

## **EXAMINER'S REPORT**

### **AA2 EXAMINATION - JULY 2018**

#### **(AA22) COST ACCOUNTING AND REPORTING**

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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 for 20 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**

**Question No. 01** - (Marks Allotted 20)

The questions were mainly focused on the basic cost accounting principles and basic computations. Tested from the entire syllabus. Candidates are expected to have a sound understanding and knowledge on all areas of the subject, including theoretical concepts and numerical areas. The performance seemed to be average, well studied candidates scored full marks for this section. Most of the candidates have earned more than 12 marks for this question. Most of the candidates could not answer the question number **1.2** of the question which tested regarding controllable overhead and the question number **1.8**. Further almost all the candidates correctly answered the question number **1.4** of the question which was related to marginal costing. Most of the candidates were unable to attempt question Nos. **1.2, 1.5, 1.6** and **1.8**.

Candidates should be more concentrated on theory parts as well as computation parts. This has been pointed out by the examiners in previous examinations as well.

**Overall performance for this question was satisfactory.**

## **Part B**

### **Question No. 02** - (Marks Allotted 05)

This question tested the theory knowledge on Cost Accounting & Financial Accounting. Most of the candidates have not understood the objectives of the Cost Accounting and they have written answers based on their personal judgments. Overall performance of this question was at a very poor level. Only a handful of candidates were able to earn full marks for this question.

It was also required to state differences between the Financial Accounting and the Cost Accounting. For this question, candidates have only mentioned the characteristics of each method instead of differentiating them.

**Overall performance for this question was at a very poor level.**

### **Question No. 03** - (Marks Allotted 05)

It was required to prepare the stores ledger for the month of June 2018 using FIFO basis. This question was answered by candidates in a very good manner. Most of them were able to obtain full marks for this question. Only a very fewer number of candidates have not followed the correct format of the stores ledger. However, those candidates were able to score marks for finding the value of the closing inventory balance.

**Overall performance for this question was at a very satisfactory level.**

### **Question No. 04** - (Marks Allotted 05)

It was required to calculate the total earnings of X and Y separately for the last week of **Rambo PLC**. The performance for this question was not that good compared to **Q. No. 02** and **Q. No. 03**. Before computing total earnings, it was required to identify the saved hours to compute the bonus payment. Most of the candidates had computed only the normal earnings for the two employees, without computing the amount of bonus. Therefore, they were unable to obtain full marks. There were a handful of candidates whose answers were incorrect, due to mathematical errors.

**Overall performance for this question was at an average level.**

### **Question No. 05** - (Marks Allotted 05)

It was required to calculate the cost per unit of Batch No. 1010. This was a very simple question. It was required to compute the correct overhead amounts for respective departments using the given respective absorption rates. Almost all the candidates have attempted this question and were able to score full marks or satisfactory marks. Few lost the full marks due to not computing the cost per unit.

**Overall performance for this question was at a very satisfactory level.**

**Question No. 06** - (Marks Allotted 05)

It was required to compute the break-even point (in units) and (in value) and margin of safety in units. This was also a very simple question. However, considerable number of candidates lost marks due to not identifying the correct formulae. Others have computed the question requirements correctly and were able to score full marks.

**Overall performance for this question was at a very satisfactory level.**

**Part C**

**Question No. 07** - (Marks Allotted 10)

It was required to prepare raw material stock control account, work-in-progress (WIP) control account, finished goods control account and production overheads control account. This question was very poorly answered by most of the candidates. It was noted from the answers that most of them have not understood the principles of Integrated Accounting System. Considerable number of candidates had misunderstood debit and credit sides as well.

**Overall performance for this question was at an average level.**

**Question No. 08** - (Marks Allotted 10)

It was required to prepare the process I account. As there was no opening or closing work-in-progress, there was a high possibility of obtaining higher marks by most of the candidates. However, the performance for this question was at an average level. It was noted from the answers that some of the candidates have used incorrect formats instead of using 'T' accounts. Most of them have computed normal loss correctly, but they have gone wrong when computing the abnormal loss. Further, most of them were unable to correctly compute the value of the output transferred to process II.

**Overall performance for this question was at an average level.**

**Question No. 09** - (Marks Allotted 10)

It was required to prepare a statement showing how the overheads are allocated and apportioned to each of the production departments and to calculate the overhead absorption rate for each department based on budgeted machine hours. Almost all the candidates have attempted this question and have scored satisfactory marks. However, there were few candidates who could not identify the correct base for allocating the given overheads. Further, mathematical errors were also noted when evaluating the answer scripts. Some other candidates have forgotten to reallocate the service department's overheads to production departments. Some others have confused with the values they have arrived in thousands, in computing the overhead absorption rates.

**Overall performance for this question was at a satisfactory level.**

## Part D

**Question No. 10** - (Marks Allotted 25)

### **Part (A):**

Required candidates to prepare Sales Budget, Production Budget, Direct Material Usage Budget, Direct Material Purchase Budget and Direct Labour Cost Budget. However, this question had not been attempted by most of the candidates. It was noted from the answers that most of the candidates have not studied this part properly. This was one of the easiest questions, for which marks could have been obtained without much effort. However, candidates have not done this correctly.

**Overall performance for this question was at a very poor level.**

### **Part (B):**

Required candidates to calculate the given variances. This was also a simple question. However, most of the candidates have not done correctly. Most of them were unaware of the formulae to compute variances. Some have mixed up with all the variances. Considerable number of candidates have not mentioned the computed variances as favourable or adverse. Some have just mentioned the answer which was incorrect without giving any steps as to how it was arrived at.

**Overall performance for this question was at an average level.**

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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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