

## ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

## AA2 EXAMINATION - JANUARY 2019

## (AA22) COST ACCOUNTING AND REPORTING

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

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

27-01-2019  
Morning  
[8.45 – 12.00]

No. of Pages : 10  
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 only 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 costs is considered as part of the prime cost?

- (1) Indirect material. (2) Indirect labour.  
(3) Direct material. (4) Production overhead. (02 marks)

**1.2** The following information relates to the item "P" of PQ Ltd. :

Minimum usage	600 kg
Maximum usage	900 kg
Re-order quantity	2,750 kg
Lead time	3 - 9 months

Based on the above information, the Re-order level for item "P" would be:

- (1) 8,100 kg. (2) 1,800 kg. (3) 5,400 kg. (4) 8,250 kg. (02 marks)

**1.3** A manufacturing company pays Rs.60/- per hour for a worker and the expected output per hour is 10 units. An incentive is paid for additional units at Rs.8/- per unit. If a worker produced 82 units within 7 hours of work, his incentive would be:

- (1) Rs.72/-                      (2) Rs.420/-                      (3) Rs.516/-                      (4) Rs.96/-.

(02 marks)

**1.4** Allocation of overhead is:

- (1) The process of spreading overhead between cost centres on a rational basis.  
 (2) The process of charging overhead costs to a particular department or cost centre.  
 (3) The process of attributing overhead to a cost unit.  
 (4) The process of charging the difference between absorbed overhead and actual overhead.

(02 marks)

**1.5** The following information was extracted from **Douglas Manufacturing Company** for the year 2017:

	Actual	Budgeted
Production overhead cost (Rs.)	90,000	110,000
Direct labour (hours)	10,500	11,000

Based on the above information, production overhead cost is:

- (1) Under absorbed by Rs.15,000/-                      (2) Over absorbed by Rs.15,000/-.  
 (3) Under absorbed by Rs.20,000/-                      (4) Over absorbed by Rs.20,000/-.

(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) According to the nature, costs can be classified as direct costs and indirect costs.  
 (2) Uniqueness is a feature of a good coding system.  
 (3) Job satisfaction is a reason for labour turnover.

(03 marks)

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

Column A	Column B
(1) Two bin system	(a) Assumes that holding cost per unit is constant.
(2) Just in time (JIT) production system	(b) Maintains stocks at two locations.
(3) Economic Order Quantity(EOQ)	(c) Works on a demand-pull basis.

(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) An objective of ..... (*Financial Accounting / Cost Accounting*) is ascertainment of cost per unit.
- (2) Under the ..... (*Economic Order Quantity method / Constant Order Cycle System*), stock levels are reviewed at fixed intervals and a replenishment order is placed if necessary.
- (3) ..... (*Piece rate system / Time rate system*) is a suitable method when the quality of work is more important than the quantity.
- (4) ..... (*Cost Pool / Cost Driver*) is the unit of an activity that causes the change in the cost of an activity. (04 marks)

*End of Section A*

### **SECTION B**

Five (05) compulsory questions  
(Total 25 marks)

#### Question 02

The following information relates to **Job No. 8000** of **Rose Traders**:

Direct material	Rs.125,000/-
Direct labour – Department X	3 hours @ Rs.1,000/- per hour
– Department Y	6 hours @ Rs.500/- per hour
Overhead – Department X	150% of direct labour cost of Department X
– Department Y	250% of direct labour cost of Department Y

**You are required to:**

**Calculate** the following for **Job No. 8000**:

- (a) Total cost. (03 marks)
- (b) Selling price to be charged if **Rose Traders** keeps 25% profit margin on cost. (02 marks)

(Total 05 marks)

### Question 03

Perera PLC produces and sells two products, X and Y. The following budgeted information was extracted from the records of the company for the quarter ending 31<sup>st</sup> December 2019:

	Per unit requirement	
	X (in kg)	Y (in kg)
Raw material – A	2	3
Raw material – B	4	5

It was budgeted to produce 1,500 units of X and 2,000 units of Y respectively for the quarter ending 31<sup>st</sup> December 2019.

**You are required to:**

**Prepare** the raw material usage budget (in kilograms) for raw material A and B for the quarter ending 31<sup>st</sup> December 2019. (05 marks)

### Question 04

The following budgeted information was extracted from a manufacturing company for the quarter ending 30<sup>th</sup> June 2019:

Budgeted production overhead (Rs.)	2,300,000
Budgeted direct material cost (Rs.)	1,800,000
Budgeted direct labour cost (Rs.)	1,900,000
Budgeted production (in units)	11,500
Budgeted machine hours	57,500

**You are required to:**

**Calculate** the production overhead absorption rate using the following methods:

- (a) Production units method.
- (b) Machine hours method.

(05 marks)

### Question 05

**A (Pvt) Ltd.** is a manufacturing company which has two production departments (**X** and **Y**) and one service department (**B**).

The following budgeted information for the quarter ending 31<sup>st</sup> March 2019 has been extracted:

	Departments		
	X	Y	B
Indirect material and indirect wages (Rs.)	325,000	275,000	125,000
Number of employees	50	25	10
Usage of electricity (Kilowatt)	750	1,000	250
Cost of machinery (Rs.'000)	1,000	750	250
Apportioning cost of the <b>Department B</b>	60%	40%	-

Other overheads are extracted from the budget as follows:

	Rs.
Electricity	425,000
Staff welfare	85,000
Depreciation on machinery	400,000

**You are required to:**

**Prepare** a statement showing how the overheads are allocated and apportioned to each of the production departments. (05 marks)

### Question 06

**MNR Construction Ltd.** started to construct a shopping complex and the construction of the shopping complex commenced on 01<sup>st</sup> April 2017.

The following information relates to this construction contract for the year ended 31<sup>st</sup> March 2018:

	Rs.
Material issued to the site	5,600,000
Direct wages paid	1,800,000
Material returned from the site	250,000
Plant and machinery installed (on 01 <sup>st</sup> April 2017)	10,000,000
Material at site as at 31 <sup>st</sup> March 2018	1,200,000

Plant and machinery are depreciated at 10% per annum on the straight-line basis.

**You are required to:**

**Recognize** the cost of the contract as at 31<sup>st</sup> March 2018. (05 marks)

End of Section B

## SECTION C

Three (03) compulsory questions

(Total 30 marks)

### Question 07

**Ultra Ltd.** manufactures a single product and the following information related to **Ultra Ltd.** for the month of December 2018:

(1)

	Per Unit (Rs.)
Selling price	1,100
Direct material	450
Direct labour	200
Variable overhead	150

(2) Production and sales for the month of December 2018 were 950 units and 900 units respectively.

(3) Fixed overhead were as follows:

	Budgeted (Rs.)	Actual (Rs.)
Production overhead	90,000	100,000
Administration overhead	36,000	36,000
Distribution overhead	45,000	45,000

(4) Budgeted production for the month was 1,000 units.

(5) There were no opening stocks as at 01<sup>st</sup> December 2018.

(6) Fixed overhead are absorbed on the production unit basis.

**You are required to:**

(a) **Prepare** the income statement under Absorption Costing method for the month ended 31<sup>st</sup> December 2018. (08 marks)

(b) **State** two(02) advantages of Marginal Costing method when compared with Absorption Costing method. (02 marks)

(Total 10 marks)

### Question 08

**Nimal Traders** operates a non-integrated accounting system. The company recorded a profit of Rs.604,500/- as per financial accounts and a profit of Rs.927,000/- as per cost accounts for the month ended 31<sup>st</sup> December 2018.

(1) The stock valuation as per financial accounts and cost accounts was as follows:

	As per Cost Accounts (Rs.)	As per Financial Accounts (Rs.)
Opening Stocks:		
Raw material	385,000	325,000
Work-in-progress	185,000	165,000
Finished goods	242,000	256,000
Closing Stocks:		
Raw material	405,000	425,000
Work-in-progress	232,500	218,000
Finished goods	292,000	275,000

- (2) Director fee of Rs.150,000/- and interest expenses of Rs.75,000/- have been considered in the financial accounts only.
- (3) Overhead cost as per the cost accounts was Rs.328,000/- and it was Rs.305,000/- as per the financial accounts.
- (4) Income tax expenses of Rs.175,000/- which was recorded in the financial accounts have not been considered in the cost accounts.

**You are required to:**

**Prepare** a profit reconciliation statement between cost accounts and financial accounts for the month ended 31<sup>st</sup> December 2018. (10 marks)

### Question 09

**Chathu Ltd.** produces **Product D** through two consecutive processes. The output of **Process 01** is immediately transferred to **Process 02** and completed units of **Process 02** are sold as finished products.

The following information relates to **Process 02** for the month of December 2018:

Material transferred from <b>Process 01</b>	Rs.958,200/- (125,000 units)
Normal loss	5% of the output of <b>Process 01</b> , and scrap items can be sold for Rs.10/- per unit.
Direct labour and production overhead cost	Rs.410,550/-
Finished <b>Product D</b>	115,000 units

There were no opening and closing work-in-progress.

**You are required to:**

**Prepare** the **Process 02** account.

(10 marks)

End of Section C

## SECTION D

A compulsory question

(25 marks)

### Question 10

- (A) **Zeena (Pvt) Ltd.** purchases and sells electronic equipment. The company is preparing the budget for the quarter ending 30<sup>th</sup> June 2019. The following forecasted sales were extracted from the company's records for the year 2019:

	March	April	May	June
Sales (in units)	1,800	1,500	1,300	2,000

The following information has also been provided:

- (1) Selling price per unit is Rs.8,000/- up to 31<sup>st</sup> March 2019 and it will be increased to Rs.10,000/- from 01<sup>st</sup> April 2019.
- (2) 60% of the sales of each month will be on cash basis and balance will be receivable in the following month.
- (3) The company's purchases in a month will be sold in the same month.
- (4) All purchases are made on cash basis and the purchase price per unit is Rs.6,000/-.
- (5) Forecasted expenses per month would be as follows and these expenses will be paid in the following month:

	Rs.
Administration expenses (excluding salaries)	2,800,000
Distribution expenses	2,600,000

- (6) Depreciation charge of Rs.150,000/- per month is included under the administration expenses.
- (7) An office equipment is expected to be sold in June 2019 for Rs.480,000/-.
- (8) Forecasted salaries for a month is Rs.600,000/- and is paid in the same month.
- (9) Cash balance as at 01<sup>st</sup> April 2019 is Rs.3,500,000/-.

**You are required to:**

**Prepare** the cash budget of the company for the quarter ending 30<sup>th</sup> June 2019 on monthly basis. (10 marks)

- (B) (a) Standard costing is a technique widely used by organizations with a series of common operations which are repetitive in nature.

**You are required to:**

**State** three(03) purposes of using standard costing in an organization. (03 marks)



- (b) **Auto Carpet (Pvt.) Ltd.** manufactures car carpets and operates a standard costing system. The following information is relating to the month of December 2018:

- (1) The standard cost card is as follows:

		<b>Cost per Carpet (Rs.)</b>
Direct material	2 kg @ Rs.400/- per kg	800
Direct labour	1.5 hours @ Rs.300/- per hour	450
Variable production overhead	1.5 hours @ Rs.100/- per hour	150
Fixed production overhead	Rs.200/- per direct labour hour	300
<b>Total</b>		<b>1,700</b>

- (2) Budgeted production for the month of December 2018 was 3,500 units and budgeted fixed production overhead for the month was Rs.1,200,000/-.
- (3) Actual information for the month of December 2018 was as follows:

		<b>Rs.</b>
Direct material consumed for the production	6,500 kg @ Rs.380/- per kg	2,470,000
Direct labour hours paid	4,750 hours @ Rs.310/- per hour	1,472,500
Variable overhead		850,000
Fixed production overhead		1,000,000

- (4) Actual production for the month was 3,000 units.

**You are required to:**

**Calculate** the following variances:

- (i) Direct Material Price Variance.
- (ii) Direct Material Usage Variance.
- (iii) Direct Material Cost Variance.
- (iv) Direct Labour Rate Variance.
- (v) Direct Labour Efficiency Variance.
- (vi) Fixed Production Overhead Expenditure Variance. (02 marks each, 12 marks)

(Total 25 marks)

*End of Section D*

## ACTION VERB CHECK LIST

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

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

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