



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

**Examiners' Report
April 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 candidates should prepare for questions from the entire 10 syllabus topic areas.

There are also five dedicated Assessment Objectives, which will appear in each paper, in 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

Inventory control, production and material budgets (14 marks)

With 1a it is not sufficient to state that material wastage is 'wastage of material', or that product rejection is the 'rejection of the product'. Although these are one-mark questions, a little bit more detail is required.

Part b caused an issue. The question asked for the number of good units.

(c) Calculate, for Year 4, the number of good units that need to be produced for Product A and Product B. 2

	Product A	Product B
Budgeted sale unit	unit 8000	unit 15000
(+) closing Inventory of Finished Good	$(400 \times 125\%)$ 500	$(800 \times 125\%)$ 1000
(-) opening Inventory of Finished Good	(400)	(800)
(+) Production reject	$(8100 \times \frac{10}{20})$ 4050	$(15200 \times \frac{15}{20})$ 11400
Budgeted production unit	9000	16000

(d) Prepare, for Year 4, the material budget, in kilograms, for RM001 and RM002. 2

Product	Budgeted production unit	Raw material RM 001	Raw material RM 002
	unit	kg	kg
Product A	9000	4	2
		36000	18000
Product B	16000	2	1
		32000	16000
Direct material usage		68000	34000
(+) closing Inventory of Raw material		24000	
(-) opening Inventory of Raw material			
(+) Wastage allowance		$(68000 \times \frac{20}{20})$ 17000	$(34000 \times \frac{20}{20})$ 8500
Budgeted direct material usage		85000	42500

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Examiner Comments

Most candidates produced this answer to 1c. It was not clear what were the good units required. However, the candidate went on to use the correct production units for 1d, gaining the maximum marks.

(c) Calculate, for Year 4, the number of good units that need to be produced for Product A and Product B.

Page (5) => *Check (2) **

	Product A units	Product B units
Budget Sale Unit	8,000	15,000
	(400 x 12.5%)	(800 x 12.5%)
(+) Closing inventory of finished good	500	1,000
(-) Opening inventory of finished good	(400)	(800)
Budgeted A	8,100	12,200



Examiner Comments

Although this answer seems similar to the first example, the candidate has been specific about the **net** (good) and gross production.

(c) Calculate, for Year 4, the number of good units that need to be produced for Product A and Product B.

	Product A	Product B
Budget sale units	8000	15000
(+) closing inventory of Finished good	500	1000
(-) opening inventory of Finished good	(400)	(800)
	8100	15200

(d) Prepare, for Year 4, the material budget, in kilograms, for RM001 and RM002.

	RM001	RM002
Bud Raw Mat usage (BPU \times Raw Mat usage per unit)		
Prod A	(7200 units \times 4kg) 28800	(7200 units \times 2kg) 14400
Prod B	(14400 units \times 2kg) 28800	(14400 units \times 1kg) 14400
Product A	(8100 units \times 4kg) 32400	(8100 units \times 2kg) 16200
Product B	(15200 units \times 2kg) 30400	(15200 units \times 1kg) 15200
	62800	31400
Wastage rate $(\frac{20}{80})$	15700	7850
	78500	39250



Examiner Comments

Why this distinction is important is that this candidate identifies the good production in part c, but then fails to identify the gross production for part d.



Examiner tip

As we have mentioned previously, it is important that candidates communicate effectively.

Question 2

Cost-volume-profit analysis (21 marks)

There were no real issues with this question, although candidates still struggle to draft an effective break-even/profit-volume chart.

Question 3

Marginal and absorption costing (24 marks)

This question confirmed the importance of providing effective workings.

(a) Calculate, for the first six months of the year, the:

(i) actual costs of production

	\$	\$	(6)
Direct Material A	=	6	(3kg x \$2)
Direct Material B	=	6	(4kg x \$1.5)
Direct labour		18	(1.5hr x \$12)
Variable overheads	=	1	2
Fixed overhead		7.5	(\$40,000 ÷ 4000)
		<u>39.5</u>	

∴ actual cost of production = $39.5 \times 6400 \times \frac{6}{12}$
for 6 months
= \$ 126,400



Examiner Comments

This candidate has the \$32 (cost of production per unit) and the \$39.50 absorption cost, to be used in 3b. However, they have made a mistake in attempting to calculate the overall costs of production.

- 3 The One Product company, which produces a part for the motor industry, has budgeted to make 6400 units in a year. The units sell for \$80 each.

The standard unit variable production costs are as follows:

Direct material A	3 kg at \$2.00 per kg
Direct material B	4 kg at \$1.50 per kg
Direct labour	1.5 hours at \$12 per hour
Variable overheads	Absorbed at \$2.00 per unit

The fixed overheads are expected to be \$48 000 per year, occurring evenly over the year. These are absorbed at a predetermined rate based on direct labour hours.

The following actual information is available for the first six months of the year:

Opening inventory	300 units
Sales	3100 units
Closing inventory	200 units

Fixed overheads for the six months were equal to budget.
Variable costs per unit were as per standard production cost.
Actual direct labour hours per unit were as per budget.

- (a) Calculate, for the first six months of the year, the:

- (i) actual costs of production

(6)

Production cost per unit = \$32

	(c\$)
Direct material A (3 x 2)	6
Direct material B (4 x 1.5)	6
Direct labour (1.5 x 12)	18
Variable overhead	2
	<u>32</u>

Actual cost of production = 32 x 3000 units
= \$ 96000

working -	opening inventory	300	1
	production	3000	
	sale	(3100)	
	closing	<u>200</u>	

- (ii) over/under absorption of fixed production overheads.

13

(4)

	\$
marginal costing (48000/2)	24000
Absorption costing	<u>24000</u>
over/under	<u>Nil</u>

0

(b) Prepare a trading account for the **first six months of the year** using absorption costing.

Clearly show any over/under absorption of overheads.

Absorption costing

Sales value		248000
Production cost of sale:		
Material A:		18000
Material B:		18000
Labour		54000
Overhead		6000
Fixed production overhead		96000
Inventory: opening		21000
closing		120000
	(300×39.5)	11850
	(100×39.5)	(7900)
Gross Profit		123950
over/under absorb		1204050
Net Profit		(211)
		1204050



Examiner Comments

This candidate has the \$32 (cost of production per unit) and the 3,000 units. They have got 3a incorrect, but still have the opportunity to score full marks for 3b. However, there are figures in 3b, which should probably have originated in 3a, that have been presented with no workings. The candidate must have had to calculate the \$18,000 for material A, but leaves it for the examiner to determine this is 3,000 units x \$6, which is the same situation for the next three figures.



Examiner tip

Once you have worked out figures in an earlier part of a question, apply them in full, if they are required for a later part. Write down what you are entering into your calculator.

(a) Calculate, for the **first six months of the year**, the:

(i) actual costs of production

(6)

Direct material A (3kg x \$2) 6

Direct material B (4kg x \$1.5) 6

Direct Labour (1.5hr x \$12) 18

Variable overhead (1.5hr x \$2) 3

Variable production cost 33

Contribution = Selling Price - Variable cost

= \$80 - \$33 = \$47

BEP unit = Total Fixed cost per period

Contribution per unit

= $\frac{\$48,000}{\$33} = 1455 \text{ unit}$

Fixed cost per unit = $\frac{\$48,000}{6400 \text{ unit}} = \7.5

(b) Prepare a trading account for the **first six months of the year** using absorption costing.

Clearly show any over/under absorption of overheads.

2.2+

XX

C - P < VP
NP < VP
IF

3

10.50
OK

	\$	\$	\$
Selling Sale revenue (\$80 x 6400) ÷ 6/12			256,000
(-) Variable Production cost of sale			
Direct material A (6 x 6400 unit) x 6/12	19,200		
Direct material B (6 x 6400 unit) x 6/12	19,200		
Direct Labour (18 x 6400 unit) x 6/12	57,600		
Variable OH (3 x 6400 unit) x 6/12	9,600		
	105,600		
F Production overhead (48,000 x 6/12)	24,000		
Opening Inventory (200 unit x (33 x 6/12) + (7.5 x 6/12))	129,600		
	4950		
(-) Closing Inventory (200 unit x (33 x 6/12) + (7.5 x 6/12))	6075		
	(4050)		
Gross Profit			(131,625)
(-) Variable under absorption			124,375
			(24,750)
Net Profit			99,625



Examiner Comments

This candidate has an incorrect figure of \$33 for the cost of production per unit, as well as the correct \$7.50 for the absorption cost, giving an own figure of \$40.50, to be used in 3b. However, this has not been used. They have not identified \$24,000 in 3ai, and used \$48,000 in 3aii. They have then gone on to use \$24,000 in 3b, when they needed to use the \$23,250 calculated in 3aii.

(ii) over/under absorption of fixed production overheads.

(4)

$$\begin{array}{r} (5100 \times 13.12) = 51200 \\ - 48000 \\ \hline 3200 \text{ over absorption} \end{array}$$



Examiner Comments

This candidate has the correct answer of \$1,500, but fails to make it clear if this is an under or over absorption, which is not confirmed in the answer to 3b.



Examiner tip

The question asks for the over **or** under absorption. Be clear about what you have calculated, and communicate this to the examiner.

(ii) over/under absorption of fixed production overheads.

3

(4)

marginal costing (48000/2)	\$ 24000
Absorption costing	24000
over/under	Nil

0

(b) Prepare a trading account for the first six months of the year using absorption costing.

Clearly show any over/under absorption of overheads.

3

(7)

Absorption costing		
sale value		248000
Production cost of sale:		
material A:		15000
material B:		18000
Labour		54000
overhead		6000
Fixed production overhead		96000
		24000
		170,000
Inventory: opening	(300 x 39.5)	11850
closing	(100 x 39.5)	(3950)
		123950
Gross Profit		124050
over/under absorb		(Nil)
Net Profit		1204050



Examiner Comments

This is an extreme example of a candidate's answer. It is difficult to follow the answer presented, however a number of marks were able to be awarded. \$37.50 is shown in 3b, with no indication as to where this came from. This was not deemed to be an own figure, so the candidate lost marks. This was common of many of the answers seen.

(b) Prepare a trading account for the **first six months of the year** using absorption costing.

Clearly show any over/under absorption of overheads.

(7)

$$\text{Sales} = 3,100 \times 80 = 248,000 ;$$

$$\text{Cost of goods sold} = 3,100 \times (2 \times 3 + 4 \times 1.5 + 1.5 \times 12 + 2 + 1.5 \times 5)$$
$$= 122,450$$

N/C



Examiner Comments

All too often this was the style of answer presented. The question asked for a trading account using absorption costing. There is a long formula with a random answer at the end. This scored no marks. Had the candidate arrived at the final figure of \$124,050 they would have received 1/7.



Examiner tip

The examiner will try and award marks. However, candidates must present the information in a legible format, with full workings.

Question 4

Flexible budgets (22 marks)

There were no issues with the production of the flexible budget. However, once again, candidates failed to identify the variance correctly.



Examiner Comments

This has been referred to numerous times since the first report (June 2016) and still candidates are not following the recommended instructions. Centres need to reinforce what is required. [Refer to the March 2017 report for more detail].

Question 5

Process costing (19 marks)

Part (a) asked for an explanation of the term 'process costing'. Many candidates drew up a process account, which scored no marks.



Examiner tip

Look for the 'command' word at the start of the question – state, describe, identify or explain.

Part b was relatively well answered. Unlike question 3, most candidates provided full workings, making it easier to award own figures, where the candidate did not have the correct answer.

(b) Calculate, for month 4, the:

(i) equivalent units and cost per unit for each element of cost

(7)

Particulars	Total	Material	Labour	Overhead
Equivalent unit	kg	kg	%	kg
Actual output	7000	100	100	100
WIP bld (work in progress)	(800)	100	(800)	50
Current Period	6200	6200	6600	6600
Normal loss	Nil	Nil	Nil	Nil
WIP cld (work in progress)	500	100	60	300
		6700	6900	6900
Process cost		35500	14600	17520
Cost per unit (Process cost / Equivalent unit)		5.29	2.12	2.54

(ii) value of opening and closing work in progress inventory

Closing work in progress inventory

34
(3)

Material (5.29 x 500 kg) = 2645

Labour (2.12 x 300 kg) = 636

Overhead (2.54 x 300 kg) = 762

4043

2

(iii) value of the transfer to the finished goods.

(3)

Material (5.29 x 6200 kg) = 32798

Labour (2.12 x 6600 kg) = 13992

Overhead (2.54 x 6600 kg) = 16764

work in progress bld = 12000

75554

3



Examiner Comments

This candidate has not attempted part bi correctly. However, they went on to get 2/3 marks for bii and 3/3 for biii, based on their own figures. You can see that full workings have been provided.

(iii) value of the transfer to the finished goods.

✓ 8

(3)

$$\text{Input material } (6000 \times \$4.44) = \$ 27528$$

$$\text{Direct Labour } (6000 \times \$2.12) = \$ 13992$$

$$\text{Production overhead } (6000 \times \$2.54) = \$ 16264$$

$$\text{C+>WIP b/d} = \$ 12,000$$

$$\therefore \text{value of transfer to finished goods} = 79284$$

✓ 3



Examiner Comments

This candidate made one mistake on part bi. However, they went on to get 3/3 for biii, based on their own figures. You can see, once again, that full workings have been provided.

(iii) value of the transfer to the finished goods.

✓ 9

$$= (6000 \times \$5.25) + (6000 \times \$2.12) + (6000 \times \$2.54) + 12000$$

$$= \$ 79284$$

3

**Examiner Comments**

This candidate got part bi correct. They went on to get 3/3 for biii, as the answer was correct. However, their calculations had not been completed, which might have lost them marks had the final answer not been correct.

**Examiner tip**

The question asks for the value of the transfer of finished goods, which will be a final figure. However, the mark scheme is constructed to allow for partial marks to be awarded, where the candidate does not have the correct answer. A number of different approaches were adopted by candidates when answering part biii, and the model answer/mark scheme was adjusted to account for all these different approaches.

The final part of question 5 was a small (4 mark) section on MIS. As with many written parts, it was not well answered. Candidates and centres should look at the model answer to this section, and the other times this has appeared in previous papers, to gain a perspective on what is required.

Paper Summary

Overall, there were some very good answers for most parts of the paper.

Centres need to look closely at question 3. This would provide an excellent resource for demonstrating to candidates how to deal with the topic.

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

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>