



**Association of Accounting Technicians of Sri Lanka**

**AA2 Examination - January 2018**

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

**COST ACCOUNTING AND REPORTING  
(CAR)**

**Association of Accounting Technicians of Sri Lanka**  
No. 540, Ven. Muruththettuve Ananda Nahimi Mawatha,  
Narahenpita, Colombo 05.

Tel : 011-2-559 669

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

**AA2 Examination - January 2018**  
**(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 – (3)  
1.2 – (4)  
1.3 – (4)  
1.4 – (2)  
1.5 – (1)

1.6

1. Variable Cost
2. Lead Time
3. Non-integrated

- 1.7
1. (c)
  2. (a)
  3. (b)

- 1.8
1. True
  2. True
  3. False
  4. False

*(Total 20 marks)*

*End of Section A*

Five (05) compulsory questions  
(Total 25 marks)

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

				Rs.
Direct material				17,000.00
Direct Labour	Department 1	<u>4h@Rs.1,000/-</u>	4,000	
	Department 2	<u>5h@Rs.1,500/-</u>	7,500	11,500.00
Indirect material				5,000.00
Overhead	Department 1	4,000*100%	4,000	
	Department 2	7,500*250%	18,750	22,750.00
Production cost				56,250.00
Margin 25% on the selling price				18,750.00
<b>Selling Price</b>				<b>75,000.00</b>

(05 marks)

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

(a) (Units)

	A	B
Budgeted sales	25,000	15,000
Closing stock	2,500	5,000
	27,500	20,000
Opening stock	(4,000)	(3,500)
<b>Budgeted Production</b>	<b>23,500</b>	<b>16,500</b>

(03 marks)

(b)

- Compel planning – Having a budgetary control system in place the variances will be calculated and then investigate for the improvement of operation resulting a planning for the future to avoid such a variance.
- Co-ordinate activities – As a result of investigating the variances, it is required to co-ordinate with the other departments to rectify the variances.

- Motivate employees to perform well – The employees will be motivated as they are given the target and evaluate their achievement.
- Delegate authority to budget holders – The budget holder is responsible to explain the reason for variances and corrective action should be taken within the authority given.
- Controlling the operation
- Performance evaluation of manager only  
(02 points are expected.)

(02 marks)  
(Total 05 marks)

**Suggested Answers to Question Four:**

(a)

**Raw Material Stock Control A/C**

Date	Description	Amount Rs.	Date	Description	Amount Rs.
12/1/2017	Balance B/F	300,000	Dec-17	Issued to Production	650,000
Dec-17	Supplier / Purchases	500,000	12/31/2017	Balance C/F	150,000
		<b>800,000</b>			<b>800,000</b>

(b)

**Work In Progress Control A/C**

Date	Description	Amount Rs.	Date	Description	Amount Rs.
12/1/2017	Balance B/F	250,000	Dec-17	Issued to Production	1,205,000
Dec-17	Stock	650,000	12/31/2017	Balance C/F	345,000
Dec-17	Direct Wages Production	250,000			
Dec-17	Overhead	400,000			
		<b>1,550,000</b>			<b>1,550,000</b>

(03 marks)  
(Total 05 marks)

**Suggested Answers to Question Five:**

<b>Total earnings of</b>		<b>A</b>
No. of hours worked	8h*20days	160
Hourly rate		250
<b>Earnings (i)</b>	<b>160*Rs250/-</b>	<b>40,000</b>
Standard time of actual production hours	3150*4/60	210
Actual hours worked		160
Time Saving hours		50
<b>Bonus on time saving (ii)</b>	<b>50hrs*50%*250</b>	<b>6,250</b>
<b>Total Earnings (i + ii)</b>		<b>46,250</b>

(05 marks)

**Suggested Answers to Question Six:**

<b>Contract Account</b>			
Description	Amount Rs.	Description	Amount Rs.
Material	4,800,000		
Wages control	2,270,000	Contract cost	6,170,000
Depreciation	700,000	B/C/F	1,600,000
	<b>7,770,000</b>		<b>7,770,000</b>

(05 marks)

(Total 25 marks)

**End of Section B**

Three (03) compulsory questions  
(Total 30 marks)

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

**Process 1 Account**

Description	Units	Value	Description	Units	Value
Direct Material	14,000	244,000	Output to process 2 (W 03)	12,000	288,000
Wages	-	35,200	Normal loss	1,400	2,800
Production Overhead	-	26,000	Abnormal loss (W 03)	600	14,400
	<b>14,000</b>	<b>305,200</b>		<b>14,000</b>	<b>305,200</b>

**Workings**

**W-1**

	Qty
Input to process 1	14,000
Normal loss @ 10%	(1,400)
Expected Output	12,600
Actual output	(12,000)
<b>Abnormal loss</b>	<b>600</b>

**W-2**

$$\begin{aligned} \text{Unit cost of process 1} &= \frac{\text{Cost of Input - Scrap Value}}{\text{Expected output}} \\ &= \frac{305,200 - (1,400 \times 2)}{12,600} \\ &= 24 \end{aligned}$$

**W-3**

Cost of output	12,000*24	288,000
Cost of abnormal loss	600*24	14,400

(10 marks)

**Suggested Answers to Question Eight:**

(a)

<b>Roma Limited</b>			
<b>Income statement for the month ended 31/12/2017</b>			
<b>Under Marginal Costing</b>		<b>Rs.</b>	<b>Rs.</b>
<b>Sales</b>	3,600 units * Rs.100/-		360,000.00
<b>(-)Cost of Sales</b>			
Opening stock	600 units * Rs50/-	30,000.00	
Production cost	3,100 units * Rs50/-	155,000.00	
(-) Closing stock	100 units * Rs50/-	(5,000.00)	
			(180,000.00)
<b>Contribution</b>			<b>180,000.00</b>
<b>(-) Fixed cost</b>			
Production		77,500.00	
Admin and Distribution expenses		25,000.00	(102,500.00)
<b>Profit</b>			<b>77,500.00</b>

(07 marks)

(b) **Break-even Point**

$$\begin{aligned}
 \text{(BEP) in Units} &= \frac{\text{Fixed Cost}}{\text{Contribution per unit}} = \frac{102,500}{50} \\
 &= \underline{\underline{2,050 \text{ Units}}}
 \end{aligned}$$

(03 marks)

(Total 10 marks)

**Suggested Answers to Question Nine:**

(a)

Description	Apportion basis	Total cost	Production Department		Service Department	
			Assembling	Finishing	Maintenance	Stores
Indirect material	Allocation	8,010,000	3,676,000	2,559,000	1,225,000	550,000
Building Rent	Square feet	800,000	400,000	240,000	80,000	80,000
Depreciation - Machines	Cost of plant	1,750,000	700,000	525,000	525,000	-
Maintenance	Mai. Hours	438,000	138,700	189,800	73,000	36,500
Staff welfare	No. of employees	625,000	125,000	312,500	125,000	62,500
		<b>11,623,000</b>	<b>5,039,700</b>	<b>3,826,300</b>	<b>2,028,000</b>	<b>729,000</b>
Maintenance dept.	65% : 35%	-	1,318,200	709,800	(2,028,000)	
Stores	75% : 25%	-	546,750	182,250		(729,000)
<b>Total cost</b>		<b>11,623,000</b>	<b>6,904,650</b>	<b>4,718,350</b>	-	-

(07 marks)

(b)

	Production Department		
	Total cost	Assembling	Finishing
Total cost	11,623,000	6,904,650	4,718,350
Total labour hours		43,200	42,000
<b>Overheads Absorption Rate</b>		<b><u>159.83 per hour</u></b>	<b><u>112.34 per hour</u></b>

(03 marks)

(Total 10 marks)

*End of Section C*



A compulsory question  
(Total 25 Marks)

**Suggested Answers to Question Ten:**

**a) Direct Material Price Variance**

$$\begin{aligned}
 (\text{DMPV}) &= \text{Actual Purchases} \times (\text{Standard Price} - \text{Actual Price}) \\
 &= 600\text{kg} \times ((750 - (444,000/600)) \\
 &= 600 (750 - 740) \\
 &= \underline{\underline{6,000}} \quad \text{Favourable}
 \end{aligned}$$

**b) Direct Material Usage Variance**

$$\begin{aligned}
 (\text{DMUV}) &= \text{Standard Price} \times (\text{Standard Usage} - \text{Actual Usage}) \\
 &= 750 \times (240*2\text{Kg} - 600\text{Kg}) \\
 &= 750 (480 - 600) \\
 &= \underline{\underline{90,000}} \quad \text{Adverse}
 \end{aligned}$$

**c) Direct Material Cost Variance**

$$\begin{aligned}
 (\text{DMCV}) &= \left[ \begin{array}{l} \text{Standard Material Cost} \\ \text{of Production} \end{array} - \left[ \begin{array}{l} \text{Actual Material Cost} \\ \text{of Production} \end{array} \right] \right. \\
 &= \left. \left( (240*2\text{Kg}*Rs750) - 444,000 \right) \right. \\
 &= 360,000 - 444,000 \\
 &= \underline{\underline{84,000}} \quad \text{Adverse}
 \end{aligned}$$

*Or else*

$$\begin{aligned}
 \text{Direct Material Cost Variance} &= \left[ \begin{array}{l} \text{Direct Material Price} \\ \text{Variance} \end{array} + \left[ \begin{array}{l} \text{Direct Material Usage} \\ \text{Variance} \end{array} \right] \right. \\
 (\text{DMCV}) &= \left. (6,000\text{F} + 90,000\text{A}) \right. \\
 &= \underline{\underline{84,000}} \quad \text{Adverse}
 \end{aligned}$$

**d) Direct Labour Rate Variance**

$$\begin{aligned}
 (\text{DLRV}) &= \text{Actual Hours} \times (\text{Standard Rate} - \text{Actual Rate}) \\
 &= 1,000 \times ((150 - (162,000/1,000)) \\
 &= 1,000 (150 - 162) \\
 &= \underline{\underline{12,000}} \quad \text{Adverse}
 \end{aligned}$$

**e) Direct Labour Efficiency Variance**

$$\begin{aligned}
 (\text{DLEV}) &= \text{Standard Rate} \times (\text{Standard Hrs} - \text{Actual Hrs}) \\
 &= 150 \times ((240*5\text{Hrs} - 1,000\text{Hrs})) \\
 &= 150 (1,200 - 1,000) \\
 &= \underline{\underline{30,000}} \quad \text{Favourable}
 \end{aligned}$$

**f) Direct Labour Cost Variance**

$$\begin{aligned}
 (\text{DLCV}) &= \left( \text{Standard labour Cost} - \text{Actual labour Cost} \right) \\
 &= \left( (240*5\text{Hrs}*Rs150) - 162,000 \right) \\
 &= (180,000 - 162,000) \\
 &= \underline{\underline{18,000}} \quad \text{Favourable}
 \end{aligned}$$

*Or else*

f) **Direct Labour Cost Variance**

$$\begin{aligned}
 \text{(DLCV)} &= && \text{(Rate Variance + Efficiency Variance)} \\
 &= && (12,000 \text{ A} + 30,000 \text{ F}) \\
 &= && \underline{\underline{18,000}} \quad \text{Favourable}
 \end{aligned}$$

g) **Variable Overhead Cost Variance**

$$\begin{aligned}
 \text{(VPOCV)} &= && \left[ \begin{array}{l} \text{Standard Variable} \\ \text{Overhead Cost} \end{array} - \begin{array}{l} \text{Actual Variable} \\ \text{Overhead Cost} \end{array} \right] \\
 &= && (240 * \text{Rs}350) - 90,000 \\
 &= && 84,000 - 90,000 \\
 &= && \underline{\underline{6,000}} \quad \text{Adverse}
 \end{aligned}$$

(14 marks)

B) **Cash Budget**

	February	March	April	Total
<b>Receipts</b>				
Cash sales W1	187,500	275,000	225,000	687,500
Collection from debtors W1	250,000	187,500	275,000	712,500
Total receipts	437,500	462,500	500,000	1,400,000
<b>Payments</b>				
Suppliers' settlement W2	360,000	270,000	360,000	990,000
Sales commission W1	25,000	18,750	27,500	71,250
Computer system (Software)	225,000	-	-	225,000
Salaries	85,000	85,000	85,000	255,000
Total payments	695,000	373,750	472,500	1,541,250
Net cash flows	(257,500)	88,750	27,500	(141,250)
Balance beginning of month	275,000	17,500	106,250	275,000
<b>Balance end of month</b>	<b>17,500</b>	<b>106,250</b>	<b>133,750</b>	<b>133,750</b>

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**W1 - Cash sales and collection from debtors**

	<b>January</b>	<b>February</b>	<b>March</b>	<b>April</b>
Sales Qty.	20,000	15,000	22,000	18,000
Selling price	25	25	25	25
Sales	500,000	375,000	550,000	450,000
Cash sales 50%	250,000	<b>187,500</b>	<b>275,000</b>	<b>225,000</b>
Credit sales	250,000	187,500	275,000	225,000
Collection		<b>250,000</b>	<b>187,500</b>	<b>275,000</b>
<b>Sales Commission</b>				
Sales commission @ 5%	25,000	18,750	27,500	22,500
Sales commission payment		<b>25,000</b>	<b>18,750</b>	<b>27,500</b>

**W2 - Payments to suppliers**

	<b>January</b>	<b>February</b>	<b>March</b>	<b>April</b>
Purchase Qty.		20,000	15,000	20,000
Purchase price		18	18	18
Purchases		<b>360,000</b>	<b>270,000</b>	<b>360,000</b>

*(11 marks)*

*(Total 25 marks)*

*End of Section D*

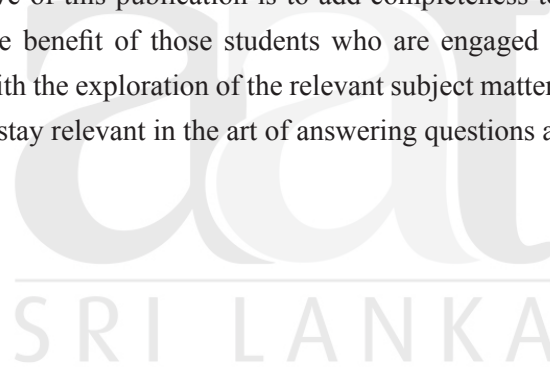
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***Notice :***

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