



**Association of Accounting Technicians of Sri Lanka**

**January 2017 Examination - AA2 Level**

**Questions and Suggested Answers  
(AA 22)**

**COST ACCOUNTING AND REPORTING  
(CAR)**

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

**AA2 Examination - January 2017**  
**(AA 22) Cost Accounting and Reporting**

**SUGGESTED ANSWERS**

**SECTION - A**

Objective Test Questions (OTQs)

Eight (08) compulsory questions

(Total 20 marks)

*Suggested Answers to Question One:*

1.1 – (4)

1.2 – (2)

1.3 – (3)

1.4 - (1)

$$\begin{array}{rcl} \text{Maximum Level} & = & \text{ROL} + \text{ROQ} - (\text{Min. Usage} \times \text{Min. LT}) \\ & & 2,400 + 800 - (200 \times 2) \\ & & \underline{\underline{2,800.00}} \end{array}$$

1.5 – (1)

1.6

(1) False

(2) True

(3) False

(4) False

1.7 1. (b)

2. (c)

3. (a)

1.8 1. Controllable cost

2. Just In Time System

3. Normal loss

*End of Section A*

**Five (05) compulsory questions  
(Total 25 Marks)**

***Suggested Answers to Question Two:***

a)

$$\text{Overhead absorption rate} = \frac{\text{Bud. Overhead}}{\text{Bud. Labour Hours}}$$

$$\text{Overhead absorption rate} = \frac{160,000.00}{160.00}$$

$$= \underline{\underline{\text{Rs. 1,000/- per hour}}}$$

b)

Total Overhead absorbed	=	170 Hrs	x	Rs1,000/-	=	170,000.00
Actual overhead cost					=	(180,000.00)
Overhead cost under absorbed					=	<u><u>10,000.00</u></u>

*(05 marks)*

***Suggested Answers to Question Three:***

**Sun Ltd. Job Costing Sheet**

				<b>Rs.</b>
Direct material				75,800.00
Direct Labours	Cutting	10h@Rs.750/-	7,500	
	Assembly	15h@Rs.500/-	7,500	
	Finishing	20h@Rs800/-	16,000	31,000.00
Indirect material				12,750.00
Overhead	Cutting	10h@1,500/-	15,000	
	Assembly	15h@2,000/-	30,000	
	Finishing	20h@1,750/-	35,000	80,000.00
Production cost				199,550.00
Margin 15% on the selling price				35,215
<b>Selling Price</b>				<b>234,765</b>

*(05 marks)*

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***Suggested Answers to Question Four:***

**Main objectives of budgeting**

- **Planning**

A budgeting process forces a business to look to the future. This is essential for survival since it stops management from relying on ad hoc or poorly coordinated planning.

- **Control**

Actual results are compared against the budget and action is taken as appropriate.

- **Communication**

The budget is a formal communication channel that allows junior and senior managers to converse.

- **Co-ordination**

The budget allows co-ordination of all parts of the business towards a common corporate goal.

- **Evaluation**

Responsibility accounting divides the organization into budget centers, each of which has a manager who is responsible for its performance. The budget may be used to evaluate the actions of a manager within the business in terms of the costs and revenues over which they have control.

- **Motivation**

The budget may be used as a target for managers to aim for. Reward should be given for operating within or under budgeted levels of expenditure. This acts as a motivator for managers.

*(05 marks)*

**Suggested Answers to Question Five:**

a)

**Raw Material A/C**

Date	Description	Amount Rs.	Date	Description	Amount Rs.
01-12-16	Balance B/F	475,000	Dec-16	WIP	450,000
			31-12-16	Balance C/F	25,000
		475,000			475,000
		475,000			475,000

b)

**Work in Progress Control A/C**

Date	Description	Amount Rs.	Date	Description	Amount Rs.
01-12-16	Balance B/F	150,000	Dec-16	FG Control	625,000
Dec-16	RM Control	450,000			
Dec-16	Wages control	175,000			
Dec-16	P. OH Control	225,000	31-12-16	Balance C/F	375,000
		1,000,000			1,000,000
		1,000,000			1,000,000

c)

**Finished Goods Control A/C**

Date	Description	Amount Rs.	Date	Description	Amount Rs.
01-12-16	Balance B/F	250,000	Dec-16	Cost of sales	705,000
Dec-16	WIP Control	625,000	31-12-16	Balance C/F	170,000
		875,000			875,000
		875,000			875,000

(05 marks)

**Suggested Answers to Question Six:**

Total earnings of Mr Perera		Rs.
Time rate	20D*8H*Rs400/-	64,000.00
Attendance allowance		10,000.00
Time saved bonus / Incentive	5H*Rs.400/-*3	6,000.00
<b>Total earnings</b>		<b>80,000.00</b>

(05 marks)

**End of Section B**

Three (03) compulsory questions  
(Total 30 Marks)

***Suggested Answers to Question Seven:***

<b>Z (Pvt) Limited</b>			
<b>Income statement for quarter ended 31/12/2016</b>			
<b>Under Absorption Costing</b>		<b>Rs.000</b>	<b>Rs.000</b>
<b>Sales</b>	70,000 units * Rs. 1,000/-		70,000.00
<b>(-)Cost of Sales</b>			
Opening stock		-	
<b>Production cost W1</b>	90,000 units * Rs. 680/-	61,200.00	
<b>(-) Closing stock</b>	20,000 units * Rs. 680/-	(13,600.00)	
			(47,600.00)
<b>Gross profit</b>			22,400.00
Admin expenses		6,400.00	
Distribution expenses		3,000.00	(9,400.00)
<b>Profit</b>			<b>13,000.00</b>
<b>Under absorption OH (W2)</b>			(300.00)
<b>Net profit</b>			<b>12,700.00</b>

<b>W1 - Production cost</b>		<b>Rs.</b>
D. Material		325.00
D. Labour		275.00
Variable OH		50.00
Fixed OH	Rs.3,300,000/110,000	30.00
		<b>680.00</b>

<b>W2 - Over/ Under OH absorption</b>		<b>Rs</b>
Actual overhead		3,000.00
OH Absorbed	Rs30/- * 90,000 units	(2,700.00)
<b>Under absorbed OH</b>		<b>300.00</b>

(10 marks)

***Suggested Answers to Question Eight:***

**X Ltd**

**Cash Budget**

**For the quarter ending 31st March 2017**

	<b>Jan-17</b>	<b>Feb-17</b>	<b>Mar-17</b>
<b>Receipts</b>			
Cash sales W1	864,000	576,000	1,080,000
Collection from debtors W1	528,000	576,000	384,000
<b>Total receipt</b>	<b>1,392,000</b>	<b>1,152,000</b>	<b>1,464,000</b>
<b>Payments</b>			
Supplier settlement W2	420,000	540,000	540,000
Salaries and wages	--	180,000	180,000
Distribution expenses	200,000	180,000	240,000
Other administration cost	120,000	140,000	180,000
<b>Total payments</b>	<b>740,000</b>	<b>1,040,000</b>	<b>1,140,000</b>
<b>Net cash flows</b>	<b>652,000</b>	<b>112,000</b>	<b>324,000</b>
Balance as of 01/01/2017	175,000	827,000	939,000
Balance as of 31/03/2017	827,000	939,000	1,263,000

<b>W1 - Cash sales and collection from debtors</b>	<b>Dec-16</b>	<b>Jan-17</b>	<b>Feb-17</b>	<b>Mar-17</b>
Sales Qty.	11,000	12,000	8,000	15,000
Selling price	120	120	120	120
Sales	1,320,000	1,440,000	960,000	1,800,000
<b>Cash sales 60%</b>	<b>792,000</b>	<b>864,000</b>	<b>576,000</b>	<b>1,080,000</b>
Credit sales	528,000	576,000	384,000	720,000
<b>Collection</b>		<b>528,000</b>	<b>576,000</b>	<b>384,000</b>

<b>W2 - Payments to suppliers</b>	<b>Nov-16</b>	<b>Dec-16</b>	<b>Jan-17</b>	<b>Feb-17</b>	<b>Mar-17</b>
Purchase Qty.	7,000	9,000	9,000	5,000	8,000
Purchase price	60	60	60	60	60
Purchases	420,000	540,000	540,000	300,000	480,000
<b>Settlement</b>			<b>420,000</b>	<b>540,000</b>	<b>540,000</b>

*(10 marks)*

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***Suggested Answers to Question Nine:*****Meda Engineering Overhead Analysis Statement**

<i>Rs.000</i>							
Description	Apportion basis	Total cost	Production department			Service Department	
			Fabrication	Assembly	Finishing	Maintenance	Stores
Other overheads	Allocation	9,550.00	2,950.00	3,050.00	2,380.00	240.00	930.00
Electricity	Kilowatt	1,100.00	550.00	330.00	110.00	60.00	50.00
Staff welfare	No. of staff	350.00	87.50	105.00	105.00	35.00	17.50
Rent	Square feet / floor area	5,200.00	1,040.00	2,080.00	1,040.00	520.00	520.00
Staff insurance	No. of staff	600.00	150.00	180.00	180.00	60.00	30.00
Depreciation - plant	Cost of plant	7,200.00	3,960.00	1,800.00	1,080.00	360.00	-
Depreciation - office equipment	Cost of office equipment	300.00	70.00	140.00	55.00	17.50	17.50
Maintenance dept.	40% : 30% : 30%	-	517.00	387.75	387.75	(1,292.50)	
Stores	30% : 40% : 30%	-	469.50	626.00	469.50		(1,565.00)
<b>Total cost</b>		<b>24,300.00</b>	<b>9,794.00</b>	<b>8,698.75</b>	<b>5,807.25</b>	-	-

*(10 marks)*

*End of Section C*

**A compulsory question  
(25 Marks)**

***Suggested Answers to Question Ten:***

A)  
a)

**Process Account 1**

Description	Units	Value	Description	Units	Value
Direct Material	108,000	189,000	Output to P2	95,000	332,500
Direct Labour	-	102,600	Normal loss	5,400	27,000
Overhead	-	94,500	Abnormal loss	7,600	26,600
	108,000	386,100		108,000	386,100

**Workings**

Input to process 1	108,000
Normal loss @ 5%	(5,400)
Expected Output	102,600
Actual output	(95,000)
Abnormal loss	7,600

$$\begin{aligned} \text{Unit cost of process 1} &= \frac{\text{Cost of Input - Scrap Value}}{\text{Expected output}} \\ &= \frac{386,100 - (5,400 \times 5)}{102,600} \end{aligned}$$

**Rs. 3.50**

b)

**Process Account 2**

Description	Units	Value	Description	Units	Value
Output from PA I	95,000	332,500	Output to FG - A	91,000	546,000
Direct Labour	-	105,750	Normal loss	4,750	23,750
Overhead	-	127,000			
Abnormal gain	750	4,500			
	95,750	569,750		95,750	569,750

*(15 marks)*

### Workings

Input to process 1	95,000
Normal loss @ 5%	(4,750)
Expected Output	90,250
Actual output	(91,000)
Abnormal gain	(750)

$$\begin{aligned} \text{Unit cost of process 2} &= \frac{\text{Cost of Input - Scrap Value}}{\text{Expected output}} \\ &= \frac{565,250 - (4,750 \times 5)}{90,250} \\ &= \underline{\underline{\text{Rs. 6.00}}} \end{aligned}$$

### B)

#### a) Direct Material Cost Variance

$$\begin{aligned} (\text{DMCV}) &= (\text{Std Cost} - \text{Act. Cost}) \\ &= (11,000 \times \text{Rs}1,500/- - 120,000 \times \text{Rs}140) \\ &= \underline{\underline{\text{300,000.00}}} \quad \text{Adverse} \end{aligned}$$

#### b) Direct Material Price Variance

$$\begin{aligned} (\text{DMPV}) &= (\text{Std Price} - \text{Act. Price}) \times \text{Act. Purchase} \\ &= (150 - 140) \times 120,000\text{Kg} \\ &= \underline{\underline{\text{1,200,000.00}}} \quad \text{Favourable} \end{aligned}$$

#### c) Direct Material Usage Variance

$$\begin{aligned} (\text{DMUV}) &= (\text{Std Usage} - \text{Act. Usage}) \times \text{Std. Price} \\ &= (11,000 \times 10\text{Kg} - 120,000\text{Kg}) \times 150 \\ &= \underline{\underline{\text{1,500,000.00}}} \quad \text{Adverse} \end{aligned}$$

#### d) Direct Labour Rate Variance

$$\begin{aligned} (\text{DLRV}) &= (\text{Std Rate} - \text{Act. Rate}) \times \text{Act. Hours paid} \\ &= (400 - 500) \times 10,000,000 / 500 \\ &= \underline{\underline{\text{2,000,000.00}}} \quad \text{Adverse} \end{aligned}$$

#### e) Direct Labour Efficiency Variance

$$\begin{aligned} (\text{DLEV}) &= (\text{Std Hours} - \text{Act. Hours}) \times \text{Std. Rate} \\ &= (11,000 \times 2\text{Hrs} - 20,000\text{Hrs}) \times 400 \\ &= \underline{\underline{\text{800,000.00}}} \quad \text{Favourable} \end{aligned}$$

(10 marks)

(Total 25 marks)

*End of Section D*

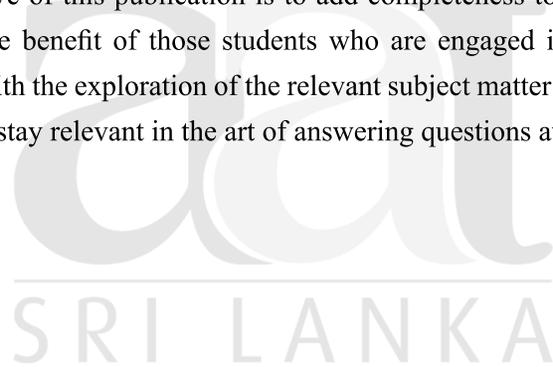
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These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”.

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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