



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JULY 2018

(AA22) COST ACCOUNTING AND REPORTING

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time Allowed:** Reading : 15 minutes
Writing : 03 hours.

22-07-2018
Morning
[8.45 – 12.00]

No. of Pages : 09
No. of Questions : 10

- (2) **All questions should be answered.**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**
- (5) **Use of Non-programmable calculators is only permitted.**
- (6) **Action Verb Check List with definitions is attached. Each question begins with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (7) **100 Marks.**

SECTION A

Objective Test Questions (OTQs)

Eight (08) compulsory questions

(Total 20 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.5. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Aggregate of all indirect costs is known as:

- (1) Sunk cost. (2) Overhead cost.
(3) Opportunity cost. (4) Mixed cost. (02 marks)

1.2 Which one of the following is an example for a controllable overhead cost?

- (1) Wastage. (2) Depreciation.
(3) Factory rent. (4) Staff salary.

(02 marks)

1.3 Which one of the following statements is correct with reference to job costing?

- (1) Production is made on a continuous flow of operation in anticipation of demand.
- (2) Production is not executed on a specific order of a customer.
- (3) Job cost card is used to collect the costs of each job.
- (4) A group of similar items which maintain its identity throughout the production process will be produced. (02 marks)

1.4 The following information is related to item **M** of **Smart Ltd.**:

	per unit (Rs.)
Selling price	30
Variable cost	12
Fixed cost	6

Based on the above information, Contribution to Sales (C/S) ratio would be:

- (1) 20%.
- (2) 40%.
- (3) 60%.
- (4) 10%. (02 marks)

1.5 The summary of all the functional budgets is known as:

- (1) Sales budget.
- (2) Master budget.
- (3) Cash budget.
- (4) Production budget. (02 marks)

1.6 Select the most suitable words to fill in the blanks using words given within brackets. Write the selected word / words in your answer booklet with the number assigned to the question:

- (1) (*Absorption/ Apportionment*) is the process of spreading overhead cost between cost centres on a rational and reasonable basis.
- (2) When the actual loss is less than the normal loss, an (*abnormal loss / abnormal gain*) arises.
- (3) (*Flexible budgeting/ Zero based budgeting*) is a method of budgeting under which all activities are re-evaluated each time a budget is prepared. (03 marks)

1.7 Match each of the items mentioned in **Column A** with the correct formula given in **Column B**, and write the answers in your answer booklet with the number assigned to the question:

Column A	Column B
(1) Marginal cost	(a) Sales value - Total variable cost
(2) Contribution	(b) Sales value - Total cost
(3) Profit	(c) Total cost - Fixed cost

(03 marks)

1.8 State whether each of the following statements is **TRUE** or **FALSE**. Write **True** or **False** in your answer booklet with the number assigned to the question.

- (1) The budgets are prepared only for profit centers of an organization.
- (2) The budget is used to evaluate the performance of employees.
- (3) Abnormal loss is always absorbed by good production.
- (4) Financial accounting is more concerned with providing information mainly to external users. (04 marks)

End of Section A

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

“There is no doubt that Cost Accounting and Financial Accounting help the management of an organization in managing the affairs of the business efficiently and effectively to accomplish its goals”.

You are required to:

- (a) **State** two(02) objectives of Cost Accounting. (02 marks)
 - (b) **State** three(03) differences between the Financial Accounting and the Cost Accounting. (03 marks)
- (Total 05 marks)

Question 03

XYZ Ltd. uses **Material B** for its manufacturing process. The following information was extracted from the company’s records for the month of June 2018 for **Material B**:

Date	Description	Quantity (kg)	Purchase Price per kg (Rs.)
01.06.2018	Opening balance	1,000	15
01.06.2018	Purchases	500	18
15.06.2018	Issues	750	-
24.06.2018	Purchases	200	20
28.06.2018	Issues	800	-

You are required to:

Prepare stores ledger for the month of June 2018 using First In First Out (FIFO) basis. (05 marks)

Question 04

Rambo PLC is using piece rate system to calculate the earnings of the employees. Two employees **X** and **Y** produced 80 units and 120 units respectively during the last week. Both of them have worked all 05 days in the last week.

The following information was extracted from the company's wage system:

Normal week	9 hours x 5 days
Standard time allowed to produce one unit	30 minutes
Piece rate per unit	Rs.50/-
Bonus	50% of time saved at Rs.100/- per hour

The company calculates and pays the earnings of employees on weekly basis.

You are required to:

Calculate the total earnings of **X** and **Y** separately for the last week. (05 marks)

Question 05

Smart Line (Pvt) Ltd. manufactures casual wear. The company has undertaken an order from a foreign customer to supply 1,000 pieces of specialized casual wear and it will be manufactured in **Batch No.1010**.

The following costs have been incurred by the company for **Batch No.1010**:

Direct material	Rs.300,000/-
Direct labour – Cutting	Rs.500/- per hour (1,000 labour hours)
Direct labour – Finishing	Rs.120/- per hour (1,500 labour hours)

The company's overhead absorption rates for the production department are as follows:

Department	Absorption rate
Cutting	Rs.25/- per labour hour
Finishing	Rs.60/- per labour hour

You are required to:

Calculate the cost per unit of **Batch No.1010**. (05 marks)

Question 06

The following information was extracted from **UKL Ltd.** for the next quarter.

	Rs.
Selling price per unit	50
Contribution per unit	3
Fixed cost for the quarter	1,500,000

The company expects to make a profit of Rs.600,000/- for the next quarter.

You are required to:

Calculate the following:

- (a) Break-Even Point (BEP) in units. (02 marks)
- (b) Break-Even Point (BEP) in value. (01 mark)
- (c) Margin of safety in units. (02 marks)

(Total 05 marks)

End of Section B

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

Power PLC is a manufacturing company which operates an integrated accounting system.

The following transactions were extracted from the records of the company for the month ended 30th June 2018:

	Rs.
Purchase of raw materials	645,000
Materials issued to production	750,000
Machine maintenance	95,000
Direct wages on production	470,000
Supervisor's salary	90,000
Depreciation on Plant	175,000
Other production overheads	200,000
Production cost of finished goods	1,500,000
Production cost of goods sold	1,250,000

Stock balances as at 01st June 2018 were as follows:

	Rs.
Raw materials	550,000
Work-In-Progress (WIP)	280,000
Finished goods	150,000

You are required to:

Prepare the following accounts:

- (a) Raw material stock control account. (02 marks)
 - (b) Work-In-Progress (WIP) control account. (04 marks)
 - (c) Finished goods control account. (02 marks)
 - (d) Production overheads control account (02 marks)
- (Total 10 marks)

Question 08

Pharma Lanka (Pvt.) Ltd. manufactures **Product P** through two consecutive processes. The output of **Process I** is transferred immediately to **Process II**.

The following information relates to **Process I** for the month of June 2018:

Direct materials introduced to Process I	Rs.1,250,000/- (125,000 units)
Direct labour	Rs.800,000/-
Production overheads	Rs.550,000/-
Normal loss	10% of material introduced and scrap items can be sold at Rs.10/- per unit.
Output transferred to Process II	110,000 units

There was no opening or closing work-in-progress.

You are required to:

Prepare the **Process I** account. (10 marks)

Question 09

NW Ltd. (NWL) produces two products **B01** and **C02**. It has two production departments, **BM01** and **IM02** and two service departments **S01** and **S02**. Budgeted information for the six months ending 31st December 2018 is as follows:

	Production Departments		Service Departments	
	BM01	IM02	S01	S02
Indirect wages (Rs.)	1,000,000	1,000,000	300,000	500,000
Indirect material (Rs.)	500,000	805,000	200,000	100,000

Other overheads:

	Rs.
Depreciation	1,500,000
Insurance on building	375,000
Building rent	750,000
Staff welfare	425,000

The following information is also available:

	Production Departments		Service Departments	
	BM01	IM02	S01	S02
Book value of machinery (Rs.)	8,000,000	5,000,000	1,000,000	1,000,000
Floor area of the building (square feet)	10,000	15,000	5,000	7,500
Number of employees	150	150	50	75
Budgeted machine hours	18,000	18,000	-	-
Apportioning Cost of Service Departments:				
S01	40%	60%	-	-
S02	70%	30%	-	-

You are required to:

- (a) **Prepare** a statement showing how the overheads are allocated and apportioned to each of the production departments. (08 marks)
- (b) **Calculate** the overhead absorption rate for each of the two production departments based on the budgeted machine hours. (02 marks)
- (Total 10 marks)

End of Section C

SECTION D

A compulsory question

(25 marks)

Question 10

- (A) **Lanka Hardware (Pvt.) Ltd.** produces **Product A**. The company is preparing the budget for the quarter ending 31st December 2018.

The following information is extracted from the company's records for the quarter ending 31st December 2018:

- (1) The estimated sales for the quarter is 15,000 units and other forecasted data to be used to prepare the budget are as follows:

Selling price per unit	Rs.500/-
Opening stock	750 units
Closing stock	1,550 units

- (2) Estimated direct material requirement of **Product A** is 2.5 kg per unit and other information related to direct materials is as follows:

Price per kilogram	Rs.60/-
Opening direct material stock	10,000 kg
Closing direct material stock	6,250 kg

- (3) Each unit of **Product A** requires 3 hours of labour and the rate per labour hour is Rs.50/-.

You are required to:

Prepare the following for the quarter ending 31st December 2018:

- (a) Sales Budget.
- (b) Production Budget.
- (c) Direct Material Usage Budget.
- (d) Direct Material Purchase Budget.
- (e) Direct Labour Cost Budget. (02 marks each, 10 marks)

(B) (a) “Both standard costing and budgeting are critical tools in planning, operation and control of a business organization”.

Identify three(03) differences between Standard Costing and Budgeting. (03 marks)

(b) **FP Ltd.** manufactures **Product X** and uses the standard costing system. The following information is related for the month of June 2018:

(1) Standard cost card of **Product X** is as follows:

		Cost per unit (Rs.)
Direct material	5 litres at Rs.250/- per litre	1,250
Direct labour	4 hours at Rs.125/- per hour	500
Variable overheads	3 hours at Rs.150/- per hour	450
Fixed production overheads	4 hours at Rs.450/- per direct labour hour	1,800
Total		4,000

(2) Budgeted fixed production overheads for the month of June was Rs.280,000/-.

(3) The company produced 400 units of finished products for the month of June 2018 and the actual cost for the month was as follows:

	Rs.
Direct material purchased and used for the production (2,050 litres)	502,250
Direct labour hours paid (1,500 hours)	225,000
Fixed production overheads	300,000

You are required to:

Calculate the following variances:

- (i) Direct Material Price Variance.
- (ii) Direct Material Usage Variance.
- (iii) Direct Material Cost Variance.
- (iv) Direct Labour Rate Variance.
- (v) Direct Labour Efficiency Variance.
- (vi) Fixed Production Overheads Expenditure Variance. (02 marks each, 12 marks)

(Total 25 marks)

End of Section D

ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
Level 01 Comprehension Recall & explain important information	Define	Describe exactly the nature, scope, or meaning.
	Draw	Produce (a picture or diagram).
	Identify	Recognize, establish or select after consideration.
	List	Write the connected items one below the other.
	Relate	To establish logical or causal connections.
	State	Express something definitely or clearly.
	Calculate/Compute	Make a mathematical computation
	Discuss	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	Explain	Make a clear description in detail revealing relevant facts.
	Interpret	Present in an understandable terms.
	Recognize	To show validity or otherwise, using knowledge or contextual experience.
Record	Enter relevant entries in detail.	
Summarize	Give a brief statement of the main points (in facts or figures).	

Knowledge Process	Verb List	Verb Definitions
Level 02 Application Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	Apply	Put to practical use.
	Assess	Determine the value, nature, ability, or quality.
	Demonstrate	Prove, especially with examples.
	Graph	Represent by means of a graph.
	Prepare	Make ready for a particular purpose.
	Prioritize	Arrange or do in order of importance.
	Reconcile	Make consistent with another.
	Solve	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
Level 03 Analysis Draw relations among ideas and compare and contrast / Solve open-ended problems.	Analyze	Examine in detail in order to determine the solution or outcome.
	Compare	Examine for the purpose of discovering similarities.
	Contrast	Examine in order to show unlikeness or differences.
	Differentiate	Constitute a difference that distinguishes something.
	Outline	Make a summary of significant features.