

## EXAMINER'S REPORT

### AA2 EXAMINATION - JULY 2019

#### (AA22) COST ACCOUNTING AND REPORTING

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The question paper consisted of 4 sections with 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 needs 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)** 11 marks and **Part (b)** 14 marks.

#### Part A

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

This question mainly focused on the cost accounting principles and basic computations. There were 8 OTQ questions in this question. Majority of the candidates have obtained high marks out of 20. However many candidates could not answer the sub question **1.4** which is on apportionment of overhead cost between cost centres. It was noticed that candidates had no clear understanding on difference between allocation & apportionment. For **1.7**, most of the candidates could not answer due to lack of knowledge on requirements of Process Costing, Contract Costing and Job Costing.

Candidates should have good understanding on theoretical aspect as well as its application to given scenarios.

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

## **Part B**

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

**Part (a)** of this question required the students to calculate the EOQ. **Part (b)** of this question required to state two assumptions of the EOQ model.

Majority of the candidates have attempted **part (a)**. and few candidates could not trace “Co as ordering cost per order” and “Ch as holding cost per unit”. Therefore they couldn’t get the marks allocated to this question. However, few candidates had attempted **part (b)** and given the right assumptions.

Therefore, candidates should have comprehensive understanding on the EOQ model and application of given information to a formula.

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

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

This question tested on sales budget and production budget.

Most of the candidates have attempted this question and obtained total marks.

However, for **part (a)** few candidates had adjusted the opening stock and closing stock to budgeted sales also.

For **part (b)** few candidates had considered the total sale value (unit price x unit sold) when production budget is prepared.

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

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

This question tested the knowledge on profit reconciliation statement between financial accounts and cost accounts.

Most of the candidates did not attempt this question or did not give the complete answer. However, some candidates obtained total marks out of 05. Most of the candidates do not have the proper understanding on the concept on profit reconciliation. Therefore, they have prepared T accounts instead of reconciliation and some candidates have shown only the mathematical difference between profit of financial accounts and profit of cost accounts instead of the reconciliation. Some candidates have not considered the (+) and (-) when profit reconciliation is prepared.

**Overall performance for this question was not at a satisfactory level.**

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

This question tested on batch costing.

Most of the candidates achieved the full marks for this question out of 05. However some of the candidates could not calculate the production overhead cost correctly. They have calculated the total cost of the batch without considering the overhead cost and therefore they couldn’t get the correct answer.

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

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

This question tested the knowledge on calculation of total earnings of 2 employees using the piece rate system.

Overall performance for this question was poor. Most of the students were unable to achieve full marks for this question. Many of them did not accurately calculate the bonus amount of the two employees and therefore they could not get correct answer.

**Overall performance for this question was not at a satisfactory level.**

**Part C**

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

**Part (a)** of this question tested the knowledge on preparation of statement showing how overheads are allotted & apportioned to each of the production departments.

**Part (b)** tested calculation of overhead absorption rate per direct labour hour for each production department. Almost all the students attempted this question and earned more marks.

However, some candidates have not understood the rationale of allocation of overheads to each cost Centre. Therefore, they have just written the information given in the question.

However, apportionment of overhead cost to service departments has been correctly done by the majority.

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

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

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

This question tested the knowledge on process accounts.

Majority of the candidates had attempted this question and earned more marks. Some candidates didn't have understanding on how to prepare the process account. Some of them have illustrated in statement format instead of 'T' account. Majority of the candidates calculated the normal loss correctly but some didn't identify the abnormal loss.

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

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

This question tested the knowledge on preparation of income statement under absorption costing method & calculation of contribution to sales ratio.

Majority of the candidates had not attempted this question. Some have used the marginal costing method instead of absorption costing method. Fixed cost rate had been calculated incorrectly. As a result of it total cost per unit was wrong and they couldn't get correct value for the closing stock also.

However, majority of the candidates have correctly computed the contribution to sales ratio.

**Overall performance for this question was not at a satisfactory level.**

## Part D

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

This question consists of two sections, cash budget and variance analysis.

Only few candidates obtained the high marks for this question. Others have obtained lower marks.

### Part (A)

#### **Cash Budget Section:**

Some candidates have not used proper format to illustrate the receivables and payables on monthly basis. Some candidates have just drafted "T" accounts. Majority had not taken the loan receipt as cash receipt in the budget. Some candidates had not taken the loan payment as cash payment in the cash budget. Few candidates had not attempted this question due to lack of time as this is a last question and it appears to be inefficiency in time management.

### Part (B) - Variance Section:

#### **Calculation of variances:**

Significant number of candidates did not have basic understanding on variances. Some of them have just written formulas without any calculation. Sign of "F" (Favorable) or "A" (Adverse) was not mentioned by some of the candidates. Poor performance was noted in calculation of direct Material Usage Variance, Direct Material Cost Variance and Direct Labour Efficiency Variance.

**Overall performance for this question was not at a satisfactory 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 the instructions carefully given on it.
2. Read the question with due care and answer only for what is asked in the question.
3. Practicing the examples of the Self-Study Text is also vital.
4. Re check the calculations to ensure the arithmetical accuracy and show all the relevant workings clearly. State clearly the assumptions made when calculations are done.
5. Manage your time efficiently at the examination. Candidates need to **practise 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 of writing answers.
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 well the theoretical area relating to each study area. Answer the theoretical questions as well and it will facilitate to score high marks.
10. Sit for examination with the main intention of passing.