

LCCI Level 3 Certificate in Cost and Management Accounting – Learning outcome 1

4 questions – students to be given 1 random question from this bank of questions. Type of question highlighted in yellow.

Question 1 (4 marks)

JT Co wishes to use the Economic Order Quantity (EOQ) to calculate the re-order quantity.

The demand in units for per quarter is 960 units.

The cost of placing an order is \$8 and the holding costs for one unit of stock is \$0.15 per annum.

What is the re-order quantity using the EOQ method?

[640] units

INSERT VALUE

Question 2 (4 marks – 1 mark for each correct answer)

The EOQ method for calculating the re-order quantity includes the cost of placing an order.

Which of the following items would usually be included in the 'cost of placing an order'?

	Would be included (✓)	Would not be included (✓)
Unit cost of products		[✓]
Administrative costs	[✓]	
Postage	[✓]	
Quality control costs	[✓]	

MRQ

Question 3 (4 marks)

MRP Co is reviewing its production plans for the next month.

The forecast sales quantity for the month of September is 10,600 units. The inventory budget is to incorporate an increased in finished goods from 2,300 units to 3,100 units.

All finished goods pass through quality control and it is expected that 5% of these will fail this check and have to be scrapped.

What is the production budget in units for September?

[12,000] units

INSERT VALUE

Question 4 (2 marks)

Which one of the following is a disadvantage of having low material inventory levels?

	✓
The cost of capital tied up in inventories is high.	
In order to meet customer demands, materials may have to be purchased in smaller and therefore more expensive quantities.	[✓]
Holding costs are higher.	
The business may incur large write off expenses if inventory becomes obsolete.	

MCQ