



Association of Accounting Technicians of Sri Lanka

July 2018 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 - July 2018
(AA22) Cost Accounting and Reporting

SUGGESTED ANSWERS

SECTION - A

Answers to ALL questions are expected
(Total 20 marks)

Suggested Answers to Question One:

- 1.1 – (2) (02 marks)
- 1.2 – (1) (02 marks)
- 1.3 – (3) (02 marks)
- 1.4 - (3) (02 marks)
- 1.5 – (2) (02 marks)
- 1.6
- i. Apportionment
 - ii Abnormal gain
 - iii Zero Based Budgeting
- (03 marks)
- 1.7
- 1. c
 - 2. a
 - 3. b
- (03 marks)
- 1.8
- 1. False
 - 2. True
 - 3. False
 - 4. True
- (04 marks)

End of Section A

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

Suggested Answers to Question Two:

a) **Objectives of cost accounting**

- Ascertain the cost of a product and provide a cost statement
 - Providing cost information for the budgeting
 - Providing cost information for the pricing
 - Cost controlling
 - To facilitate planning and control of regular business activities
- } To provide information for decisions

(02 marks)

b)

	In respect of	Financial Accounting	Cost Accounting
1	Time span	Transactions are recorded and statements are prepared for a definite period	Transactions are identified with the cost unit / the cost object
2	Coverage of transactions	It covers transaction of the whole business	It covers only a part of the transactions. Eg.: Manufacturing
3	Purpose	It is prepared to present operational results and financial position of the business	It aims to help the management for proper planning, control and desision making
4	Analysis of expenditure	It analyses the expenditure according to the function.	It analyses expenditure on different bases. Eg.: Direct and indirect variable and fixed, etc...
5	Efficiency	The overall results and financial position of the business is revealed by financial statements.	It analyses the profitability of each department, cost unit, job or process.
6	Material control	It does not say anything about the efficiency / inefficiency of material handling. (becuase figures are in total)	It provides a system of good inventory control by prescribing procedures for purchases, storage, issues, etc...
7	Independence of the system	It is independent of cost accounting. i.e. : it can work even in the absence of cost accounting system.	It depends upon financial accounting data.
8	Reconciliation of results	It does not need any reconciliation.	It needs reconciliation of its profit with that of financial records.
9	Wastages	There are no such categories	Wastages or posses are identified and categorized into normal and abnormal
10	Transactions	It deals with actual facts and figures.	It deals with actual facts and figures and partly with estimates.

11	Stock Valuation	Stocks are valued at 'cost' or 'Net realizable value' whichever is lower.	Stocks are valued at cost.
12	Legal requirement	Should adhere to various legislatives. eg: Companies Act, Income Tax Act, Accounting Standards etc...	These records are generally kept to meet the requirements of the management.

(03 marks)

(Total 05 marks)

Suggested Answers to Question Three:

Date	Description	In			Out			Balance		
		Qty	Rate	Value	Qty	Rate	Value	Qty	Rate	Value
01-06-18	Opening Balance							1,000	15	15,000
01-06-18	Purchase	500	18	9,000				1,000	15	15,000
								500	18	9,000
								1,500		24,000
15-06-18	Issue				750	15	11,250	250	15	3,750
								500	18	9,000
								750		12,750
24-06-18	Purchase	200	20	4,000				250	15	3,750
								500	18	9,000
								200	20	4,000
								950		16,750
28-06-18	Issue				250	15	3,750			
					500	18	9,000			
					50	20	1,000			
					800		13,750	150	20	3,000

(05 marks)

Suggested Answers to Question Four:

Total earnings of		X		Y
No. of units produced		80		120
Rate per piece		50		50
Earnings		4,000		6,000
Standard time of actual production hrs	80*30min/60Min	40	120*30min/60Min	60
No. of hours worked	9h*5d	45	9h*5d	45
Time Saving Hrs		-		15
Bonus		-	15Hrs*50%*Rs100	750
Total Earnings		4,000		6,750

(05 marks)

Suggested Answers to Question Five:

Cost of Job - 1010				Rs.
Direct material				300,000
Direct labours	Cutting	1,000h@Rs.500/-	500,000	
	Finishing	1,500h@Rs.120/-	180,000	680,000
Overhead	Cutting	1,000h@Rs.25/-	25,000	
	Finishing	1,500h@Rs.60/-	90,000	115,000
Production cost				1,095,000

$$\begin{aligned} \text{Per unit} &= 1,095,000 / 1,000 \\ &= \underline{\underline{1,095}} \end{aligned}$$

(05 marks)

Suggested Answers to Question Six:

$$\begin{aligned} \text{a BEP in units} &= \frac{\text{Fixed Cost}}{\text{Contribution}} = \frac{1,500,000}{3} \\ &= \underline{\underline{500,000 \text{ units}}} \end{aligned}$$

$$\begin{aligned} \text{b BEP in value} &= \frac{\text{Fixed Cost}}{\text{C/S Ratio}} = \frac{1,500,000}{6.00\%} \\ &= \underline{\underline{\text{Rs. } 25,000,000}} \end{aligned}$$

OR

$$\begin{aligned} \text{BEP in value} &= \text{BEP Units} * \text{Unit price} = 500,000 * 50 \\ &= \underline{\underline{\text{Rs. } 25,000,000}} \end{aligned}$$

$$\begin{aligned} \text{c) Margin of Safety} &= \text{Budgeted units} - \text{BEP units} = 700,000 (\text{W 1}) - 500,000 \\ &= \underline{\underline{200,000 \text{ units}}} \end{aligned}$$

Working 1

$$\begin{aligned} \text{No. of units for expected profit} &= \frac{\text{Fixed Cost} + \text{Expected Profit}}{\text{Contribution}} = \frac{1,500,000 + 600,000}{3} \\ &= \underline{\underline{700,000}} \quad (05 \text{ marks}) \end{aligned}$$

End of Section B

Three (03) compulsory questions
(Total 30 Marks)

Suggested Answers to Question Seven:

a)

Raw Material Stock Control A/C

Date	Description	Amount Rs.	Date	Description	Amount Rs.
01-Jun-18	Balance B/F	550,000	Jun-18	Issues	750,000
Jun-18	Raw material	645,000	30-Jun-18	Balance C/F	445,000
		<u>1,195,000</u>			<u>1,195,000</u>

(02 marks)

b)

Work in Progress Control A/C

Date	Description	Amount Rs.	Date	Description	Amount Rs.
01-Jun-18	Balance B/F	280,000	Jun-18	Finish Goods	1,500,000
Jun-18	Raw material	750,000			
Jun-18	Wages control	470,000			
Jun-18	Overheads	560,000	30-Jun-18	Balance C/F	560,000
		<u>2,060,000</u>			<u>2,060,000</u>

(04 marks)

c)

Finished Goods Control A/C

Date	Description	Amount Rs.	Date	Description	Amount Rs.
01-Jun-18	Balance B/F	150,000	Jun-18	Cost of sales	1,250,000
Jun-18	WIP	1,500,000	30-06-18	Balance C/F	400,000
		<u>1,650,000</u>			<u>1,650,000</u>

(02 marks)

d)

Production Overhead Control A/C

Date	Description	Amount Rs.	Date	Description	Amount Rs.
01-Jun-18	Balance B/F	-	Jun-18	WIP	560,000
Jun-18	Machine maintenance	95,000			
Jun-18	Supervisor salary	90,000			
Jun-18	Depreciation on plant	175,000			
Jun-18	Production O/H	200,000	30-Jun-18	Balance C/F	-
		<u>560,000</u>			<u>560,000</u>

It is assumed that production overhead cost is absorbed to products on actual basis.

(02 marks)

(Total 10 marks)

Suggested Answers to Question Eight:

a)

Process 1 Account

Description	Qty.	Value	Description	Qty.	Value
Raw Material	125,000	1,250,000	Output to process 2 (W-3)	110,000	2,420,000
Direct Labour	-	800,000	Normal loss	12,500	125,000
Overhead	-	550,000	Abnormal loss (W-1 and W-3)	2,500	55,000
	125,000	2,600,000		125,000	2,600,000

W-1

Input to process 1	125,000
Normal loss @ 10%	(12,500)
Expected Output	<u>112,500</u>
Actual output	(110,000)
Abnormal loss	<u>2,500</u>

W-2

$$\text{Unit cost of process 1} = \frac{\text{Cost of Input} - \text{Scrap Value}}{\text{Expected output}}$$

$$= \frac{2,600,000 - (12,500 * 10)}{112,500}$$

22

W-3

Cost of output	110,000*22	<u>2,420,000</u>
Cost of abnormal loss	2,500*22	<u>55,000</u>

(10 marks)

Suggested Answers to Question Nine:

a)

	Basis	Production Departments		Service Departments	
		BM 01	IM 02	S 01	S 02
Indirect Materials		500,000	805,000	200,000	100,000
Indirect wages		1,000,000	1,000,000	300,000	500,000
Depreciation	Value of machinery	800,000	500,000	100,000	100,000
Insurance	Floor area	100,000	150,000	50,000	75,000
Rent	Floor area	200,000	300,000	100,000	150,000
Welfare	No. of employees	150,000	150,000	50,000	75,000
		2,750,000	2,905,000	800,000	1,000,000
S 01		320,000	480,000	(800,000)	-
S 02		700,000	300,000	-	(1,000,000)
		3,770,000	3,685,000	-	-

(08 marks)

b) Overheads absorption Rate = $\frac{3,770,000}{18,000}$ = $\frac{3,685,000}{18,000}$

= 209.44 per hour = 204.72 per hour

(02 marks)

(Total 10 marks)

End of Section C

A compulsory question
(Total 25 Marks)

Suggested Answers to Question Ten:

a) Sales Budget

	Product A
Budgeted Sales (Qty.)	15,000
Budgeted sales price	500
Budgeted sales	<u>7,500,000</u>

(02 marks)

b) Production Budget

	Product A
Budgeted sales units	15,000
(+) Closing Stock	1,550
Total requirement	<u>16,550</u>
(-) Opening stock	(750)
Budgeted production units	<u>15,800</u>

(02 marks)

c) Direct Material Usage Budget

	Product A
Budgeted production units	15,800
Requirement per unit	2.5Kg
Budgeted raw material usage	<u>39,500 Kg</u>

(02 marks)

d) Direct Material Purchase Budget

	Product A
Budgeted material usage (Kg)	39,500
(+) Closing Stock Kg	6,250
Total requirement (Kg)	<u>45,750</u>
(-) Opening stock Kg	(10,000)
Budgeted raw material purchase Kg	<u>35,750</u>

(02 marks)

e) Direct Labour Cost Budget

Product A	
Budgeted production units	15,800
Labour hours per unit	3
No. of hours required	47,400
Rate per hour (Rs.)	50
Budgeted direct labour cost	<u>Rs, 2,370,000</u>

(02 marks)

B)

a) Difference between standard costing and budgeting

	Budgeting	Standard Costing
1	It is extensive in its application, as it deals with the operation of department or business as a whole.	It is intensive, as it is applied to manufacturing of a product or providing a service.
2	Budgets are prepared for sales, production, cash, etc...	The effort is to pre-determine the cost per unit.
3	It is a part of financial accounting (projecting all financial accounts)	It is a part of cost accounting (projecting all cost accounts)
4	Control is exercised by taking into account the budgets and actuals. Variances are not revealed through accounts.	Variances are revealed through different accounts.
5	Budgeting can be applied in parts.	It cannot be applied in parts.
6	It is comparatively more expensive and broad in nature, as it relates to production, sales and finance taking the business as a whole.	It is not so expensive compared to budgeting because it relates to only element of cost to a product.
7	Budgets can be operated with standards only.	Standard costing system is operated independently.

(03 marks)

b) i) Direct Material Price Variance = Actual Material x (Standard Price - Actual Price)
Quantity Purchased
= 2,050 x (250 - 245)
= **10,250 Favourable**

(02 marks)

ii) Direct Material Usage Variance = Standard Price x (Standard Usage - Actual Usage)
= 250 x ((400 x 5) - 2,050)
= 250 (50)
= **12,500 Adverse**

(02 marks)

$$\begin{aligned}
 \text{iii) Direct Material} &= \text{Direct Material} + \text{Direct Material} \\
 \text{Cost Variance} &\quad \text{Price Variance} \quad \text{Usage Variance} \\
 &= 10,250 \text{ F} + 12,500 \text{ A} \\
 &= \underline{\underline{2,250 \quad \text{Adverse}}}
 \end{aligned}$$

OR

$$\begin{aligned}
 \text{Direct Material} &= \text{Standard Direct Material} - \text{Actual Direct} \\
 \text{Cost Variance} &\quad \text{Cost of Actual Production} \quad \text{Material Cost} \\
 &= (400 \times 1,250) - 502,250 \\
 &= 500,000 - 502,250 \\
 &= \underline{\underline{2,250 \quad \text{Adverse}}} \quad \quad \quad (02 \text{ marks})
 \end{aligned}$$

$$\begin{aligned}
 \text{iv) Direct Labour} &= \text{Actual Hours} \quad \times \quad (\text{Standard Rate} - \text{Actual Rate}) \\
 \text{Rate Variance} & \\
 &= 1,500 (125 - 150) \\
 &= \underline{\underline{37,500 \quad \text{Adverse}}} \quad \quad \quad (02 \text{ marks})
 \end{aligned}$$

$$\begin{aligned}
 \text{v) Direct Labour} &= \text{Standard Rate} \quad \times \quad (\text{Standard Hours} - \text{Actual Hours}) \\
 \text{Efficiency Variance} & \\
 &= 125 (400 \times 4 - 1,500) \\
 &= 125 (1,600 - 1,500) \\
 &= \underline{\underline{12,500 \quad \text{Favourable}}} \quad \quad \quad (02 \text{ marks})
 \end{aligned}$$

$$\begin{aligned}
 \text{vi) FOH Expenditure} &= \text{Budgeted Overhead Cost} - \text{Actual Overhead Cost} \\
 \text{Variance} & \\
 &= 280,000 - 300,000 \\
 &= \underline{\underline{20,000 \quad \text{Adverse}}} \quad \quad \quad (02 \text{ marks})
 \end{aligned}$$

(Total 12 marks)

(Total 30 marks)

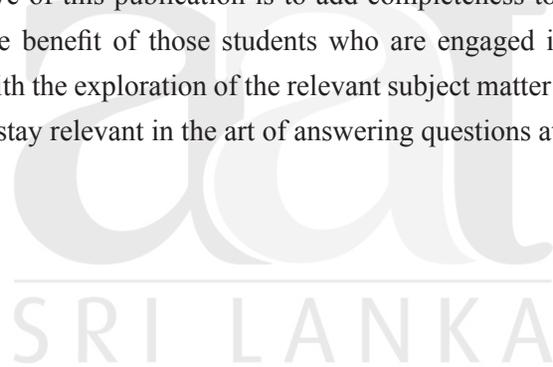
End of Section D

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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