Level 3 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.

Global pass rate 34.51%

Grade distributions

Pass	12.49%
Credit	12.42%
Distinction	9.59 %

GENERAL STRENGTHS AND WEAKNESSES

Strengths

- An understanding of what is required by the questions
- An understanding of the basic cost accounting terminology

Weaknesses

- Many candidates not adequately prepared for this level; ideally candidates should complete 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 calculated

TEACHING POINTS BY NEW SYLLABUS TOPIC

Syllabus Topic 1: Materials and stock control.

Questions set on stock levels and the use of EOQ formula are generally well answered, however, the following points within this topic area need addressing:

- the calculations required to arrive at the initial material required, when given final weight of product, the process wastage and product rejects (see model answers for methods)
- the order quantity calculations required to minimise total costs, where quantity discounts are available (see model answers)
- an understanding of the principles and implications of just-in-time approach to stock management (an addition to the new syllabus).

Syllabus Topic 2: Costing methods and systems

Questions set on activity based costing (ABC) and the preparation of marginal and absorption costing accounts generally well answered, however, the principles relating to process costing and accounting needs attention. The following points relating to process costing need addressing:

- 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
- always provide workings in this area as examiners can award marks for correct principles even if answer is incorrect.

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 selling price if changes to costs and outputs are made.

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

Please note that multi-product situations have been added to new syllabus

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, the principles relating to opening and closing stock balances needs attention as many marks were lost, either for not including the stock balances in the budget calculation, or for adding instead of deducting these stock balances.

Cash flow budgets also need attention. The following points need addressing:

- calculations involving debtors and creditors can involve cash/credit payments and income together with discounts hence care should be taken with calculations.
- workings must be shown in this area as examiners can award marks for partially correct answers
- showing and correctly labelling Net Cash flow figures (i.e. Not Profit)
- not including 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.
Basic budgetary explanation and terminology need to be understood rather than just committed to memory. With descriptive type questions in this area provide, if possible, an example to complement the description.

Syllabus Topic 5: Standard costing and variances

Standard layout questions requiring calculation of labour, material and overhead variances from given information were generally well answered, however, material mix and yield variance calculations 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. This particularly applies to idle time variances. (Addition to new syllabus)
- 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.
- understanding and interpreting variances from given information rather than just stating global reasons for variances
- when question asks for a statement reconciling the budgeted and actual profits the statement must include both profit figures and not just a list of variances to gain the marks.

Syllabus Topic 6: Accounting systems.

Questions involving the posting of entries into the ledger system were generally well answered however the preparing or the using of reconciliation statements proved problematic. Main problem areas include:

- converting opening and closing stock valuations from financial to cost ledgers and in particular understanding whether to add or subtract the difference when preparing a reconciliation statement.
- not understanding how to deal with accounts that only appear in the financial ledger.

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

Accounting for materials etc.
- Pricing materials from stock (Level 2 only)
- Methods of remuneration (Level 2 only)
- Simultaneous equations for overhead reapportionment

Stock control
- Graphs of stock ordering and stock carrying costs
- Using the EOQ model for production batch quantities

Marginal costing
- C/S ratio over two trading periods
- scattergraphs
- Short-term decision-making terminology (L3 Management Accounting only)
- Limiting factor decisions(L3 Management Accounting only)
- Make or buy decisions (L3 Management Accounting only)
- Other short-term decisions (L3 Management Accounting only)

Budgetary control
- Terms relating to budget organisation e.g. budget committee
- Conversion cost budgets and absorption rates

Additions

Stock control
- Costs of stock holding and of running out of stock (from Level 2)
- Calculation of reorder level, stock control levels etc (from Level 2)
- JIT approach to stock management

Costing methods & systems
- Abnormal losses and gains in process costing (from Level 2)
- Joint product cost apportionment using sales value and net sales value (from Level 2)
- Interpretation of joint product costing (from Level 2)

CVP analysis

- Contribution / Sales ratio and break-even calculations in multi-product situations
- CCP analysis in given situations

Standard costing

- Use of standard costs and variances for cost control, including the use of control charts.

EXAMPLES OF CANDIDATE RESPONSES

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

QUESTION

A company uses a two stage processing system to jointly produce its three main products, Products A, B and C. By-product D is also produced during the process.

Product A is complete at the end of stage 1 and Products B, C and By-product D emerge at the end of stage 2.

Information regarding the joint process for the last period is as follows:

Input

Process stage 1	
Raw material X	360 kg at £6 per kg
Raw material Y	400 kg at £5 per kg
Direct labour	510 hrs at £8 per hr
Process stage 2	
Raw material Z	800kg at £4 per kg
Direct labour	200hrs at £8 per hr

Factory overheads in each process stage are absorbed at £12.00 per direct labour hour.

Output

Process stage 1	Quantity	Selling price per kg
Product A	120 kg	£30
Material transfer to stage 2	600 kg	-
Process stage 2		
Product B	650 kg	£20
Product C	550 kg	£25
By-product D	150 kg	£8

Process losses from stage 1 are disposed of at a cost of £1 per kg. The losses that occurred in stage 1, in the last period, were normal.

No losses are expected in stage 2.

There was no work in progress at the beginning or at the end of the period in either process stage.

Joint processing costs are apportioned on the basis of relative weight of output.

REQUIRED

(a) For the last period prepare the process accounts for:

(i) Process stage 1
(ii) Process stage 2

(12 marks)

(b) Assuming that all production was sold prepare a profit statement for the last period.

(4 marks)

(c) Explain the meaning of:

(i) Joint products
(ii) By-product

(4 marks)

(Total 20 marks)

These answers were provided by candidates.

FAIL RESPONSES

Part (a)

Process stage 1 account

	Kg	*£*		*Kg*	*£*
Material X	*360*	*2160*	*Product A*	*120*	*1380*
Material Y	*400*	*2000*	*Transfer to process 2*	*600*	*6900*
Labour		*4080*	*Normal loss*	*40*	
Process loss / disposals		*40*			
	760	*8280*		*760*	*8280*

Examiner comments:

This answer is incorrect but the marks awarded were dependant on the workings shown.

- No workings shown.
- Marks would be awarded for process disposals and normal loss.
- Marks would be lost for not including overheads in account and lost for the incorrect valuation of product A and the transfer to process 2.

Process stage 2 account

	Kg	*£*		*Kg*	*£*
Process 1	*600*	*1380*	*Product B*	*650*	*2590*
Material Z	*800*	*3200*	*Product*	*550*	*2191*
Labour		*1600*	*By-product D*	*150*	*1200*
			Abnormal loss	*50*	*199*
	1400	*6180*		*1400*	*6180*

Examiner comments:

- Marks would be awarded for by-product income and size of abnormal loss.
- Marks would be lost for not including overheads in account and lost for the incorrect valuation of product B, C and Abnormal loss.
- No workings shown

Part (b)

Profit Statement (£)

Product	***A***	***B***	***C***	***D***	***Total***
Sales	*3600*	*13000*	*13750*	*1200*	*31550*
Process costs	*1380*	*2590*	*2191*		*6160*
Profit					*25390*

Examiner Comments

- No marks awarded for sales, as in process costing the income from a by-product is treated as a cost reduction and should be included in the process cost calculation.
- Own figure marks awarded for process costs (figures taken from part (a)).
- Marks lost for not including abnormal loss in calculation.

Part (c)

(i) *By-product:*

A product which arises during the process of making other products. The cost of main product is reduced by the net sale proceeds of by-product.

Examiner Comments:

- This answer gives two correct statements but makes no reference to the commercial value of the product hence it only received one mark out of the possible two. No marks were awarded for referring to the cost of main product being reduced as this was not asked for in the question.

(ii) *By-product:*

Two or more products arising from a process.

Examiner Comments:

- This is an incorrect answer and received no marks.

PASS RESPONSES

Part (a)

Process stage 1 account

	Kg	£		Kg	£
Material X	*360*	*2160*	*Product A*	*120*	*1380*
Material Y	*400*	*2000*	*Transfer to process 2*	*600*	*6900*
Labour		*4080*	*Normal loss*	*40*	
Process loss / disposals		*40*			
	760	*8280*		*760*	*8280*

Workings:

Product A *8,280 x 120 / (760 – 40) = 1380*

Trans to 2 *8,280 x 600 / (760 – 40) = 6900*

Examiner Comments:

- Marks would be awarded for process disposals and normal loss.
- Marks would be lost for not including overheads in account.
- Own figure marks would be awarded for valuations of product A and the transfer to process 2 as the correct costing principle was applied in the workings.

Process stage 2 account

	Kg	£		Kg	£
Process 1	*600*	*1380*	*Product B*	*650*	*2590*
Material Z	*800*	*3200*	*Product*	*550*	*2191*
Labour		*1600*	*By-product D*	*150*	*1200*
			Abnormal loss	*50*	*199*
	1400	*6180*		*1400*	*6180*

Workings:

Product B *(6180 – 1200) x 650 / (1400 – 150) = 2590*

Product C *(6180 – 1200) x 550 / (1400 – 150) = 2191*

Abnormal loss *(6180 – 1200) x 50 / (1400 – 150) = 199*

Examiner Comments:

- Marks would be awarded for by-product income and size of abnormal loss.
- Marks would be lost for not including overheads in account.
- Own figure marks would be awarded for valuations of product A, B and abnormal loss as the correct costing principle was applied in the workings.

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