

Level 2 Certificate in Cost Accounting



International
Qualifications from EDI

Annual Qualification Review

2008

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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 2007 and 30 September 2008, across both old and new specifications.

Global pass rate 69.50%

Grade distributions

Pass 16.83%

Credit 26.18%

Distinction 26.61%

GENERAL STRENGTHS AND WEAKNESSES

Strengths

- Many candidates have had adequate preparation for the exam

Weaknesses

- 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: Basic terminology and cost classification.

Questions set requiring explanations and descriptions were generally well answered, however, not many candidates provided examples to illustrate their descriptions. It is considered good practice when answering questions in this area to provide examples as this will indicate to the examiner a good understanding of the topic

Syllabus Topic 2: Costing for materials.

Questions requiring candidates to calculate material requirements from given sales and stock figures and stock valuations using LIFO and FIFO were generally answered well, however, the following need consideration:

- when asked to prepare stock record cards the entries for stock issue should be at the items cost value NOT its sales value.
- when asked to make accounting entries into the ledger system candidates need to be aware of the different accounting treatment of direct and indirect material.(Indirect materials being an overhead)

Syllabus Topic 3: Costing for labour.

Questions relating to comparing different remuneration methods were generally well answered, however

- candidates need to distinguish between overtime payment and overtime premium. (overtime premium being only the addition to the normal hourly rate.)
- when asked to make accounting entries into the ledger system candidates need to be aware of the different accounting treatment of direct and indirect labour; (Indirect labour being an overhead)

Syllabus Topic 4: Costing for overheads.

Questions requiring candidates to apportion overheads to production and service departments and the calculation of overhead absorption rates were generally well answered. However, the following points attention require:

- candidates need to be able to distinguish between allocated and apportioned overheads
- candidates need to understand the reasons for reapportioning service cost centres overheads to production cost centres and be able to use the repeated distribution method for reapportioning.
- Candidates need to understand the reasons for and be able to calculate any under or over-absorption of production overheads

Syllabus Topic 5: Costing methods

Questions requiring candidates to prepare job and batch costs were generally well answered however questions relating to the preparation of process costs and accounts were poorly answered. The following areas within this syllabus topic need more attention:

- explanation and apportioning of joint products; (Level 2 only requires apportioning on the basis of physical units)
- use of equivalent units to value work in progress closing stock; (Level 2 questions will not contain opening work in progress)
- the treatment of normal losses and scrap values.

Syllabus Topic 6: Marginal costing

Questions requiring candidates to calculate break-even points, contributions and prepare profit statements were generally answered well. However, candidates need more practice for the non standard questions where they are either provided with options to evaluate, or asked to calculate the sales from a given profit. An understanding of the following would benefit the candidates with descriptive type questions set within this topic area.

- marginal costing terminology.
- assumptions upon which cost-volume-profit analysis is based; (addition to new syllabus)

Syllabus Topic 7: Budgetary planning and control.

The preparation of sales, production, material and labour budgets are generally answered well, however, candidate's response to questions requesting cash flow budgets indicated the following needs addressing:

- monthly income expenditure figures not taking into consideration the credit terms.
- not providing workings in this area; (examiners not knowing where figures come from and unable to offer marks for partially correct answers.)
- not providing a Net Cash flow figure or providing the figures and not labelling them correctly (i.e. Not Profit)

Basic budgetary explanations and terminology need to be understood rather than just committed to memory. Descriptive type questions can be set in this area.

Syllabus Topic 8: Standard costing and variances

Standard layout questions requiring calculation of labour and material variances from given information were generally well answered. However, the following points in this section need addressing:

- variances should always be quoted in monetary terms.
- 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 cause the candidate to lose marks. If there is no description the candidate will also lose marks.
- understanding and interpreting the prime cost variances from given information rather than just stating global reasons.

Syllabus Topic 9:

Questions involving the postings of entries into the ledger system were generally well answered although when asked to describe the function of an integrated accounting system candidates either failed to respond or did not provide a full the full answer. Candidates need to be aware that descriptive questions can be asked in this area.

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.

Changes to syllabus or question types with implications (current and/or next year)

A revised syllabus was introduced and came into effect for examinations held after 1 January 2008.

The following changes, from the old syllabus (October 2001), have been made :

Deletions

Costing for materials

- Costs of carrying stocks and running out of stock (moved to level 3)
- Allocated and free stock (level 3 only)
- Principles of stock control and calculation of reorder level, stock control levels etc (moved to level 3)

Costing for labour

- Graphs of labour cost for alternative remuneration methods
- Distinction between, and measurement of, production and productivity

Costing for overheads

- Fixed asset register and depreciation methods

Costing methods

- Contract costing
- Abnormal losses and gains in process costing (level 3 only)
- Opening work-in-progress costing (level 3 only)
- Joint product cost apportionment using sales value and net sales value (level 3 only)
- Interpretation of joint product costing (moved to level 3) and the evaluation of further processing (level 3 Management Account only)

Marginal costing

- Contribution analysis for business decision-making (level 3 Management Accounting only)

Budgetary control

- Preparation of production overhead budgets (level 3 only)
- Flexed budgets (level 3 only)
- Reasons for cash budgets and ways to overcome difficulties (level 3 only)

Standard costing

- Direct material price variances on purchases as well as issue (level 3 only)

Additions

Costing for labour

- Costs relating to labour turnover

Marginal costing

- Assumptions upon which CVP analysis is based

Budgetary control

- Difference between forecast and budget

EXAMPLES OF CANDIDATE RESPONSES

The examples are taken from the series 3/2008 question paper. The question is as follows.

QUESTION

A company which manufactures a single product currently employs 5 production operatives. Each employee works a 40 hour week and is paid £8.00 per hour. Overtime premium is paid at rate of 50% of basic rate.

All production operatives are used to make the product for which there is a standard time of 2 labour hours per unit.

REQUIRED

(a) For weekly production quantities of 110 units, 120 units and 130 units, calculate the following budgeted figures:

- (i) total basic pay
- (ii) total overtime premium
- (iii) gross labour cost per employee
- (iv) cost per unit (to two decimal places).

(11 marks)

The company is proposing to change the existing remuneration method to a new scheme. Under the new scheme each production operative will be paid £8.40 per hour for all hours worked. There will be no overtime premium, but each operative will receive £1 for each unit produced in excess of 110 units.

REQUIRED

(b) For weekly production quantities of 110 units, 120 units and 130 units, calculate the cost per unit (to two decimal places).

(7 marks)

(c) State at which production level the new scheme would be most beneficial to production operatives.

(2 marks)

(Total 20 marks)

PASS RESPONSE

The following answers were provided by candidates.

Answer (1)

<i>(a)</i>	<i>Production output</i>		
	<i>110</i>	<i>120</i>	<i>130</i>
<i>Units</i>	<i>110</i>	<i>120</i>	<i>130</i>
<i>Total hours required</i>	<i>220</i>	<i>240</i>	<i>260</i>
<i>Basic hours</i>	<i>200</i>	<i>200</i>	<i>200</i>
<i>Overtime hours</i>	<i>20</i>	<i>40</i>	<i>60</i>
<i>Basic pay</i>	<i>£1,600</i>	<i>£1,600</i>	<i>£1,600</i>
<i>Overtime premium (200 x £8)</i>	<i>£240</i>	<i>£480</i>	<i>£720</i>
<i>Total labour cost (@ £8 x 1.5)</i>	<i>£1,840</i>	<i>£2,080</i>	<i>£2,320</i>
<i>Gross pay per employee</i>	<i>£368</i>	<i>£416</i>	<i>£464</i>
<i>Cost per unit</i>	<i>£16.73</i>	<i>£17.33</i>	<i>£17.85</i>

<i>(b)</i>			
<i>Excess units over 110 units</i>	<i>0</i>	<i>10</i>	<i>20</i>
<i>Basic pay</i>	<i>£1,840</i>	<i>£2,016</i>	<i>£2,184</i>
<i>Bonus</i>	<i>0</i>	<i>£10</i>	<i>£20</i>
<i>Total cost</i>	<i>£1,840</i>	<i>£2,026</i>	<i>£2,204</i>
<i>Cost per unit</i>	<i>£16.73</i>	<i>£16.88</i>	<i>£16.95</i>

(c)

The new scheme would be more beneficial to the production operatives

Examiner comments

Part (a)

The answer for both basic pay and overtime premium is incorrect. The candidate has incorrectly calculated basic pay cost as the cost incurred for the normal 40 hour week and not for the actual hours worked. The overtime premium cost was incorrectly calculated at 1.5 times the overtime hours instead of 0.5 times the overtime hours. Half the allocated marks were lost with this answer.

Part (b)

Although the cost per units answers were incorrect the only error made was in calculating the bonus, the candidate based his answer on one production instead of five. Credit was given in the form of own figure marking for the cost per unit answers. Only a few marks would have been lost for this answer.

Part (c)

The candidate did not answer the question, which asked for the most beneficial production level, not the most beneficial scheme. No marks were awarded for this answer.

The candidate would have gained a pass only for this answer.

CREDIT RESPONSE

Answer (2)

(a)

	<i>Production output</i>		
<i>Units</i>	110	120	130
<i>Total hours required</i>	220	240	260
<i>Basic hours</i>	200	200	200
<i>Overtime hours</i>	20	40	60
<i>Basic pay</i>	£1,760	£1,920	£2,080
<i>Overtime premium</i>	£80	£160	£240
<i>Total labour cost</i>	£1,840	£2,080	£2,320
<i>Gross pay per employee</i>	£368	£416	£464
<i>Cost per unit</i>	£3.35	£3.47	£3.57

(b)

<i>Excess units over 110 units</i>	0	10	20
<i>Basic pay</i>	£1,848	£2,016	£2,184
<i>Bonus</i>	0	£50	£100
<i>Total cost</i>	£1,848	£2,066	£2,284
<i>Gross pay per employee</i>	£370	£413	£457
<i>Cost per unit</i>	£3.36	£3.44	£3.52

(c)

The production level most beneficial to production operatives is 130 units as it generates the highest gross pay.

Examiner comments

Part (a)

Although the candidate incorrectly calculated the cost per unit, the majority of marks would have been gained for correct calculation of basic pay, overtime premium and gross pay. The candidate did not provide any workings but it would appear the cost per unit figure was calculated by incorrectly dividing the gross pay per employee by the number of units.

Part (b)

The candidate made the same calculation error for the cost per unit as in part (a) but the majority of marks, for this part, were awarded for the correct preceding calculations

Part(c)

This candidate again did not answer the question but just stated the level that generates the highest gross pay. No marks would have been gained for this part.

The candidate would have gained a pass with credit for this answer.

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