



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2018

(AA22) COST ACCOUNTING AND REPORTING

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

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

21-01-2018
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 statements is correct regarding cost accounting?

- (1) It provides information only to external parties.
- (2) It is based on historical events and transactions.
- (3) It determines cost of the unit.
- (4) It prepares the reports according to legal requirements. (02 marks)

1.2 Which one of the following is an example for a cost unit?

- (1) A hotel. (2) A bakery.
- (3) A canteen. (4) A loaf of bread. (02 marks)

1.3 Which one of the following costs is related to inventories?

- (1) Ordering cost. (2) Holding cost.
 (3) Stock out cost. (4) All of the above. (02 marks)

1.4 The following information is related to item *x* of **ABC Ltd.**:

Annual Demand	1,000 units
Annual holding cost per unit	Rs.0.20
Cost of ordering per order	Rs.100/-

You may use the following formula,
 Economic Order Quantity:

$$\sqrt{\frac{2DC_o}{C_h}}$$

Based on the above information, the Economic Order Quantity (EOQ) would be:

- (1) 10,000 units. (2) 1,000 units. (3) 100 units. (4) 10 units. (02 marks)

1.5 Time rate system is most appropriate when:

- (1) the quality of work is more important.
 (2) output of work can be measured easily.
 (3) the skilled workers are not required for the work.
 (4) the quantity of work is more important. (02 marks)

1.6 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) (*Fixed cost / Variable cost*) is the cost that varies directly and proportionately with the output or level of activity.
 (2) (*Lead time / Just-in-time*) is the period of time between placing an order and receiving the items on that order.
 (3) Profit reconciliation is required for (*non-integrated / integrated*) accounting system. (03 marks)

1.7 Match each of the overhead costs mentioned in **column A** with the most appropriate basis for apportionment given in **column B**, and write the answers in your answer booklet with the number assigned to the question:

A - Overhead Cost	B - Basis of Apportionment
(1) Staff welfare	(a) Area occupied
(2) Building maintenance	(b) Cost of machinery
(3) Depreciation on machinery	(c) No. of employees

(03 marks)

1.8 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) An advantage of Just-In-Time (JIT) system is zero breakdowns.
- (2) Budgeting, Planning and forecasting are activities of Management Accounting.
- (3) Under the integrated accounting system, cost ledger control account can be seen in the financial ledger.
- (4) Based on the nature, overheads can be classified as direct material, direct labour and other direct costs. (04 marks)

End of Section A

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

The following information is related to **Job No. 212** of **Rose Ltd.**:

Direct Material	-	Rs.17,000/-
Indirect Material	-	Rs.5,000/-
Direct Labour	-	Department 01 – 4 hours @ Rs.1,000/- per hour Department 02 – 5 hours @ Rs.1,500/- per hour
Overheads	-	Department 01 – 100% of Direct Labour Cost Department 02 – 250% of Direct Labour Cost

The company keeps a 25% profit margin on selling price.

You are required to:

Calculate the price to be charged on **Job No. 212**.

(05 marks)

Question 03

ABC Ltd. produces and sells two products **A** and **B**. The budgeted data of the company for the next quarter is as follows:

Product	Sales (Units)	Opening Stock (Units)	Closing stock (Units)
A	25,000	4,000	2,500
B	15,000	3,500	5,000

You are required to:

(a) **Prepare** the production budget for the next quarter for products **A** and **B** separately. (03 marks)

(b) **State** two(02) advantages of Budgetary Control.

(02 marks)

(Total 05 marks)

Question 04

David Ltd. a furniture manufacturing company operates an integrated accounting system.

The following transactions have been extracted from the books of accounts of the company for the month of December 2017:

	Rs.
Purchase of timber	500,000
Timber issued to production	650,000
Production overheads	400,000
Direct wages on production	250,000
Cost of production transferred to finished goods	1,205,000

Stock balances as at 01st December 2017 were as follows:

	Rs.
Raw material - timber	300,000
Work-In-Progress	250,000
Finished goods	500,000

You are required to:

Prepare the following:

- (a) Raw Material Stock Control Account. (02 marks)
- (b) Work-In-Progress Control Account. (03 marks)
- (Total 05 marks)

Question 05

The following data relates to a manufacturing company:

- Normal working hours per day - 8 hours
- Normal wage rate per hour - Rs.250/-
- Standard time allowed to produce one unit - 4 minutes
- Bonus - 50% of time saved at normal wage rate

Employee **A** has produced 3,150 units during the last month and has worked 20 days during the last month.

You are required to:

Calculate the total earning of **A** for the last month. (05 marks)

Question 06

JPG Engineering (Pvt) Ltd. has undertaken a construction contract (**Contract No. 77**) and it commenced on 01st January 2017.

The following information relates to **Contract No.77** of the company for the year ended 31st December 2017:

	Rs.
Material issued	4,800,000
Direct wages and salaries paid	2,270,000
Plant installed (on 01 st January 2017)	3,500,000
Material at site as at 31 st December 2017	1,600,000

Plant is depreciated at 20% per annum on the straight line basis.

You are required to:

Prepare the contract account and **Recognize** the cost of the contract as at 31st December 2017.

(05 marks)

————— *End of Section B* —————

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

Ivon Ltd. a manufacturing company produces product **M** using two consecutive processes. The completed output of **Process I** is immediately transferred to **Process II**.

The following information is related to **Process I** for the month of December 2017:

Direct material introduced to Process I	Rs.244,000/- (14,000 kg)
Direct wages	Rs.35,200/-
Production overheads	Rs.26,000/-
Normal loss	10% of material introduced and scrap items can be sold at Rs.2/- per kg
Output transferred to Process II	12,000 kg

There was no opening or closing work-in-progress.

You are required to:

Prepare the **Process I** account.

(10 marks)

Question 08

Roma Ltd. manufactures product **Y** and the following information relates to product **Y** for the month of December 2017:

(1)

Opening stock	(units)	600
Production	(units)	3,100
Sales	(units)	3,600
Selling price per unit	(Rs.)	100
Variable production cost per unit	(Rs.)	50

(2) Fixed overheads are absorbed on the production unit basis and fixed overhead for the month was as follows:

	Budgeted (Rs.)	Actual (Rs.)
Production overheads	75,000	77,500
Administration and selling overheads	25,000	25,000

(3) Budgeted sales for the month was 3,000 units.

You are required to:

(a) **Prepare** the Income Statement under the marginal costing method for the month ended 31st December 2017. (07 marks)

(b) **Calculate** Break-Even Point (BEP) in units. (03 marks)
(Total 10 marks)

Question 09

ABC House (Pvt) Ltd. has two production departments (**Assembling** and **Finishing**) and two service departments (**Maintenance** and **Stores**). The budgeted information for the quarter ending 31st March 2018 is as follows:

	Production Departments		Service Departments	
	Assembling	Finishing	Maintenance	Stores
Indirect materials (Rs.)	3,676,000	2,559,000	1,225,000	550,000
Direct labour hours	43,200	42,000	-	-
Floor area (square feet)	2,000	1,200	400	400
Cost of machinery (Rs.)	3,500,000	2,625,000	2,625,000	-
No. of employees	200	500	200	100
Maintenance hours	380	520	200	100

Other overheads for the quarter are as follows:

	Rs.
Building rent	800,000
Depreciation on machinery	1,750,000
Maintenance cost	438,000
Staff welfare	625,000

Service department costs are apportioned between two production departments as follows:

Service Departments	Production Departments	
	Assembling	Finishing
Maintenance	65%	35%
Stores	75%	25%

You are required to:

- (a) **Prepare** a statement showing how the overheads are allotted and apportioned to each of the production departments. (07 marks)
- (b) **Calculate** the overhead absorption rate per direct labour hour of each production department. (03 marks)
- (Total 10 marks)

End of Section C

SECTION D

A compulsory question

(25 marks)

Question 10

- (A) **Niko Ltd.** a ceiling fans manufacturing company uses a standard costing system. Budgeted production and sales for the month of December 2017 were 250 units and standard selling price per ceiling fan is Rs.4,500/-.

- (1) Standard cost card per ceiling fan is as follows:

		Per Unit (Rs.)
Direct material	2 kg @ Rs.750/- per kg	1,500
Direct labour	5 hours @ Rs.150/- per hour	750
Variable overheads		350
Total		2,600

- (2) Actual costs for the month of December 2017 were as follows:

Direct material used (600 kg)	(Rs.)	444,000
Direct wages paid (1,000 hours)	(Rs.)	162,000
Variable overheads	(Rs.)	90,000
Actual production	(Units)	240
Actual sales - 240 units @ Rs.4,000/-	(Rs.)	960,000

- (3) There are no opening or closing stocks of raw material, finished goods and work-in-progress.

You are required to:

Calculate the following variances for the month of December 2017:

- (a) Direct Material Price Variance.
- (b) Direct Material Usage Variance.
- (c) Direct Material Cost Variance.
- (d) Direct Labour Rate Variance.
- (e) Direct Labour Efficiency Variance.
- (f) Direct Labour Cost Variance.
- (g) Variable Overhead Cost Variance.

(14 marks)

(B) The following information was extracted from the budgeted information of **Net (Pvt) Ltd.:**

(1) Forecasted sales and purchases for the first four months of 2018 are as follows:

	January 2018	February 2018	March 2018	April 2018
Sales (in units)	20,000	15,000	22,000	18,000
Purchases (in units)	18,000	20,000	15,000	20,000

- (2) Selling price per unit is Rs.25/-. 50% of sales of each month are on cash basis and balance receivable in the following month.
- (3) Sales staff is entitled for a commission of 5% on total sales of each month which is to be paid in the following month.
- (4) Purchase price per unit is Rs.18/- and all purchases are made on cash basis.
- (5) The company intends to purchase a new software system in February 2018 and the total cost of the system which is to be paid during February 2018 would be Rs.225,000/-.
- (6) Salary per month is Rs.85,000/- and all salaries are paid in the same month.
- (7) Cash balance as at 01st February 2018 would be Rs.275,000/-.

You are required to:

Prepare the cash budget of **Net (Pvt) Ltd.** from February 2018 to April 2018 on monthly basis.

(11 marks)

(Total 25 marks)

End of Section D

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.