aat Accountants for the real world

L3 Principles of Management Accounting

Sample assessment and mark scheme

Sample assessment mark scheme

This mark scheme accompanies the L3 Principles of Management Accounting sample assessment in ATLAS Cloud which can be accessed via AAT's Lifelong Learning Portal.

Notes for students and training providers

This is a sample assessment and mark scheme which is reflective of the question types, depth of content coverage, the level of demand, duration and mark allocation of tasks that will be in the live assessment.

Under each sub-task, you will see a reference to the unit specification, e.g. *(1.4.1)*; this denotes the Learning Outcome, Topic Area and scope being covered in the sub-task, enabling you to identify which area of the unit specification is being assessed.

It is not designed to be used on its own to determine whether students are ready for the live assessment.

Version control

Version no.	Publish date	Key changes
1.0	September 2024	Consultation draft

Assessment information

You have **1 hour 30 minutes** to complete this Principles of Management Accounting sample assessment.

- This assessment contains **5 tasks** and you should attempt to complete every task,
- Each task is independent. You will not need to refer to your answers to previous tasks.
- The total number of marks for this assessment is **80**.
- Read every task carefully to make sure you understand what is required.
- Where the date is relevant, it is given in the task data.
- Both minus signs and brackets can be used to indicate negative numbers unless task instructions state otherwise.
- You must use a full stop to indicate a decimal point. For example, write 100.57 not 100,57 or 10057.
- You may use a comma to indicate a number in the thousands, but you don't have to. For example, 10000 and 10,000 are both acceptable.
- You will need to double click to enter values into a gapfill or cell within a table.

Task 1 (16 marks)

This task is about recording costs.

This task contains parts (a) to (c).

Company A is a clothing manufacturer.

It has received an order for 800 jackets. The cost of producing each jacket has been estimated below.

- Direct material
  - cloth – 1,200 metres at £6.50 per metre.
  - lining – 1,000 metres at £2.70 per metre.
- Direct labour
  - cutters are paid £20 per hour, with an additional 50% for any overtime (overtime is classed as a direct cost).
  - 600 basic hours and 100 overtime hours will be required for the order.
  - sewing is outsourced by Company A and is paid at the rate of £23 per jacket.
- Variable production overhead is £8 per direct labour hour.
- Fixed production overhead is estimated to be £18,000 for this order.

(a) (i) Complete the cost card below for the jacket order. (7 marks)

Cost card for 800 jackets	£
Direct material:	
Cloth	7,800
Lining	2,700
Total direct material	10,500
Direct labour:	
Cutters	15,000
Sewers	18,400
Total direct labour	33,400
Variable production overhead	5,600
Fixed production overhead	18,000
Total estimated cost for order	67,500

(LO 1.1.1)

(ii) Identify the correct journal entries for transferring the cost of direct labour for cutters to production. (3 marks)

Basic wages	DR Direct costs
Overtime	DR Direct costs
Total	CR Wages control

(LO 1.1.2)

Company A currently buys special covers for the clothes so that they are not damaged while being transported to clients. It currently buys the covers each time it receives an order. To try to reduce costs, it is now looking at using the economic order quantity model to establish the optimum order quantity.

The following data is available:

Cost per cover	£9
Cost per order	£6
Estimated annual demand	750,000 covers
Annual holding cost per cover	£1.50
Usage	1800-2000 covers per day
Lead time	2-4 days

(b) (i) Calculate the economic order quantity for the covers. State your answer to the nearest whole number. (3 marks)

2,449 covers

(LO 1.3.1)

(ii) Calculate the minimum re-order quantity for the covers. State your answer to the nearest whole number. (1 mark)

5,700 covers

(LO 1.3.1)

(c) Match the control measure to the appropriate description. (2 marks)

Description	Control measure
The minimum level of inventory to be held.	Buffer inventory level
The point at which additional inventory should be purchased.	Re-order level

(LO 1.3.1)

End of task

Task 2 (16 marks)

This task is about using techniques to manage overheads.

This task contains parts (a) to (b).

Company B is a manufacturer of windows and doors. It has two cost centres, Windows and Doors, and one service centre, Administration.

Budgeted overheads for the year were:

	£
Supervisor's salary – Windows	35,100
Supervisor's salary – Doors	30,840
Receptionist's salary	18,000
Administration salaries	58,000
Rent and rates	65,000
Equipment depreciation	15,000
Total overheads	221,940

The following information is also available:

	Windows	Doors	Administration
Floor area (square metres)	240	150	110
Carrying amount of equipment	£18,000	£24,750	£2,250
Use of receptionist's time	75%	25%	
Budgeted labour hours	8,700	5,100	
Budgeted machine hours	4,650	5,430	

The Administration department's overheads are re-apportioned to the cost centres as follows:

Windows	60%
Doors	40%

(a) (i) Allocate and apportion the overheads to the three departments and re-apportion the Administration department's overheads to the other departments. Enter your answers to the nearest whole pound (£). Use minus signs to indicate any negative figures. (10 marks)

Overheads	Basis	Total £	Windows £	Doors £	Administration £
Supervisor's salaries	Allocated	65,940	35,100	30,840	
Receptionist's salary	Receptionist's time	18,000	13,500	4,500	
Administration salaries	Allocated	58,000			58,000
Rent and rates	Floor area	65,000	31,200	19,500	14,300
Equipment depreciation	Carrying amount of equipment	15,000	6,000	8,250	750
		221,940	85,800	63,090	73,050
Re-apportion administration			43,830	29,220	-73,050
Total overheads		221,940	129,630	92,310	0

(LO 2.1.2)

The actual results for the windows department of Company B for the year were:

	Windows
Actual overhead	£129,325
Actual labour hours	8,620
Actual machine hours	4,604

(ii) Calculate the budgeted overhead absorption rate for the Windows department, using the most appropriate basis. Enter your answer to two decimal places. (1 mark)

£ 14.90 per hour

(LO 2.2.1)

(iii) Calculate the overhead absorbed by the Windows department. Enter your answer to the nearest whole pound (£). (2 marks)

£ 128,438

(LO 2.2.1)

(iv) Calculate the amount of under or over absorbed overheads for the Windows department. Enter your answer to the nearest whole pound (£). (2 marks)

£ 887 under absorbed

(LO 2.4.1)

(b) Complete the following statement. (1 mark)

Under absorbed overheads are [debited] to the statement of profit or loss.

(LO 2.4.1)

End of task

Task 3 (16 marks)

This task is about using budgeting for planning and control.

This task contains parts (a) to (c).

(a) Identify the budget type for each description. (3 marks)

Description	Budget Type
A budget which is created to change as the volume of activity changes.	Flexed
A budget kept up to date by adding another period when the earliest accounting period has expired.	Rolling
A budget created at the start of a period in line with the company's objectives for that period.	Fixed

(LO 3.1.3)

You are required to prepare the flexed budget for Company C.

The following information is available:

- revenue and direct materials are variable
- at 10,000 units the semi-variable costs were budgeted to be £110,000.

(b) Complete the flexed budget and variance columns in the table. Enter favourable variances as positive numbers and use a minus sign for any adverse variances. (10 marks)

Item	Budget (12,000 units) (£)	Actual (15,000 units) (£)	Flexed budget (£)	Variance (£)
Revenue	900,000	1,275,000	1,125,000	150,000
Direct materials	300,000	450,000	375,000	-75,000
Semi-variable costs	120,000	125,000	135,000	10,000
Fixed costs	80,000	95,000	80,000	-15,000
Profit	400,000	605,000	1,715,000	70,000

(LO 3.1.6)

(c) Identify whether the following statements about revenue and cost variances are true or false. (3 marks)

Statement	True	False
A favourable revenue variance may be due to Company C increasing selling prices.	◉	○
An adverse direct materials variance may be due to Company C obtaining a discount from its supplier.	○	◉
An adverse fixed cost variance may be due to Company C increasing the pay of its production staff.	○	◉

(LO 3.3.1)

End of task

Task 4 (16 marks)

This task is about using management accounting techniques.

This task contains parts (a) to (c).

(a) Complete the following statements. (4 marks)

Contribution per unit is assumed to be [constant] at all levels of output.

As levels of output increase, the amount of revenue per unit should [stay the same,] total cost per unit should [decrease,] and profit per unit should [increase.]

(LO 4.2.1)

(b) Identify whether the following statements about cost behaviour are true or false. (2 marks)

Statement	True	False
The amount of fixed cost per unit decreases as the volume of output increases.	◉	○
A stepped cost is fixed for a determined level of output.	◉	○

(LO 4.2.1)

The Management Accountant of Company D is concerned about a product. The budgeted data for the manufacture and sale of 1,200 units shows a forecast loss.

The following information is available for the manufacture and sale of 1,800 units:

- the revenue per unit will decrease by 10% for all units
- variable material costs will decrease by £7 per unit for all units
- variable labour costs will decrease by 5% for all units
- fixed costs will increase by £10,000.

(c) Complete the table to show the forecast profit or loss for the manufacture and sale of 1,500 units and 1,800 units. Enter your answers to the nearest whole pound (£). Enter any loss as a negative figure using a minus sign. **(10 marks)**

	1,200 units £	1,500 units £	1,800 units £
Revenue	168,000	210,000	226,800
Variable material costs	44,400	55,500	54,000
Variable labour costs	24,000	30,000	34,200
Contribution	99,600	124,500	138,600
Fixed costs	102,000	102,000	112,000
Forecast profit/loss	-2,400	22,500	26,600

(LO 4.4.3)

End of task

Task 5 (16 marks)

This task is about cash management.

This task contains parts (a) to (d).

(a) Identify whether each of the following statements about liquidity is true or false. (2 marks)

Statement	True	False
Securing a bank loan will improve the liquidity of a business.	◉	○
The reduction of an arranged overdraft with a bank will improve the liquidity of a business.	○	◉

(LO 5.2.1)

(b) Complete the following statement. (2 marks)

Liquidity management means the management of [both cash inflows and outflows] and the arrangement of additional finance where there is a cash [shortfall.]

(LO 5.2.1)

(c) Identify, by selecting Add or Deduct, how a business reconciles profit with cash. (4 marks)

Add/Deduct	Profit
[Deduct]	Loan repayments
[Add]	Depreciation
[Deduct]	Purchase of non-current assets
[Add]	Capital introduced from owners
	= Cash

(LO 5.1.1)

The following figures have been forecast for Company E for the year ended 31 December 20X8.

	£
Revenue	420,000
Purchases	95,000

The receivables and payables balances at the start and end of the year are shown below.

	Opening balance £	Forecast closing balance £
Receivables	30,000	36,000
Payables	8,000	6,000

(d) (i) Calculate the forecasted cash to be received by Company E during the year. (2 marks)

£ 414,000

(LO 5.2.1)

(ii) Calculate the forecasted cash to be paid by Company E during the year. (2 marks)

£ 97,000

(LO 5.1.2)

(d) (iii) Identify whether the following actions would improve or would not improve the short-term cash flow of Company E. (4 marks)

Action	Would improve	Would not improve
Offering customers longer credit terms.	○	◉
Selling assets no longer used in the company.	◉	○
Increasing inventory levels.	○	◉
Delaying payments to suppliers.	◉	○

(LO 5.2.3)

End of task

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