Pearson Edexcel International Advanced Level Accounting

International Advanced Subsidiary WAC11

The Accounting System and Costing

Exemplar scripts with examiner commentaries

Section B Question 6

Issue 1. June 2017 examination series

Introduction

Examiner commentaries on exemplar scripts
Accounting WAC11, Section B, Question 6

This set of exemplar responses with examiner commentaries for Question 6 is part of the set for Unit 1, The Accounting System and Costing. It has been produced to support teachers and students teaching and studying the International Advanced Level Accounting qualification.

This pack includes examiner commentaries on exemplar scripts which exemplify performances in this component from the June 2017 examination. Due to the nature of accounting questions, considerable data is required upon which questions are set. This document should therefore be used alongside other examination materials on the website.

Link to May/June 2017 WAC11 Examination Question Papers and Mark schemes are available on IAL Accounting web page here

There are other IAL Accounting teaching and learning materials on the website here.

Script 11 – A very strong performance in calculating the inventory and preparing the manufacturing account. Note should be taken of the comments on inventory valuation and inventory rotation.

Student's answer to Question 6 (a)

6 (a) Calculate the value of the inventory of raw materials at 31 March 2017 using the First In First Out (FIFO) perpetual inventory valuation method.

(4)

Value of inventory as at 31/3/17.

Date	Receipts	Issue	Balance
~~April–June 2016~~			
1/April/2016			120 ton @ £800 per ton ~~£96000~~
April–June 2016	80 tons @ £700	90 @, £800 tons	30, @ £800 tons
~~July–Sept 2016~~	~~70 tons @ 700~~	~~60 @~~	80, @ £700 tons
July–Sept 2016	70 tons @ £700	30 @, £800 tons	50, @ £700 tons
		30 @, £700 tons	70 @ £700 tons
Oct–Dec 2016	100 @ £650	50, @ £700 tons	70, @ £700 tons
		30 @ £700 tons	100, @ £650 tons
Jan–March 2017	60 tons @ £600	40, @ £700 tons	70, @ £650 tons
		30 tons @ £650	60 tons @ £600
31/3/17			£81500

Examiner's comments

The student was awarded 4 marks.
The correct method had been applied and the final running balance calculated.

Student's answer to Question 6 (b)

(b) Prepare the Manufacturing Account for the year ended 31 March 2017. **(14)**

Bon well Products

Manufacturing Account as at 31/2/17.

	(2)	(2)
Opening inventory of Raw materials	96000	~~96000~~.
Purchases of Raw materials.	210000	
Closing inventory of Raw material	(81500)	
Cost of Raw materials Consumed.		224500
Direct expenses:-		
Manufacturing machinist wages.	93000.	
Manufacturing assembly (83500-6500)	77000	
		170000.
Prime cost		394500
Expenses:- Wages and salaries.		
(84000+16800+102000)	~~202800~~ 100800.	
Depreciation:- Manufacturing equipment	~~45000~~ 45000.	
Rent of premises.	34000.	
Insurance (40000- 5000) x 60%.	21000.	
Marketing expenses	60000.	
		206800
		601300
Opening work in progress		55000.
Closing work in progress		(47300)
Cost of production		609000
factory profit.		31000.
Transfer to trading Account		~~39~~ 640000

Examiner's comments

The student was awarded 13 marks.

The students answer was in good format and substantially correct. The only error in the answer was to include the marketing expenses in the production overheads. Inclusion of the marketing expenses invalidated the mark for the total of prime cost and production overheads.

Student's answer to Question 6 (c)

(c) Explain how the following would be accounted for in the Statement of Financial Position at 31 March 2017:

(i) manufacturing assembly wages prepaid

(2)

Manufacturing wages prepaid will be written as a current asset as the wages are already paid but the benefit is yet to receive

(ii) depreciation for the year on manufacturing equipment

(2)

Depriciation on manufacturing equipment will be deducted from the value of manufacturing equipment as the value is lost

(iii) provision for unrealised profit on manufacture.

(2)

Because of Realisation concept; not as the profit is not yet realised a provision of profit will be calculated which will be deducted from the value of finished goods.

Examiner's comments

The student was awarded 1 mark for (i), 1 mark for (ii) and 2 marks for (iii).

In (i) the student correctly stated that the item would be a current asset for 1 mark but did not state that it would be recorded as an 'other receivable'.
In (ii) the student identified that depreciation would be deducted from cost 1 mark, but did not identify that this would result in the carrying value.
In (iii) 2 marks were awarded for stating that the provision would be deducted 1 mark, from the value of finished goods, 1 mark.

Student's answer to Question 6 (d)

The business is considering changing its method of valuing raw materials inventory to Last In First Out (LIFO).

(d) Evaluate the use of Last In First Out (LIFO) as a method of valuing the inventory of raw materials.

(6)

Potential argument for :-
The ~~inventory~~ st Raw materials ~~used to~~ issued to stock will be closer to replacement or market value. ~~making it easier to set~~ so This means the selling price of the good will also be ~~become near or~~ near to market value..
The ~~valuation~~ issue of ~~stock~~ is raw materials is based on the recent price paid.

Potential argument against :-
It is unrealistic as ~~the~~ it assumes that the olden stock will be issued to production first.
The valuation of inventory is not closer to market value.

Examiner's comments

The student was awarded 3 marks.

Students need to distinguish between inventory valuation and inventory rotation. A business will always rotate its inventory to actually sell its oldest inventory first. The valuation of the inventory sold is a different matter and a range of valuation methods can be used. Students who believe that Last In First Out means that the inventory will become dated over time are not drawing the distinction between inventory valuation and inventory rotation.

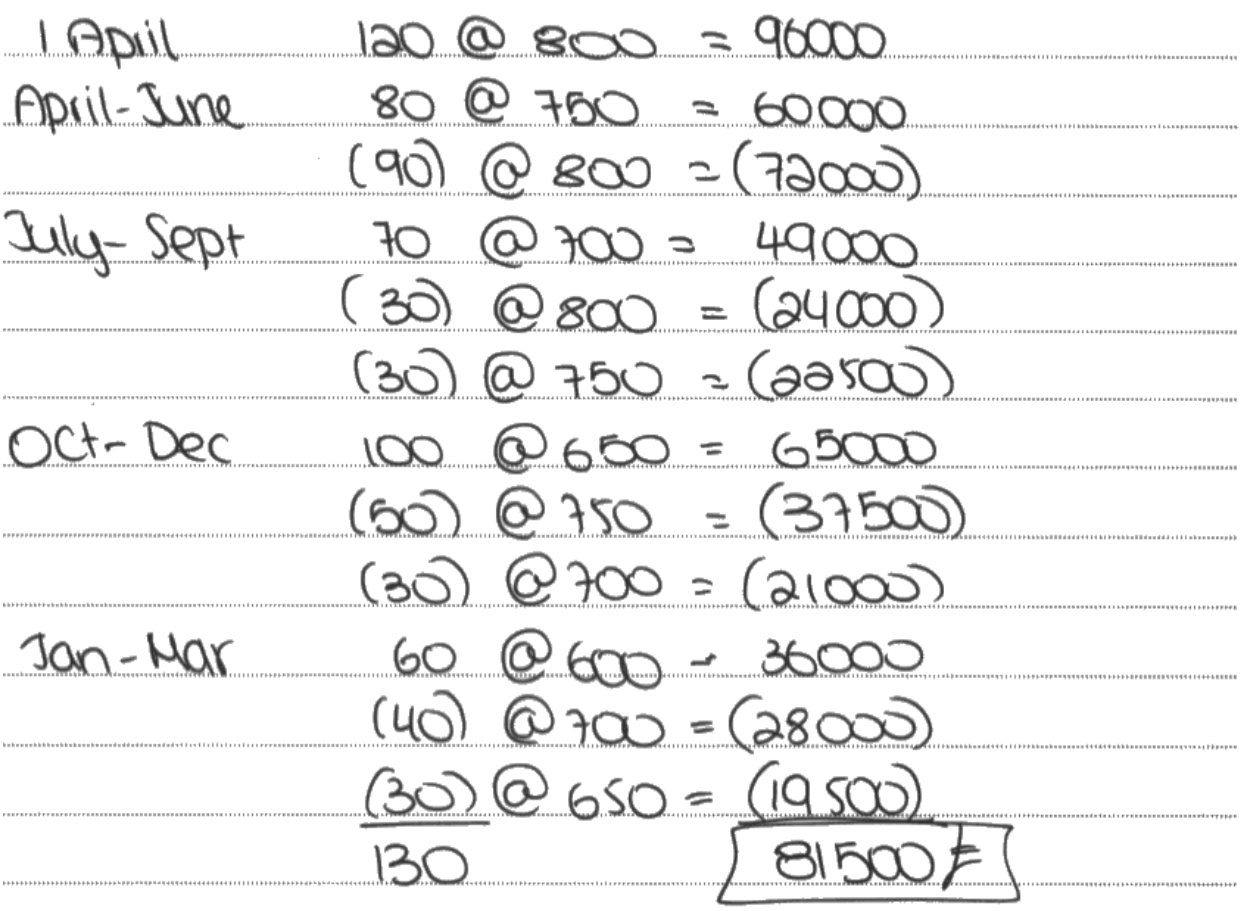
The student gave a sound argument for Last in First Out. In the negative aspects they identified that the valuation of inventory would not be close to market value, but implied that the inventory rotation would be Last In First Out. There was no conclusion so the examiners considered this answer to be at the lower end of a Level 2 answer.

Script 12 – A good all round response

Student's answer to Question 6 (a)

6 (a) Calculate the value of the inventory of raw materials at 31 March 2017 using the First In First Out (FIFO) perpetual inventory valuation method.

(4)



Examiner's comments

The student was awarded 4 marks.

The correct method had been applied and the final running balance calculated.

Student's answer to Question 6 (b)

(b) Prepare the Manufacturing Account for the year ended 31 March 2017.

(14)

Manufacturing a/c

Costs of raw material(s):		
Op. inventory	96000	
Purchases	210000	
less Cl. inventory	(81500)	224500
Direct wages:		
Manufacturing wages	93000	
Production management	84000	177000
Prime Cost		401500
Indirect Expenses:		
Indirect wages	16800	
Assembly wages (83500 - 6500)	77000	
Depreciation	45000	
Rent (37000 + 5500) × 80%	34000	
Insurance (40000 - 5000) × 80%	28000	200800
Total Production Cost		610000 602300
factory Profit		30000 37700
Transfer of goods		640000
Add WIP opening	55000	
less WIP closing	(47300)	7700

Examiner's comments

The student was awarded 10 marks.

The students answer was in good format and substantially correct. Production management salaries in prime cost, the prime cost calculation, assembly wages in overheads and the incorrect insurance calculation were the four errors which lost 1 mark each.

Student's answer to Question 6 (c)

(c) Explain how the following would be accounted for in the Statement of Financial Position at 31 March 2017:

(i) manufacturing assembly wages prepaid

(2)

In the SOFP wages prepaid will be shown in the current assets

(ii) depreciation for the year on manufacturing equipment

(2)

Depreciation would be subtracted from the cost of the equipment in the non current assets: Non current assets: cost depr NBV

€ x ( ) x -

(iii) provision for unrealised profit on manufacture.

(2)

Provision for unrealised profit would be added after the Equity & Liabilities section and it would be subtracted from the profit and loss.

Examiner's comments

The student was awarded 1 mark for (i), 2 mark for (ii) and 0 marks for (iii).

In (i) the student correctly stated that the item would be a current asset for 1 mark but did not state that it would be recorded as an 'other receivable'.
In (ii) the student identified that depreciation would be deducted from cost 1 mark, and identified that the deduction would result in the carrying value.
In (iii) 0 marks were awarded as the student identified equity and liabilities.

Student's answer to Question 6 (d)

The business is considering changing its method of valuing raw materials inventory to Last In First Out (LIFO).

(d) Evaluate the use of Last In First Out (LIFO) as a method of valuing the inventory of raw materials.

(6)

It would not be a good idea to change from FIFO to LIFO since LIFO method is not accepted by IAS ~~Sta~~ international standards and therefore ~~it~~ it ~~is~~ is not a good idea to use it. Also, the only advantage is that cost of sales would be valued at the most recent price however the value of inventory is valued at the oldest price and it's not prudent ~~it~~ to do so. FIFO method is accepted by IAS standards and it is a good method of valuing stock because it is measured at the most recent price. However costs of sales are not valued correctly.

In my opinion, the business of Bonnell Products should not change it's method to LIFO.

Examiner's comments

The student was awarded 5 marks.
The student developed good arguments for and against the proposal and arrived at a conclusion but without a rationale. Therefore the examiners were of the opinion that this was a Level 3 answer and awarded 5 marks.