to supply material LM55 only in quantities of 1 000, 2 000 or 3 000 units, and is willing to offer the following quantity discounts.

Order size	Discount
1 000	2.5%
2 000	5%
3 000	7.5%

(b) (i) Complete the following table to show the annual costs for Mbokani Ltd if the above quantity discounts are available.

(6)

Order quantity	1 000	2 000	3 000
Purchase cost			
Ordering cost			
Inventory holding cost			
Total			

(ii) Identify the order quantity that would minimise costs.

(1)

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(c) Explain **three** benefits that could be obtained from operating a system of inventory management and control.

(6)

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(Total for Question 2 = 20 marks)

3 The elements of the standard production cost for a budgeted output of 3 140 units for Yung Fun's single product are shown below.

	$ per unit
Direct materials	86.50
Direct labour	43.80
Fixed production overheads	29.70

Actual production in the period was 3 140 units of the product.

Actual production costs incurred in the period were:

	$
Direct materials	258 250
Direct labour	147 200
Fixed production overheads	90 250

No material inventory is held.

(a) Prepare a statement for the period that reconciles the actual production costs incurred with the standard costs of production and shows the total variance for **each** element of the production cost.

(9)

Henrikkson Ltd makes a single product and operates a standard costing system.

The production department's budget for period 5 included the following information:

Production	7 600 units
Direct labour per unit	2.5 hours

The actual results for period 5 were as follows:

Production	7 376 units
Direct labour	19 720 hours

(b) Calculate the following production control ratios for period 5 (to **two** decimal places):

(i) efficiency

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(ii) capacity (usage)

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(iii) volume (activity).

(3)

(c) Evaluate, giving reasons, each of the production control ratios calculated in (b).

(3)

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(d) Explain what is meant by the following terms:

(i) standard cost

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(ii) the standard hour.

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(Total for Question 3 = 25 marks)

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4 Clucas McGuire Manufacturing Ltd operates a system where the cost accounts are kept separate from the financial accounts.

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	43 250
Work-in-progress	25 400
Finished goods control	29 260
Production overhead control	2 680 under absorbed
Financial ledger control	100 590

The following transactions occurred during period 3:

	$
Purchases of raw materials	267 800
Direct materials issued	241 180
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	412 300
Production cost of sales	416 640
Sales	474 200

(a) Record the above transactions in the following cost ledger accounts, balancing all accounts at the end of the period.

(i) Raw materials control account

(2)

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

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(ii) Wages control account

(2)

Details	$	Details	$

(iii) Production overhead control account

(3)

Details	$	Details	$

(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	$

(Total for Question 4 = 16 marks)

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5 You have been given the task of assessing the financial performance of two separate companies operating in the retail industry.

The financial information for these two companies, for the year 2016, is presented as follows:

Company	**Bright** **$000**	**Stansted** **$000**
Sales revenue	650	760
Cost of sales	380	410
Current assets		
Inventory (closing)	70	85
Trade receivables	55	95
Bank	25	-
Current liabilities		
Trade payables	45	65
Bank overdraft	-	40
Note		
Inventory as at 1 Jan 2016	60	65

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

(a) Calculate for each company, stating the formula used, the following working capital ratios (to **two** decimal places):

(i) rate of inventory turnover (days)

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(ii) trade receivables collection period (days)

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(iii) trade payables payment (days)

(3)

(iv) current ratio

(2)

(v) acid test (quick) ratio.

(2)

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(b) Evaluate the liquidity of each company, suggesting which company has the best liquidity position.

You should refer to the ratios calculated in part (a) **and** the financial information on page 18 to support your answer.

(8)

(Total for Question 5 = 21 marks)

TOTAL FOR PAPER = 100 MARKS