

EXAMINER'S REPORT

AA2 EXAMINATION - JANUARY 2017

(AA22) COST ACCOUNTING AND REPORTING

This question paper consisted of 4 sections with altogether 10 questions. This paper tested the knowledge of basic concepts related to cost accounting. The candidates were required to answer all the questions. List of action verb which need to be used in answering has been provided along with the question paper.

The 10 questions have been set as follows:

Section A – 20 marks

Variety of objective test questions each worth 01 or 02 marks. It was required to answer all the questions.

Section B – 25 marks

Five compulsory questions each worth 5 marks.

Section C – 30 marks

Three compulsory questions each worth 10 marks.

Section D – 25 marks

One compulsory question consisted of two parts. Part (A) worth 15 marks.

Part (B) – worth 10 marks.

Standard of the question paper and the performance of the candidates at the examination was at a satisfactory level. It was noted from the answers that majority of the candidates were able to manage the time allocation. The allocated marks to each question provides guidance to candidates about the time they could spent on each question.

Part A

Question No. 01 - (Marks Allotted 20)

These questions were mainly focused on the basic cost accounting principles and basic computations. Almost all the candidates attempted this question. Some candidates scored high marks out of 20. Considerable number of candidates failed to score marks for question 1.3 regarding the advantage of time rate system of remuneration and 1.5 regarding the incorrect statement with respect to Integrated Accounting System. Some candidates had no clear knowledge of sunk cost, ABC system and just in time system in answering the sub questions of question No. 01.

Some candidates did not aware as to how to answer an OTQ type question and some of them have re-written the entire question along with the answer. They have spent their time unnecessarily because of this. Candidates should be familiar with fundamental concepts of cost accounting in order to handle these types of questions properly.

Part B

Question No. 02 - (Marks Allotted 05)

This question was mainly focused on the over / under absorption of overheads. Majority of the candidates have answered for the (a) part of this question but a considerable number of candidates failed to answer for the part (b) of this question. Those students didn't know how to calculate the total overhead absorbed and to calculate the under absorption of Overhead based on that. Some candidates failed to identify that an under absorption of overhead has happened based on the calculations.

Candidates should practise past papers and study pack scenarios to develop their knowledge on this easy area.

Question No. 03 - (Marks Allotted 05)

This question required candidates to calculate the price to be charged for a job.

Majority of candidates scored high marks for this question. Some candidates have not correctly computed the profit margin on the selling price, though it required a very simple computation. Some candidates have computed the profit margin on the total cost of the job instead of selling price.

Candidates should read the question carefully and apply correct basis in calculating the profit margin and should improve their arithmetical accuracy to obtain full marks for this kind of simple questions.

Question No. 04 - (Marks Allotted 05)

This question required candidates to explain three (03) main objectives of budgeting. This was a theory question.

Majority of the candidates have not read the requirement of the question properly. Some candidates have provided irrelevant answers by explaining the main objectives of Government budget, features of budgeting, method of calculating budgets instead of main objectives of budgeting.

Candidates should read the question carefully and understand the requirements of it properly before answering. Candidates should develop a sound theoretical knowledge relating to Cost Accounting subject to answer these types of questions successfully.

Question No. 05 - (Marks Allotted 05)

This question mainly focused on the Integrated Accounting System and required to prepare Raw Material Stock Control Account, Work-in-Progress Control Account and Finished Goods Control Account. Many candidates have answered for this question satisfactorily. But some candidates have mixed up the debit side and credit side of the accounts. Some candidates have described the entries relating to each account and wasted the time allocated instead preparing the accounts based on an acceptable format.

It is important to read the question carefully before attempting it. Further, candidates should practise past examination papers and study pack.

Question No. 06 - (Marks Allotted 05)

This was a very simple question based on labour cost and required to calculate the total earning of **Perera** using the given information. Many candidates obtained full marks for this question. Some candidates have incorrectly deducted the hours saved from the number of normal hours worked in their calculations.

Candidates should practise similar type of questions and try to avoid simple arithmetical errors in their calculations.

Part C

Question No. 07 - (Marks Allotted 10)

This question required candidates to prepare income statement under absorption costing method.

Majority of the candidates have not read the requirement of the question properly. As a result, many candidates have obtained low marks for this question. It was observed that some candidates have not even attempted this question.

Many candidates have failed to calculate the closing stock, fixed overheads absorption rate and under absorption of the fixed production overheads accurately. Some candidates were not able to identify the under absorption of the overheads and some have not adjusted it correctly in the income statement. As a result many candidates could not calculate the correct net profit.

Candidates should develop a sound knowledge regarding the absorption costing method and practice the question in the self-study text to improve the ability in answering for the questions. It is also important to show all the relevant workings in answering.

Question No. 08 - (Marks Allotted 10)

This question mainly focused on the preparation of cash budget on monthly basis. Performance of the candidates was at a satisfactory level. Most of the candidates had correctly calculated the forecasted revenue as well as forecasted expenditure.

A fewer number of candidates had not prepared the cash budget on monthly basis, instead they have prepared for the entire quarter in totals which resulted in obtaining low marks. Some candidates had erroneously considered depreciation as a cash outflow in preparing the cash budget. Some have ignored the fact that the credit sales should be settled in the following month and erroneously considered for the same month.

Candidates should practice question regarding preparation of budgets and it is important to study the related theoretical concepts in relation to the budgets.

Question No. 09 - (Marks Allotted 10)

The question mainly focused on the ability of candidates to allocate overheads among different production departments and apportion the cost of service departments to each of the production departments.

Majority of the candidates attempted the question and obtained high marks for this question. It was observed from the answers that the basis of allocation of overhead cost among production and service departments had been applied correctly by majority of the candidates. The correct percentages have also been applied to apportion the overhead cost of service departments between two production departments.

Some candidates have erroneously allocated the cost of plant and office equipment instead of the depreciation based on the cost of plant and equipment.

Candidates should practice similar type of self-study text and past paper questions to develop the ability in answering in the examination.

Part D

Question No. 10 - (Marks Allotted 25)

Part (A) {Marks Allocated 15} mainly focused on candidates' knowledge on process costing

This question required candidates to prepare Process 01 account and Process 02 account in relation to Chemical A.

The performance was not up to the satisfactory level. Considerable number of candidates was not aware as how to calculate the value of abnormal gain, abnormal loss and the value of output. They could only put the directly given figures specially, direct material, direct labour and production overheads to the process account correctly and majority gained marks only for that part. Value of output and scrap value were not calculated correctly by majority. Some candidates have not considered normal loss when calculating the cost per unit or have considered a wrong figure for the normal loss. Candidates should familiarize them with the process accounts and practice the similar type of the question.

Part (B) { Marks Allotted 10}

This question mainly focused on calculation of variances and it was a very simple question. But the performance of the candidates was not at average level. It was observed that candidates didn't have clear and conclusive knowledge in this area. It was observed that some candidates haven't calculated the Direct Material Cost Variance even though they have calculated Direct Material Price Variance and Direct Material Usage Variance accurately. Some candidates have written wrong formulae and made mistakes in substituting figures to formulae. Some of them have not mentioned whether the variance is 'Adverse' or 'Favorable'. Therefore, candidates were unable to score the full marks allocated.

Candidates should follow and practice past examination papers and similar examination papers to improve their knowledge.

- - -

General points to be considered in developing the level of understanding of candidates

1. When you get the question paper, read carefully the instructions given on it.
2. Read the question several times and answer only what is asked in the question. Do not write unnecessary things.
3. Referring the Self-Study Text is essential and practicing the examples of the Self-Study Text is also vital.
4. Re check the calculations for the arithmetical accuracy and show all the relevant workings clearly. State clearly assumptions made when doing the calculations if there is any.
5. Manage your time efficiently at the examination.
6. Before handing over the answer script, check whether the question numbers and your index number have been written correctly.
7. By answering past question papers, you can improve the subject knowledge as well as the ability to write answers well.
8. Action verb Check List with definitions is attached to the question paper itself and each question will begin with an action verb excluding Objective Test Questions (OTQs). Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.
9. Sit for examination with the main intention of passing.

- * * * -