

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, in this case, take into account candidate performance, demonstrated in the Series 3 2011 examination. 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 2010 and 31 August 2011.

Global pass rate 42.77%

Grade distributions

Pass	36.37%
Credit	37.07%
Distinction	26.56%

GENERAL STRENGTHS AND WEAKNESSES

After analysing the results of the cost accounting papers at level 3, it would appear that candidates basically fall into the two following categories.

- (i) Those who have an understanding of the subject and have prepared for the examination
- (ii) Those who have no understanding of the subject and have not prepared for the examination

The following analysis relates to candidates in category (i). It is suggested that the candidates who fall into category (ii) and still wish to obtain a cost accounting qualification would benefit from a level 2 course before attempting level 3 again.

STRENGTHS

- An understanding of what is required by the question
- An understanding of the basic cost accounting terminology
- The ability to answer standard questions with inherent likeness to previously set questions.
- This indicates the candidates have studied previously published model answers

WEAKNESSES

- Not prepared for the new additions to the syllabus (i.e. Just in time stock control and multi-product break-even calculations or the preparation of contribution break-even charts)
- 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 calculating different stock control levels were generally well answered however the detailed stock record card and the explanations of the levels included could do with more revision.

The following points within this topic area need addressing

- When calculating the average stock (required for holding costs) the minimum stock control level should be added
- Understand and itemise free stock in a record card. (This stock level includes any stock that is on order but not yet delivered)
- Candidates need to be able to explain the meaning of the different stock levels not just quote the formula for calculation
- Candidates need to be aware that 'Just in time' principles of stock control involves more than just keeping stock levels to a minimum.

Syllabus Topic 2: Costing methods and systems

Preparation of process accounts using equivalent unit valuation and joint processing, using the net sales method, were generally poorly answered. However the physical quantity method of apportioning costs together with the calculation of disposal and by-products were answered well.

The following points within this topic area 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

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

Questions set on single product contribution to sales ratio were generally well answered however many candidates failed to handle the weighted C/S ratio for a mix of products. This was a new addition to the syllabus and needs to be taught or revised correctly.

The following points within this topic area need addressing

- More attention/practice is required for non standard questions where candidates have to apply the CVP analysis i.e. calculate revised sales level for a given changes in profits and costs.
- Candidates need to be aware they are expected to be able to know the difference between and construct the following charts (i) conventional break-even (ii) contribution break-even and (iii) profit-volume. Where an incorrect chart is drawn marks cannot be awarded.
- More attention is required when constructing charts. Incorrect scales, poor labelling and identification of specific points (target profits and contribution areas) were where candidates lost marks

Syllabus Topic 4: Budgetary planning and control

Questions set on standard cash budgets were on average generally well answered, however candidates need to be aware of the correct layout, which includes an additional set of figures for net cash flow.

The following points within this topic area also need addressing.

- When determining the value of purchases which have a closing stock constraint figure, adjustments need to be made to arrive at the correct purchases figure
- Candidates need to be aware labour costs can include piece work, with a bonus, and that separate calculations for both these costs have to be made as payment is usually spread over two payment periods.
- Depreciation although part of the overhead, is not cash budget outlay.
- Many candidates learned a number of the definitions required within this topic, but then got confused and did not provide the correct definition for the question asked.(i.e definitions of fixed and flexible budgets were provided for cash budget advantages.)

Syllabus Topic 5: Standard costing and variances

Standard questions requiring calculation of budgeted and actual gross profits, labour, material and overhead variance were generally well answered, although the overhead sub variances of volume capacity and volume efficiency and their reconciliation did cause problems.

The following points within this topic area also need addressing

- Variances should always be quoted in monetary terms not on a time or weight basis.
- The correct description for variances is either "Favourable" or "Adverse" however "Fav" or "Adv" or "F" or "A" is acceptable as an abbreviation. The use of "+" or "-" however is not acceptable and will lose candidates marks.

Syllabus Topic 6: Accounting systems.

Posting entries into a ledger system were generally correctly achieved, however common errors occurred in the calculation of the opening stock figures.

The profit reconciliation statement between the Financial and Cost accounts were generally well answered, however some candidates completely reversed the addition and subtraction of the stock differences. This error resulted in a major loss of marks.

FURTHER GUIDANCE

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.
- Candidates should always show their workings. Credit can often be given for own figures providing workings are shown.

EXAMPLES OF CANDIDATE RESPONSES

QUESTION 1

A company, which manufactures two products for the food industry (Product Aye and Product Bee), produces its budgets on a weekly basis. Each product contains three ingredients (ingredient P, Q and R) which are mixed together in the manufacturing process. The finished products contain the following ingredient proportions by weight:

Product	Ingredient P	Ingredient Q	Ingredient R
Aye	30%	30%	40%
Bee	20%	30%	50%

Products are produced in batch sizes of 50 units and the finished product batch weights are expected to be:

Product Aye	6kg
Product Bee	9kg

During the manufacturing process ingredient P is subject to a 10% weight loss, ingredient Q subject to a 40% weight loss and ingredient R suffers no loss.

The following orders have been received for week 25.

Products	Mon	Tues	Weds	Thurs	Fri
Aye (units)	600	800	900	500	400
Bee (units)	300	400	500	300	200

Ingredient P is ordered weekly in advance for a daily JIT delivery on the morning of the day of manufacture. No stock of this ingredient is kept.

Ingredient Q is ordered weekly in advance. The complete week's order being delivered on the Monday morning. The company keeps a stock level, at the end of the week, equivalent to 20% of the week's consumption. Stock level at the end of week 24 is 40 kg.

Ingredient R ordering is based on a reorder level of 600kg and a reorder quantity of 500kg. A delivery lead time of one week is expected. Stock level at the end of week 24 is 1,050kg.

REQUIRED

(a) Determine, for week 25:

- (i) the purchase order quantities for Ingredients P, Q and R
- (ii) the daily delivery schedule for Ingredient P.

(16 marks)

(b) Briefly explain the principles of a just-in-time approach to stock management.

(4 marks)

(Total 20 marks)

Answer A – High Response

(a)(i) Material Purchase Budget	Ingredient		
	P	Q	R
Product Aye (3,200 units x 6kg x %)/ 50 units	115.2	115.2	153.6
Product Bee (1,700 units x 9kg x %)/ 50 units	<u>61.2</u>	<u>91.8</u>	<u>153.0</u>
Material used in product (kg) (90%)	176.4	207	306.6
Waste (kg) (10%)	<u>19.6</u>	<u>138</u>	<u>0</u>
Total material used in production (kg)	196.0	345	306.6
Closing stock of raw material (kg)	0	69	743.4
Opening stock of raw material (kg)	0	40	1,050
Material purchase (kg)	196	374	0

Examiner feedback

A correct alternative method to the model answer. However I would have liked to see more explanation like -add closing stock and deduct opening stock, together with an explanation of why ingredient R purchase is zero.

Also, although correct figures were show, I would have liked to see where the 3,200 units for Aye and 1,700 units for Bee came from (always better to show working. In addition would liked to have seen a reference to week 25

(a)(ii) Daily schedule for Ingredient P

	Mon	Tues	Weds	Thurs	Fri
Material usage (kg)	36	48	56	32	24
[(daily sales/weekly sales) x 196]	<u>900 x 196</u>	<u>1200 x 196</u>	<u>1400 x 196</u>	<u>800 x 196</u>	<u>600 x 196</u>
	9900	9900	9900	9900	9900

Examiner feedback

Again a correct answer and alternative method to the model answer, however no reference to week 25 was made.

- (b) The principles of Just in time approach to stock management means stock kept a little in store and we make order when customer buy.

Examiner feedback

Not the most fluent of answers but it is possible to recognise the candidate does have knowledge of the principles involved. However the main principle was missed i.e. Stocks are delivered just in time as they are needed for production.

Overall this response would have generated a distinction grade

Answer B – Medium Response

(a) (i) Budgeted production units

Product Aye = $(600 + 800 + 900 + 500 + 400) = 3200$ units

Product Bee = $(300 + 400 + 500 + 300 + 200) = 1700$ units

In kgs

Product Aye = $3200 \times 6\text{kg} = 19200\text{kgs}$

Product Bee = $1700 \times 9\text{kg} = 15300\text{kgs}$

Product	Total	Ingredient		
		P	Q	R
Aye (kg)	19200	5760	5760	7680
Bee (kg)	15300	<u>3060</u>	<u>4590</u>	<u>7650</u>
		<u>8820</u>	<u>10350</u>	<u>15330</u>

Production (consumption) Usage

Ingredient P $(8820\text{kg} @ 100/90) = 9,800\text{kg}$

Ingredient Q $(10350\text{kg} @ 100/60) = 17,250\text{kg}$

Ingredient R $= 15,330\text{kg}$

Budgeted purchase order quantity for week 25

	Ingredient		
	P	Q	R
Budgeted material usage	9,800	17,250	15,330
Add budgeted closing stock	<u>0</u>	<u>3,450</u>	<u>600</u>
	9,800	20,700	15,930
Less budgeted opening stock	<u>0</u>	<u>40</u>	<u>1,050</u>
Purchase order quantity	<u>9,800</u>	<u>20,660</u>	<u>14,880</u>

Examiner feedback

Although a realistic approach to the answer the candidate did not show initial working or explanations of the initial ingredient calculation. The three given answers are incorrect as the candidate did not take into consideration that the 6kg and the 9kg were batch weights and not individual unit weights. However the candidate did correctly increase the usage to cater for waist. (Own figures would have been awarded as working was shown).

The purchase order quantities for P and Q are correctly calculated according to the candidates own figures and credit would have been given. However no stock should have been ordered for R as the stock in hand exceeds the reorder level.

(a) (ii) Daily delivery schedule for ingredient P

	Mon	Tues	Weds	Thurs	Fri
Product Aye (6 kg)	3600	4800	5400	3300	2400
Product Bee (9 kg)	<u>2700</u>	<u>3600</u>	<u>4500</u>	<u>2700</u>	<u>1800</u>
	<u>6300</u>	<u>8400</u>	<u>9900</u>	<u>6000</u>	<u>4200</u>

Mon	Product Aye (3600 @ 30%) x 100/90 =	1200
	Product Bee (2700 @ 20%) x 100/90 =	<u>600</u>
		<u>1800</u>

Tues	Product Aye (4300 @ 30%) x 100/90 =	1600
	Product Bee (3600 @ 20%) x 100/90 =	<u>800</u>
		<u>2400</u>

Weds	Product Aye (8400 @ 30%) x 100/90 =	1800
	Product Bee (4500 @ 20%) x 100/90 =	<u>1000</u>
		<u>2800</u>

Thurs	Product Aye (3000 @ 30%) x 100/90 =	1000
	Product Bee (2700 @ 20%) x 100/90 =	<u>600</u>
		<u>1600</u>

Fri	Product Aye (2400 @ 30%) x 100/90 =	800
	Product Bee (1800 @ 20%) x 100/90 =	<u>400</u>
		<u>1200</u>

Daily delivery schedual for ingredient P

Mon	Tues	Weds	Thurs	Fri
1800kg	2400kg	2800kg	1600kg	1200kg

Examiner feedback

A solution that reflects the candidates own figures. Credit would have been given for this answer

- (b) For the Just in time delivery we must have a delivery schedule for our products. If it is perishable food in supermarket the just in time delivery will reduce the stock holding and handling and give extra capacity. Could cause problem if supplier is not reliable on delivery.

Examiner feedback

Again the candidate has some knowledge although it needs to be expressed more clearly. Overall this response would have just generated a credit grade

Answer C – Low Response

	Ingredients		
	P	Q	R
Product Aye + Bee usage	1430	2058	2130
(-) Opening stock		40	1050
(+) closing stocks (20% x 200)		<u>40</u>	<u>1000</u>
	<u>1430</u>	<u>2058</u>	<u>2180</u>

Ingredients Product Aye

$$P = 3200 \times 30\% = 960$$

$$Q = 3200 \times 30\% = 960$$

$$R = 3200 \times 40\% = 1280$$

Ingredients Product Bee

$$P = 1700 \times 20\% = 340$$

$$Q = 1700 \times 30\% = 510$$

$$R = 1700 \times 50\% = 850$$

$$\text{Ingredient P} = (960 + 340) \times 110\% = 1430$$

$$\text{Ingredient Q} = (960 + 510) \times 140\% = 2058$$

$$\text{Ingredient R} = (1289 + 850) = 2130$$

Examiner feedback

No explanation of tables or figures provided hence the answer is hard to follow. However it would appear that the candidate's calculations for ingredients did not take into consideration the batch size or the batch weight and incorrectly added a percentage for the weight loss. Not sure where the candidates closing stock figures came from and no figures were provided for the purchasing requirement.

No delivery schedule was provided for week 25

(b) The principles of just in time.

There is no closing stock for the period. Therefore we can find many supplies.

Do not occur stock shortage

Very simplistic explanation requires more detail at this level

An overall poor response to this question which would not have generated enough marks for the pass grade

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