



# **Pearson LCCI Certificate in Cost and Management Accounting (ASE20098)**

**Examiners' Report  
March 2017**

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## **Introduction**

This new qualification has been developed from the previous two qualifications - Cost Accounting and Management Accounting. With this new qualification, students should prepare for questions from all the 10 syllabus topic areas.

There are also five dedicated Assessment Objectives, which will appear in each paper. Centres should make sure that students are aware of these Assessment Objectives and their respective weightings.

Although the new qualification consists of a paper with five questions totalling 100 marks, individual questions are 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

### Short-term cost behaviour. (18 marks)

Overall, this question was well answered.

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

(2)

The cost per unit decreases as production increases due to  
company gets some discounts from the materials purchased because buying more  
materials to supply / produce more units.  
(supplier give lower rate of materials purchased).



#### Examiner Comments

There were interesting answers to 1c, which were not entirely as had been intended. Some candidates referred to economies of scale, which had some relevance. Nevertheless, they were still valid answers and were awarded the marks.



#### Examiner Tip

Examiners are trained to mark positively. If an answer is provided that bears a relevance to what was asked it will be rewarded.

## Question 2

### Materials and inventory control (20 marks)

Once again, there were no real issues with this question. The answer to part 2bi was interesting in that some candidates got the more difficult part (inventory holding cost) correct, but didn't produce the correct purchase cost. However, the own figure rule applied, so they were still awarded the mark for their 'own' total cost.

The only issue that appeared was on 2c. The question asked the candidate to **explain three** benefits. This is a higher order question (2 marks each) than had been previously asked (November 2016), when the candidates were required to **identify four** benefits (1 mark each).

1 To keep total inventory investment to minimise.

2 To keep stock holding cost minimise.

To keep stock ordering cost minimise.

3 Maintenance planned level of inventory.

4. To reduce the risk of running out of inventory.

(Total for Question 2 = 20 marks)



#### Examiner Comments

A number of candidates appeared to have rote learnt the model answer from the November 2016 paper. As the current question meant that the candidate would have to first identify the benefit and then go on to develop their answer, these candidates were awarded three marks – one mark for each of the three benefits they had identified.



#### Examiner Tip

Once again, positive marking has been applied in this situation. But it is clearly a case of the candidate not reading the question.

### Question 3

#### Calculating variances (20 marks)

Candidates still continue to incorrectly **identify** the variance. The candidate is required to state whether it is favourable or adverse. We have suggested that Fav or Adv will be acceptable. There is an issue with writing A or F, as the candidate sometimes writes over the top of the letter, making it difficult to read. Centres/candidates should also refrain from putting brackets as their answer.

- (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)

Actual Production @ 3140 units :

	Actual pdt costs	Standard pdt costs	Variance
Direct Materials	258250	268784	(10534)
Direct Labour	147200	137532	9668
Fixed pdt OH.	90250	93258	(3008)
Total	495700	499574	(3874)

The variance is -£3874.

Workings :

Direct Material =  $3140 \times 85.60 = 268784$

Direct Labour =  $3140 \times 43.80 = 137532$

Fixed pdt OH =  $3140 \times 29.70 = 93258$



#### Examiner Comments

The candidate has an OF answer for direct materials and the correct answers to direct labour and fixed overheads. However, their variances seem to indicate they are adverse, favourable, adverse and adverse. The opposite is the case, so the candidate was not awarded the marks.



### Examiner Tip

Whilst the rule is to mark positively, in this instance the candidate is not being precise about their answer. It is not the role of the examiner to attempt to interpret what the candidate is stating in the answer.

There were issues with part b of this question.

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 = 2.67 hr

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

(i) efficiency

(3)

$$\frac{2.5}{2.67} = 0.94$$



### Examiner Comments

The question asked for control ratios for **period** 5. This candidate has attempted to calculate part (i) for a single unit.



### Examiner Tip

A lot of candidates attempted to come up with the actual hours per unit, arriving at 2.67 (in fact it was 2.6735), which wasn't necessary.

(ii) capacity (usage)

(3)

$$19200 \div (7600 \times 2.5) \\ = 1.04$$



#### Examiner Comments

Here the candidate provides a formula for part of the answer ( $7\,600 \times 2.5$ ). What was required were the budgeted hours of production = 19 000.

Also, whilst these items are called ratios, it is best practice to provide the answer as a percentage figure.



#### Examiner Tip

It has been pointed out repeatedly, that it is not the role of the examiner to finish off the candidate's calculations. If the answer is correct, full marks will be awarded, regardless of workings. However, if the answer is incorrect, full workings are required for partial marks to be awarded. **Provide full workings at all times.**

Also, if a ratio is presented it should be shown at 1.04 : 1 to be correct.

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

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

Production 7600 units  
Direct labour per unit 2.5 hours

The actual results for period 5 were as follows:

Production 7376 units  
Direct labour 19720 hours

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

(i) efficiency

(3)

Labour efficiency variance =  $(2.5 \times 7376) - 19720 \times 1$

= \$ 1280 (Adverse)

(ii) capacity (usage)

(3)

Fixed production capacity variance =  $(\text{Actual hours} - \text{Budget hours}) \times$

capacity =  $19720 - (2.5 \times 7600)$

= 720 (Favourable)



### Examiner Comments

The candidate has crossed out both parts of 3bi and 3bii. There is plenty of space on the page and on the following page to provide a second answer. However, the candidate has provided a supplementary page for their answer.



### Examiner Tip

Aim to put all answers and working on the answer book provided. There is plenty of additional space available, without the need to insert additional answer pages.

## Question 4

### Accounting systems (16 marks)

This question was well answered by many candidates.

The two figures at the bottom of 4vi require the candidate to calculate their answers from previous parts of the question/answer.

(vi) Financial ledger control account			
		(4)	
Details	\$	Details	\$
Opening balance	100590	Raw materials control	43250
Salaries and wages	474200	Work in progress	25400
		Finished goods control	29260
		Production overhead control	2680
Profit	57560	Production cost of sales	416640
	574790		574790



#### Examiner Comments

The candidate has an answer for 'profit' (incorrectly labelled) with no workings.

Details	\$	Details	\$
sales	474200	balance b/d.	100,590
		raw material	267800
		production overhead	25430
balance c/d	94840	Profit or loss	50420
			397220



### Examiner Comments

The candidate has an OF answer for the balance (94840), which they have shown to be correct (according to their calculations) with workings, thus gaining the available marks. They were not as fortunate with the OF for the profit, which was incorrect, due to a random figure being inserted in the workings.

## Question 5

### Managing cash flow (21 marks)

The calculation part of the question was generally well answered.

(iv) current ratio

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} \times 100\%$$

Company Bright =  $\frac{\$70000 + \$55000 + \$25000}{\$45000} \times 100\% = 333\%$  OR 10 : 3

Company Stansted =  $\frac{\$85000 + \$95000}{\$65000 + \$40000} \times 100\%$   
=  $\frac{\$180000}{\$105000} \times 100\% = 171\%$  OR 12 : 7

Handwritten ratios in the top right corner:  
150 : 45  
30 : 9  
10 : 3  
180 : 105  
36 : 21  
12 : 7



#### Examiner Comments

If a ratio is required it is usual for this to be shown as 2:1 or similar. Here the candidate has 10:3, 12:7, and 16:9. These are very unusual figures.

The second part of the question, requiring an analysis of the two companies, was reasonably well answered by many candidates.

- (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)

- (1) ~~Rate~~ rate of inventory turnover (days)  
Stansted company has  
Rate of inventory turnover days is rose <sup>than</sup> by Bright company
- (2) Trade receivable collections period (days)  
Stansted company has trade receivable collections  
period is higher than Bright company.
- (3) Trade payables payment (days)  
Stansted company has trade payable payment (days)  
is higher than Bright company.
- (4) Current ratio  
Stansted company has Current ratio is decrease  
than Bright company.
- (5) Acid test (quick) ratio  
Stansted company has Acid test (quick) ratio is  
decrease than Bright company.  
There fore the <sup>Bright</sup> Stansted company has the best  
liquidity position.



#### Examiner Comments

Despite writing almost a full page, this candidate has not said anything meaningful. Saying that something is higher or lower is not providing any information. The candidate needs to say that the situation is better or worse, and go on to justify their statement.

## **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 and 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 candidates' 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 provide 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>