



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

**Examiners' Report
January 2017**

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Introduction

This was the fifth paper for the new qualification, based on the September 2015 specification. The previous qualification had sections of the syllabus that would always appear in each paper. This is not the case with this new qualification. Candidates should be prepared for any question from the 10 syllabus topic areas.

This qualification also has five dedicated Assessment Objectives. Centres should ensure that candidates are aware of these objectives and their respective weightings.

Although the new qualification consists of a paper with five questions totalling 100 marks, each individual questions is likely to be of a different value.

The theme for this report will focus on how candidates can improve on their performance when beginning to answer questions

Question 1

Question 1 – Marginal and absorption costing (16 marks)

Despite part (a) of the question asking for the marginal and absorption cost of producing **one suit**, many candidates did this for the total production.

(a) Calculate the:

(i) marginal cost of producing one suit

(2)

	\$	
Direct material (822.50×1200)	33,000	
Direct labour ($87 \times 2.15 \text{ hr} \times 1200 \text{ units}$)	18,060	
Prime cost	41,060	
Overhead ($19,100 + 0.5/\text{unit} \times 1200$)	20,100	
marginal cost	20,960	

(ii) absorption cost of producing one suit.

(2)

	\$	
Direct material (822.50)	33,000	
Direct labour	18,060	
Prime cost	41,060	
Production cost	91,200	
Absorption cost	132,260	



Examiner Comments

If this candidate had reread the question, in line with part (b), they would have seen that their answer to (a) (ii) could not possibly be correct, as the overall sale of suits was only \$91,200, which they have recorded as the production.

(a) Calculate the:

(i) marginal cost of producing one suit

(2)

	\$
• Direct Material cost	33,000
• Direct Labour cost	18,900
• Fixed Variable O/H	534,375
∴ Production cost	<u>586,275</u>

(ii) absorption cost of producing one suit

(2)

	\$
• Direct material cost	33,000
• Direct Labour cost	18,900
Fixed overhead cost	20,100
	<u>72,000</u>



Examiner Comments

If this candidate has reread the question, in line with their answer to part (b), they would have seen that their answer to (a) (i) was wildly exaggerated. There were no workings to indicate how the candidate arrived at \$534,375 for the variable overheads.

We continue to reinforce, candidates need to show workings for their answers.

(a) Calculate the:

(i) marginal cost of producing one suit

$$\begin{aligned} \text{Costs} &= (27.50 + 15.75) \times 1200 + 17100 + 3000 \\ &= 51,900 + 17100 + 3000 \\ &= 72,000 \end{aligned}$$

$$\text{Cost per suit} = \frac{72,000}{1200} = \$60/\text{suit}$$

$$\text{Marginal costs} = 27.50 + 15.75 = 43.25$$

2.25 hrs \times \$7/hr = \$15.75/u

(ii) absorption cost of producing one suit.

$$\begin{aligned} \text{Costs} &= 27.50 + 15.75 + 14.25 + 2.50 \\ &= \$60/\text{suit} \end{aligned}$$

Working: $\frac{17100}{1200} = 14.25$

(b) Prepare a statement of profit or loss, in columnar format, using:

- marginal costing
- absorption costing. 43.25

A Statement of profit or loss (By Marginal costing)		(10)
Sales		\$ 91,200
1- cost of sales		
Direct Material	33,000	
Direct Labour	14,900	
	51,900	
1- opening inventory	-	
1- closing inventory	(10,380)	(141,520)
Total Contribution		49,680
1- Fixed Costs		(20,100)
Profit		29,580



Examiner Comments

In part (a) (i) the candidate has not arrived at the correct answer for the marginal cost. However, they could have gone on to obtain the full marks available for the marginal costing statement required in 1(b), if they had shown the necessary workings.

They have calculated the marginal cost in (a) (i) as \$43.25 (instead of \$45.75) and would need to **demonstrate** that they are using their own figure in part (b). The model answer in the marking scheme shows that the correct answer for closing inventory was 240 suits x \$45.75 = **\$10.980**. The candidate does not have this correct figure, so workings are required in order to satisfy the examiner that OF marks can be awarded.



Examiner Tip

If the answer is not correct, then workings are required to demonstrate to the examiner that the correct method is being applied, using the candidate's own figure(s). It is not the examiner's responsibility to check the candidate's work.

Question 2

Question 2 – Calculating variances (24 marks)

Overall, this question was well answered, with many candidates scoring between 20 and 24 marks.

Despite stating in part 2 (a) “provide a reason **except** for setting an inappropriate standard”, that was the answer that many candidates provided.

(a) State **one** possible reason, except for setting an inappropriate standard, for each of the following variances:

(i) material price-favourable

(1)

Material price-favourable is that the actual material price in production is lower than the budgeted material price.

(ii) material usage-favourable

(1)

Material usage-favourable shows that the actual material usage in production is lower than the budgeted material usage.

(iii) labour efficiency-favourable.

(1)

Labour efficiency-favourable shows that the actual labour hours in production is lower than the budgeted labour hours.

(a) State **one** possible reason, except for setting an inappropriate standard, for each of the following variances:

(i) material price-favourable

(1)

material price - variance = $(\text{Standard price} - \text{Actual price}) \times \text{Actual usage}$
Actual price is less than standard price. ∴ (Favourable)

(ii) material usage-favourable

(1)

Material usage variance = $(\text{Standard usage} - \text{Actual usage}) \times \text{Standard price}$
Actual usage is less than standard usage. ∴ (Favourable)

(iii) labour efficiency-favourable.

(1)

labour efficiency variance = $(\text{Standard hours} - \text{Actual hours}) \times \text{Standard rate}$
Actual hour is less than standard hour. ∴ (Favourable)



Examiner Comments

All these answers do is reinforce **what** has happened. What is required is **why** the price was less, **why** the material usage was favourable, and **why** the labour efficiency was favourable. What was the **cause** of these events?

A common error on 2 (e) was to repeat what had been calculated in 2 (d).

2 (e) Prepare a statement to reconcile the budgeted profit and the actual profit based on 7 180 units being produced and sold. (6)

Statement of profit and Loss

	£	Budgeted	£	Actual
Sales		240,530		240,530
less Cost of sales				
Direct material	153,795.60		147,810.	
Direct labour	25,848.00		25,746	
Fixed production overhead	38,772.00		36,175.00	
		(218,415.60)		(210,006.00)
Net profit		22,114.40		30,524.00



Examiner Comments

What the candidate has done is shown the two calculations, in more detail, from 2 (d), rather than **reconciled** the two answers from 2 (d).

**Examiner Tip**

Candidates should make sure they are answering the question that has been asked.

Question 3

Question 3 – Short-term cost behaviour and break-even analysis (20 marks)

(a) Calculate the:

(i) forecast contribution / sales ratio for **each** product **and** in total

(4)

Contribution per unit, Product D = $\$6 - (\$1.2 + \$1.5) = \3.3
 Product E = $\$7.5 - (1.75 + 2) = \3.75
 Product F = $\$10 - (3.5 + 2.5) = \4

Contribution/sales ratio, Product D = $\frac{165,000}{800,000} = \frac{11}{20}$
 Product E = $\frac{75,000}{150,000} = \frac{1}{2}$
 Product F = $\frac{180,000}{300,000} = \frac{2}{5}$

(ii) forecast break-even revenue for Neptune for Period 4

(2)

Break-even revenue = $\frac{\text{Fixed cost}}{\text{Contribution/sales ratio}} = \frac{\$270,000}{\frac{11}{20} + \frac{1}{2} + \frac{2}{5}}$
 $= \frac{\$270,000}{\frac{320,000}{750,000}} = \$186,207 = 186,207$

(c) Contribution/sales ratio = $\frac{\text{Contribution}}{\text{sales}}$, D = $\frac{3.3 \times 50,000}{6 \times 50,000}$
 E = $\frac{3.75 \times 20,000}{7.5 \times 20,000}$
 F = $\frac{4 \times 30,000}{10 \times 30,000}$



Examiner Comments

Rather strangely, this candidate provided the answers for each product in fractions. There was no overall total, as required in part (a), but it was possible to imply this in part (b). So whilst the candidate lost a mark in part (a), they were not penalised in part (b).

(a) Calculate the:

(i) forecast contribution / sales ratio for **each** product **and** in total

(4)

Overall contribution, Product D = $(\$6 - 2.7) = \$3.3 \times 50000 = \$165000$

E = $(\$7.5 - 3.75) = \$3.75 \times 20000 = \$75000$

F = $(\$10 - 6) = \$4 \times 30000 = \$120000$

$\$360,000$

Overall Sale, Product D = $(\$6 \times 50000 \text{ unit}) = \$300,000$

E = $(\$7.5 \times 20,000 \text{ unit}) = \$150,000$

F = $(\$10 \times 30,000 \text{ unit}) = \$300,000$

Contribution / Sale ratio D = $\frac{\$165000}{\$300000} \times 100 = 55\%$

$\frac{\$75000}{\$150000} \times 100 = 50\%$

$\frac{\$120000}{\$300000} \times 100 = 40\%$

Product F = $\frac{\$120000}{\$300000} \times 100 = 40\%$

$\frac{\$360000}{\$300000} \times 100 = 120\%$

ratio total = 145%

(ii) forecast break-even revenue for Neptune for Period 4

(2)

D = $\frac{\$270000}{145\%} = \186206.89

E = $\frac{\$270000}{55\%} = \490909.09

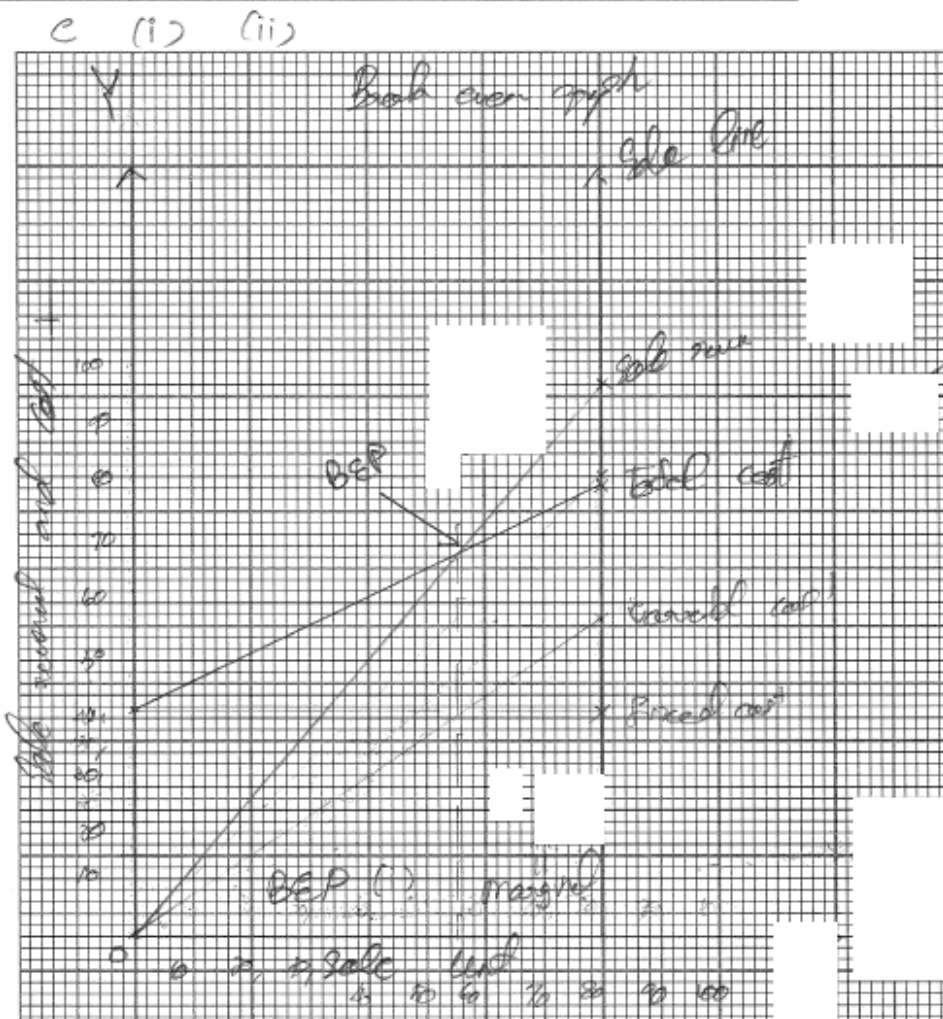
F = $\frac{\$270000}{40\%} = \675000

F = $\frac{\$270000}{40\%} = \675000



Examiner Comments

The objective of accounts is to communicate accurate information. This candidate's work was difficult to interpret.



Examiner Comments

It appeared to be that this chart had been written in pencil and several 'additional' lines or items were not represented clearly. The x-axis should have stopped at 80. It is difficult to see where the figures on the y-axis are meant to appear.

This candidate's work was difficult to interpret.

**Examiner Tip**

Aim to communicate clearly with the examiner. Be clear about what you are suggesting is your answer. If an item is crossed out, make it clear where the 'second' attempt can be found.

Question 4

Question 4 – Process costing and MIS (20 marks)

Part (a) was reasonably well answered, with many candidates scoring full marks.

Parts (b) and (c) were not well answered.

Q4b

(b) Explain **two** measures that the business could introduce to improve the security and confidentiality of its management information.

(4)

1 The business could introduce to improve the security and confidentiality its management information which it measures the financial ledger cost and the cost accounting ledger.

2 Jupiter does not have an integrated accounting system. Instead the various parts of the accounting function operate on different accounting systems and there is different specialist software.



Examiner Comments

This candidate's answer to part 2 repeats the opening paragraph of the question.

Most candidates focused on the features of integrated accounting systems.



Examiner Tip

The question asks for **two** measures that could **improve** the **security** and **confidentiality** of **information**.

Basic answers were hinted at in the information, i.e. improving the password procedure.

Q4c

This question asked whether the current system could produce information that was **accurate** and **up to date**. It referred to ignoring security and confidentiality issues (as these were intended to be covered in 4 (b)).

(c) Evaluate, ignoring security or confidentiality issues, whether the current system is likely to produce information that is accurate and up to date.

(6)

Ignoring security or confidentiality issues, whether the current system is likely to produce information that is accurate and up-to-date. They have also keeping the information secure and confidential needs to be a top priority.



Examiner Comments

The candidate's answer seems to merely repeat the question.



Examiner Tip

Answers were hinted at in the scenario:

1. the system wasn't integrated – what would this mean for the company?
2. various parts operated on different systems – develop this point
3. there was different software being used – develop this point
4. passwords were old and known by all staff – although this was a security/confidentiality issue, it could have an impact on producing data that was accurate and up to date.



Examiner Tip

This was intended to be a question that identified/assessed a number of problems that the company might be facing.

This will be a good question for lecturers to work through, with their students, as it covers a lot of key principles and techniques relating to working in an accounts environment.

Question 5

Question 5 – Inventory and production ratios (20 marks)

There were no major issues with this question, there were some very good answers from a significant number of candidates.

Paper Summary

Overall, there were some very good answers for most parts of the paper and from candidates as a whole.

Aim to communicate more effectively with the examiners, with particular reference to showing workings.

Use the blank spaces provided in the answer booklet to provide workings. Try to avoid using additional sheets of paper.

Improve the layout of answers.

Improve the accuracy of the work presented.

Conclusion

Centres should take advantage of published sample assessment material as well as past papers to provide preparation opportunities for their candidates. These resources can be used as 'mock' exams to assess the candidate's likely level of achievement at Level 3 before entering them for the examination by referencing the published boundaries for past papers. It also helps to familiarise candidates with the style of questions and provides examples of what examiners are looking for in narrative questions.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>