



Association of Accounting Technicians of Sri Lanka

July 2017 Examination - AA2 Level

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

**COST ACCOUNTING AND REPORTING
(CAR)**

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A publication of the Education and Training Division

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EDUCATION AND TRAINING DIVISION

**AA2 Examination - July 2017
(AA22) 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 (3)

1.3 (1)

1.4 (2)

1.5 (4)

1.6

- i. True
- ii False
- iii True
- iv True

1.7 1. b

2. a

3. c

1.8 1. Under Absorption

2. Allocation

3. Margin of safety

End of Section A

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

Suggested Answers to Question Two:

$$\begin{aligned}
 \text{a) EOQ} &= \sqrt{2\text{DCO} / \text{CH}} \\
 &= \sqrt{\frac{2 \times 56,250 \times 100}{5}} \\
 &= \underline{\underline{\mathbf{1,500 \text{ units}}}}
 \end{aligned}$$

(03 marks)

- b) 1. To make sure the supply of material in correct quantity and quality at the right time.
 2. To maintain the cost of materials at the minimum level.
 3. To ensure that the investment of capital in stocks is not tied up (avoiding over-stocking)
 4. To avoid abnormal wastages, leakages, etc.
 5. To avoid obsolescence of materials.
 6. To provide information to the management about raw materials, their costs and availability.
 7. To ensure proper storage and utilization.
 8. To facilitate stock taking.
 9. To check stock levels physically on a regular basis.
 10. To purchase materials at a reasonable price.
 11. To protect materials against loss by fire, theft, etc.
 12. To maintain a balance between price, quality and delivery in choosing a supplier.

(02 marks)

(Total 05 marks)

Suggested Answers to Question Three:

a)

Description	Apportion basis	Total cost	Production department		Service Department	
			P1	P2	S1	S2
Overhead cost	Apportioned	83,300	33,500	27,300	15,000	7,500
S1	55%-45%	-	8,250	6,750	(15,000)	
S2	50%-50%	-	3,750	3,750		(7,500)
Total cost		83,300	45,500	37,800	-	-

(03 marks)

b)

		Production department	
		P1	P2
Total overhead cost	01	45,500	37,800
Machine Hours	02	35,000	27,000
Absorption rate per hours	01/02	1.30 per machine hour	RS. 1.40 per machine hour

(02 marks)

(Total 05 marks)

Suggested Answers to Question Four:

Total earnings of		A (Rs.)		B (Rs.)
No. of hours worked		40.00		40.00
Hourly rate		150.00		150.00
Earnings	40*150	6,000.00	40*150	6,000.00
Actual output		5,000.00		4,800.00
Target Expected output	120*40	4,800.00	120*40	4,800.00
Excess out put / Additional units		200.00		-
Incentive @ 6/- on excess		1,200.00		-
Total Earnings		7,200.00		6,000.00

(05 marks)

Suggested Answers to Question Five:

- a) The approach of Zero - based budgeting involves stating each budget from scratch, or zero rather than basing it on past year's results. That is every activity in an organization must be examined and justified. Alternatives must be considered and results must be evaluated independently without keeping any based or relative figure. So, this is a method whereby all activities are re-evaluated each time when budget is formulated.

(02 marks)

- b)
1. Effective cost controls can be exercised.
 2. It avoids inefficient practices and wasteful expenditure.
 3. Uneconomical activities and areas are identified and eliminated.
 4. Scarce resources are allotted and used beneficially.
 5. Each activity is thoroughly examined and justified.

6. It is a flexible budget which is focused on operations, lower costs and more disciplined execution.
7. Management by objectives become a reality.
8. It ensures that the best possible methods of performing activities and new ideas emerge.
9. It increases communication and coordination within the organization.
10. It opens avenues for fast growth of the business in all aspects.

(03 marks)

(Total 05 marks)

Suggested Answers to Question Six:

		Rs.	Rs.
Profit as per financial accounts			306,000
Add:			
Overstated depreciation		5,000	
Provision for Income Tax		32,000	37,000
Less:			
Understated opening stock		20,000	
Overstated closing stock		5,000	
Understated overhead		25,000	(50,000)
Profit as per cost accounts			293,000

(05 marks)

End of Section B

**Three (03) compulsory questions
(Total 30 Marks)**

Suggested Answers to Question Seven:

a) **Direct Material Price Variance**
(DMPV) = Actual material quantity purchased x (Standard Price - Actual Price)

$$= 6,000 (100 - 94)$$

$$= \underline{\underline{36,000}} \quad \text{Favourable}$$

b) **Direct Material Usage Variance**
(DMUV) = Standard Price (Standard Usage - Actual Usage)

$$= 100 (6,750 - 6,000)$$

$$= \underline{\underline{75,000}} \quad \text{Favourable}$$

c) **Direct Material Cost Variance**
(DMCV) = Standard Material Cost of Actual Production - Actual Material Cost

$$= (4,500 * 1.5m * Rs100) - 564,000$$

$$= \underline{\underline{111,000}} \quad \text{Favourable}$$

Or

Direct Material Cost Variance
(DMCV) = Direct Material Price Variance + Direct Material Usage Variance

$$= (36,000 + 75,000)$$

$$= \underline{\underline{111,000}} \quad \text{Favourable}$$

d) **Direct Labour Cost Variance**
(DLCV) = Standard Direct Labour Cost of Actual Production - Actual Direct Labour Cost

$$= (4,500 * 2h * Rs30) - 288,000$$

$$= \underline{\underline{18,000}} \quad \text{Adverse}$$

e) **Variable Production Overhead Cost Variance**
(VPOCV) = (Std VPOH of Actual Production - Act. VPOH Cost)

$$= (4,500 * 2h * Rs15) - 140,000$$

$$= \underline{\underline{5,000}} \quad \text{Adverse}$$

(10 marks)

Suggested Answers to Question Eight:

Leather PLC			
Income statement for the month ended 30/06/2017			
Under Absorption Costing		Rs.	Rs.
Sales	1,800 units * Rs.300/-		540,000
(-) Cost of Sales			
Opening stock	300 units * Rs158/-	47,400	
Production cost W1	2,000 units * Rs158/-	316,000	
(-) Closing stock	500 units * Rs158/-	(79,000)	
			(284,400)
Under / over absorption of OH W2			(4,000)
Gross profit			251,600
Admin expenses		40,000	
Distribution expenses		86,000	(126,000)
Net Profit			125,600.

W1 - Production cost

	Rs.
D. Material	70.00
D. Labour	40.00
Variable OH	20.00
Fixed OH	Rs.50,400/1,800
	<u>28.00</u>
	<u>158.00</u>

W2 - Over/ Under OH absorption

Actual overhead		(60,000.00)
OH Absorbed	Rs28/- * 2,000 units	56,000.00
Under absorbed OH		<u>(4,000.00)</u>

(10 marks)

Suggested Answers to Question Nine:

a)

Cost of Job - A111				Rs.
Direct material	2,000Kg*20		40,000	
	5,000Kg*10		50,000	90,000.00
Direct Labours	Department 1	<u>200h@Rs.100/-</u>	20,000	
	Department 2	<u>500h@Rs.50/-</u>	25,000	45,000.00
Overhead	Department 1	<u>200h@Rs.100/-</u>	20,000	
	Department 2	<u>500h@Rs.40/-</u>	20,000	40,000.00
Production cost				175,000.00

(06 marks)

b)

- It may be costly and time consuming to install and keep upto date Standard Costing System.
- Inefficient staff is incapable of operating this system.
- Since it is difficult to set correct standards, it is difficult to ascertain correct variances.
- Industries which are subject to frequent changes need constant revisions of standards. Revisions may be more expensive.
- For small concerns, it is expensive.
- Standard costing may not be effective in industries which deal with non-standardized products or job according to customer's requirements.

(04 marks)

(Total 10 marks)

End of Section C

**A compulsory question
(Total 25 Marks)**

Suggested Answers to Question Ten:

A) a)

Statement of Production Cost Evaluation

	Material X			Introduced material			Labour and OH			Grand Total
	Equivalent Units	Unit Cost	Total	Equivalent Units	Unit Cost	Total	Equivalent Units	Unit Cost	Total	
Output	16,000	25	400,000	16,000	10	160,000	16,000	19	304,000	864,000
Abnormal loss	575	25	14,375	575	10	5,750	575	19	10,925	31,050
Closing WIP	1,000	25	25,000	750	10	7,500	750	19	14,250	46,750
			439,375			173,250			329,175	941,800

Workings

W1- Statement of Equivalent Units							
	Total Qty Kgs	Material X		Introduced material		Labour and OH	
		Degree of Completion	Equivalent Units	Degree of Completion	Equivalent Units	Degree of Completion	Equivalent Units
Opening stock	-						
Output	16,000	100%	16,000	100%	16,000	100%	16,000
Normal loss 5% of input	925		-		-		
Abnormal loss	575	100%	575	100%	575	100%	575
Closing WIP	1,000	100%	1,000	75%	750	75%	750
Total input	18,500		17,575		17,325		17,325

W2- Computation of unit cost	Material X	Introduced material	Labour and OH	Total
Cost of Input	444,000	173,250	329,175	946,425
Sale of NL as scrap units @5/- per unit	(4,625)	-	-	(4,625)
Net cost of input	439,375	173,250	329,175	941,800
Expected Equivalent Units	17,575	17,325	17,325	
Cost of unit produced	25	10	19	54

b)

Process Y Account

Description	Units	Value	Description	Units	Value
Material from P X	18,500	444,000	Output to FG	16,000	864,000
Material introduced	-	173,250	Normal loss	925	4,625
Labour and Overhead	-	329,175	Abnormal loss	575	31,050
			WIP C/F	1,000	46,750
	18,500	946,425		18,500	946,425
WIP B/F	1,000	46,750			

(15 marks)

Workings

B)

a) Sales budget

	Denims	Jackets
Budgeted Sales Rs.	17,500,000	16,500,000
Budgeted Price Rs.	3,500	5,500
Budgeted sales units	5,000	3,000

b) Production budget

	Denim	Jacket
Budgeted sales units	5,000	3,000
(+) Closing Stock	1,500	500
Total requirement	6,500	3,500
(-) Opening stock	(200)	(1,410)
Budgeted production units	6,300	2,090

c) Direct Material Usage Budget (in Meters)

		Denim		Jacket	Total
Fabric 1	4*6,300	25,200	3*2,090	6,270	31,470
Fabric 2	0.5*6,300	3,150	2*2,090	4,180	7,330

(10 marks)
(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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