

EXAMINER'S REPORT

AA2 EXAMINATION - JANUARY 2018

(AA22) COST ACCOUNTING AND REPORTING

The question paper consisted of 4 sections and 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 compulsory objective test questions each part worth 02, 03 and 04 marks.

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 14 marks and Part (b) worth 11 marks.

Performance of the candidates in the examination was satisfactory. It was observed that majority of the candidates could manage the time allocated for the question paper. 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)

The question was mainly focused on the basic cost accounting principles and basic computations. Many candidates attempted this question and earned high marks.

The question examined the knowledge of the candidates on various areas such as objectives of cost accounting, basic terms associated with cost accounting, cost book keeping, cost classification, basis of overhead apportionment, stock control systems, remuneration methods, etc.

Candidates were expected to reflect their overall knowledge on the subject.

Almost all the candidates gained full marks for the question **1.7** which required to the candidates choose the basis of overhead apportionment, while other parts of questions were also well answered.

Common mistakes by the candidates:

- The question **1.5** which was on time rate system was poorly answered. Time rate system is most appropriate when the quality of work is more important than the quantity and therefore the correct answer is (1). But many candidates have given the different answers instead of (1).
- Several candidates were not able to distinguish the concepts of lead time and just-in-time for the question **1.6** (2). Candidates should understand that lead time is the period of time between placing an order and receiving the items on that order and just in time system is an inventory control system.
- Many candidates reflected problems in differentiating the features and basic facts of integrated and non-integrated cost accounting systems for the questions **1.6** (3) and **1.8** (3).

Candidates are expected to have a sound understanding and knowledge on all areas of the subject, including theoretical concepts and numerical areas. Both these are equally important and just knowing the computations is not adequate in advancing the subject.

Part B

Question No. 02 - (Marks Allotted 05)

The question examined the ability of correctly applying Job costing method and determine the price to be charged for the particular job.

It was required to calculate direct labour and overheads for given two departments and to correctly identify all direct and indirect expenses relevant to the job to apply the profit margin and arrive at the selling price.

Overall performance of candidates on this question was satisfactory.

Common mistakes made by the candidates:

- It was observed a poor understanding on 'margin' and 'mark-up' when considering the performance of the candidates. Several candidates had simply applied 25% on the total cost and derived the selling price although it was clearly stated that the company keeps a 25% profit margin on selling price.
- Few candidates have attempted the question considering them as two products or two departments.

Candidates are expected to have a sound knowledge on cost components attributable to a cost unit. They need to understand services and costs of different departments become relevant in costing, in which case the basis of apportionment becomes relevant. Profit can be expressed based on cost (mark-up) and on selling price (margin) and candidates should be able to clearly distinguish between these two methods.

Question No. 03 - (Marks Allotted 05)

The question examined the knowledge of the candidates on budgeting and advantages of budgetary control.

Candidates were expected to prepare a simple production budget for the given two products for the (a) part and in the part (b) to state two (02) advantages of budgetary control. Candidates were needed only to reflect their understanding on opening and closing stock adjustments to the sales requirement during a period, in preparing the production budget.

Overall performance of candidates on this question was good. However, several candidates had ignored answering part (b) which was required to state two advantages of budgetary control.

Common mistakes by the candidates:

- Poor understanding on opening and closing stock adjustments to sales units was observed. Required closing stock at the end of the period need to be added and available opening stock at the beginning of the period need to be deducted to calculate the number of units to be produced. Whereas, several candidates had prepared the production budget making the adjustment in the other way by adding the opening stock and deducting closing stock.
- Even handful of candidates had written advantages of preparing a government budget, instead of budgetary control in the organizational context.

Candidates are expected to logically understand the reasons as to why the closing stocks are added to the sales requirement and opening stocks are deducted. Sometimes theoretical questions offer easy marks and candidates are required to attempt and reflect their theoretical knowledge in the subject area. Understanding and studying the relevant theoretical context in each topic is vital in examination.

Question No. 04 - (Marks Allotted 05)

The question examined the knowledge of the candidates on integrated accounting of cost book keeping.

Candidates are expected to prepare a Raw Material Stock Control Account and a Work-In-Progress Control Account using the directly given list of line items and figures. Candidates had to identify the relevant items to be recorded in the correct control accounts and draw up the "T" format to record them.

Overall performance of candidates on this question was Average. Several candidates failed to identify the relevant items to the relevant control accounts.

Common mistakes by the candidates:

- Some candidates have incorrectly recorded transactions which should be recorded in debit side, in credit side and vice versa. For instance, candidates had started off recording the opening balances in the credit side of the Raw Material and Work-In-Progress control account.
- Failed to correctly identify the relevant items to the relevant control accounts. For instance, direct wages on production and production overheads were also recorded in raw material control accounts.

Candidates are expected to logically understand the material accounting process in the control accounts, and the reasons for debiting and crediting each transaction.

Question No. 05 - (Marks Allotted 05)

The question examined the ability of the candidates to identify remuneration methods (time based incentive and bonus schemes) and to calculate the total earnings of an employee.

Candidates were expected to calculate time based basic earnings and bonus on the time saved by employee "A" during the month. Candidates had to read through the question carefully to grasp the relevant information and use them appropriately in their calculations.

Overall performance of the candidates on this question was average. Although, most of the candidates could easily calculate the basic earnings, they were not able to calculate the bonus correctly.

Common mistakes by the candidates:

- In calculating the basic earnings, some had considered normal working hours per day and normal wage rate per hour, but disregarded number of working days during the month when calculating the total earnings for the month.
- Some candidates had applied normal wage rate per hour even for bonus calculation.
- Some candidates had applied the bonus wage rate for number of extra units produced, instead for the time saved.
- Several candidates directly calculated the bonus as 50% of basic earnings.

Candidates are expected to read through the question carefully and understand the basis of calculation and the requirements of question. Proper understanding of the question is required in this question rather than any other complex technical aspects.

Question No. 06 - (Marks Allotted 05)

The question examined the ability of preparing the Contract Account and calculating the cost of the contract.

According to this question there are 02 parts, one is preparation of contract account and recognition of the cost of the contract.

Most of the candidates have not attempted this question in a successful manner. Several candidates who have attempted for the question have not properly prepared the contract account. Many candidates considered the cost of the plant also as a part of the cost. In addition candidates must read the question very carefully and identify the requirements of the examiner. According to this question there are 02 parts, one is preparation of contract account and recognize the cost of the contract. But a considerable number of candidates have not recognized the cost of contract, although they have identified the relevant cost such as material cost, wages and depreciation in the contract account. The best way to improve the failure on this question is to understand the subject area, practice on simple questions given in the study text and past papers.

Part C

Question No. 07 - (Marks Allotted 10)

The question examined the ability of candidates to prepare the Process I Account and identify the quantity & value of normal loss, value of output, abnormal loss & calculation of unit price.

Generally, most of the candidates have attempted for this question. Some of the candidates have not considered the relevant format of the process account when answering. Majority of the candidates who attempted for this question have correctly calculated the value of the normal loss. But a considerable number of candidates failed to calculate the value of the abnormal loss and output even though if they have calculated the quantity correctly. Further, many candidates have spent their time to prepare the normal loss, Process II, abnormal loss account.

Candidates should learn the concepts relating to process accounting and practice the similar questions in the self-study text and past papers. Applying the suitable format according to the question and understanding the concept is very important to earn full marks.

Question No. 08 - (Marks Allotted 10)

It was tested the knowledge about preparation of income statement by identifying sales value, production & closing stock value and other related information under the marginal costing method and calculation of Break-Even Point (BEP) units.

(a) Most of the candidates have not attempted for this question based on the marginal costing concept. Some candidates have considered the budgeted production units and budgeted production overheads as the sales units and fixed overheads rather than considering the actuals. Even though the question was clear about the preparation of income statement based on the marginal costing method, some of the candidates have tried to calculate the over & under absorption spend time unnecessarily.

(b) Majority of the candidates have attempted this part based on the BEP (Unit) formula. When calculating BEP units many candidates have taken budgeted fixed cost instead of actual fixed cost. Many candidates have calculated the contribution correctly.

Careful reading of the question, understanding the subject area, focus on theoretical areas of the syllabus will make candidates to score more marks.

Question No. 09 - (Marks Allotted 10)

It was required to prepare a statement showing how the overheads are allotted and apportioned to each of the production departments for part (a) and calculate the overhead absorption rate per direct labour of each production department for part (b).

Almost all the candidates attempted the question and many earned high marks.

The main error made by the some candidates was including the direct labor hours also as an overhead and calculated as a cost item.

Some candidates have not identified the relevant basis for apportionment of each overhead correctly and repeated the figures given in the question for calculation.

When using the figures in thousands candidates have made mistakes in calculating overhead absorption rate.

Apportionment of the cost of service centers has done correctly by most of the candidates.

More practice and understanding of the concept will be helpful to improve the performance of the candidates.

Part D

Question No. 10 - (Marks Allotted 25)

This question mainly contains two sections. For part (A) there are seven sub questions to calculate variance for 14 marks and a cash budget question for 11 marks for part (B).

Overall performance was not satisfactory and only few candidates obtained the full marks for this question.

The mainly identified mistakes and error as follows;

Part (A):

- Some of the candidates didn't have a proper idea about the core concept of the variances.
- Some of the candidates have written wrong formulas without having a complete understanding.
- Some candidates have written only the final answer without steps
- Some candidates have not mentioned Favourable or Adverse although they have calculated the variances.

Part (B):

- Some candidates didn't have a clear idea about the format as well as the purpose of the cash Budget.
- Some candidates have put figures in to "T" accounts and used descriptive / paragraph formats and various other incorrect formats.
- In the Sales commission payable adjustment, several candidates have erroneously identified it as a receivable item instead of payable item because they have not read the question properly.
- Some candidates have made errors in the monthly allocation of sales, purchases and sales commission.
- Some of the candidates have not even attempted for this question.
- In the cash budget question they should maintain proper format and correct allocation of the receivable and payable in to relevant month in order to obtain high marks.

Suggestions and proposals for overcome the above mistakes and errors are as follows;

- First of all candidates need to read the question well. If they **read well** they may overcome some allocation errors such as sales commission.
- Candidates should have **thorough understanding** about the subject and relevant topics. In order to that using **self-study text is essential**.
- They need to **provide proper workings** as well as **steps** and **other relevant formulas** in order to get the final answer in relation to variances.
- Candidates should aware the fact that the marks are allocated to steps also other than the final figure.

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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 the assumptions made when doing the calculations if there is any.
5. Manage your time efficiently at the examination. Candidates need to **practice question papers within the time frame** in order to overcome the time management difficulties
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. Study the theoretical area well relating to each study area. Answer the theory questions well. It will facilitate to score high marks.
10. Sit for examination with the main intention of passing.

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