



Association of Accounting Technicians of Sri Lanka

AA2 Examination - January 2019

**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 - January 2019
(AA22) Cost Accounting and Reporting**

SUGGESTED ANSWERS

SECTION - A

Objective Test Questions (OTQs)

Eight (08) compulsory questions

(Total 20 marks)

Suggested Answers to Question 01:

- 1.1 - (3) - (Chapter 1 - Introduction to Cost Accounting) (02 marks)
- 1.2 - (1) - (Chapter 2 - Accounting for Materials) (02 marks)
- 1.3 - (4) - (Chapter 3 - Accounting for Labour) (02 marks)
- 1.4 - (2) - (Chapter 4 - Accounting for Overheads) (02 marks)
- 1.5 - (2) - (Chapter 4 - Accounting for Overheads) (02 marks)
- 1.6
- i. False - (Chapter 1 - Introduction to Cost Accounting)
- ii. True - (Chapter 1 - Introduction to Cost Accounting)
- iii. False - (Chapter 3 - Accounting for Labour) (03 marks)
- 1.7
1. (B) - (Chapter 2 - Accounting for Materials)
2. (C) - (Chapter 2 - Accounting for Materials)
3. (A) - (Chapter 3 - Accounting for Labour) (03 marks)
- 1.8
1. Cost Accounting - (Chapter 1 - Introduction to Cost Accounting)
2. Constant Order Cycle System - (Chapter 2 - Accounting for Materials)
3. Time Rate System - (Chapter 3 - Accounting for Labour)
4. Cost Driver - (Chapter 4 - Accounting for Overheads)
- (04 marks)
- (Total 20 marks)

End of Section A

Five (05) compulsory questions
(Total 25 marks)

Suggested Answers to Question 02:

(a)

Chapter 6 - Costing Methods

Cost of Job - 8000				Rs.
Direct material				125,000
Direct Labours	Dept X	3hrs@Rs.1,000/-	3,000	
	Dept Y	6hrs@Rs.500/-	3,000	6,000
Overhead	Dept X	3,000*150%	4,500	
	Dept Y	3,000*250%	7,500	12,000
Total Production cost				143,000

(03 marks)

(b)

$$\text{Selling price} = 143,000 \times 1.25 = \text{Rs. } 178,750$$

(02 marks)

(Total 05 marks)

Suggested Answers to Question 03:

Chapter 8 - Budgeting

	X	Y	
Budgeted production	1,500	2,000	
RM - A - Kg	2	3	
RM - B - Kg	4	5	
RM - A - Kg	3,000	6,000	<u><u>9,000</u></u>
RM - B - Kg	6,000	10,000	<u><u>16,000</u></u>

(05 marks)

Suggested Answers to Question 04:

Chapter 4 - Accounting for Overheads

OAR = Budgeted Production Overhead / Budgeted Activity Level

a) **Production Units Methods**

Production overhead absorption rate = $2,300,000.00 / 11,500$
 = **Rs. 200 per unit**

b) **OAR Machine Hours Methods**

Production overhead absorption rate = $2,300,000.00 / 57,500$
 = **Rs. 40 per machine hour**

(05 marks)

Suggested Answers to Question 05:

Chapter 4 - Accounting for Overheads

Description	Apportion basis	Total cost	Production Department		Service Department
			X	Y	B
Indirect material	Allocation	725,000	325,000	275,000	125,000
Electricity	Kwt	425,000	159,375	212,500	53,125
Staff welfare	No. of employees	85,000	50,000	25,000	10,000
Depreciation	Cost of machinery	400,000	200,000	150,000	50,000
		1,635,000	734,375	662,500	238,125
B Department	60% : 40%	-	142,875	95,250	(238,125)
Total cost		1,635,000	877,250	757,750	-

(05 marks)

Suggested Answers to Question 06:

Chapter 6 - Costing Methods

Contract Account - Shopping Complex

Date	Description	Amount (Rs.)	Date	Description	Amount (Rs.)
4/1/2017	Balance B/F	-	2017/18	Material returned	250,000
2017/18	Material issued	5,600,000			
2017/18	Direct Wages	1,800,000	2017/18	Contract cost	6,950,000
2017/18	Depreciation (10,000 x 10%)	1,000,000			
		<u>8,400,000</u>	3/31/2018	Material C/F	1,200,000
					<u>8,400,000</u>
3/31/2018	Material B/F	1,200,000			

(05 marks)

(Total 25 marks)

End of Section B

Three (03) compulsory questions
(Total 30 marks)

Suggested Answers to Question 07:

Chapter 7 - Marginal Costing and Absorption Costing

a)

Ultra Ltd			
Income statement for the month ended 31/12/2018			
Under Absorption Costing		Rs.	Rs.
Sales	900 units * Rs.1,100/-		990,000
(-) Cost of Sales			
Opening stock		-	
Production cost W1	950 units * Rs890/-	845,500	
(-) Closing stock	50 units * Rs890/-	(44,500)	
			(801,000)
Under / over absorption of OH W2			(14,500)
Gross profit			174,500
Admin expenses		36,000	
Distribution expenses		45,000	(81,000)
Profit			93,500

W1 - Production cost		Rs.
D. Material		450
D. Labour		200
Variable OH		150
Fixed OH	Rs.90,000 / 1,000	90
		890

W2 - Over/ Under OH absorption		
Actual overhead		100,000
OH Absorbed	Rs90/- * 950 units	(85,500)
Under absorbed OH		14,500

(08 marks)

Chapter 7 - Marginal Costing and Absorption Costing

b) Advantages of Material Costing when compared with Absorption Costing

- Simple to operate and easy to understand.
- No complex adjustment like under/over overhead absorption.
- Marginal costing principle is being used for decision making purposes.
- There are no apportionments of overhead on an arbitrary basis.
- It shows a constant net profit whereas absorption costing shows variable amounts of profits for different periods.
- Fixed costs will remain unchanged regardless of the volume of output. Therefore it is fair and reasonable.

(02 marks)

(Total 10 marks)

Suggested Answers to Question 08:

Chapter 5 - Cost Book Keeping

Profit Reconciliation

	Rs.	Rs.
Profit as per financial accounts		604,500
Add:		
Overstated opening FG	14,000	
Understated closing WIP	14,500	
Understated closing FG	17,000	
Director fees	150,000	
Interest expense	75,000	
Income Tax	175,000	445,500
		1,050,000
Less:		
Understated opening RM	60,000	
Understated opening WIP	20,000	
Overstated closing RM	20,000	
Understated overhead cost	23,000	(123,000)
Profit as per cost accounts		927,000

(10 marks)

Suggested Answers to Question 09:

Chapter 6 - Costing Methods

Process 2 Account

Description	Units / Qty.	Value Rs.	Description	Units	Value
Material P1	125,000	958,200	Output to FG	115,000	1,265,000
Conversion cost (Direct labour & overheads)	-	410,550	Normal loss	6,250	62,500
			Abnormal loss	3,750	41,250
	125,000	1,368,750		125,000	1,368,750

W-1

Input to process 1	125,000
Normal loss @ 5%	(6,250)
Expected Output	118,750
Actual output	(115,000)
Abnormal loss	3,750

W-2

$$\begin{aligned} \text{Unit cost of process 1} &= \frac{\text{Cost of Input - Scrap Value}}{\text{Expected output}} \\ &= \frac{1,368,750 - (6,250 \times 10)}{118,750} \\ &= \underline{\underline{11}} \end{aligned}$$

W-3

Cost of output	115,000 x 11	1,265,000
Cost of abnormal loss	3,750 x 11	41,250

(10 marks)

End of Section C

A compulsory question
(Total 25 Marks)

Suggested Answers to Question 10:

Chapter 8 - Budgeting

A) Zeena (Pvt) Ltd

Cash Budget for the quarter ended 30th June 2019

	Apr-19	May-19	Jun-19	Total
Receipts				
Cash sales W1	9,000,000	7,800,000	12,000,000	28,800,000
Collection from debtors W1	5,760,000	6,000,000	5,200,000	16,960,000
Disposal of office equipment	-	-	480,000	480,000
Total receipt	14,760,000	13,800,000	17,680,000	46,240,000
Payments				
Supplier settlement (purchases)	9,000,000	7,800,000	12,000,000	28,800,000
Salaries and wages	600,000	600,000	600,000	1,800,000
Distribution expenses	2,600,000	2,600,000	2,600,000	7,800,000
Other administration cost	2,650,000	2,650,000	2,650,000	7,950,000
Total payments	14,850,000	13,650,000	17,850,000	46,350,000
Net cash flows	(90,000)	150,000	(170,000)	(110,000)
Opening balance	3,500,000	3,410,000	3,560,000	3,500,000
Closing balance	3,410,000	3,560,000	3,390,000	3,390,000

W1 - Cash sales and collection from debtors	Mar-19	Apr-19	May-19	Jun-19
Sales Qty	1,800	1,500	1,300	2,000
Selling price	8,000	10,000	10,000	10,000
Sales	14,400,000	15,000,000	13,000,000	20,000,000
Cash sales 60%	8,640,000	9,000,000	7,800,000	12,000,000
Credit sales	5,760,000	6,000,000	5,200,000	8,000,000
Collection		5,760,000	6,000,000	5,200,000

W2 - Payments to suppliers	Mar-19	Apr-19	May-19	Jun-19
Purchase Qty	1,800	1,500	1,300	2,000
Purchase price	6,000	6,000	6,000	6,000
Cash Purchases	10,800,000	9,000,000	7,800,000	12,000,000

(10 marks)

(B)

(a)

Chapter 9 - Standard Costing and Variance Analysis

1. It provides a prediction of future costs which can be used for decision making.
2. Management and employees are motivated by providing challenging targets.
3. Set standards assist in setting budgets and use to evaluate managerial performance.
4. Set standards are acting as control devices.
5. Tracing costs to products for profit measurement and stock valuation purposes.

(03 marks)

(b)

Chapter 9 - Standard Costing and Variance Analysis

Auto CARpet (Pvt) Ltd

i) **Direct Material Price Variance:**

$$\begin{aligned} \text{DMPV} &= (\text{Standard Price} - \text{Actual Price}) \times \text{Actual Material quantity purchased} \\ &= (400 - 380) \times 6,500\text{kg} \\ &= \underline{\underline{130,000 \text{ Favourable}}} \end{aligned}$$

ii) **Direct Material Usage Variance:**

$$\begin{aligned} \text{DMUV} &= (\text{Standard Usage} - \text{Actual Usage}) \times \text{Standard Price} \\ &= (3,000 \times 2\text{kg} - 6,500\text{kg}) \times 400 \\ &= \underline{\underline{200,000 \text{ Adverse}}} \end{aligned}$$

iii) **Direct Material Cost Variance:**

$$\begin{aligned} \text{DMCV} &= \text{DM Price Variance} - \text{DM Usage Variance} \\ &= 130,000 \text{ F} - 200,000 \text{ A} \\ &= \underline{\underline{70,000 \text{ Adverse}}} \end{aligned}$$

OR

Direct Material Cost Variance:

$$\begin{aligned} \text{DMCV} &= \text{Standard Direct Material Cost of Actual Production} - \text{Actual Direct Material Cost} \\ &= (800 \times 3000) - 2,470,000 \\ &= \underline{\underline{70,000 \text{ Adverse}}} \end{aligned}$$

iv) **Direct Labour Rate Variance:**

$$\begin{aligned} \text{DLRV} &= (\text{Standard Rate} - \text{Actual Rate}) \times \text{Actual Hours} \\ &= (300 - 310) \times 4,750 \\ &= \underline{\underline{47,500 \text{ Adverse}}} \end{aligned}$$

v) **Direct Labour Efficiency Variance:**

$$\begin{aligned} \text{DLEV} &= (\text{Standard Hours} - \text{Actual Hours}) \times \text{Standard Rate} \\ &= ((3,000 \times 1.5\text{Hrs.} - 4,750)) \times 300 \\ &= \underline{\underline{75,000 \text{ Adverse}}} \end{aligned}$$

vi) **FOH Expenditure Variance:**

$$\begin{aligned} &= \text{Budgeted Overhead Cost} - \text{Actual Overhead Cost} \\ &= 1,200,000 - 1,000,000 \\ &= \underline{\underline{20,000 \text{ Favourable}}} \end{aligned}$$

(12 marks @ 02 marks each)

(Total 25 marks)

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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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