

**Pearson LCCI
Level 3 Cost Accounting
(ASE3017)**

**Annual Qualification
Review
2013/2014**

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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 sat this qualification between 1 September 2013 and 31 August 2014.

Global pass rate 42.5%*

Grade distributions of candidates achieving pass or higher

Pass 15.6%

Merit 16.1%

Distinction 10.8%

* This figure excludes absences on the day of the exam

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

- Generally not prepared for this level
- Inability to deal with and work logically through information given in question
- 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 calculation of material cost (series4/13) were generally answered well although a common error included the calculation of weight loss due to manufacturing and rejection. The product rejection rate was states at 10% and some candidates incorrectly added 10% to establish the required production instead of dividing by 90%.

Descriptions relating to the Just in Time approach to stock management (series2/14) were not so well answered. Candidates need to be aware that 'Just in time' principles of stock control, involves more than just keeping stock levels to a minimum.

Stock record card presentation (series3/14) was generally handled well although a number of candidate's ether did not calculate, or miscalculated, the opening free stock. The common error with this calculation was not to include the stock on order.

Calculation of stock levels (series3/14) was reasonably well answered although a common error was the missing out of the opening stock when calculating the average holding costs.

Descriptions relating to stock terms (series3/14) were poorly answered. Candidates need to understand these stock level terms and not just 'rope' learn as in many cases only part answers were provided.

Some incorrect answers provided:

- Reorder level – The level of stock in the stores. (no mention of reordering)
- Allocated stock – Stock that has been allocated for use (This just repeats the question).
- Free stock – Stock that is available for reservation or allocation. (Only a part answer see model answer).

Syllabus Topic 2: Costing methods and systems

Questions set on the preparation of trading accounts, in both marginal and absorption costing format, were not generally answered well (series2/14). The common errors being the calculation and valuation of the closing stock figures and the calculation of fixed overheads and layout of the marginal costing account.

The following points within this topic area question need addressing:

- The accounts should indicate the different sales and production levels and therefore should include closing stock figures.
- The accounts need to distinguish between the two different closing stocks (i.e. packed and unpacked stock) and not combine them together as one stock figure.
- Where different absorption rates apply to different departments different calculations are necessary. With this question the Machine and Finishing overheads are based on number of units manufactured whereas the dispatch department overhead is based on the number of products packed.
- With absorption costing the stock valuation includes a portion of the fixed costs whereas in the marginal costing method it is not.
- Marginal costing format should include a figure for variable cost of production and contribution.
- Stock valuation figures only include the process account.

Question (series3/14) required the joint costs to be calculated based on the net sales method. The account itself was reasonably well answered although many of the candidates profit statement did not reflect the net sales process method. The following points within this topic area question need addressing:

- Understand the different methods of apportioning joint cost. Many candidates incorrectly used the total sales instead of the net sales method. When calculating any additional costs the overheads must be included
- The income received by the sale of by-products is used to reduce the overall costs.
- A joint product process profit statement should only include the costs and income from its main products, the by-product income being used to reduce the process costs. The statement should not contain the labour, material or the overhead costs as these would have been converted into joint costs. The statement provides a profit figure for the main products only.

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

Candidates seem well prepared for the calculation of contribution sales ratios, break even points, margins of safety and related profits (all three series) and performed the tasks well. However a minority of candidates, when dealing with multi product companies (series4/13&3/14) incorrectly added the individual contribution sales ratios to calculate the overall and again incorrectly tried to calculate the individual break even points for each product. With multi product companies only the overall break even sales revenue can be calculated however a few candidates made the correct calculation but incorrectly labelled the answer

as unit's. General questions relating CVP analysis were all reasonably well answered.

More attention to detail was required when constructing the profit volume chart (series2/14). Many candidates used incorrect scales, with incorrect or no labelling to identify the specific points. The identification of the two salary structures and the level of sales where the change would be worthwhile was where candidates missed out on marks. A few candidates opted not to use the graph paper provided and missed out on marks because of incorrect scaling.

Limitations identification of breakeven analysis (series3/14) was in general poorly answered as candidates did not fully qualify their answer. The limitation does not assume that variable costs remain constant it assumes that variable per unit remain constant and it assumes that it is total fixed cost that remain not fixed cost. A number of marks were missed out on because a full answer was not provided.

Syllabus Topic 4: Budgetary planning and control

The preparation of flexible budgets at a specific output from budgets set at different output levels was reasonably well answered. (Series 4/13) However common errors included not taking into consideration the two different cost levels when calculating the flexed material and labour costs. The use of the high/low method when calculating semi-variable maintenance also caused some candidates problems.

Basic budgetary explanation (series 4/13) needs revising and understood rather than just committed to memory. Many candidates provided accurate explanations of flexed and fixed budget but could not state the main objective of preparing them.

Questions set on standard cash budgets (series 2/2014) 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 need addressing:

- When determining the value of purchases which have opening and closing stock constraint figures, adjustments need to be made to the cost of sales to arrive at the correct purchases figure. However the majority of candidates did follow this model.
- 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. The wage expense in the profit statement included the bonus earned in that particular month hence to arrive at the basic pay the expense should be divided by 110%. This proved difficult for many candidates and marks were lost due to an incorrect basic wage being used.

- Depreciation although part of the overhead, is not cash budget outlay and should have been deducted prior to splitting the overhead payment over two periods. Most candidates however did complete this calculation.
- The layout of a cash budget should include an extra row for net cash flow figures. Again the majority of candidates did include these figures but a few incorrectly named it profit.
- Many candidates stated the advantages of general budgeting when the question specifically asked for advantages of a cash budget.

A transport service budget question (series 3/14) was very poorly answered with candidates mixing costs per single vehicle with those for the fleet of 5 vehicles and not correctly following through their operational and office overheads to the required annual and month 5 cost statements.

It would appear that this poor performance could be due to the fact that many candidates struggle with questions set outside a normal production environment.

Syllabus Topic 5: Standard costing and variances

Standard layout questions requiring calculation of labour, material, fixed overheads and sales variances from given information were generally well answered. However reasons for variance (series 3/14) and the calculation of production ratios (series4/13) proved more difficult.

The following points in this section also need addressing:

- Variances should always be quoted in monetary terms not on a time or weight basis.
- 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 the candidate will miss out on marks as will no or incorrect description.
- Understand and interpret variances from given information rather than just stating global reasons for variances. Not many reasons relating to the transport company suggested transport reasons many incorrectly provided production reasons.
- Revise, calculate and understand the three production ratios. Many candidates provided correct calculations but attributed the answer to the wrong ratio.

The explanation of the difference between ideal and attainable standards (series2/14) was generally well answered.

Syllabus Topic 6: Accounting systems.

The posting of entries into the cost accounts ledger system were generally well answered (series 4/13). However a common error was the converting of opening and closing stock valuations from the financial control accounts to cost control accounts and in particular understanding whether to add or subtract the difference proved problematic.

The posting of variance figures to the raw material account (series 2/14) proved difficult for many candidates. This account should only have the price variance included but many incorrectly included the usage variance.

EXAMPLES OF CANDIDATE RESPONSES

These candidate responses were taken from Series3/14 Question 4

Paper 1

Paper 1 (1/3)

4.

(a) i) Operational Overheads (km per vehicles)

	£
Road Fund License ($£1000 \times 5$)	5000 ✓
Insurance ($£2000 \times 5$)	10000 ✓
Servicing ($\frac{10000}{10000} \frac{50000}{10000} \times 5 \times 6000$)	15000 ✓
Tyres ($\frac{50000 \times 6}{50000} \times 2000 \times 5$)	25000 ✗
Dep ($20\% \left(\frac{100000 - 10000 - 20000}{5} \right) \times 5$)	58000 ✗
	<u>124000</u>

Operational Overheads (km per vehicles)

$= \frac{£124000}{50000 \times 5} = £0.5$ per vehicle of ✓

(ii) Office Overheads (per contracted job)

	£
Rent	16000
Insurance	12000
Administration	<u>20000</u>
	<u>48000</u> ✓ 2

Office Overheads (per contracted job)

$= \frac{£48000}{240} = £200$ per contracted job

(a) 4

Paper 1 (2/3)

(b) ii Budgeted cost statements (Year 14)

	£
Fuel ($£14000 \times 5$)	70000 ✓
Wages ($£12 \times 19,200 \text{ hr}$) $\times 5$	115,200 ✓
Operational overhead ($£0.5 \times 50,000$) $\times 5$	(125,000) ✗
Office overhead ($£200 \times 240$)	48,000 ✓
	358,200

(ii) Budgeted cost statements (Month 5, Year 14)

	£
Fuel ($\frac{20000}{5 \text{ km}} = 4000 \times £14 = £56000$) $\times 5$	280000 ✓
Wage ($£12 \times 800$) $\times 5$	48000 ✗
Operational Overhead ($£0.5 \times 20000$) $\times 5$	50000 ✗
Office overhead ($£200 \times 20$)	4000 ✓
	136000

(c) i) Material (Fuel) price variance

(Std. D.M. price \sim Act. D.M. Price) Act. D.M. Purchase / Usage Qty

$$= \left(\frac{£114}{4100} \sim \frac{£9350}{4100} = £1.05 \right) \times 4100 \text{ litre}$$

$$= £0.1 (F) \times 4100$$

$$= £410 (F)$$

(ii) Material (Fuel) usage variance

(Std. D.M. usage per period \sim Act. D.M. usage per period) Std. D.M. price

$$= \left(\frac{1}{5} = 0.2 \times \frac{20000}{4100} = \frac{4000}{4100} \text{ litre} \sim 4100 \text{ litre} \right) \times £1.14$$

$$= 1000 \text{ litre (A)} \times £1.14$$

$$= £1140 (A)$$

Paper 1 (3/3)

(iii) Labour (driver) rate variance

(Std Direct Labour rate \sim Act Direct labour rate) Act Direct labour AH hr per period

$$= \frac{\pounds 9300 \sim \pounds 9400 - \pounds 9200}{775} \times 775 \text{ hr}$$

$$= \pounds 9300 \sim \pounds 9400$$

$$= \pounds 100 \text{ (A)}$$



(iv) Labour (driver) efficiency variance

(Std Direct labour hrs per period \sim Act Direct labour works hr per period) Std Direct labour rate

$$= \left(\frac{\pounds 800 \times 20}{20} - 800 \text{ hr} \sim 775 \text{ hr} \right) \times \pounds 12$$

$$= 25 \text{ hr (F)} \times \pounds 12$$

$$= \pounds 300 \text{ (F)}$$

3

(v) (i) Material (fuel) price variance

- Standard price is higher than Actual price.

(ii) Material (fuel) usage variance

- Actual usage higher than standard usage.

(iii) Labour (driver) rate variance

- Actual Direct labour rate is higher.

(iv) Labour (driver) efficiency variance

- skill labour

- time - and - motion

0

9.7

Paper 1

(a)(i) Operational Overheads

Incorrectly calculated the tyre and the depreciation cost (However an own figure mark was awarded for the absorption rate figure).

(ii) Office overheads correctly calculated.

(awarded 4marks out of 5)

(b)(i) Budgeted cost statement for year.

Incorrect operational overhead figure brought down

(ii) Budgeted cost statement for month 5

Incorrect calculation of the Fuel, Wage and overhead.

In all three cases the candidate incorrectly assumed their calculation was for a single vehicle and multiplied by 5.

(awarded 2½ marks out of 5)

(c) (i) Price variance & (iii) labour rate variance were correctly calculated

(ii) Material usage variance was incorrect. The candidate incorrectly used the budgeted use instead of the standard use for the distance travelled.

(iv) Labour efficiency variance was incorrect. The candidate incorrectly used the budgeted time instead of the standard time for the distance travelled.

(awarded 3 marks out of 6)

(d) The candidate did not attempt to relate the reasons for the variances to the transport company situation

(No marks awarded)

This candidate, with 9½ marks out of 20, just failed to reach the pass mark.

Question 4.

Paper 2 (1/2)

2114)

(a) (i) Operational overheads (km per vehicle) for Year 14

	£	
Road Fund licence (5, £1000)	5000	✓
Insurance (5, £2000)	10000	✓
Servicing (50000 km ÷ 5, £600)	15000	✓
Tyres (6 × 5 × £200 ÷ 50000)	6000	✓
Depn. Exp (85000 - 20000 - 1000) × 20% ÷ 5	64000	✓
operational overheads cost	100000	✓ (2)
Operational overheads (km per vehicle)	$\frac{£100000}{50000 \text{ km}}$	£2 per km ✗

(ii) office overheads (per contracted job)

	£	
Rent	16000	
Insurance	12000	
Administration	2000	
	48000	
office overheads per contracted job	$\frac{48000}{240}$	£200 per contract (2)

(b)(i) Budgeted cost statement for year 14

	£	
Fuel cost (14000 ÷ 5 vehicle)	7000	✓
Driver wages (1400 hr, £12)	29040	✓
operational overheads cost	100000	✓
office overheads cost	48000	✓
	248040	

(2)

Q4

Paper 2 (2/2)

ques (y)
cb) vi)

Budgeted cost statements for Month 5, year 14

	£
Fuel cost (0.2 li x 20000 km x £1.4 x 5)	28000
Driver wages (800 hr x £12)	9600
Operational overheads cost (2 x 20000 km)	40000
Office overheads cost (200 x 20)	4000
	<u>85000</u>

(b3)

For Month 5,

(i) (b) material (Fuel) price variance
 (std D.M price ~ Act D.M price) x Act D.M usage/purchase qty
 (£1.4 ~ 5950 ÷ 4000) x 4000 litres
 = £0.2 (F) x 4000 = £800 (F)

(ii) material (Fuel) usage variance
 (std D.M usage ~ Act D.M usage) x std D.M price
 (0.2 x 20000 km = 4000 litres ~ 4000 litres) x £1.4
 = No effect (no variance)

(iii) Labour (driver) rate variance
 (std D.R Rate ~ Act D.R Rate) x Act D.R Att hr per period
 (£12 ~ 9400 ÷ 775) x 775 hr
 = £9400 ~ £9300 = £100 (A)

(iv) Labour (driver) Efficiency variance
 (std D.R hr ~ Act D.R worked hr) x std D.R Rate
 (800 hr ÷ 20 = 40 hr ~ 375 hr) x £12
 = 25 hr (F) x £12 = £300 (F)

(d) Decrease in material (Fuel) purchase price. *ok*
 No changes in used for material *x Not transport related*
 Driver wages increase in Actual. *ok*
 Direct Labour *x* skill and Efficient Labour. *x* *ok*
Not transport

(d2)

114

Paper 2

(a)(i) Operational Overheads

Individual costs correctly calculated, however the candidate incorrectly divided by the distance budgeted for a single vehicle instead of total distance budgeted for fleet of vehicles, when calculating the required absorption rate

(ii) Office overheads correctly calculated

(awarded 4marks out of 5)

(b)(i) Budgeted cost statement for year.

Individual costs for fuel and overheads correctly calculated However the candidate calculated a cost based on one vehicle instead of five.

(ii) Budgeted cost statement for month 5

Incorrect calculation of the Fuel but operational overhead costs awarded an OF mark

(awarded 3 $\frac{1}{2}$ out of 5)

(c) Incorrect calculation of Labour efficiency variance. The candidate used the budgeted instead of the standard hours.

(awarded 4 $\frac{1}{2}$ out of 6)

(d) Only two out of the required reasons were related to the transport company

(awarded 2marks out of 5)

Paper 3 (1/2)

Question 4

(a) Operational Overhead

	£
Road Fund licence	1000
Insurance	2000
Servicing $(\frac{50,000 \times 1000}{10,000})$	3000
Tyres $(\frac{£200 \times 6 \times 50,000}{50,000})$	1200
Depreciation $(\frac{85200 - 1200 - 20000}{50,000})$	12800
	20,000

Operation overhead Per vehicle
 $\frac{£20,000}{50,000 \text{ km}} = £0.4 \text{ Per km}$ ✓

(ii) Office overhead (per contract)

	£
Rent	16000
Insurance	12000
Administration	20000
	48,000

Office overhead Per contract = $\frac{£48,000}{240}$
 $= £200 \text{ per contract}$

(b) (i) Year 14, Budget cost statement

	£
Driver cost $(£12 \times 1920 \text{ hrs} \times 5)$	115,200
Fuel cost $(14,000 \times 5)$	70,000
Operation overhead cost $(0.4 \times 50,000 \times 5)$	100,000
Office overhead cost $(£200 \times 240)$	48,000

333,200

Paper 3 (2/2)

(ii)	Month 15, Year 14	£
	Driver cost (800 x 12)	9600
	Fuel cost (20,000 x £1.4)	5600
	Operation cost ⁵ (£0.4 x 20,000)	8000
	Office cost (£200 x 20)	4000

27200
10

(c)
(i) material Fuel Price variance
 = (std. DMP ~ Act DMP) Act DMP usage / Per Qty
 = (£1.4 ~ £5880 ÷ 1.3) 4100 liters
 = 4100
 = £0.1 (F) x 4100 liter
 = £ 410 (F) #

(ii) material Fuel usage variance
 = (std DMP usage ~ act DMP usage) std DMP
 = (1 liter x 20500 = 4100 ~ 4100) £ 1.4
 = Nil #

(iii) Labour (driver) rate variance
 = (std DL rate ~ act DL rate) Act DL att hr
 = (£12 ~ £9400 ÷ 775) 775 hr
 = (£12 ~ £12.27)
 = £100 (A) #

(iv) Labour (efficiency) variance
 = (std DL hr / Period ~ act DL hr / Period) x std DL rate
 = (800 x 20500 ÷ 20000 ~ 775) £12
 = 45 hr (F) x £12
 = £ 540 (F) #

- (d)(i) Reduced Fuel Price ✓
 (ii) Fuel usage are same as budget. ✓
 (iii) Increase driver rate ✓
 (iv) efficient drivers used. (more required) x

Paper 3

Well-presented and easy to follow.

- (a) All correct (awarded 5 marks out of 5)
- (b) All correct (awarded 5 marks out of 5)
- (c) Common error based labour efficiency variance on budgeted instead of standard hours (awarded 5 marks out of 5)
- (d) Correctly related all four variance reasons to a transport company however more detail was required for the labour efficiency variance.

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