



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2017

(AA22) COST ACCOUNTING AND REPORTING

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time Allowed:** Reading : 15 minutes
Writing : 03 hours.

22-01-2017
Morning
[8.45 – 12.00]

No. of Pages : 09
No. of Questions : 10

- (2) **All questions should be answered.**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**
- (5) **Use of Non-programmable calculators is permitted.**
- (6) **Action Verb Check List with definitions is attached. Each question begins with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (7) **100 Marks.**

SECTION A

Objective Test Questions (OTQs)

Eight (08) compulsory questions

(Total 20 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.5. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Which one of the following is a purpose of Management Accounting?

- (1) Formulation of policies / strategies.
- (2) Planning and controlling the activities.
- (3) Safeguarding assets.
- (4) All of the above.

(02 marks)

1.2 Which one of the following is **not** an example for a cost centre?

- (1) Bakery. (2) Car.
- (3) Garment factory. (4) Hotel.

(02 marks)

1.3 Which one of the following is an advantage of time rate system of remuneration?

- (1) It provides incentive to efficient workers to increase the output.
- (2) The cost of supervision is low.
- (3) It ensures each worker a minimum amount of wage.
- (4) Labour cost per unit is easy to estimate.

(02 marks)

1.4 The following information relates to an item of stock:

Maximum usage	400 kg
Minimum usage	200 kg
Lead time	2 – 6 months
Re-order quantity	800 kg
Re-order level	2,400 kg

Based on the above information, the maximum stock level for this item would be:

- (1) 2,800 kg. (2) 2,400 kg. (3) 1,500 kg. (4) 1,600 kg.

(02 marks)

1.5 Which one of the following statements is **incorrect** with respect to Integrated Accounting System?

- (1) Two separate sets of books are maintained.
- (2) Accounting functions are controlled more effectively and efficiently.
- (3) There is no duplication of work.
- (4) Accounting information is readily available.

(02 marks)

1.6 State whether each of the following statements is **TRUE** or **FALSE**. Write **True** or **False** in your answer booklet with the number assigned to the question.

- (1) Cost Accounting covers transactions of the whole business.
- (2) Ideal standards can be attained under the most favourable conditions.
- (3) Sunk cost is a relevant cost for making a decision.
- (4) When calculating Economic Order Quantity (EOQ) it is assumed that holding cost per unit is not constant.

(04 marks)

1.7 Match each of the terms mentioned in **column A** with the correct statement given in **column B** and write in your answer booklet with the number assigned to the question:

Column A	Column B
(1) Bin Card	(a) Used to record the receipt of goods.
(2) Purchase Order (PO)	(b) Used to trace physical stock quantity at any time.
(3) Goods Received Note (GRN)	(c) Used to place an order with a supplier.

(03 marks)

1.8 Select the most suitable word/words to fill in the blanks using word/words given within brackets. Write the selected word/words in your answer booklet with the number assigned to the question:

- (1) (*Controllable costs / Production costs*) are the costs which can be directly influenced by the action of a manager.
- (2) (*ABC system / Just in time system*) is an inventory system in which materials are obtained at the time they are required.
- (3) (*Normal loss / Abnormal loss*) is the loss expected by the management within a process, because that is inherent and unavoidable. (03 marks)

End of Section A

SECTION B

Five (05) compulsory questions
(Total 25 marks)

Question 02

The following relates to a manufacturing company for the month of December 2016:

	Budgeted	Actual
Production overheads (Rs.)	160,000	180,000
Direct wages (Rs.)	90,000	80,000
Direct labour (hours)	160	170

You are required to:

Compute the following:

- (a) Overhead absorption rate based on direct labour hours.
- (b) Over / under absorption of overheads for the month of December 2016. (05 marks)

Question 03

Sun Ltd. is a luxury furniture manufacturing company and has accepted a job to manufacture a luxury sofa for a customer. The company expects to use services of cutting, assembling and finishing departments to complete the order and estimated costs are as follows:

Direct material	Rs.75,800/-
Indirect material	Rs.12,750/-
Direct Labour - Cutting Department	10 hours at Rs.750/- per labour hour
- Assembling Department	15 hours at Rs.500/- per labour hour
- Finishing Department	20 hours at Rs.800/- per labour hour

Overheads are absorbed based on direct labour hours and respective overhead absorption rate per labour hour for each of the department is as follows:

Department	Overhead absorption rate per hour (Rs.)
Cutting	1,500
Assembling	2,000
Finishing	1,750

The company's policy is to keep 15% profit margin on the selling price.

You are required to:

Calculate the price to be charged for the above Job. (05 marks)

Question 04

"The budget is a quantitative statement for a defined period of time which may include planned revenue, expenses, assets, liabilities and cash flows."

You are required to:

Explain three(03) main objectives of budgeting. (05 marks)

Question 05

Rose Ltd., a manufacturing company operates an Integrated Accounting System. The following transactions were extracted from the books of the company during the month of December 2016.

	Rs.
Material issued to production	450,000
Direct wages on production	175,000
Production overheads	225,000
Cost of production transferred to finished goods	625,000
Production cost of goods sold	705,000

Stock balances as at 01st December 2016 were as follows:

	Rs.
Raw material	475,000
Work-in-progress	150,000
Finished goods	250,000

You are required to:

Prepare the following accounts to record the above transactions:

- Raw Material Stock Control Account.
- Work-in-Progress Control Account.
- Finished Goods Control Account.

(05 marks)

Question 06

Heritage (Pvt) Ltd. produces handmade products to international market. **Perera** is an employee of **Heritage (Pvt) Ltd.**

Normally 16 hours is required to complete one unit and the rate per labour hour is Rs.400/-.

The following information is also available:

- (1) If employees report to work all working days of the month, each employee is entitled for an attendance allowance of Rs.10,000/-.
- (2) Employees are paid an incentive of three times of the hourly rate for the number of hours saved. Number of working days per month is 20 days and employees have to work 8 hours a day.
- (3) **Perera** saved 5 hours during the month of December 2016 and was able to report to work for all the 20 days of that month.

You are required to,

Calculate the total earnings of **Perera** for the month of December 2016. (05 marks)

End of Section B

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

Z (Pvt) Ltd. is a manufacturing company and the following information was extracted from the books of the company for the quarter ended 31st December 2016:

(1)

	Per unit (Rs.)
Direct Material Cost	325
Direct Labour Cost	275
Variable Overheads	50
Selling Price	1,000

(2) Actual and budgeted fixed production overheads for the quarter were Rs.3,000,000/- and Rs.3,300,000/- respectively. Fixed overheads are absorbed on per unit basis and budgeted production for the quarter ended 31st December 2016 was 110,000 units.

(3) Details of other overheads for the quarter ended 31st December 2016 were as follows:

	Variable costs (Rs.'000)	Total costs (Rs.'000)
Administration Expenses	3,600	6,400
Distribution Expenses	1,350	3,000

(4) 90,000 units have been manufactured and 70,000 units were sold during the quarter. There was no opening stock as at 01st October 2016.

You are required to,

Prepare Income Statement under absorption costing method for the quarter ended 31st December 2016. (10 marks)

Question 08

The following information is extracted from **X Ltd.** :

(1) Forcasted sales and purchases for the quarter ended 31st March 2017 are as follows:

	January 2017	February 2017	March 2017
Sales (in units)	12,000	8,000	15,000
Purchases (in units)	9,000	5,000	8,000

(2) Selling price per unit is Rs.120/-. 40% of the sales are on credit basis and should be settled in the following month.

(3) Purchase price per unit is Rs.60/- and all the purchases are made on credit basis. Suppliers have given two months credit period to settle their invoices.

(4) Purchase price per unit and selling price per unit remained same during the quarter ending 31st March 2017.

(5) During the quarter, salaries and wages per month is expected to be Rs.180,000/- and are paid in the following month.

(6) Forcasted other expenses for the quarter are as follows:

	January 2017	February 2017	March 2017
Distribution Expenses (Rs.)	200,000	180,000	240,000
Depreciation (Rs.)	30,000	30,000	30,000
Other Administration Expenses (Rs.)	120,000	140,000	180,000

(7) Distribution expenses and other administration expenses are paid in the same month.

(8) Purchases and sales for the quarter ended 31st December 2016 were as follows:

	October 2016	November 2016	December 2016
Sales (in units)	10,000	9,000	11,000
Purchases (in units)	8,000	7,000	9,000

(9) Cash balance as at 01st January 2017 is Rs.175,000/-.

You are required to,

Prepare the cash budget for the quarter ending 31st March 2017 on monthly basis. (10 marks)

Question 09

Meda Engineering (Pvt) Ltd. is a construction company which has three Production Departments (Fabrication, Assembly and Finishing) and two Service Departments (Maintenance and Stores).

The following information was extracted from the budget for the quarter ending 31st March 2017:

Costs		Rs.'000
Electricity		1,100
Staff welfare		350
Rent		5,200
Staff Insurance		600
Depreciation	- Plant	7,200
	- Office Equipment	300
Other Overheads	- Fabrication	2,950
	- Assembly	3,050
	- Finishing	2,380
	- Maintenance	240
	- Stores	930

Other available information are as follows:

	Production Departments			Service Departments		Total
	Fabrication	Assembly	Finishing	Maintenance	Stores	
Usage of electricity (<i>kilowatt</i>)	550	330	110	60	50	1,100
Floor area (<i>Square feet</i>)	1,200	2,400	1,200	600	600	6,000
No. of staff	5	6	6	2	1	20
Cost of plant (<i>Rs.'000</i>)	158,400	72,000	43,200	14,400	-	288,000
Cost of office equipment (<i>Rs.'000</i>)	2,800	5,600	2,200	700	700	12,000
Apportioning cost of service departments:						
Maintenance	40%	30%	30%	-	-	-
Stores	30%	40%	30%	-	-	-

You are required to,

Prepare a statement showing how the overheads are allocated and apportioned to each of the Production Departments. (10 marks)

End of Section C

SECTION D

A compulsory question

(25 marks)

Question 10

- (A) **United chemists** is a chemical manufacturing company which uses two main processes to manufacture **chemical A**. Output of **process 1** is transferred to **process 2** and output of **process 2** is sold as finished product **A**.

The following information were extracted for the month of December 2016:

	Process 1		Process 2	
	Units (in liters)	Rs.'000	Units (in liters)	Rs.'000
Direct materials	108,000	189,000	-	-
Direct labour		102,600		105,750
Production overheads		94,500		127,000
Output transferred to process 2	95,000	-	-	-
Finished output A	-	-	91,000	-

Expected normal loss for both processes is 5% from direct materials introduced and scrap items could be sold for Rs.5/- per liter.

There was no opening and closing work-in-progress in both processes.

You are required to:

Prepare the following in respect of **Chemical A** for the month of December 2016:

(a) **Process 01** account.

(b) **Process 02** account.

(15 marks)

- (B) **United Ltd.** have implemented a standard costing system and the following information is relevant for its manufacturing process for the month of December 2016:

Standard cost per unit is as follows:

	Rs.
Direct Material (10 kg at Rs.150/- per kg)	1,500
Direct Labour (2 hours at Rs.400/- per labour hour)	800

Actual information for the month of December 2016 is as follows:

Production - 11,000 units.

Direct Material - 120,000 kg at Rs.140/- per kg.

Direct Labour - Rs.10,000,000/- (Rs.500/- per hour).

You are required to,

Calculate the following variances:

(a) Direct material cost variance.

(b) Direct material price variance.

(c) Direct material usage variance.

(d) Direct labour rate variance.

(e) Direct labour efficiency variance.

(10 marks)

(Total 25 marks)

ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
Level 01 Comprehension Recall & explain important information	Define	Describe exactly the nature, scope, or meaning.
	Draw	Produce (a picture or diagram).
	Identify	Recognize, establish or select after consideration.
	List	Write the connected items one below the other.
	Relate	To establish logical or causal connections.
	State	Express something definitely or clearly.
	Calculate/Compute	Make a mathematical computation
	Discuss	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	Explain	Make a clear description in detail revealing relevant facts.
	Interpret	Present in an understandable terms.
	Recognize	To show validity or otherwise, using knowledge or contextual experience.
	Record	Enter relevant entries in detail.
Summarize	Give a brief statement of the main points (in facts or figures).	

Knowledge Process	Verb List	Verb Definitions
Level 02 Application Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	Apply	Put to practical use.
	Assess	Determine the value, nature, ability, or quality.
	Demonstrate	Prove, especially with examples.
	Graph	Represent by means of a graph.
	Prepare	Make ready for a particular purpose.
	Prioritize	Arrange or do in order of importance.
	Reconcile	Make consistent with another.
	Solve	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
Level 03 Analysis Draw relations among ideas and compare and contrast / Solve open-ended problems.	Analyze	Examine in detail in order to determine the solution or outcome.
	Compare	Examine for the purpose of discovering similarities.
	Contrast	Examine in order to show unlikeness or differences.
	Differentiate	Constitute a difference that distinguishes something.
	Outline	Make a summary of significant features.