



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JULY 2019

(AA22) COST ACCOUNTING AND REPORTING

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

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

21-07-2019

Morning

[8.45 – 12.00]

No. of Pages : 10

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 direct material cost, direct labour cost and direct other expenses is known as:

- (1) Overhead cost. (2) Sunk cost. (3) Prime cost. (4) Fixed cost.

(02 marks)

1.2 Which one of the following statements is **not** correct with reference to cost accounting?

- (1) It provides information for decision making.
- (2) It ascertains the cost of a unit.
- (3) It uses financial accounting information.
- (4) It prepares the reports according to legal requirements.

(02 marks)

1.3 The following information was extracted from a manufacturing company:

	Actual	Budgeted
Production overhead cost (Rs.)	201,500	180,000
Direct expenses (Rs.)	275,000	250,000
Machine hours	15,500	15,000

Based on the above information, overhead absorption rate per machine hour is:

- (1) Rs.12/- (2) Rs.13/- (3) Rs.11/- (4) Rs.14/- (02 marks)

1.4 The process of spreading overhead cost between cost centres on a rational and reasonable basis is:

- (1) Apportionment. (2) Allocation.
 (3) Under absorption. (4) Over absorption. (02 marks)

1.5 Which one of the following is an advantage of integrated accounting system?

- (1) There is no duplication of work.
 (2) Accounting functions are controlled more effectively and efficiently.
 (3) Clerical cost can be minimized.
 (4) All of the above. (02 marks)

1.6 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) If the actual loss is higher than the expected loss, the difference is known as abnormal gain.
 (2) The system which maintains two sets of accounting books is called as non-integrated accounting system.
 (3) Margin of safety is the difference between expected level of sales and contribution. (03 marks)

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

Column A	Column B
(1) Production is executed on a specific order of a customer.	(a) Process costing.
(2) Production is a continuous flow in anticipation of demand.	(b) Contract costing.
(3) Cost shall be recognized by reference to the stage of completion.	(c) Job costing.

(03 marks)

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

- (1) (*Depreciation / Overtime*) is an example for a non-controllable overhead.
- (2) (*Basic standards / Current standards*) are the standards which are established to use for a long period of time.
- (3) Profit reconciliation is required for (*integrated accounting / non-integrated accounting*) system.
- (4) (*Sunk cost / Opportunity cost*) is irrelevant in decision making. (04 marks)

End of Section A

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

The following information was extracted from the books of a company relating to a product:

Annual demand	125,000 units
Purchase price per unit	Rs.100/-
Annual holding cost per unit	10% of purchase price per unit
Ordering cost per order	Rs.250/-

You may use the following formula,

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

You are required to:

- (a) **Compute** the Economic Order Quantity (EOQ). (03 marks)
 - (b) **State** two(02) assumptions of the EOQ model. (02 marks)
- (Total 05 marks)

Question 03

Bright Ltd. manufactures and sells two types of pens (**A** and **B**). The following budgeted information was extracted from the company's books for the month ending 30th September 2019:

Product	Stock as at 01 st Sep. 2019 (Units)	Stock as at 30 th Sep. 2019 (Units)	Budgeted sales for the month ending 30 th Sep.2019 (Units)	Selling price per unit (Rs.)
A	33,750	18,750	273,750	8
B	55,000	30,000	356,000	12

You are required to:

Prepare the following for the month ending 30th September 2019:

- (a) Sales Budget. (02 marks)
- (b) Production Budget for products **A** and **B** separately. (03 marks)
- (Total 05 marks)

Question 04

Aqua Ltd., a food manufacturing company maintains two set of ledgers for cost accounts and financial accounts. For the year ended 31st March 2019, the company recorded a profit of Rs.435,675/- as per financial accounts while a profit of Rs.647,675/- was recorded as per cost accounts.

The following information was extracted from the books of accounts:

- (1) Stock valuation:

	As per Cost Accounts (Rs.)	As per Financial Accounts (Rs.)
Opening stocks	125,000	132,500
Closing stocks	105,000	108,000

- (2) Overhead costs as per cost accounts was Rs.475,000/- and it was Rs.525,000/- as per financial accounts.
- (3) Interest expenses of Rs.182,500/- were recorded only in the financial accounts.
- (4) Excess depreciation of Rs.25,000/- was charged in cost accounts when compared to financial accounts.

You are required to:

Prepare a profit reconciliation statement between cost accounts and financial accounts for the year ended 31st March 2019. (05 marks)

Question 05

Hard Tubes Ltd. is a tire manufacturing company and they have received a special order from a customer to produce unique 240 tires. The production is done through **A** and **B** departments. Batch number assigned to this order is **102**.

The following information relates to batch **No. 102**:

Raw materials - Steel	1,705 kg (Rs.150/- per kg)
- Rubber	2,850 kg (Rs.400/- per kg)
Direct labour - A Department	1,250 hours (Rs.225/- per hour)
- B Department	1,725 hours (Rs.190/- per hour)

Departments	A	B
Production overhead absorption rate per direct labour hour	Rs.120/-	Rs.90/-

You are required to:

Compute the following:

- (a) Total cost of the batch (04 marks)
- (b) The cost per tire. (01 mark)
- (Total 05 marks)

Question 06

ABC Ltd. is using piece rate system to calculate the wages of employees and wages are paid weekly basis. Two employees **X** and **Y** worked and produced 150 units and 180 units respectively during the last week.

The following information was extracted from the books of the company:

Normal week	8 hours x 6 days
Piece rate per unit	Rs.60/-
Standard time allowed to produce one unit	20 minutes
Bonus	Rs.250/- per hour on time saved

You are required to:

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

— *End of Section B* —

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

Power Ltd. has two production departments (**Assembling** and **Finishing**) and two service departments (**Stores** and **Maintenance**). The budgeted information for the quarter ending 30th September 2019 was as follows:

(1)

	Production		Service	
	Assembling	Finishing	Stores	Maintenance
Indirect departmental expenses (Rs.)	371,750	773,000	312,250	84,875
Floor area (square feet)	250	100	100	50
Number of employees	5	10	2	3
Value of machinery (Rs.)	2,375,000	1,900,000	-	475,000
Direct Labour hours	3,750	11,250	-	-

(2) Other budgeted overheads for the quarter are as follows:

	Rs.
Machine depreciation	475,000
Staff meal cost	187,500
Building rent	95,000
Insurance on machinery	118,750

(3) Service department costs are apportioned between two production departments as follows:

	Assembling	Finishing
Stores	20%	80%
Maintenance	70%	30%

You are required to:

- (a) **Prepare** a statement showing how the overheads are allotted and apportioned to each of the production department. (07 marks)
- (b) **Calculate** the overhead absorption rate per direct labour hour for each production department. (03 marks)
- (Total 10 marks)

Question 08

MM Ltd. which is a manufacturing company produces product “**MM**” using two consecutive processes. The output of **Process I** is immediately transferred to **Process II**.

The following information relates to **Process II**:

Material transferred from Process I	Rs.500,000/- (10,000 kg)
Additional material introduced	Rs.90,000/-
Direct labour and overhead cost	Rs.160,000/-
Normal loss	10% on material transferred from Process I and scrap items can be sold at Rs.3/- per kg.
Output transferred from Process II	8,500 kg

There were no opening and closing work-in-progress.

You are required to:

Prepare the Process II account.

(10 marks)

Question 09

Kiddies Ltd. is a toy car manufacturing company and the following information was extracted from the books of accounts of the company for the month ending 30th June 2019.

- (1) The details of variable cost per toy car is as follows:

	Rs.
Direct material	115
Direct wages	65
Variable overheads	55
	235

- (2) Other actual information for the month was as follows:

Production (Units)	2,100
Sales (Units)	2,380
Opening Stock (Units)	435
Closing Stock (Units)	155
Selling Price per unit (Rs.)	385

- (3) Fixed overheads were as follows:

	Actual (Rs.)	Budgeted (Rs.)
Production overheads	115,500	135,000
Administration and Distribution overheads	180,000	180,000

- (4) Budgeted production for the month was 2,250 cars and fixed overheads are absorbed on the production unit basis.

(Assume that the production cost per unit is same for the units of opening stocks and units produced during the month)

You are required to:

- (a) **Prepare** the income statement under absorption costing method for the month ending 30th June 2019. (08 marks)

- (b) **Calculate** the contribution to sales ratio. (02 marks)

(Total 10 marks)

End of Section C

SECTION D

A compulsory question

(25 marks)

Question 10

- (A) **GP PLC** produces and sells a branded product. The following productions and sales forecasts for the month of June, July, August and September 2019 were extracted from the records of the company:

	June	July	August	September
Purchases (in units)	8,000	12,000	15,000	13,000
Sales (in units)	9,000	10,000	14,000	13,000

The following additional information is also provided:

- (1) Purchase price per unit is Rs.75/- up to 30th June 2019 and it is expected to increase to Rs.80/- with effect from 01st July 2019.
- (2) All the purchases are made on credit basis and payments will be made in the following month.
- (3) 60% of the sales are on cash basis and balance will be collected in the following month. Selling price per unit is Rs.120/-.
- (4) Total administration and distribution expenses for the month have been estimated to be Rs.480,000/- and it will be paid in the same month.
- (5) The company intends to obtain a bank loan of Rs.1,000,000/- during the month of August 2019 to be settled in monthly installments of Rs.60,000/- each for a period of 2 years. First installment will be paid on 01st September 2019.
- (6) Cash balance as at 30th June 2019 would be Rs.125,000/-.

You are required to:

Prepare the cash budget of **GP PLC** for the quarter ending 30th September 2019 on monthly basis.
(11 marks)

- (B) **Mega apparel Ltd.** produces shirts and operates a standard costing system. The following information relates to the month of June 2019:

- (1) Actual information for the month was as follows:

		Rs.
Direct material used	10,000 meters	1,250,000
Direct labour paid	15,000 hours	750,000
Variable overheads		825,000
Fixed overheads		150,000

(2) The standard cost card per shirt is as follows

		Rs.
Direct material	2 meters @ Rs.130 per meter	260
Direct labour	3 hours @ Rs. 60 per hour	180
Variable overheads	3 hours @ Rs. 50 per hour	150
Fixed overheads	3 hours @ Rs. 10 per hour	30
Total		620

(3) Actual production for the month was 4,800 shirts.

(4) Budgeted production for the month was 4,200 shirts and budgeted fixed overhead for the month was Rs.175,000/-.

(5) There are no opening or closing stocks of material, finished goods and work-in-progress.

You are required to:

Calculate the following variances:

(a) Direct Material Price Variance.

(b) Direct Material Usage Variance.

(c) Direct Material Cost Variance.

(d) Direct Labour Rate Variance.

(e) Direct Labour Efficiency Variance

(f) Variable Overhead Cost Variance.

(g) Fixed Overhead Expenditure Variance.

(02 marks each, 14 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.