

Pearson LCCI

Cost and Management Accounting Level 3

Friday 8 June 2018
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 Evandro and Silva Ltd uses two different raw materials, XYZ 145 and EDG 2204, in its production process.

The following information relates to raw material XYZ 145:

Budgeted annual use	6 000 kg (evenly distributed throughout the year)
Material costs	\$10 per kg
Ordering costs	\$200 per order
Inventory holding costs	9% of the average inventory holding value per year
Order size options	500kg, 1 000 kg, 1 500 kg, 2 000 kg and 3 000 kg
Minimum inventory (safety)	1 000 kg

(a) (i) Complete the following table for the different order size options for a total purchase of 6 000 kg of raw material XYZ 145 in a year. Space is available on the opposite page for workings.

(5)

Order size (kg)	No of orders	Order costs (\$)	Average inventory (kg)	Holding costs (\$)	Total costs (\$)
500					
1 000					
1 500					
2 000					
3 000					

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Workings

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(ii) Advise, giving a reason, which of the order sizes should be selected.

(2)

(iii) State what is meant by the term **economic order quantity**.

(1)



The following information relates to raw material EDG 2204

Usage varies between 220 kg and 280 kg per day.

Lead time for delivery varies between 15 and 21 days.

Order quantity size is 8 000 kg.

(b) Calculate, for raw material EDG 2204, the:

(i) reorder level

(1)

(ii) minimum inventory control level

(2)

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(iii) maximum inventory control level.

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(c) Explain **two** reasons why it is important to operate an effective system of **inventory management and control**.

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(Total for Question 1 = 18 marks)



2 Forrest Ltd is considering investing in new machinery which, if purchased, would increase the production of an existing product.

The new machinery under consideration would cost \$510 000 and have a residual value of \$60 000 after five years.

The increased production would have an additional sales value of \$375 000 for **each** of the Years 1, 2 and 3, and \$200 000 for **each** of the Years 4 and 5

A 40% contribution to sales (C/S) ratio will be constant over all the five years.

There will be no additional fixed costs other than depreciation of the new machinery, calculated on a straightline basis.

The company has a cost of capital of **12%** per annum.

Discount factors:	Year	10%	12%	15%
	1	0.909	0.893	0.870
	2	0.826	0.797	0.756
	3	0.751	0.712	0.658
	4	0.683	0.636	0.572
	5	0.621	0.567	0.497

(a) Calculate, for the possible investment in the new machinery, the:

(i) net present value

(6)

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(ii) internal rate of return

(4)



(ii) discounted payback,

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(b) Advise whether Forrest Ltd should invest in the new machinery, based on all of your calculations in part (a).

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(c) Evaluate why it is more appropriate to calculate the discounted payback, rather than calculating the traditional (non-discounted) payback, when determining whether an investment project should be undertaken.

(4)

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(Total for Question 2 = 20 marks)



3 Hugh & Gordon Ltd manufactures a single product.

The budgeted and actual results for period four are as follows:

	Budget	Actual
Production in units	9 450	8 400
	\$	\$

Production Costs

Direct materials	37 800	36 900
Direct labour	28 350	23 100
Production overheads	33 075	32 175
Selling and distribution	17 400	16 680
Administration	11 565	10 310
Total Costs	128 190	119 165

Additional information:

1. The production overhead is calculated as a cost per unit, based on:
 - the budgeted figure of 9 450 units at a cost of \$33 075
 - a maximum capacity of 10 500 units at a cost of \$35 175
2. The budgeted selling and distribution includes a fixed cost of \$3 225
3. The budgeted administration includes a fixed cost of \$4 005

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(b) Identify **one** of the bases for flexing budgets.

(1)

(c) Identify **one** factor influencing the length of a budget period.

(1)



(d) Explain **two** effects that time has on cost behaviour.

(4)

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(Total for Question 3 = 22 marks)

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- 4 Henriksson Ltd operates a non-integrated system where the cost accounts are kept separate from the financial accounts.

The following balances were in the Cost Ledger at the beginning of Month 2.

	\$
Raw materials control	69 100
Work-in-progress control	36 500
Finished goods control	53 100
Production overhead control under-absorbed	4 350
Financial ledger control	163 050

The following transactions took place during Month 2:

	\$
Purchases of raw materials	482 040
Indirect materials issued	35 200
Direct wages incurred	134 500
Indirect factory wages and salaries incurred	67 900
Other indirect manufacturing expenses	45 800
Production overheads absorbed	155 250
Sales	851 650

At the end of Month 2, the following balances remained:

	\$
Raw materials control	81 650
Work-in-progress	20 100
Finished goods control	43 400

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(a) Prepare the following Cost Ledger accounts for Month 2, using the information provided, balancing off all accounts.

(i) Raw Materials Control Account

(3)

Details	\$	Details	\$

(ii) Wages Control Account

(2)

Details	\$	Details	\$



(v) Finished Goods Control Account

(2)

Details	\$	Details	\$

(vi) Financial Ledger Control Account

(5)

Details	\$	Details	\$



(b) Explain the importance of using control accounts when operating a non-integrated system.

(4)

(Total for Question 4 = 22 marks)

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5 The following information has been extracted from the accounts of Hernandez Supplies:

	2016	2017
	\$	\$
Revenue	788 000	876 000
Ordinary goods purchased	485 000	490 000
Cost of sales	468 000	458 000
Average inventory	78 000	96 000
Average trade receivables	51 000	88 000
Bank account	38 000	NIL
Average trade payables	48 000	67 000
Bank overdraft	NIL	24 000

The following information is also available:

- all sales and purchases are made on credit
- all transactions occur at an even rate throughout the year
- assume a 365 day year.

(a) Calculate, for 2016 and 2017, the:

(i) rate of inventory turnover in days (rounded to the nearest day)

(2)

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(iv) current ratio (to **two** decimal places)

(2)

(v) acid test ratio (to **two** decimal places).

(2)

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(b) Evaluate the liquidity of the company, making use of your calculations in part (a) **and** the financial information provided in the question.

(8)

Area with horizontal dotted lines for writing the answer.

(Total for Question 5 = 18 marks)

TOTAL FOR PAPER = 100 MARKS



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