



Association of Accounting Technicians of Sri Lanka

January 2016 Examination - AA2 Level

**Questions and Suggested Answers
Subject No : AA22**

**COST ACCOUNTING AND REPORTING
(CAR)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA
EDUCATION AND TRAINING DIVISION

AA2 Examination - January 2016
(22) Cost Accounting and Reporting

SUGGESTED ANSWERS

SECTION - A

Objective Test Questions (OTQs)

Seven (07) compulsory questions

(Total 20 Marks)

Suggested Answers to Question One:

1.1 (4)

1.2 (2)

Overhead absorption rate = $450,000 / 15,000 = \text{Rs. } 30/-$ per unit

Absorbed overheads = $30 \times 14,000 = \text{Rs. } 420,000$

Actual overheads = $\text{Rs. } 350,000$

The under/ over absorption = $420,000 - 350,000 = \text{Rs. } 70,000$ over absorbed

1.3 (2)

1.4 (1)

$$\text{EOQ} = \sqrt{\frac{2 \times 3125 \times 10}{1}}$$
$$= 250$$

1.5 (1) Prime cost

(2) Predetermined

(3) Fixed Cost

(4) Financial Accounting

(5) Material Requisition Note

1.6 (1) True

(2) False

(3) True

1.7

Cost Pool		Cost Driver
(1) Material ordering cost	→	(b) Number of orders
(2) Maintenance cost	→	(d) Number of maintenance hours
(3) Machine running cost	→	(a) Number of machine hours
(4) Quality control cost	→	(c) Number of inspections

End of Section A

SECTION -B

Answers to ALL questions are expected
(Total 25 Marks)

Suggested Answers to Question Two:

	1st Week		2nd Week
Standard units ($8 \times 5 \times 60$) / 150	16		16
Actual units produced	14		21
Additional Units	-		5
Basic pay (650×14)	9,100	(650×21)	13,650
Add : Bonus	-	($5 \times 60\% \times 650$)	1,950
	9,100		15,600
Total earnings for 2 weeks	24,700		

Suggested Answers to Question Three:

Date	Receipts			Issues			Balance		
	Qty	Per unit	Value	Qty	Per unit	Value	Qty	Per unit	Value
01.12.15							450.00	10.00	4,500.00
05.12.15	550.00	13.00	7,150				1,000.00	11.65	11,650.00
11.12.15				150.00	11.65	1,747.50	850.00	11.65	9,902.50
25.12.15	450.00	14.00	6,300				1,300.00	12.46	16,202.50
29.12.15				200.00	12.46	2,492.69	1,100.00	12.46	13,709.81

Value of the inventories as at 31.12.15 - 13,709.81

Suggested Answers to Question Four:

Contribution per unit = Rs. 1,200 - Rs. 900
= Rs. 300/-

a) BEP = $\frac{\text{Fixed Cost}}{\text{Contribution / unit}}$
 $\frac{600,000}{300}$
= 2,000 units

b)	Target Profit	900,000	
	Fixed cost	600,000	
	Total Contribution	1,500,000	
	Required Sales	=	$\frac{FC + \text{Target Profit}}{\text{Contribution / Unit}}$
		=	$\frac{600,000 + 900,000}{300}$
		=	<u>5,000 units</u>

Suggested Answers to Question Five:

			Rs.
Direct Material	A	(5 x 20)	100
	B	(3 x 25)	75
Direct Labour (2 x 20)			40
VOH			25
FOH (40 x 150%)			60
Total cost			300
Profit margin (300/80x20)			75
Selling Price			375

Suggested Answers to Question Six:

- a) Direct Labour Rate variance = Act Hours (Std Rate – Act Rate)
 5,000 (200 -210)
 5000 x -10
(50,000) Adverse
- b) Direct Labour - Std rate per hour (Std Hours of actual production – Act hours worked)
 efficiency Variance
 200 (2600 x2 – 5000)
 200x 200
40,000 Favourable
- c) ***Option I***
 Direct Labour cost Variance = -50,000 + 40,000
 = **(10,000) Adverse**
- Option II***
 Direct Labour cost Variance = Standard DL cost of actual production - Actual DL costs
 (2,600 × 400)
 1,040,000 - 1,050,000
(10,000) Adverse

End of Section B

SECTION -C

Answers to ALL questions are expected
(Total 30 Marks)

Suggested Answers to Question Seven:

(Rs. '000)

	Production			Services	
	P	Q	R	X	Y
Indirect material	450.00	470.00	370.00	120.00	40.00
Indirect wages	130.00	150.00	210.00	10.00	8.00
Building insurance	80.00	120.00	110.00	20.00	20.00
Electricity	600.00	768.00	552.00	288.00	192.00
Maintenance on PPE	350.00	465.00	680.00	6.00	6.00
Depreciation	350.00	465.00	680.00	6.00	6.00
Building rent	160.00	240.00	220.00	40.00	40.00
	2,120.00	2,678.00	2,822.00	490.00	312.00
Apportion					
X	245.00	98.00	147.00	(490)	
Y	62.40	124.80	124.80		(312)
Total Overhead	2,427.40	2,900.80	3,093.80		

		P	Q	R
(b)	Overhead Absorption Rate	$\frac{2,427.40}{200}$	$\frac{2,900,800}{300,000}$	$\frac{3,093.80}{100}$
		<u>12.14 per hour</u>	<u>9.67 per hour</u>	<u>30.94 per hour</u>

Suggested Answers to Question Eight:

(a) **Production Cost Evaluation Statement**

	Material	Labour	Overhead
Output	4200	4200	4200
WIP	800	600	480
Abnormal Gain	(60)	(60)	(60)
Equivalent Units	4,940	4,740	4,620
Cost	129,740	52,140	41,580
Normal loss	(1,300)		
	128,440	52,140	41,580
Per unit rate	26	11	9

(b)

Process 2 Account

Description	Qty	Value	Description	Qty	Value
Input Material	5,200	129,740	Normal Loss	260	1,300
Direct Labour		52,140	Out Put	4,200	193,200
Overheads		41,580	WIP	800	31,720
Abnormal Gain	60	2,760			
	5,260	226,220		5,260	226,220

$$\begin{aligned} \text{WIP} &= (800 \times 26) + (600 \times 11) + (480 \times 9) \\ &= \underline{\underline{31,720}} \end{aligned}$$

Suggested Answers to Question Nine:

	Rs.	Rs.
Profit As per Cost Accounts		35,700.00
<i>Add -</i>		
Opening WIP	1,900.00	
Closing Raw Material	14,800.00	
Overhead Overcharged in cost accounts	10,000.00	
Interest Income	8,000.00	
Notional Rent	47,800.00	82,500.00
		118,200.00
<i>Less -</i>		
Opening Raw Materials	51,250.00	
Opening Finished Goods	49,650.00	
Closing WIP	19,300.00	
Closing Finished Goods	25,700.00	
Provision for Bad debt	4,600.00	
Depreciation	8,800.00	
Provision for Income Tax	45,000.00	(204,300.00)
Net Loss After Tax as per Financial Account		(86,100.00)

End of Section C

Answers to ALL questions are expected
(Total 25 Marks)

Suggested Answers to Question Ten:

a) **Teena Ltd**

Operating Statement

for the month ended 31st December 2015

		Rs.	Rs.
Budgeted sales		(55 * 10000)	550,000.00
Cost of Sales		(43 * 10000)	(430,000.00)
			120,000.00
Budgeted Admin & Selling Expenses			(23,000.00)
Budgeted Profit			97,000.00
Variations	F (Rs)	A (Rs)	
DM price Variance	2,000.00		
DM Usage Variance		3,000.00	
DL Rate Variance		1,500.00	
DL Efficiency Variance	4,000.00		
Variable Production OH expenditure	1,200.00		
Variable Production OH efficiency		1,800.00	
FOH Volume Variance		1,000.00	
FOH Expenditure		5,000.00	
Sales Margin Price	2,000.00		
Sales Margin Volume	1,500.00		
	10,700.00	12,300.00	(1,600.00)
			95,400.00
Administration and dist. cost variance			(2,000)
Actual Profit			93,400.00

b) **Teena Ltd**

Cash Budget

for the Quarter ended 31/03/2016

	January	February	March
Receipts			
Cash Sales (W01)	288,000.00	264,000.00	312,000.00
Received from debtors (W 01)	297,000.00	432,000.00	396,000.00
Disposal of Motor vehicle			250,000.00
	585,000.00	696,000.00	958,000.00
Payments			
Raw material purchases	179,000.00	216,000.00	198,000.00
Wages and Overhead expenses (W 02)	300,000.00	275,000.00	325,000.00
Distribution Expenses	15,000.00	15,000.00	15,000.00
Administration Expenses (W 03)	10,000.00	10,000.00	10,000.00
Acquisition of Office equipment		60,000.00	
	504,000.00	576,000.00	548,000.00
B.B.F	189,000.00	270,000.00	390,000.00
B.C.F	270,000.00	390,000.00	800,000.00

Workings

W 01

	December	January	February	March
Receipts From Debtors				
Sales	495,000.00	720,000.00	660,000.00	780,000.00
	(55 *9000)	(60 * 12000)	(60 * 11000)	(60 * 13000)
Cash Sales		288,000.00	264,000.00	312,000.00
Credit sales	297,000.00	432,000.00	396,000.00	468,000.00

W 02

	January	February	March
Wages and Overhead expenses (W 02)	300,000.00 (12000*25)	275,000.00 (11000*25)	325,000.00 (13000*25)

W 03

Total Expenses	60,000.00
Per month	20,000.00
Depreciation	(10,000.00)
	<u>10,000.00</u>

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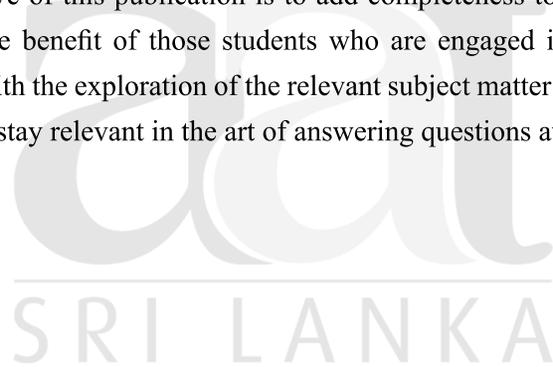
End of Section D

Notice :

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These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”.

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