
Examiner's Report

Paper 3
Cost Accounting

General Comments

Candidates' overall performance in this paper was satisfactory. The pass rate for this session improved when compared with the previous session. However, a few candidates answered less than four questions and got very low marks. The range between the highest and the lowest score was significant (i.e. 89 marks). This suggested that some candidates had prepared themselves properly for the examination and some had not. Therefore, in order to achieve a pass, candidates are advised not to screen out topics and prepare themselves more fully to cover all aspects of the topic areas. As pinpointed in previous reports, candidates should respect themselves as professionals and use pens to answer the questions. However, a few candidates used pencil in answering the questions which should be avoided.

Section A – 15 Multiple Choice Questions

The performance of candidates in multiple choice questions was good. More than half of them obtained 10 marks or more. This showed that candidates had exercised more care in answering the multiple choice questions.

Section B – 5 Questions

As in the previous sessions, the answers to the calculation questions in Section B were better than those to the essay-type questions. Some candidates answered only the calculation parts and left out the essay parts.

Question B1: Variance analysis – (a) direct material and labour variances, (b) benefits to calculate the material price variance at the time of purchase, and (c) possible reasons for the direct labour rate and efficiency variances

Question B1 was very straightforward and designed to test candidates' understanding of variance analysis. The overall performance in this question was good and over 50% of them achieved a pass marks. Part (a) required candidates to calculate the basic material and labour variances. Most were able to compute the answers correctly, except that some candidates had wrongly used the actual quantity of material used instead of the actual quantity of material purchased in calculating the material price variance.

Parts (b) and (c) were answered poorly and most of the candidates obtained very low marks. They failed to give possible reasons for a company to calculate the direct material price variance at the time of purchases and the favourable/adverse direct labour rate and efficiency variances calculated in part (a). This showed that candidates did not fully understand the meaning of each variance and the reasons underlying them, they only made effort in memorising all the variance formulae. Therefore, candidates could only achieve pass marks, but not high marks for this question. Candidates should note that basic costing concepts are always examined and should not be ignored in their preparation.

Question B2: Cost-volume-profit (CVP) analysis – (a) calculation of estimated annual profit using CVP analysis, (b) calculation of break-even point and margin of safety ratio, and (c) advise on the proposed changes, and (d) calculation of the revised unit selling price to achieve a target profit

Question B2 was a popular one but the overall performance was worse than expected. Part (a) of the question required candidates to compute the estimated annual profit for the coming year with the proposed changes. Many candidates paid attention only to the changes highlighted, but failed to see that the production capacity of the company would be fully utilised in coming year and did not amend the total output accordingly.

Parts (b) and (c) of the question attempted to test candidates' ability to compute the break-even point, margin of safety and make proper decisions based on the figures computed. Some candidates could not get high marks as they (i) did not read the question carefully and as a result

overlooked the requirement for calculating the figures for current year; (ii) did not know how to calculate the margin of safety ratio and its meaning; (iii) failed to make proper decision based on the calculations for parts (a) and (b). Part (d) was answered satisfactorily and candidates were able to compute the new unit selling price so as to achieve the target profit.

Question B3: Budgeting – (a) preparation of cash budget, (b) calculation of amount due to suppliers and amount due from credit customers at the end of the year, and (c) discussion on fixed and flexible budget

Question B3 was the most popular but the performance was just about satisfactory. For part (a), most candidates were able to compute the budgeted monthly cash inflow and outflow from January to March, except that some candidates failed to deduct the depreciation expenses from the general expenses as this was not a cash item. It was surprising that some candidates had rounded up the budgeted figures in thousand although there was no such requirement in the question. Such action might have affected the accuracy of the computed figures and caused them to lose marks. Therefore, candidates are advised to exercise care in reading the questions to avoid losing marks on easy tasks.

Part (b) was answered badly as majority of the candidates failed to realise that cash discounts will only be received or allowed when the owed amount was actually paid or received. The discounts were thus not required to be deducted from the outstanding balances of suppliers and customers respectively. Some candidates could not get high marks in part (c) because they failed to explain the difference between fixed and flexible budgets and when the flexible budget should be applied.

Question B4: Traditional absorption costing and activity based costing – (a) calculation of unit production cost using traditional absorption costing (based on machine hours), (b) calculation of unit production cost using activity based costing, and (c) compare and comment on the unit production costs using the two methods

This was also a popular question and the performance was good. This was straight forward and aimed at testing candidates' ability in calculating production overhead rate based on traditional and activity based costing approach. Part (a) of the question required the candidates to compute the unit production cost if all production overheads were absorbed on a machine hour basis. Some candidates did not know how to compute a single overhead absorption rate and computed the unit production cost incorrectly.

The performance for part (b) was better than part (a). Most candidates were able to calculate the cost driver rate for different activity centres and the unit production cost for each product. However, some could not obtain full marks for this part as they did not show the cost driver rate for each activity centre as required in the question. Therefore, candidates should be careful about the precise requirements of the question so that they do not lose marks.

In part (c), candidates were asked to compare and comment on the result computed in parts (a) and (b). Most of the answers were irrelevant and candidates were not able to express their opinions correctly.

Question B5: Process costing: joint product – (a) calculation of the total cost of each of the three products using physical unit, sales value at the end of first process, and net realisable value bases respectively (b) further processing decision, and (c) exemplification of those manufacturing industries adopting process costing system

Question B5 hinged on the topic of joint product and its characteristics. It was the least popular question in this paper and was badly answered. Part (a) required candidates to apportion the joint product costs using different bases: (i) physical unit; (ii) sales value at the end of the first process; and (c) net realisable value. It appeared that candidates were not familiar with this topic and were unable to arrive at the correct answer.

As the candidates did not have adequate knowledge on this topic, they did not know that only incremental costs and incremental revenue were required for making decision on further processing while joint cost and methods of apportionment were irrelevant. Therefore, part (b) was badly answered too and candidates were unable to advise which products should be further processed and give relevant reasons to support their recommendation.

Part (c) required candidates to explain the features characterising those manufacturing industries to which process costing system will be applied and give two examples of those manufacturing industries. Most candidates omitted this part or gave irrelevant answers.

[END OF EXAMINER'S REPORT]