



Association of Accounting Technicians of Sri Lanka

July 2016 Examination - AA2 Level

**Questions and Suggested Answers
Subject No : 22**

**COST ACCOUNTING AND REPORTING
(CAR)**

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EDUCATION AND TRAINING DIVISION

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

SUGGESTED ANSWERS

SECTION - A

Answers to ALL questions are expected

(Total 20 marks)

Suggested Answers to Question One:

1.1 – (1)

1.2 – (3)

1.3 – (4)

1.4 – (1)

Overhead absorption rate	=	$\frac{120,000.00}{20,000.00}$	=	Rs.6/-
Total Overhead absorbed	=	18,000 Hrs x Rs.6/-	=	108,000.00
Actual overhead cost	=		=	100,000.00
Overhead cost over absorbed	=		=	<u>8,000.00</u>

1.5 – (1)

- 1.6 A. Dissatisfaction
B. Activity Based Costing (ABC)
C. Integrated

- 1.7 A. False
B. True
C. True
D. True

- 1.8 1. C
2. A
3. B

End of Section A

SECTION -B

Five (05) compulsory questions
(Total 25 Marks)

Suggested Answers to Question Two:

	A	B
Production – Shirts	80	100
Standard time for the production in hours	40 hrs (80*30/60Min)	50 hrs (100*30/60Min)
Actual hours spent during the week	40	40
Time saving in hours	-	10
Bonus on time saving @150*1.25	-	1,875
Normal wage @150/- per hours	6,000	6,000
Earnings	6,000	7,875

(05 marks)

Suggested Answers to Question Three:

M & M Ltd.

Stores Ledger for the month of June 2016 (FIFO Method)

Date	Description	Receipt			Issue			Balance Rs.		
		Qty	Rate	Value	Qty	Rate	Value	Qty	Rate	Value
01-06-16	Opening Balance							800	25	20,000
03-06-16	Purchase	650	28	18,200				800	25	20,000
								650	28	18,200
								1,450		38,200
08-06-16	Issue				800	25	20,000			
					50	28	1,400			
					850		21,400	600	28	16,800
25-06-16	Purchase	850	24	20,400				600	28	16,800
								850	24	20,400
								1,450		37,200
30-06-16	Issue				600	28	16,800			
					150	24	3,600			
					750		20,400	700	24	16,800

(05 marks)

Suggested Answers to Question Four:

Benrice Ltd.
Production Budget for the Quarter Ending 30/09/2016

In units	A	B
Budgeted sales	12,000	16,000
Stock as at 30/09/2016	1,400	1,700
	13,400	17,700
Stock as at 01/07/2016	(1,000)	(1,500)
Budgeted Production	12,400	16,200

(05 marks)

Suggested Answers to Question Five:

Job 1198				Rs.
Direct Material				34,000
Direct Labour	Assembly	12h@1,500/-	18,000	
	Finishing	8h@2,500/-	20,000	38,000
Overhead	Assembly	12h@1,000/-	12,000	
	Finishing	8h@1,750/-	14,000	26,000
Production cost				98,000
Margin 25% on the P. cost				24,500
Selling Price				122,500

(05 marks)

Suggested Answers to Question Six:

Selling Price	=	Rs. 200
Variable Cost	=	(Rs. 120)
Contribution	=	<u>Rs. 80</u>

$$\text{a BEP in Units} = \frac{\text{Fixed Cost}}{\text{Contribution}} = \left(\frac{180,000}{12} \right) \div 80 = \underline{\underline{187.5 \text{ units}}}$$

$$\text{b Margin of safety in Units} = \text{Target sales in Units} - \text{BEP in Units} = \underline{\underline{2,562.5 \text{ units}}}$$

2,750 - 187.5

(05 marks)

End of Section B

Three (03) compulsory questions
(Total 30 Marks)

Suggested Answers to Question Seven:

Moon Limited
Cash Budget for the quarter ending 30/09/2016

	Jul-16	Aug-16	Sep-16	Total
Receipts				
Cash sales (w1)	518,000.00	592,000.00	666,000.00	1,776,000.00
Total receipt	518,000.00	592,000.00	666,000.00	1,776,000.00
Payments				
Suppliers' settlement (w2)	280,000.00	300,000.00	320,000.00	900,000.00
Salaries and wages	140,000.00	140,000.00	140,000.00	420,000.00
Admin and distribution expenses	25,000.00	25,000.00	25,000.00	75,000.00
Purchase of machinery	-	250,000.00	-	250,000.00
Total payments	(445,000.00)	(715,000.00)	(485,000.00)	(1,645,000.00)
Net cash flows	73,000.00	(123,000.00)	181,000.00	131,000.00
Balance as at 01/07/2016	148,000.00	221,000.00	98,000.00	148,000.00
Balance as at 30/09/2016	221,000.00	98,000.00	279,000.00	279,000.00

W1 - Cash sales	Jun-16	Jul-16	Aug-16	Sep-16
Sales units		14,000.00	16,000.00	18,000.00
Unit price		37.00	37.00	37.00
Cash sales		518,000.00	592,000.00	666,000.00
W2 - Payments to suppliers	Jun-16	Jul-16	Aug-16	Sep-16
Purchase units	14,000.00	15,000.00	16,000.00	17,000.00
Unit price	20	20	20	20
Credit purchase	280,000.00	300,000.00	320,000.00	340,000.00
Payment to suppliers		280,000.00	300,000.00	320,000.00

(10 marks)

Suggested Answers to Question Eight:

Overhead apportionment statement May 2016

Description	Apportionment basis	Total cost	Production Dep.		Service Dep.	
			X	Y	Packing	Maintenance
Indirect material	Allocation	450,000	100,000	150,000	125,000	75,000
Indirect Labour	Allocation	31,500	10,000	5,000	1,500	15,000
Depreciation	Machine value	600,000	200,000	300,000	-	100,000
Insurance	Machine value	150,000	50,000	75,000	-	25,000
Staff welfare	No. of employees	56,000	20,000	12,000	20,000	4,000
Building rent	Square feet	160,000	40,000	60,000	40,000	20,000
			420,000	602,000	186,500	239,000
Packing dept.	50%-50%	-	93,250	93,250	(186,500)	
Maint. dept.	55%-45%	-	131,450	107,550		(239,000)
Total cost		1,447,500	644,700	802,800	-	-

(10 marks)

Suggested Answers to Question Nine:

Deep Products Ltd, Profit Reconciliation, Quarter Ending 30th June 2016

	Rs.	Rs.
Profit as per cost accounts		398,200
Add:		
Opening finished goods	4,500	
Closing finished goods	4,100	
Profit on disposal	27,600	
Rent	30,000	
Overhead	8,500	74,700
		472,900
Less:		
Opening Raw Materials	1,300	
Opening WIP	1,500	
Closing Raw Materials	10,700	
Closing WIP	7,900	
Income Tax	51,000	
Depreciation	59,700	(132,100)
Profit as per Financial Accounts		340,800

(10 marks)

End of Section C

A compulsory question
(Total 25 Marks)

Suggested Answers to Question Ten:

A)

Process Account 1

Description	Units	Value	Description	Units	Value
Material	22,000	228,800	Output to P2	16,400	344,400
Direct Labour & Overhead	-	186,000	Normal loss	2,200	11,000
Abnormal gain	600	12,600	WIP B/F	4,000	72,000
	22,600	427,400		22,600	427,400
WIP C/F	4,000	72,000			

Workings

W1- Statement of Equivalent Units	Total Qty Kgs	Material		Conversion	
		Degree of Completion	Equivalent Units	Degree of Completion	Equivalent Units
Opening WIP	-				
Output	16,400.00	100%	16,400.00	100%	16,400.00
Normal loss 10% of input	2,200.00				
Abnormal gain	(600.00)	100%	(600.00)	100%	(600.00)
Closing WIP	4,000.00	100%	4,000.00	70%	2,800.00
Total input	22,000.00		19,800.00		18,600.00

W2- Computation of unit cost	Material	Conversion	Total
Cost of Input	228,800.00	186,000.00	414,800.00
Sale of scrap units @5/- per Kg	(11,000.00)	-	(11,000.00)
Net cost of input	217,800.00	186,000.00	403,800.00
Expected Equivalent Units	19,800.00	18,600.00	
Cost of unit produced	11.00	10.00	21.00

Working 03

$$\text{Output} = 16,400 \times 21 = 344,400$$

Working 04

$$\begin{aligned} \text{WIP} &= (11 \times 4000) + (2,800 \times 10) \\ &= 44,000 + 28,000 \\ &= 72,000 \end{aligned}$$

B)

a)

i **Direct Material Price Variance (DMPV)**

$$\begin{aligned} \text{DMPV} &= (\text{Std. Price} - \text{Act. Price}) \times \text{Act. Purchase} \\ &= (100 - 105) \times 11,000\text{Kg} \\ &= \underline{\underline{55,000.00}} \quad \text{A} \end{aligned}$$

ii **Direct Material Usage Variance (DMUV)**

$$\begin{aligned} \text{DMUV} &= (\text{Std. Usage} - \text{Act. Usage}) \times \text{Std. Price} \\ &= (5,000 \times 2\text{Kg} - 11,000\text{Kg}) \times 100 \\ &= \underline{\underline{100,000.00}} \quad \text{A} \end{aligned}$$

iii **Direct Labour Rate Variance (DLRV)**

$$\begin{aligned} \text{DLRV} &= (\text{Std. Rate} - \text{Act. Rate}) \times \text{Act. Hours paid} \\ &= (100 - 110) \times 9,500 \text{ Hours} \\ &= \underline{\underline{95,000.00}} \quad \text{A} \end{aligned}$$

ii **Direct Labour Efficiency Variance (DMEV)**

$$\begin{aligned} \text{DMEV} &= (\text{Std. Hours} - \text{Act. Hours}) \times \text{Std. Rate} \\ &= (5,000 \times 2\text{Hrs} - 9,500\text{Hrs}) \times 100 \\ &= \underline{\underline{50,000.00}} \quad \text{F} \end{aligned}$$

b) **Advantages of standard costing**

- It helps management in formulating price and production policy.
- It acts as yardstick of performance measurement.
- It reduces avoidable wastage and losses.
- It is an alternative to inventory valuation method.
- It creates consciousness of cost control.
- It is a form of incentive to employees

(Total 25 marks)

End of Section D

Notice :

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

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”.

The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.

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