



Pearson

International Advanced Level Accounting

Unit 2 WAC12

Corporate and Management Accounting

Question 6

Exemplar scripts with examiner commentaries

Introduction

This set of exemplar responses with examiner commentaries for Unit 2, Corporate and Management Accounting, has been produced to support teachers delivering and students studying the International Advanced Level Accounting specification.

This pack includes examiner commentaries and exemplar scripts.

The scripts selected exemplify performances for this component of the examination.

This document should be used alongside other IAL Accounting teaching and learning materials available on the website [here](#).

Link to May/June 2017 WAC12 Mark scheme is [here](#) on the IAL Accounting web page.

Exemplar scripts

Script 8

Source material for Question 6 is on page 13 of the source booklet.

If you answer Question 6 put a cross in the box .

- 6 (a) Prepare a Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2017, in **columnar format**, showing:
- marginal costing inventory valuation.
 - absorption costing inventory valuation.

(18)

Statement of profit or loss and other comprehensive income for the year 30/4/17

	Marginal	Absorption
Sales (32750 x 64)	2096000	2096000
(-) cost		
Direct materials (19.75 x 33000)	651750	651750
Direct labour ($\frac{45}{60} \times 8.4 \times 33000$)	207900	207900
semi-variable costs (8000 x 12) + (1.4 x 33000)	142200	142200
Fixed overheads (12762.5 x 12)	153150	153150
costs	1155000	1155000
Opening inventory	21250	27200
(-) Closing inventory	(898987.5)	(1146250)
	(277262.5)	(35950)
Profit	1218737.5	2060050

Workings →

Opening inventory	850
+ Purchased Production	33000
(-) closing inventory	<u>(1100)</u>
sales unit	32750

$$\begin{aligned}\text{Variable cost per unit} &= 19.75 + \left(\frac{45}{60} \times 8.40\right) + 1.40 \\ &= 27.45\end{aligned}$$

~~closing~~
closing inventory for marginal = $32750 \times 27.45 = 898987.5$

~~closing~~
closing inventory for absorption = $\frac{1155000}{33000} \times 32750 = 1146250$

(b) Explain to management:

(i) **two** advantages of valuing inventory using absorption costing

(4)

~~costs are~~ See costs allocated to product, which is useful for management in price fixing, etc.

Follows matching concept where revenues of product is matched against costs.

Recommended by SSAP 9.

(ii) **one** disadvantage of valuing inventory using absorption costing.

(2)

Does not follow prudence concept as closing inventory and profit figures are higher than in marginal costing

In April 2017, a potential customer is interested in buying the product, but is only prepared to offer £30 per unit.

(c) Evaluate the offer of £30 per unit and advise Hercules Baggage Limited whether this offer should be accepted.

(6)

$$30 - 27.45 = \text{£}2.55 \text{ contribution per unit}$$

For offer

Positive contribution of £2.55 per unit. ~~can be~~

more ~~at~~ customers may buy product in the future so sales will increase.

Against offer

Other customers may also demand a lower price than £64 per unit

Marginal profit decreases to £705 237.5 and absorption to £946 550. contribution decreased significantly from £36.55 to £2.55.

Conclusion

Accept offer as more potential customers may want to buy so sales will increase

(Total for Question 6 = 30 marks)

Examiner commentary

Question: 6

Part (a) scored 15 out of 18 marks available.

All entries on the Statement of Profit or Loss were correct except closing inventory. The profit figures obtained marks using the own figure rule.

Only 1 mark out of 2 was attained when calculating closing inventory for marginal costing, because £27.45 was multiplied by 32 750 units (which was the sales figure) instead of 1 100 units, the amount in inventory.

The same mistake was made when calculating the inventory for absorption costing. Although the final figure of 1 146 250 was mathematically correct, the own figure rule did not apply because the method (multiplying by the sales figure) was incorrect. The own figure rule only applies when the correct method is used.

The first two points made in (b)(i) each scored 2 marks out of 2, as a valid point was explained. A third point was made but this was not necessary. Similarly, the one point for (b)(ii) was explained for full marks.

Part (c) was answered well, with the positive contribution explained. However, it was not clear why more customers would buy the product in the future. It was not possible to calculate the change in profit, because there was no information given regarding the number of units sold at £30 per unit. There was a conclusion with a rather weak reason given as to why. The positive contribution should have been given as the reason. However, this was overall a level 3 answer and scored 5 marks.