

## Level 2 Certificate in Cost Accounting



International  
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Annual Qualification Review

2009

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## INTRODUCTION

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The annual qualification review provides qualification–specific support and guidance to centres. This information is designed to help teachers preparing to teach the subject and to help candidates preparing to take the examination.

The reviews are published in September and take into account candidate performance, demonstrated in both on demand and series examinations, over the preceding 12 months. Global pass rates are published so you can measure the performance of your centre against these.

The review identifies candidate strengths and weaknesses by syllabus topic area and provides examples of good and poorer candidate responses. It should therefore be read in conjunction with details of the structure and learning objectives contained within the syllabus for this qualification found on the website.

The review also identifies any actual or proposed changes to the syllabus or question types together with their implications.

## PASS RATE STATISTICS

The following statistics are based on the performance of candidates who took this qualification between 1 October 2008 and 30 September 2009, across both old and new specifications.

Global pass rate            59.61%

Grade distributions

Pass	15.07%
Credit	22.27%
Distinction	22.27%

## GENERAL STRENGTHS AND WEAKNESSES

### Strengths

- Majority of candidates have been prepared for this level
- Provides the basic knowledge and understanding for candidates to progress to level 3 Cost and Management Accounting

### Weaknesses

- Poor writing, examiner not always being able to decipher candidates response
- Not providing workings to show how answer is arrived at.

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## TEACHING POINTS BY SYLLABUS TOPIC

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### **Syllabus Topic 1: Basic terminology and cost classification.**

Questions set requiring explanations and descriptions were generally well answered however not many candidates provided an adequate explanation of the purpose of cost accounting or distinguish between direct and indirect material costs. It is considered good practice when answering questions in this area to provide examples as this will indicate to the examiner a good understanding of the topic

### **Syllabus Topic 2: Costing for materials.**

Questions requiring candidates to calculate material requirements from given sales and stock figures were generally answered well, however

- Candidates need to be able to distinguish between material purchases and usage

### **Syllabus Topic 3: Costing for labour.**

Questions relating to comparing different remuneration methods were not generally well answered. The following needs attention:

- candidates need to be able distinguish between overtime payment and overtime premium (overtime premium being only the addition to the normal hourly rate.)
- candidates need more practice when calculating gross pay with differing bonus payments and rates of basic and overtime pay.

### **Syllabus Topic 4: Costing for overheads.**

Questions requiring candidates to apportion overheads to production and service departments and the calculation of overhead absorption rates were generally well answered however the following points attention.

- candidates need to be able to distinguish between allocated and apportioned overheads
- know the reasons for reapportioning service cost centres overheads to production cost centres and be able to use the repeated distribution method for reapportioning.
- know the reasons for and be able to calculate any under or over-absorption of production overheads
- know the reasons and be able to complete an overhead production account. (this part of an asked question was poorly answered see model answer)

### **Syllabus Topic 5: Costing methods**

The preparation of individual process costs and the presentation of the accounts were generally poorly answered. Most candidates could prepare a process account and a profit statement, even though they may contain incorrect costs. It is however suggested the following topics within this syllabus area need more attention

- Explanation and calculation of equivalent units of production.
- Use of equivalent units to value work in progress closing stock (Level 2 questions will not contain opening work in progress)
- Calculation of process costs when a by-product is produced.
- The treatment of normal losses and scrap values.

### **Syllabus Topic 6: Marginal costing**

Questions requiring candidates to calculate break-even points, contributions and prepare profit statements were generally answered well. However an understanding of the following would benefit the candidates with descriptive type questions set within this topic area.

- Marginal costing terminology.
- Assumptions upon which cost-volume-profit analysis is based.(addition to new syllabus)

### **Syllabus Topic 7: Budgetary planning and control.**

The preparation of sales, production, material and labour budgets are generally answered well however candidate's response to questions requesting cash flow budgets indicated the following needs addressing.

- Monthly income expenditure figures not taking into consideration the credit terms.
- Not providing workings in this area (examiners not knowing where figures come from and unable to offer marks for partially correct answers.)
- Including non cash items (depreciation) in cash flow
- Not providing a Net Cash flow figure and not labelling them correctly (i.e. Not Profit)

Basic budgetary explanations and terminology need to be understood rather than just committed to memory. Descriptive type questions can be set in this area.

### **Syllabus Topic 8: Standard costing and variances**

Standard layout questions requiring calculation and interpretation of labour and material variances from given information will be assessed. From previous questions set on this topic the following points will need addressing.

- Variances should always be quoted in monetary terms.
- The correct descriptions for variances is "Favourable" or "Adverse" however "Fav" or "Adv" or "F" or "A" are acceptable as an abbreviation. The use of "+" or "-" however is not acceptable and will lose the candidates as will no description.
- Understand and distinguish between ideal and attainable standards.

### **Syllabus Topic 9:**

Questions involving the postings of entries into the ledger system from given information will be assessed together with related descriptive questions can be asked in this area.

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## FURTHER GUIDANCE

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In order to help the examiner assess the candidates work

- Candidates are requested to rule off each completed answer in their answer book and start a new page for the next question. Each answer should clearly indicate the question number being attempted
- Candidates are requested to fill in the question numbers they have attempted on the front cover of the answer book; in the order they have attempted them.

### **Changes to syllabus or question types with implications (current and/or next year)**

A revised syllabus was introduced and came into effect for examinations held after 1 January 2008.

The following changes, from the old syllabus (October 2001), have been made :

#### **Deletions**

Costing for materials (All moved to level 3)

- Costs of carrying stocks and running out of stock
- Allocated and free stock
- Principles of stock control and calculation of reorder level, stock control levels etc

Costing for labour

- Graphs of labour cost for alternative remuneration methods
- Distinction between, and measurement of, production and productivity

Costing for overheads

- Fixed asset register and depreciation methods

Costing methods

- Contract costing
- Abnormal losses and gains in process costing (level 3 only)
- Opening work-in-progress costing (level 3 only)
- Joint product cost apportionment using sales value and net sales value (level 3 only)
- Interpretation of joint product costing (moved to level 3) and the evaluation of further processing (level 3 Management Account only)

Marginal costing

- Contribution analysis for business decision-making (level 3 Management Accounting only)

Budgetary control (In level 3 only)

- Preparation of production overhead budgets
- Flexed budgets
- Reasons for cash budgets and ways to overcome difficulties

Standard costing

- Direct material price variances on purchases as well as issue (level 3 only)

## **Additions**

Costing for labour

- Costs relating to labour turnover

Marginal costing

- Assumptions upon which CVP analysis is based

Budgetary control

- Difference between forecast and budget

## EXAMPLES OF CANDIDATE RESPONSES

The examples are taken from the series 4/2008 question paper. The question is as follows.

Triple Products uses a processing system to jointly produce its three main products, Products P, Q and R. By-product B, is also produced during the process.

Information regarding the joint process for the last period is as follows:

### Input

Raw material A	22,000 kg at £2.00 per kg
Raw material B	24,000 kg at £2.50 per kg
Direct labour	6,400 hrs at £8.00 per hour
Overheads are absorbed at £12.00 per direct labour hour	

Output	Quantity	Selling price per kg
Product P	8,000 kg	£10.00
Product Q	18,000 kg	£15.00
Product R	14,000 kg	£12.50
By-product B	2,000 kg	£4.00

Process losses are disposed of at a cost of £0.50 per kg. The losses that occurred in the last period were normal.

There was no work in progress at the beginning or at the end of the period in either process stage.

Joint processing costs are apportioned on the basis of relative weight of output.

### REQUIRED

- (a) Prepare the joint process account for the last period. (12 marks)
- (b) Assuming that all production was sold, prepare a profit statement for the last period. (4 marks)
- (c) Explain the meaning of:
- (i) Joint products
  - (ii) By-products.

(4 marks)

**(Total 20 marks)**

**Candidate 1**

Part (a)

<b>Joint Process account</b>					
	<b>Kg</b>	<b>£</b>		<b>Kg</b>	<b>£</b>
Material A	22,000	44,000	Product P	8,000	40,348
Material B	24,000	60,000	Product Q	18,000	90,783
Labour		51,200	Product R	14,000	70,609
Overheads		76,800	By-prod B	2,000	10,087
			Normal loss	4,000	20,174
	<u>46,000</u>	<u>232,000</u>		<u>46,000</u>	<u>232,001</u>

Workings

Normal loss  $(22,000 + 24,000) - (8,000 + 18,000 + 14,000 + 2,000) = 4,000\text{kg}$

Disposal cost  $4,000 \times £0.50 = £2,000$

Product cost P =  $232,000 \times 8,000/46,000 = £40,348$

Product cost Q =  $232,000 \times 18,000/46,000 = £90,783$

Product cost R =  $232,000 \times 14,000/46,000 = £70,609$

Product cost B =  $232,000 \times 2,000/46,000 = £10,087$

Normal loss =  $232,000 \times 4,000/46,000 = £20,174$

This is an incorrect answer, with no accounting for disposal cost or income from by-product. Process losses are an additional cost hence should have been included on the debit side of the account.

By-product income reduces the cost and this income should have been included on the credit side of the account.

The three main product costs should have been calculated by weight proportioning the total cost less the by-product income.

A minimum amount of marks would have been awarded for the debit account entries but as the majority of marks were allocated for the credit side this answer did not achieve the pass mark.

Part (b)

Sales

Product P	£80,000
Product Q	£270,000
Product R	£175,000
Product D	£8,000
	533,000
Less costs	232,000
Profit	£301,000

This is an incorrect answer, the waste disposal cost was not taken into account. However the candidate would have been awarded the majority marks for this answer as the sales were correctly calculated and an own figure for costs was used.

Part (c)

Joint Products

Two or more products being produced in a single process

By-Product.

Extra smaller product being produced

Saw dust from cutting wood logs.

Both reasonable answers, however mention of the saleable value, joint main products having high value whereas by-product having low value, would have gained full marks for this part.

The example given for by-product indicated the candidate understanding.

**OVERALL THIS CANDIDATE WOULD NOT HAVE ACHIEVED A PASS MARK FOR THIS QUESTION**

**Candidate 2**

Part (a)

<b>Joint Process account</b>					
	<b>Kg</b>	<b>£</b>		<b>Kg</b>	<b>£</b>
Material A	22,000	44,000	Product P	8,000	44,400
Material B	24,000	60,000	Product Q	18,000	99,900
Labour		51,200	Product R	14,000	77,700
Overheads		76,800	By-prod B	2,000	8,000
			Normal loss	4,000	
	<u>46,000</u>	<u>232,000</u>	Process loss		<u>2,000</u>
				<u>46,000</u>	<u>232,000</u>

Workings

$$\text{Product P} = (232,000 - 8,000 - 2,000) \times 8,000 / (46,000 - 2,000 - 4,000) = \text{£}44,400$$

$$\text{Product P} = (232,000 - 8,000 - 2,000) \times 18,000 / (46,000 - 2,000 - 4,000) = \text{£}99,900$$

$$\text{Product P} = (232,000 - 8,000 - 2,000) \times 14,000 / (46,000 - 2,000 - 4,000) = \text{£}77,700$$

The only error in this part was to treat the disposal as income instead of a cost, the process losses should have been a credit entry. The joint cost calculations were correct own figures assuming an income from disposals. This part of the question would have received marks equivalent to a credit pass.

(b)

Sales

Product P	£80,000
Product Q	£270,000
Product R	£175,000
	<u>£525,000</u>

Less costs

Product P	£44,400
Product Q	£99,900
Product R	£77,700
	<u>£222,000</u>

$$\text{Profit} = 525,000 - 222,000 = \text{£}303,000$$

The candidate correctly adopted the approach of treating the by-product as an income that reduces costs but failed to recognise the income generated from disposals also reduces costs (candidates working)

This part of the question would have received marks equivalent to at pass

Part (c)

Joint Products

Two or more products separated in process with high sales value.

By-Product.

Produced by accident not main product but can be sold.

This answer achieved the full marks for this part.

See model answer for a fuller description.

**OVERALL THIS CANDIDATE ACHIEVED A CREDIT PASS MARK FOR THIS QUESTION**

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