

Level 3 Certificate in Cost Accounting



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INTRODUCTION

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.

Global pass rate 40.20%

Grade distributions

Pass 15.81%

Credit 16.67%

Distinction 7.72%

GENERAL STRENGTHS AND WEAKNESSES

Strengths

- An understanding of what is required by the question
- An understanding of the basic cost accounting terminology

Weaknesses

- Not prepared for the new additions to the syllabus (i.e. Just in time stock control, Idle time variance and multi-product break-even calculations.)
- Generally not prepared for this level (Ideally candidate should completed the level 2 cost accounting course before attempting level 3)
- Poor writing, examiner not always being able to decipher candidates response
- Not providing workings to show how answer is arrived at.

TEACHING POINTS BY SYLLABUS TOPIC

Syllabus Topic 1: Materials and stock control.

Questions set on stock levels and the use of EOQ formula are generally well answered however the following points within this topic area need addressing

- The order quantity calculations required to minimise total costs where quantity discounts are available (see model answers)
- Calculation and presentations of different stock levels on a stock record card.
- An understanding of the principles and implications of just-in-time approach to stock management (An addition to the new syllabus).

Syllabus Topic 2: Costing methods and systems

Questions set on activity based costing (ABC) and the preparation of marginal and absorption costing accounts generally well answered however the principles relating to process costing and accounting needs attention. However the following points need addressing.

- In process costing understand and distinguish between the different methods of product valuation i.e. the use of equivalent units, the joint product apportioning using physical units or sales methods (question will state the method required)
- Understand the accounting for by-products and waste disposal and understand that both have an effect on the cost calculations for main products (see model answers for calculation methods)
- Understand the difference between normal loss and abnormal loss/gain and understand their account entries where waste disposal costs or income are involved
- Understanding of cost drivers in ABC
- Always provide workings in these areas as examiners can award marks for correct principles even if answer is incorrect.

Syllabus Topic 3: Cost-volume profit (CVP) analysis

Question requiring candidates to calculate break-even points, margins of safety and profits from given information generally well answered however

- more attention/practice is required for the non standard question where the candidate has to apply the CVP analysis i.e. calculate a revised selling price if changes to costs and outputs are made

Charts are generally well constructed,

- however if a profit volume chart is asked for and the candidate draws a break-even chart, no marks are awarded.
- Also marks are lost for poor or incorrect chart labelling (the non identification of a contribution area lost many candidates many marks)

Multiproduct break-evens and contribution sales ratios calculations need more attention. (An addition to syllabus)

Syllabus Topic 4: Budgetary planning and control

The preparation of sale, production and material purchases budgets involving opening and closing stocks were generally well answered however the principles relating to opening and closing stock balances needs attention as many marks were lost either for not including the stock balances in the budget calculation or for adding instead of deducting these stock balances.

Cash flow budgets however need attention, the following points need addressing

- Calculations involving Debtors and Creditors can involve cash/credit payments and income together with discounts hence care should be taken with calculations.
- Always provide workings in this area as examiners can award marks for partially correct answers
- Provide Net Cash flow figures and label correctly. (i.e. Not Profit)
- Don't include depreciation as a cash expense.

The preparation of flexible budgets at a specific output from budgets set at different output levels needs attention. The use of the high/low method of identifying the cost behaviour was seldom used correctly.

Basic budgetary explanation and terminology need to be understood rather than just committed to memory. With descriptive type questions in this area provide, if possible, an example to complement the description.

Syllabus Topic 5: Standard costing and variances

Standard layout questions requiring calculation of labour, material and overhead variances from given information were generally well answered, as to were questions reversing the information, however material mix and yield variance calculations proved more difficult. Many candidates also muddled up the production efficiency, volume and capacity ratios.

The following points in this section also need addressing.

- Variances should always be quoted in monetary terms not on a time or weight basis.
- This particularly applies to idle time variances. (Addition to new syllabus)
- 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 candidate marks as will no or incorrect description.
- Particularly with reverse information questions candidates should show their workings and use all available information.
- Understand and interpret variances from given information rather than just stating global reasons for variances
- When question asks for a statement reconciling the budgeted and actual profits the statement must include both profit figures and not just a list of variances to gain the marks.

Syllabus Topic 6: Accounting systems.

Questions involving the posting of entries into the ledger system were generally well answered however the preparing or the using of reconciliation statements proved problematic. Main problem areas included

- Converting opening and closing stock valuations from financial to cost ledgers and in particular understanding whether to add or subtract the difference when preparing a reconciliation statement.

FURTHER GUIDANCE

General

Candidates should read each question carefully and pay attention to key words and phrases. Candidates should be familiar with all methods required in the syllabus. In particular candidates should identify the appropriate method and not offer an alternative method where a specific one is required.

Accuracy is important in business calculations, and this applies equally to:

- reading the question
- carrying out the calculation
- laying out the answer
- stating the answer

Candidates should take care to provide workings and not just numerical answers.

In all syllabus topics, candidates should be able to demonstrate understanding of their answer, and occasionally this is tested by questions that ask for an explanation of a particular answer or value. Candidates should be aware that when an explanation or interpretation is requested, a restatement of a previous numerical answer in words will generally receive no credit.

Candidates should:

- be aware of the difference between a restatement of an answer and an explanation
- provide an explanation or interpretation as if to a client
- be aware that the client, while understanding the principles of business, may not have received training in accountancy or business calculations
- provide explanations and interpretations that are comprehensible to such a client
- provide explanations and interpretations that are clear, succinct, and cover all important points
- provide advice if appropriate or required

An explanation may require a comparison between two or more figures, for example by stating which of two or more options

- earns the higher interest, or equivalent financial gain
- is the more profitable method of production
- is expected to be the better investment
- is the more likely to be accurate

An explanation may require a comparison between a calculated figure and a requirement or guideline, for example:

- comparing a calculated acid test ratio or current ratio with a guideline figure
- comparing a calculated internal rate of return with a required rate of return
- interpreting a figure for net present value as a comparison between the estimated outflow and inflow and a required rate of return

Required answers may not be limited to these considerations.

Additional points

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.

EXAMPLES OF CANDIDATE RESPONSES

The examples are taken from the series 3/2009 question paper. The question is as follows.

QUESTION 1

A company uses three different raw materials (RM1, RM2 & RM3) which it obtains from an outside supplier. The following information is provided relating to each raw material:

Raw Material RM1

Balance in stores is currently 250 kg
Stock on order 1000 kg
Allocated stock is 350 kg

Raw Material RM2

Daily usage varies between 240 and 360 kg
Lead time for delivery varies between 15 and 21 days.
Order quantity is 10,000 kg

Raw Material RM3

Order quantity 1,000 kg
Purchase price £2.00 per kg
Monthly usage 1,500 kg
Safety (buffer) stock 1,000 kg
Ordering costs £250 per order
Stock holding costs are 20% of the average stockholding per annum.
The supplier has offered a discount off the purchase price if the order quantity is increased.
Details are as follows:

Order Quantity	Discount
1,000 kg	-
1,500 kg	5%
3,000 kg	7.5%

REQUIRED

- (a) For raw material RM1 calculate the free stock currently available. (2 marks)
- (b) For raw material RM2 calculate:
- (i) the reorder level
 - (ii) the minimum and maximum stock control levels. (6 marks)
- (c) For raw material RM3 determine the order quantity that would minimise the total annual costs. (8 marks)

QUESTION 1 CONTINUED

(d) Briefly explain the meaning of:

- (i) Re-order level
- (ii) Allocated stock
- (iii) Free stock.

(4 marks)

(Total 20 marks)

Candidate 1

(a) (i)

Material usage variance = 600F = 6 (650 x 4 – AU)

100 = 2600 - AU

2,700 = AU

Material price variance = 100A = (2,700 x 6) – AC

100 = 16,200 – AC

Actual cost = £16,300

Incorrect answer to both parts.

The actual usage was incorrectly calculated (the 100 should have been deducted not added) but this own figure was correctly applied in final calculation. Hence marks equivalent to a pass were awarded.

(a) ii)

Labour efficiency variance = 1,000F = 10 (650 x 2 – AH)

100 = 1,300 - AH

AH = 1,200

Labour rate variance = 250A = (1,200 x 10) – AC

250 = 12,000 – AC

12,250 = AC

Actual labour cost £12,250

Correct answer to hours worked but incorrect answer to labour cost.

Idle time variance was not taken into consideration hence incorrect cost calculation and marks were lost for not quoting the actual time lost due to machine breakdown.

(a) (iii)

Fixed o/h expenditure variance = 12 x (650 x 2) – budgeted o/h

1,500A = 15,600 – budgeted o/h

Budgeted o/h = 14,100

Actual o/h = Budgeted o/h + expenditure variance

Actual o/h = 14,100 + 1,500

Actual overhead = £15,600

Incorrect answer to budgeted and actual overheads

Candidate used incorrect formula for calculating budgeted overheads but this own figure was used correctly applied in final calculation. Hence marks equivalent to a pass were awarded

(a) (iv)

Production units = Budgeted overheads / absorption rate

Production units = 14,100 / 24

Production units = 588 units

Incorrect answer.

Candidate correctly applied an own figure calculated in a (iii) hence full marks were awarded for this part.

Although part (a) was generally well laid out the examiner would have preferred to see the formulas presented in words and costs and times spelled out rather than just letters. This helps the examiner to follow the candidates method and award own figure marks were appropriate

(b)

Material variance 'Price per unit have increased, Amount used decreased

Labour variance Rate of pay increased, Time taken quicker

Although the answer is correct it is too general and not awarded any marks for this part. The question asked for reasons and examiner was looking for better quality material and motivation to be included in answer

OVERALL THIS CANDIDATE WAS AWARDED A PASS MARK FOR THIS QUESTION

Candidate 2

(a) (i)

Material usage variance

$$600F = 6 (650 \times 4 - \text{Actual use})$$

$$100 = 2600 - \text{Actual use}$$

$$\text{Actual use} = 2,600 - 100 = \text{£}2,500$$

Material price variance

$$100A = (2,500 \times 6) - \text{Actual cost}$$

$$-100 = 15,000 - \text{Actual cost}$$

$$15,100 = \text{AC}$$

Actual cost £15,100

Correct answer to both parts.

(a) (ii)

Labour efficiency variance

$$1,000F = 10 (650 \times 2 - \text{Actual hours worked})$$

$$100 = 1,300 - \text{Actual hours}$$

$$\text{Actual hours worked} = 1,200 \text{ hrs}$$

Idle time 500 hrs

Labour rate variance = 250A

$$\text{Actual hours} = \text{actual} + \text{idle time} = 1,200 + 500 = 1,700 \text{ hours}$$

$$\text{Labour rate variance } 250A = 1,700 \times \text{£}10 - \text{Labour cost}$$

$$-250 = 17,000 - \text{Labour cost}$$

Actual labour cost £17,250

Correct answer to hours worked but incorrect answer to labour cost.

Idle time variance was not converted into hours correctly hence incorrect cost calculation.

However own figure marks were awarded for correct application of formula.

(a) (iii)

Fixed o/h expenditure variance

$$1,200F = 12 \times (650 \times 2) - \text{budgeted overheads}$$

$$1,200 = 15,600 - \text{budgeted o/h}$$

$$\text{Budgeted o/h} = 14,400$$

Expenditure variance (1,500A) = Actual overhead – Budgeted overhead

$$\text{Actual overhead} = 14,400 - 1,500$$

Actual overhead = £12,900

Correct answer to budgeted overhead incorrect answer to actual overheads

Candidate applied the correct formula but deducted the expenditure variance instead of adding it when calculating the actual overhead no marks were awarded for this section however marks were awarded for the correct calculation of the budgeted overhead.

(a) (iv)

Production units = Budgeted overheads / absorption rate

$$\text{Production units} = 14,400 / 12$$

$$\text{Production units} = 1,200 \text{ units}$$

Incorrect answer.

Candidate correctly applied the formula but did not calculate the absorption rate correctly. No marks were awarded for this part.

(b)

Material variance Purchased better quality material and used less.

Labour variance Increased rate of pay which motivated workers.

Both these answers would need expanding for full marks. (I.e. with material usage, need a reason for using less material and with labour variance what part did motivation play) See model answer for fuller reasons.

OVERALL THIS CANDIDATE WAS AWARDED A CREDIT PASS MARK FOR THIS QUESTION

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