Examiner hints and tips:

Pearson LCCI Level 2 Certificate in Cost Accounting (VRQ) ASE20094

1. Candidates need to:
   - Read and understand the question. Both parts (a) and (b) are two marks describe questions which both require more than a signal statement to each answer. Part (c) required an understanding of information given before attempting the answer.
   - Read and understand the question. If asked for two examples and only one is provided marks will be lost, and if three examples are provided only the first two will be marked.
   - Make sure to read the question carefully and use the correct figures to answer the question or charge to the correct account i.e. delivery charges.
   - Learn and understand the documents used in revenue and purchases, which would involve its purpose and its contents.
   - Read and understand what is required, the question asks for a 20 journey variance not a single journey variance as provided.
   - Provide explanation for possible reasons related to the business and not a general explanation of a variance cause.
   - Try not to repeat the question in the answer i.e. Ques-Explain overhead apportionment Ans-Overheads which are apportioned. This answer would not be awarded any marks.
   - Where possible always show workings as examiners may be able to award marks for correct method.
   - Understand cost units and the difference between direct and indirect costs.
   - Understand the meaning of overtime premium i.e. it is the additional labour cost due to an overtime working not the additional cost over the basic working week. It is also expected candidates should know the circumstances when overtime premium is treated as a direct, as opposed to, an indirect cost.
   - Try to avoid crossing out but if necessary complete it neatly so examiner can see the candidate's intentions.
   - Provide legible answers. If the examiner cannot read or understand what the candidate has written, no marks can be awarded.
   - Be aware the opening inventory for period 2 is the closing inventory for period 1, when completing production budgets.
   - Revise and understand the difference between job costing (single unique job) and batch costing (a number of identical products produced together).

2. Most jobbing or batch costing calculations will contain an element of depreciation so insure it is included in the total cost.
3. For questions that ask to explain or evaluate and are worth 4 marks for example, the examiner would be looking for four relevant points in the answer. If it is a two mark explanation then two points would be looked for. Make sure to check to see how many marks the question is worth when compiling your answers.
4. Depreciation - As this is a new topic at LCCI level 2 it would appear the candidates had either not covered or not revised this topic to the depth required. Tutors need to ensure this topic is covered in their teaching and to emphasise depreciation is only added to the profit figure when calculating the payback period.
5. Candidates need to learn how to deal with the results of a discrepancy between the record card balance and the physical check as this was a straight forward LIFO record card question.
6. (b) An understanding of the effects of changing valuation methods are essential for this topic and should be studied alongside the actual calculation of inventory values.
7. (c) Candidates should be aware of, and understand, the documents used in inventory management as well as revenue and purchases. The description of a 'Purchase order' should include its purpose, together with a development, such as specifying the quantity, price and delivery dates for the order.
8. Read and understand the question. The question states that rejected units do not qualify for the bonus and therefore should have been deducted from the total produced before calculating the bonus.
9. Use the cash budget layout that includes a net cash flow figure, but remember to deduct depreciation from overheads if stated in the question.
10. Understand and learn the benefits of completing a cash flow budget together with actions that could improve cash flows.
11. Learn the variance formulas and how to apply them to different situations. If asked for a course of action, regarding the calculated variance, check to see if it is an adverse or favourable variance before offering advice. If you have not calculated the variance in a previous part and have provided an advice action you will need to qualify your advice as either an adverse or favourable variance.
(a) (i) Revise and understand the term 'Stepped cost'. A stepped cost can be described as a fixed cost that increases by a large amount at a certain output.
(a) (ii) Where a cost calculation is necessary, always show workings.
(b) Read and understand the question. This question asked for the sources of costing data not the actual data, i.e. Where would you obtain the data.
(c) Where a question is awarded more than 1 mark an expansion or development over the basic description is required to achieve all the marks available
12. The favourable and adverse description of a variance is the most important part of any variance calculation and should be selected with care. A favourable variance occurs where the actual cost is less than the standard whilst an adverse variance occurs where the actual cost is higher than the standard.
13. Where a descriptive question is awarded 6 marks, as part (c), the examiner would be looking for six individual performance indicators or reasons for variance. This question requires reference to the candidate's calculations and not just general reasons for variance.
14. The profit calculation, used in the ARR method, must include adding the salvage value to the total inflows of cash before deducting the depreciation. Two possible

answers were available for the ARR dependant on which cost of investment was used. The choices are:
1. The initial cost
2. The average investment [(initial cost + salvage value) / 2]
15. Where no method is suggested either method is acceptable, but if one is stated, work to that method. In this question no actual method was suggested so either method would have been acceptable.
16. Understand and learn that non financial factors may play a large part in determining which project should be considered.

Summary

The paper provided many opportunities for candidates to display their knowledge of this new cost accounting paper. However the answer papers also provided the following areas that centres may wish to consider to improve their outcomes.

- More understanding of the relationship between cost, management and financial accounting.
- Explanation of the principles of cost code design.
- More understanding of the main documents used in revenues and purchases, inventory management
- Variance reasons should be related to the business in question not just stating, for example 'standard rate of pay is lower than the actual'.
- Explanation of how to treat depreciation in the investment appraisal calculations.
- A two/four mark explain, describe type question requires expansion or development over the basic description to achieve all the marks.
- Where appropriate candidates need to be encouraged to provide workings and labelling of calculations. This assists examiners in their awarding own figure marks.
- Encourage candidates to provide legible answers. If examiner can't read what the candidate has written no marks can be awarded.
- Study the model answers from previous papers.
- More understanding of the:
  - classification of costs used in cost accounting
  - effects of changing inventory valuation methods
- Explanation of the meaning overtime premium
- Use the cash flow budget layout that includes 'net cash flow balances'
  - Explanation of the differences between Cost and Financial accounting
  - Explanation of the reasons for differences in inventory record card and physical count
  - Explanation of the difference between a favourable and an adverse variance together with more practice on evaluating the reasons for variance
  - Explanation of non-financial factors that could be part of an investment appraisal
  - Explanation of the differences between job costing and batch costing.