SRI LANKA

Association of Accounting Technicians of Sri Lanka

AA2 Examination - January 2020

Suggested Answers
Subject No : AA22

COST ACCOUNTING AND REPORTING (CAR)

Association of Accounting Technicians of Sri Lanka
No. 540, Ven. Muruththettuve Ananda Nahimi Mawatha,
Narahenpita, Colombo 05.

Tel : 011-2-559 669

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EDUCATION AND TRAINING DIVISION

AA2 Examination - January 2020
(AA22) Cost Accounting and Reporting

SUGGESTED ANSWERS

SECTION - A

Objective Test Questions (OTQs)

Eight (08) compulsory questions

(Total 20 marks)

Suggested Answers to Question One:

1.1 – (2)

1.2 – (2)

1.3 – (4)

1.4 – (3)

1.5 – (1)

(2 marks each)

(10 marks)

1.6
- i. Fixed
- ii. Master budget
- iii. Total production

(03 marks)

1.7
1. (b)
2. (c)
3. (a)

(03 marks)

1.8
1. True
2. False
3. True
4. True

(04 marks)

(Total 20 marks)

End of Section A

SECTION -B

Five (05) compulsory questions
(Total 25 marks)

Suggested Answers to Question Two:

Chapter 02 - Accounting Materials

Date	Description	In			Out			Balance		
		Qty	Rate	Value	Qty	Rate	Value	Qty	Rate	Value
1/12/2019	Opening Balance							450	15	6,750
5/12/2019	Issue				300	15	4,500	150	15	2,250
8/12/2019	Purchase	500	18	9,000				650		11,250
15/12/2019	Issue				150	15	2,250	-	-	-
					400	18	7,200	100	18	1,800
25/12/2019	Purchase	600	20	12,000				700		13,800

(05 marks)

Suggested Answers to Question Three:

Chapter 03 - Accounting for Labour

		A	B
Total earnings of		**A**	**B**
No. of units produced		960	1,120
Piece rate per unit		15	15
Earnings(Normal Salary)		**14,400**	**16,800**
Bonus on additional units (W-1)		-	1,600
Total Earnings		**14,400**	**18,400**
W-1			
Standard production per week	**20Units*8Hrs*6Days**	960	960
Actual production		960	1,120
Additional units produced		-	160
Bonus on additional units	**@ Rs.10/- per unit**	**-**	**1,600**

(05 marks)

Suggested Answers to Question Four:

Chapter 05 - Cost Book Keeping

(a)

Raw Material Stock Control A/C

Date	Description	Amount (Rs.)	Date	Description	Amount (Rs.)
1/12/2019	Balance B/F	225,000	Dec-19	Issues(WIP)	378,964
Dec-19	Creditors	425,165	31/12/2019	Balance C/F	271,201
		650,165			**650,165**

(02 marks)

(b)

Work in Progress Control A/C

Date	Description	Amount (Rs.)	Date	Description	Amount (Rs.)
1/12/2019	Balance B/F	185,250	Dec-19	FG Control	772,111
Dec-19	RM Control A/C	378,964			
Dec-19	Wages control	212,175			
Dec-19	P. OH Control	142,187	31/12/2019	Balance C/F	146,465
		918,576			**918,576**

(03 marks)

(Total 05 marks)

Suggested Answers to Question Five:

Chapter 06 - Costing Methods

COST OF JOB NO - 2232				**Rs.**
Direct material/Raw Material	200Kg*Rs.15,500			3,100,000
Direct Labour	Department X	250h@Rs.800/-	200,000	
	Department Y	750h@Rs.800/-	600,000	800,000
Production Overhead	Department X	Rs.200,000*75%	150,000	
	Department Y	Rs.600,000*150%	900,000	1,050,000
Production Cost				**4,950,000**
Profit margin	**(@ 20% on SP)**			1,237,500
Selling Price				**6,187,500**

(05 marks)

Suggested Answers to Question Six:

Chapter 5 - Cost Book Keeping

	Rs.	**Rs.**
Profit as per financial accounts		288,000
Add:		
Overstated depreciation	40,000	
Director fees	50,000	
Overstated opening stock	1,000	91,000
Less:		
Understated overhead cost	50,000	
Understated closing stock	9,000	(59,000)
Profit as per cost accounts		**320,000**

Note: ***This reconciliation can be prepared starting from profit as per cost accounts and arrive at profit as per Financial Account.***

(05 marks)

(Total 25 marks)

End of Section B

SECTION -C

Three (03) compulsory questions
(Total 30 marks)

Suggested Answers to Question Seven:

Chapter 06 - Costing Methods

Process II Account

Description	**Units**	**Value**	**Description**	**Units**	**Value**
Material P1	25,000	250,000	Normal loss	1,250	3,750
Additional material	-	65,250	Output to FG (W-3)	24,250	509,250
Conversion cost (Wages and O/H	-	187,250			
Abnormal gain(W-1)	500	10,500			
	25,500	**513,000**		**25,500**	**513,000**

W-1 – Identification of losses

Input to process 1	25,000
Normal loss @ 5%	(1,250)
Expected Output	23,750
Actual output	(24,250)
Abnormal gain	(500)

W-2

Unit cost of process 1 $= \dfrac{\text{Cost of Input - Scrap Value}}{\text{Expected output}}$

$= \dfrac{502{,}500 -(1{,}250*3)}{25{,}000-1{,}250}$

$= \dfrac{498{,}750}{23{,}750}$

= **21**

W-3

Cost of output	24,250*21	509,250
Cost of abnormal loss	500*21	10,500

(10 marks)

Suggested Answers to Question Eight:

Chapter 04 - Accounting for Overheads

(a)

Description	**Apportion basis**	**Total Cost**	**Production department**		**Service Department**	
			Cutting	**Assembling**	**Stores**	**Maintenance**
Indirect cost	Allocation	568,492	112,667	277,009	96,500	82,316
Supervision cost	Direct Labour hours	450,000	135,000	315,000	-	-
Building rent	Square feet	105,000	31,500	42,000	21,000	10,500
Machine depreciation	Cost of plant	157,500	59,406	78,018	-	20,076
Electricity	Kilowatts	75,500	30,200	30,200	7,550	7,550
Machine maintenance	Cost of plant	315,000	118,812	156,036	-	40,152
		1,671,492	**487,585**	**898,263**	**125,050**	**160,594**
Stores dept.	60% : 40%	-	75,030	50,020	(125,050)	-
Maintenance dept.	50% : 50%	-	80,297	80,297	-	(160,594)
Total Cost		**1,671,492**	**642,912**	**1,028,580**	**-**	**-**

(07 marks)

(b)

	Production Department	
	Cutting	**Assembling**
Total cost	642,912	1,028,580
Total labor hours	1,200	2,800
OH Absorption rate	**535.76 per hour**	**367.35 per hour**

(03 marks)

(Total 10 marks)

Suggested Answers to Question Nine:

Chapter 08-Budgeting

(a)

Sales budget	**P1**	**P2**
Budgeted Sales Qty	15,750	11,675
Budgeted Price	280	50
Budgeted sales Rs.	4,410,000	583,750
Total		**4,993,750**

(03 marks)

(b)

Production budget	**P1**	**P2**
Budgeted sales units	15,750	11,675
(+) Closing Stock	1,950	1,525
Total requirement	17,700	13,200
(-) Opening stock	(1,150)	(3,450)
Budgeted production units	**16,550**	**9,750**

(04 marks)

(c)

Direct Material Usage Budget

		P1		**P2**	**Budgeted Usage**
Budgeted production qty		16,550		9,750	
Raw material	MN1 16,550*1L	16,550	9750*0.5	4,875	**21,425L**
	MN2 16,550*0.8L	13,240	9,750*2	19,500	**32,740L**

(03 marks)

(Total 10 marks)

End of Section C

SECTION -D

A compulsory question
(Total 25 Marks)

Suggested Answers to Question Ten:

Chapter 09 - Standard Costing and Variance Analysis

(a)	**Direct Material Price Variance**	=	Actual Material Quantity Purchased (Standard Price - Actual Price)
		=	2,100 (225 - 220)
		=	**10,500 Favourable**
(b)	**Direct Material Usage Variance**	=	Standard Price (Standard Usage of Actual Production - Actual Usage)
		=	225 (1,900 - 2,100)
		=	**45,000 Adverse**
(c)	**Direct Material Cost Variance**	=	DM Price Variance + Direct Material Usage Variance
		=	45,000 (A) - 10,500 (F)
		=	**34,500 Adverse**
	OR		
	Direct Material Cost Variance	=	Standard Direct Material Cost of Actual Production - Actual Direct Material Cost
		=	950*450 - 462,000
		=	427,500 - 462,000
		=	**34,500 Adverse**
(d)	**Direct Labour Rate Variance**	=	Actual Hours (Standard Rate - Actual Rate)
		=	2,375 (100 - 105)
			11,875 Adverse
(e.)	**Direct Labour Efficiency variance**	=	Standard Rate (Standard Hours - Actual Hours)
		=	100 (1,900 - 2,375)
		=	**47,500 Adverse**

(f)	**Direct Labour Cost Variance**	=	(Rate Variance + Efficiency Variance)
		=	11,875 + 47,500
		=	**<u>59,375 Adverse</u>**

OR

Direct Labour Cost Variance	=	(950 * 200) - 249,375
	=	190,000 -249,375
	=	**<u>59,375 Adverse</u>**

(g)	**VOH Cost Variance**	=	**Standard Cost of Actual Production - Actual Cost**
		=	(300 * 950) - 356,250
		=	**<u>71,250 Adverse</u>**
(h)	**FOH Expenditure Variance**	=	Budgeted Overhead Cost - Actual Overhead Cost
		=	575,000 - 522,500
		=	**<u>52,500 Favourable</u>**

<u>Alternative Answer</u>

FOH Expenditure Variance	=	(1,000 * 600) - 522,500)
	=	**<u>77,500 Favourable</u>**

(02 marks each, 16 marks)

(B)

a)

Chapter 7 - Marginal Costing and Absorption Costing

APL Limited
Income statement for the month ended 31/12/2019
(Under Marginal Costing)

		Rs.	**Rs.**
Sales	800 units * Rs.2,000/-		1,600,000
(-)Cost of Sales			
Opening stock	200 units * Rs.1,200/-	240,000	
Production cost	1,000 units * Rs.1,200/-	1,200,000	
(-) Closing stock	400 units * Rs.1,200/-	(480,000)	
			(960,000)
Gross Profit			**640,000**
Other variable cost			
(Administration and Distribution)			(225,000)
Contribution			**415,000**
(-) Fixed cost			
Production		150,000	
Admin and Distribution expenses		250,000	(400,000)
Profit			**15,000**

(07 marks)

(b)

(1) It facilitates short term decision making
(2) It is easy to calculate, since there is no need to calculate overhead absorption rate
(3) It is simple and easy to understand
(4) It avoids over or under absorption of overheads
(5) It helps to compare performance between two or more products and departments

(02 marks)
(Total 25 marks)

End of Section D

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These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the "Only" answers, or, for that matter even as "Model Answers".
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