Association of Accounting Technicians of Sri Lanka

AA2 Examination - July 2019

Suggested Answers
Subject No - (AA22)

COST ACCOUNTING AND REPORTING (CAR)

Association of Accounting Technicians of Sri Lanka

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 Examination-July 2019

(AA22) COST ACCOUNTING AND REPORTING

SUGGESTED ANSWERS

Eight (08) compulsory objective test questions
(Total 20 marks)

SECTION - A

Suggested Answers to Question 01:

1.1 - (3)
1.2 - (4)
1.3 - (1)
1.4 - (1)
1.5 - (4)

(Each 02 marks, Total 10 marks)

1.6

i. False
ii. True
iii. False

(03 Marks)

1.7

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

(03 marks)

1.8

1. Depreciation
2. Basic Standards
3. Non- integrated Accounting
4. Sunk Cost

(04 marks)

End of Section A

Suggested Answers to Question 02:

(a)

Chapter 2-Accounting for Materials

$$EOQ = \sqrt{\frac{2DC_o}{C_h}}$$

$$EOQ = \sqrt{\frac{2 * 125{,}000 * 250}{10}}$$

EOQ = <u>2500 units</u>

(03 marks)

(b) <u>Assumptions of the EOQ Model</u>

- The annual demand is known and it is constant.
- The ordering cost per order is known and it will be constant.
- The holding cost per unit is known and it will be constant.
- Replenishment of an order takes place instantaneously.
- Lead time is 0.
- No stock out.
- Price of a stock unit is constant.

(02 marks)
(Total 05 marks)

Suggested Answers to Question 03:

(a)

Chapter 8-Budgeting

Sales Budget for the month ending 30th September 2019

Product	Setting Price(Rs)	Unit Sold	Total (Rs)
A	8	273,750	2,190,000
B	12	356,000	4,272,000
			<u>6,462,000</u>

(02 marks)

(b)

Production budget for the month ending 30th September 2019

Product	**A**	**B**
Budgeted sales units	273,750	356,000
(+) Closing Stock	18,750	30,000
(-) Opening stock	(33,750)	(55,000)
Budgeted production units	**258,750**	**331,000**

(03 marks)
(Total 05 marks)

Suggested Answers to Question 04:

Chapter 5-Cost Book Keeping

	Rs.	**Rs.**
Profit as per cost accounts		647,675
Add:		
Depreciation	25,000	
Closing Stock	3,000	28,000
Less:		
Overheads	50,000	
Interest expenses	182,500	
Opening stocks	7,500	(243,000)
Profit as per financial accounts		**435,675**

(05 marks)

Suggested Answers to Question 05:

Chapter 6-Costing Methods

(a)

Cost of batch - 102				**Rs.**
Raw material	Steel	1,705Kg*150	255,750	
	Rubber	2,850Kg*400	1,140,000	1,395,750
Direct Labour	Department A	1,250hrs* Rs.225/-	281,250	
	Department B	1,725hrs* Rs.190/-	327,750	609,000
Overhead	Department A	1,250hrs* Rs.120/-	150,000	
	Department B	1,725hrs* Rs.90/-	155,250	305,250
Cost of production for 240 tires				**2,310,000**

(04 marks)

(b)

Cost per tire = 2,310,000 / 240 **Rs.9,625/-**

(01 mark)
(Total 05 marks)

Suggested Answers to Question 06:

Chapter 3-Costing for Labour

Total earnings of		**X**		**Y**
No. of units produced		150		180
Piece rate		60		60
Basic earnings	150*60	9,000	180*60	10,800
Actual time taken	8H * 6 D * 60min	2,880		2,880
Standard time	150*20	3,000	180*20	3,600
Time saving		120		720
Bonus on time saving(W-1)	2h *250	500	12h *250	3,000
Total Earnings		**9,500**		**13,800**

(W-1)

Standard Time (Hrs)	50	60
	(150*20)/60	(180*20)/60
Worked Hours	(48)	(48)
Saved Hours	2	12

(05marks)

End of Section B

Suggested Answers to Question 07:

Chapter 4-Accounting for Overheads

(a)

Description	**Apportion basis**	**Total cost**	**Production department**		**Service Department**	
			Assembly	**Finishing**	**Stores**	**Maintenance**
Indirect expenses	Allocation	1,541,875	371,750	773,000	312,250	84,875
Depreciation - machine	Value of machine	475,000	237,500	190,000	-	47,500
Staff meal	No. of employees	187,500	46,875	93,750	18,750	28,125
Building rent	Square feet	95,000	47,500	19,000	19,000	9,500
Machine insurance	Value of machine	118,750	59,375	47,500	-	11,875
			763,000	**1,123,250**	**350,000**	**181,875**
Stores	20% : 80%	-	70,000	280,000	(350,000)	-
Maintenance	70% : 30%	-	127,312.50	54,562.50		(181,875)
Total cost		**2,418,125**	**960,312.50**	**1,457,812.50**	**-**	**-**

(07 marks)

(b)

		Production department	
		Assembly	**Finishing**
Total overhead cost	01	960,312.50	1,457,812.50
Direct labour hours	02	3,750	11,250
Absorption rate per hour	01/02	**256.08 per hour**	**129.58 per hour**

(03 marks)
(Total 10 marks)

Suggested Answers to Question 08:

Chapter 6-Costing Methods

Process II Account					
Description	**Qty**	**Value(Rs.)**	**Description**	**Qty**	**Value**
Material P1	10,000	500,000	Output to FG**(W-3)**	8,500	705,500
Add: Material	-	90,000	Normal loss	1,000	3,000
Labour and Overheads		160,000	Abnormal loss**(W-1),(W-3)**	500	41,500
	10,000	**750,000**		**10,000**	**750,000**

W-1

Input to process 1	10,000
Normal loss @ 10%	(1,000)
Expected Output	**9,000**
Actual output	(8,500)
Abnormal loss	**500**

W-2

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

$= \dfrac{750{,}000 - (1{,}000*3)}{9{,}000}$

= **Rs.83.00**

W-3

Cost of output	8,500*83	**Rs.**705,500
Cost of abnormal loss	500*83	**Rs**.41,500

(10 marks)

Suggested Answers to Question 09:

Chapter 7-Marginal Costing and Absorption Costing

(a)

Kiddies Limited

Income statement for month ending 30th June 2019

Under Absorption Costing		**Rs.**	**Rs.**
Sales	2,380 units * Rs385/-		916,300
(-)Cost of Sales			
Opening stock	435 units * Rs295/-	128,325	
Production cost **(W-1)**	2,100 units * Rs295/-	619,500	
(-) Closing stock	155 units * Rs295/-	(45,725)	
			(702,100)
Gross Profit			214,200
(Under) / over absorption of OH **(W-2)**			10,500
Gross profit			**224,700**
Less: Administration and distribution expenses			(180,000)
Net Profit			**44,700**

W1 - Production cost		**Rs.**
Direct Material		115
Direct Labour		65
Variable OH		55
Fixed OH	Rs.135,000/2,250	60
		295

W-2 - Over/ Under OH absorption		
Actual overhead		115,500
OH Absorbed(budgeted)	Rs.60/- * 2,100 units	126,000
Over absorbed OH		**10,500**

(08 marks)

(b)

Contribution to Sales Ratio $= \dfrac{\textbf{Contribution}}{\textbf{Selling Price}} \times 100$

$= \dfrac{\textbf{Sales Price-Variable Cost}}{\textbf{Selling Price}} \times 100$

= 50/385*100

= **38.96%**

(02 marks)
(Total 10 marks)

End of Section C

Suggested Answers to Question 10:

Chapter 8-Budgeting

(A)

Cash Budget (Rs.000)

	Jul-19	Aug-19	Sep-19
Receipts			
Cash sales **(W-1)**	720	1,008	936
Collection from debtors **(W-1)**	432	480	672
Bank loan	-	1,000	-
Total receipt	**1,152**	**2,488**	**1,608**
Payments			
Creditor settlement **(W2)**	600	960	1,200
Administration expenses	480	480	480
Loan installment	-	-	60
Total payments	**1,080**	**1,440**	**1,740**
Net cash flows	**72**	**1,048**	**(132)**
Balance as of 01/07/2019	125	197	1,245
Balance end of the month	**197**	**1,245**	**1,113**

W-1 - Cash sales and collection from debtors	**Jun-19**	**Jul-19**	**Aug-19**	**Sep-19**
Sales(Qty.)	9,000	10,000	14,000	13,000
Selling price	120	120	120	120
Sales	1,080,000	1,200,000	1,680,000	1,560,000
Cash sales 60%	648,000	720,000	1,008,000	936,000
Credit sales	432,000	480,000	672,000	624,000
Collection	-	432,000	480,000	672,000

W2 - Payments to suppliers	**Jun-19**	**Jul-19**	**Aug-19**	**Sep-19**
Purchase (Qty.)	8,000	12,000	15,000	13,000
Purchase price	75	80	80	80
Purchases	600,000	960,000	1,200,000	1,040,000
Settlement	-	600,000	960,000	1,200,000

(11 marks)

(B)

(a)	**Direct Material Price Variance**	=	**Actual Material Quantity Purchased(Standard Price-Actual price)**
		=	10,000 (130-125)
		=	10,000(5)
		=	**<u>50,000 Favourable</u>**
(b)	**Direct Material Usage Variance**	=	**Standard Price(Standard Usage-Actual Usage)**
		=	130 (9,600--10,000)
		=	**<u>52,000 Adverse</u>**
(c)	**Direct Material Cost Variance**	=	**Direct Material Price Variance -Direct Material Usage Variance**
		=	(50,000-52,000)
		=	**<u>2,000 Adverse</u>**

OR

Direct Material Cost Variance	=	**Standard Direct Material Cost of Actual Production-Actual Direct Material Cost**
	=	(4,800*260)-1,250,000
	=	1,248,000-1,250,000
	=	**<u>2,000 Adverse</u>**

(d)	**Direct Labour Rate Variance**	=	**Actual Hours (Standard Rate-Actual rate)**
		=	15,000 (60-50)
		=	**<u>150,000 Favourable</u>**
(e)	**Direct Labour Efficiency**	=	**Standard Rate (Standard Hours -Actual hours)**
	Variance	=	60(14,400-15,000)
		=	**<u>36,000 Adverse</u>**

(f)	**Variable Overhead Cost Variance**	=	**Standard Cost of Actual Production-Actual Cost**
		=	(150*4,800)-825,000
		=	720,000 -825,000
			<u>105,000 Adverse</u>

(g)	**Fixed Overhead Expenditure Variance**	=	**Budgeted Overhead Cost-Actual Overhead Cost**
		=	175,000-150,000
		=	**<u>25,000 Favourable</u>**

(2 marks each,14 marks)
(Total 25 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". 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.