

Level 3 Certificate in Cost Accounting



International
Qualifications from EDI

Annual Qualification Review

2010

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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 2009 and 1 August 2010.

Global pass rate 37.45%

Grade distributions

Pass 37.09%

Credit 37.03%

Distinction 25.80%

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 where adjustments had to be made for opening and closing stock levels, the use of EOQ formula and the writing up of stock record cards were 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)
- Difference between stock holding and stock out costs
- Weight of initial material required when waste or rejects are involved.

Syllabus Topic 2: Costing methods and systems

Questions set on the preparation of marginal and absorption costing accounts, and the preparation of process accounts using equivalent unit valuation were generally poorly answered, however, the preparation of process accounts using joint processing costs were generally well answered. However, the following points need addressing.

- Understand, apply and be able to calculate closing stock when using both absorption and marginal costing.
- 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

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 sales level for a given profit if changes are made to both variable and fixed costs
- 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)
- Assumptions in cost volume analysis
- Candidates answers have to be more precise to gain marks
- Must state variable **cost per unit** is constant not just variable cost and must state **total** fixed costs are constant not just fixed costs.

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 where lead times for purchasing and labour wages were included many candidates opted for the incorrect month when formulating the budgets

Cash flow budgets however need the following attention.

- Calculations involving Debtors and Creditors can involve cash/credit payments and income together with discounts hence care should be taken with calculations
- Selecting the correct month for cash income/payment, not necessarily the same as the budget period
- 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.

Syllabus Topic 5: Standard costing and variances

Standard layout questions requiring calculation of gross profits and labour, material and overhead variances, from given information, were generally well answered, however many candidates did not deduct idle time when calculating labour efficiency variance. The material mix and yield variance calculations proved more difficult with many candidates not even attempting the description. The term standard "standard hour" needs understanding; many non related answers were given for this question. 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.
- 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.

Syllabus Topic 6: Accounting systems.

The question involving the posting of entries into the stock, production overhead and work-in-progress ledger system were generally poorly answered, the overhead and work-in-progress account proving the more difficult. Candidates were very unsure where to post the variances.

FURTHER GUIDANCE

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 2

Models Ltd manufactures a single product for the Toy Industry. The product is manufactured in the Production department and individually packed into a box in the Dispatch department. The company has provided the following budgeted information:

Direct material (per unit)	£20
Direct production labour (per unit at £10.00 per hour)	2 hours
Packing boxes	£2.00 each
Dispatch dept labour (per box packed) at £8.00 per hour	0.10 hours

Variable overheads are absorbed at £4.00 per labour hour in both departments.

Fixed overhead absorption (if absorption costing is applied:- based on planned production quantities)

Production dept	Absorbed at a rate of £2.50 per labour hour
Dispatch dept	Absorbed at a rate of £2.00 per unit packed

Unit selling price £65.00

Planned production and sales for the next period are as follows.

Production units manufactured	2,500
Production units packed	2,350
Sale of packed units	2,300

There is no stock of packed or unpacked units, direct material or packing boxes at the beginning of the period.

REQUIRED

Produce a single budgeted manufacturing and trading account, which includes closing stock figures, for the three month period ending September using:

- (a) Absorption Costing (9 marks)
- (b) Marginal Costing (6 marks)
- (c) Explain and reconcile the difference between the profits calculated in part (a) and (b) (5 marks)

(Total 20 marks)

Candidate1- Fail Grade

(a) Absorption Costing

		£	£
Sales	(2,300 x £65)		149,500
Direct material	(2,500 x £20)	50,000	
Direct labour	(2,500 x 2 x £10)	50,000	
Material (packing boxes)	(2,350 x £2)	4,700	
Labour (dispatch dept)	(2,350 x 0.1 x £8)	1,880	
Variable overhead(production)	(2,500 x £4 x 2)	20,000	
Fixed overhead(production)	(2,500 x £2.50 x 2)	12,500	
Fixed overhead(dispatch)	(2,350 x £2 x 0.1)	<u>470</u>	
		139,550	
Less closing stock	(200 x £56)	<u>11,200</u>	
			<u>128,350</u>
Net profit			21,150

Workings:	£
Direct material	20.00
Direct labour	20.00
Packing boxes	2.00
Dispatch labour	0.80
Variable o/h	<u>8.00</u>
	50.80
Fixed o/h (prod)	5.00
Fixed o/h (desp)	<u>0.20</u>
	<u>56.00</u>

(b) Marginal Costing

		£	£
Sales			149,500
Direct material		50,000	
Direct labour		50,000	
Material (packing boxes)		4,700	
Labour (dispatch dept)		1,880	
Variable overhead(production)		20,000	
Fixed overhead (production)		12,500	
Fixed overhead (dispatch)		<u>470</u>	
		139,550	
Less closing stock (200 x £50.80)		<u>10,160</u>	
			<u>129,390</u>
			20,110

(c)

There is a difference of £134 from absorption and marginal costing due to difference in closing stock

i. Feedback on Part A

Initial costs:

- Variable o/h (despatch) not listed
- Fixed o/h (despatch) incorrectly worked (candidate used hours instead of units)
- Closing stock:
- Unit absorption costs incorrectly combined both packed and unpacked products
- No attempt was made by the candidate to separate the packed or unpacked product
- Trading accounts prepare gross profits not net as stated by candidate.

Part (a) was considered to be a poor response and did not achieve enough marks for a pass grade.

ii. Feedback on Part B

Same basic errors carried down from absorption account. Incorrect layout total contribution not calculated .

iii. Feedback on Part C

Although the candidate did understand the difference in profits was due to the closing stock difference, the explanation did not fully explain the difference and no attempt was made at a reconciliation statement.

Part (c) was also considered to be a poor response and did not achieve enough marks for a pass grade

Candidate 2- Credit Grade

(a) Absorption Costing

		£	£	£
Sales	(2,300 x £65)			149,500
Direct material	(2,500 x £20)		50,000	
Direct labour	(2,500 x 2 x £10)		50,000	
Material (packing boxes)	(2,350 x £2)		4,700	
Labour (dispatch dept)	(2,350 x 0.1 x £8)		1,880	
Variable overhead(production)	(2,500 x £4 x 2)		20,000	
Variable overhead(dispatch)	(2,350 x £4 x 0.1)		940	
Fixed overhead(production)	(2,500 x £2.50 x 2)		12,500	
Fixed overhead(dispatch)	(2,350 x £2)		<u>470</u>	
			140,490	
Less closing stock				
Unpacked products	(150 x 53)	7,950		
Packed products)	(50 x 55.8)	<u>2,790</u>		
			<u>10,740</u>	
				<u>129,750</u>
Gross profit				<u>19,750</u>

Workings:

	£
Unit absorption cost unpacked product	
Direct material	20.0
Direct labour	20.0
Variable o/h (production)	8.0
Fixed o/h (production)	<u>5.0</u>
Unit cost unpacked product	53.0
Material (packing boxes)	2.0
Labour (dispatch dept)	<u>0.8</u>
Unit cost packed product	<u>55.8</u>

(b) Marginal Costing

		£	£	£
Sales				149,500
Direct material			50,000	
Direct labour			50,000	
Material (packing boxes)			4,700	
Labour (dispatch dept)			1,880	
Variable overhead(production)			20,000	
Variable overhead(dispatch)			<u>940</u>	
Contribution				127,520
Less closing stock				
Unpacked products	(150 x 48)	7,200		
Packed products)	(50 x 50.8)	<u>2,790</u>		
			<u>9,990</u>	
				<u>117,530</u>

	£	£	£
<i>less</i>			<u>31,970</u>
<i>Fixed overhead(production)</i>		12,500	
<i>Fixed overhead(dispatch)</i>		<u>470</u>	
			<u>12,970</u>
<i>Gross Profit</i>			<u>19,000</u>

Workings

Unit variable cost unpacked product

<i>Direct material</i>	20
<i>Direct labour</i>	20
<i>Variable o/h (production)</i>	<u>8</u>
<i>Unit cost</i>	<u>£48.00</u>

Unit variable cost packed product

<i>Unit cost of unpacked product</i>	48.0
<i>Material (packing boxes)</i>	2.0
<i>Labour (dispatch dept)</i>	<u>0.8</u>
	<u>£50.80</u>

(c) *Reconciliation of profits*

<i>Marginal Profit</i>	19,750
<i>Less absorption closing stock</i>	10,740
<i>Add marginal closing stock</i>	<u>9,990</u>
<i>Absorption Profit</i>	<u>19,000</u>

Profit difference due to value of closing stock.

i. Feedback on Part A

- Incorrect working for fixed dispatch overhead.
- Correct working for unpacked product unit cost but candidate did not take into consideration the overheads in dispatch dept when working the unit cost for the packed product.
- Candidate correctly listed both closing stocks but account layout did not distinguish between manufacturing cost and cost of sales.

Part (a) was considered a reasonable attempt and would have achieved enough marks for the pass grade

ii. Feedback on Part B

- Correct total variable cost figure but not highlighted in account
- Incorrect working for unpacked product unit cost the cost did not include the variable overheads
- Incorrect working for dispatch dept fixed overheads.

Although the account contained the above errors it was considered a good attempt and would have achieved enough marks for the credit grade.

iii. Feedback on Part C

Although not considered to be the recognised method of reconciliation and the explanation required more detail it was considered the candidate had understood the reconciliation concept and would have received credit plus marks for this answer

Candidate 3-Distinction Grade

(a) Absorption Costing

		£	£
Sales	(2,300 x £65)		149,500
Direct material	(2,500 x £20)	50,000	
Direct labour	(2,500 x 2 x £10)	50,000	
Material (packing boxes)	(2,350 x £2)	4,700	
Labour (dispatch dept)	(2,350 x 0.1 x £8)	1,880	
Variable overhead(production)	(2,500 x £4 x 2)	20,000	
Variable overhead(dispatch)	(2,350 x £4 x 0.1)	940	
Fixed overhead(production)	(2,500 x £2.50 x 2)	12,500	
Fixed overhead(dispatch)	(2,350x£2)	<u>4,700</u>	
		144,720	
Less closing stock of unpacked products)		7,950	
Less closing stock (packed products)		<u>2,910</u>	
			<u>133,860</u>
Gross profit			<u>15,640</u>

(b) Marginal Costing

		£	£
Sales			149,500
Direct material		50,000	
Direct labour		50,000	
Material (packing boxes)		4,700	
Labour (dispatch dept)		1,880	
Variable overhead(production)		20,000	
Variable overhead(dispatch)		940	
		<u>127,520</u>	
Less closing stock (unpacked products)		7,200	
Less closing stock (packed products)		<u>2,560</u>	
			<u>117,760</u>
Contribution			31,740
less			
Fixed overhead(production)		12,500	
Fixed overhead(dispatch)		<u>4,700</u>	
			<u>17,200</u>
Gross Profit			<u>14,540</u>

(c)	<i>Reconciliation</i>	£
	<i>Absorption profit</i>	15,640
	<i>Less absorption closing stocks</i>	
	<i>unpacked</i>	7,950
	<i>packed</i>	<u>2,910</u>
		4,780
	<i>Add marginal closing stocks</i>	
	<i>unpacked</i>	7,200
	<i>packed</i>	<u>2,560</u>
	<i>Marginal profit</i>	14,540

Difference in profit due to difference in closing stocks

Feedback

- The candidate account figures in part (a) and (b) were correct but the layout did not distinguish manufacturing costs and cost of sales.
- A correct reconciliation statement but not considered to be the recognised layout.
- The explanation required more detail.

Overall this answer would have gained enough marks for a distinction grade. All these comments and the candidate's answers should be read in conjunction with the published model answers

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