Pearson LCCI

Monday 9 September 2019

Time: 3 hours | Paper Reference **ASE20098**

Certificate in Cost and Management Accounting (VRQ)

Level 3

Please check the examination details above before entering your learner information

Learner name

Centre/Learning Provider ID

L P -

Pearson Learner ID

L -

Learner National/Passport ID (if required)

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **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 the 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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1 Oberon Ltd had the following information relating to the production of the CX22 for August 2019.

	Budget		Actual	
Production	**63 000 units**		**72 000 units**	
Materials	50 400 kg	$438 480	54 120 kg	$500 610
Direct labour	22 050 hours	$264 600	22 540 hours	$272 734
Fixed overheads		$340 200		$385 200
Total cost		**$1 043 280**		**$1 158 544**

- Material and direct labour are variable costs.
- Overheads are absorbed using units of output.

(a) Explain the meaning of the term **ideal standard**.

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(b) Explain **one** disadvantage of using an ideal standard.

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(c) Calculate the following variances for August 2019.

(i) Material price.

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(ii) Material usage.

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(iii) Labour rate.

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(iv) Labour efficiency.

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(v) Fixed overhead expenditure.

(1)

(vi) Fixed overhead volume.

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(d) Prepare the Profit Reconciliation Statement using the variances calculated in (c).

(5)

PROFIT RECONCILIATION STATEMENT FOR AUGUST 2019			**$**
Standard profit for actual production			**116 280**
Variances	**Favourable $**	**Adverse $**	
Direct materials price			
Direct materials usage			
Direct labour rate			
Direct labour efficiency			
Fixed overhead expenditure			
Total variance			
Actual profit for actual production			

Workings

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(e) Give **one** possible reason, apart from inaccurate standard setting, for **each** of the following variances calculated in (c).

(i) Material usage variance.

(1)

(ii) Fixed overhead expenditure variance.

(1)

(Total for Question 1 = 24 marks)

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2 Umbriel Ltd is a bus company that operates four buses.

The company uses a traditional overhead absorption costing system for its operational overheads and administrative overheads.

The following information was available at the beginning of 2019.

- Each bus will travel 90 000 kilometres (km) during the year.
- Road fund licences and insurances for the year will be $4 650 per bus.
- Servicing and repairs per bus will be $1 250 every 30 000 km.
- Each bus costs $320 000 and is expected to have a useful life of six years after which it will have a scrap value of $50 000
- All tyres are replaced every 45 000 km at a cost of $600 per tyre. Each bus has eight tyres.
- The budgeted administrative overheads were expected to be $153 000 for the year.
- A total of 850 bus trips had been contracted for 2019.

(a) Calculate the following overhead absorption rates for the year 2019.

(i) Operational overheads per km.

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(ii) Administrative overheads per bus trip.

(1)

(b) Explain **one** reason why the company uses predetermined overhead absorption rates.

(2)

(c) Explain **one** reason why:

(i) operational overheads are being absorbed on the basis of km travelled

(1)

(ii) administrative overheads are being absorbed on the basis of bus trips.

(1)

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In the six months January to June 2019, Umbriel Ltd had completed 465 bus trips involving a distance of 178 400 km.

The operational overheads incurred were $147 630
The administrative overheads incurred were $81 760

(d) Calculate the amount of over or under-absorption for **each** of operational overheads **and** administrative overheads for the six months January to June 2019.

(i) Operational overheads.

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(ii) Administrative overheads.

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(e) Evaluate Umbriel Ltd's recovery of overheads for the six months January to June 2019.

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Positive factors

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Negative factors

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Conclusion

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(Total for Question 2 = 20 marks)

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3 Hyperion Ltd is a manufacturing company.

Information is available for R44, one of the raw materials used in manufacturing.

- Purchase price $4.80 per kilogram (kg)
- Usage per day High: 250 kg Average: 175 kg Low: 100 kg
- Delivery lead time High: 8 days Average: 6 days Low: 4 days
- Maximum inventory level 7 500 kg

(a) Calculate the:

(i) reorder level (kg)

(1)

(ii) minimum inventory level (kg)

(2)

(iii) reorder quantity (kg)

(1)

(iv) average inventory (kg)

(2)

(v) average inventory ($).

(1)

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Hyperion Ltd also uses raw material R55

Information is available for R55

- R55 costs $6.75 per kg.
- Hyperion Ltd uses 3 600 kg per year.
- The cost of placing an order is $500
- The holding cost of 1 kg of R55 for a year is $2.50

(b) Calculate the Economic Order Quantity (EOQ) for R55, showing clearly the formula used.

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(c) Identify **two** possible holding costs that Hyperion Ltd may incur.

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The directors of Hyperion Ltd are considering the introduction of an integrated accounting software system.

(d) Explain **two** benefits that Hyperion Ltd would get from introducing an integrated accounting system.

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(e) Explain **one** action that Hyperion Ltd could take to improve the security of information kept on computers.

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(Total for Question 3 = 19 marks)

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4 Titania Ltd manufactures and sells three products – Aye, Bee and Cee.

The forecast sales and costs for October 2019 are:

	Product Aye	**Product Bee**	**Product Cee**
Units sold (number)	50 000	25 000	10 000
Selling price per unit ($)	16.00	20.00	30.00
Material costs per unit ($)	5.50	8.35	13.70
Labour cost per unit ($)	4.10	4.65	8.20

The fixed costs for October 2019 are $449 280

(a) Calculate, for October 2019, the forecast:

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

(4)

(ii) total break-even revenue

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(iii) total revenue required to achieve a profit of $90 000

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(iv) total margin of safety in **both** $ **and** as a percentage of sales

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(v) profit or loss for October 2019.

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Draco Ltd manufactures a single product.

Production for August 2019 was:

- 11 000 units completed and sent to customers
- 3 600 units of work-in-progress, which were

Material	75% complete
Labour and overheads	40% complete.

The cost information for August was:

	Opening work-in-progress	**Costs incurred during August**
	$	**$**
Materials	16 175	60 545
Labour and overheads	28 240	61 950

The value of completed production and work-in progress uses a weighted average (AVCO) approach.

(b) Calculate, for August, the cost of the:

(i) product that was sent to customers

(3)

(ii) work-in-progress at the end of the month.

(3)

(Total for Question 4 = 20 marks)

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5 Lupus Ltd had reported its results for product Exe for August 2019.

	$	$
Sales		502 200
Material costs	(172 800)	
Labour costs	(212 400)	
Overhead costs	(148 200)	(533 400)
Loss		**(31 200)**

Additional information is also available.

- 36 000 units were made and sold.
- Material costs were variable.
- Labour costs contained a fixed element of $189 000
- Overhead costs contained a fixed element of $141 000

(a) Calculate, for August 2019, the:

- selling price per unit
- absorption cost per unit
- marginal cost per unit.

(6)

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The company has been approached by a new overseas customer who is willing to purchase 6 000 units per month at a price of $9.95 per unit.

This would be in **addition** to the 36 000 units currently being produced and sold.

(b) Calculate the **total** profit or loss that Lupus Ltd would make if the offer from the new overseas customer to buy 6 000 units per month was accepted.

(3)

(c) Explain, giving **one** reason, whether Lupus Ltd should accept the offer from the overseas customer.

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All costs are expected to remain unchanged for the foreseeable future.

(d) Evaluate whether Lupus Ltd should continue producing product Exe.

(6)

Short term

Long term

Conclusion

(Total for Question 5 = 17 marks)

TOTAL FOR PAPER = 100 MARKS

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