

EXAMINER'S REPORT

AA2 EXAMINATION - JANUARY 2016

(AA22) COST ACCOUNTING AND REPORTING

This 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 each part worth 2, 3, 4 and 5 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 worth 10 marks Part B worth 15 marks.

Standard of the question paper and performance of the candidates in the examination was good. However, it was noted that the candidates had a problem with the time allocation for each question. Because of this reason they had to sacrifice one or two questions.

In order to improve the skills in time management, candidates must practice study pack scenarios, model papers and past papers before sitting for the examination.

In some questions certain candidates have written very lengthy answers although the examiner expected only a short and precise answer. The allocated marks to each question provides guidance to candidates about the time they could spent on each question and the length of answer expected from them.

Part A

Question No. 01 - (Marks Allotted 20)

The questions were mainly focused on the basic costing principles and basic computation such as EOQ, over/under absorptions, cost drivers etc.

Performance was satisfactory as almost all the candidates have attempted the question and scored high marks.

There is a slight under performance in “overhead absorption” question (1.2) was observed where the question was bit tricky with familiar the answers. Some candidates do not know how to answer a MCQ type questions and they have given detailed answers. Candidates should be familiar with fundamental concepts of cost accounting in order to handle these types of questions properly.

Part B

Question No. 02 - (Marks Allotted 05)

The question was mainly focused on the methods of remuneration.

Overall performance was satisfactory. However some of the candidates didn't have a clear and conclusive knowledge on this area and as a result the final answer has been arrived in a very detailed manner. The answer could be arrived in a very short number of steps where candidates had tried long paths. The reason can be the lack of overall knowledge on the area and the lack of practice.

Candidates should practice a considerable number of sums to develop their analytical and technical skills which will help them to identify the easy way to compute these kinds of questions.

Question No. 03 - (Marks Allotted 05)

This question was mainly focused on the calculation of inventory value by using weighted average (AVCO) method.

Performance was not satisfactory as most of the candidates have not showed their understanding on AVCO method of issuance. The possible reason could be lack of knowledge on the different inventory valuation methods.

In the question, it was expected to assess the value of the inventory as at 31st December 2015 and there was no requirement to prepare the inventory / stores ledger. But it was noted that some candidates have prepared the inventory / stores ledger in detail and wasted their time in answering.

Candidates should practice different methods of pricing of material issues and valuation of the inventory.

Question No. 04 - (Marks Allotted 05)

The question was mainly focused on the Marginal costing. This is also a very simple question.

Most of the candidates attempted (a) part in a satisfactory manner. Some of the candidates have failed to calculate the number of units to be sold to achieve a target profit for part (b). Some have confused with the formulae, applied figures erroneously and done errors in calculations.

Candidates should practice to use correct formulae and apply correct figures and improve arithmetical accuracy.

Question No. 05 - (Marks Allotted 05)

The question was mainly focused on the pricing and costing of a product. This question required computation of selling price per unit to achieve a profit margin of 20% of selling price.

Almost all the candidates have attempted to the question. But very few candidates have scored the full marks. Majority of the candidates have earned full marks up to calculation of total cost of Product P. But they have made mistakes in applying profit margin in the final answer (selling price).

Candidates should read the question carefully and use correct formula, apply correct figures and improve arithmetical accuracy to obtain high marks.

Question No. 06 - (Marks Allotted 05)

The question mainly focused on the calculation of labour variances.

Performance was not satisfactory. Most of the candidates have not obtained at least half of the marks allocated to the question or not attempted to the question.

It was evidential that the candidates do not possess clear and conclusive knowledge regarding the labour variances. It was observed that certain candidates have made errors in applying figures to formulae. Further some of them have not indicated whether the variance is "Adverse" / "A" or "Favorable" / "F" and as a result answers were incomplete.

Part C

Question No. 07 - (Marks Allotted 10)

This question was mainly focused on the Accounting for Overheads. This was a straightforward and very easy question.

It was required to prepare a statement showing how the production overheads are allocated and apportioned to each of the production department and calculation of the overhead absorption rate for each of the production department based on the number of labour hours.

Most of the candidates have obtained more than half of the total marks. Identification of the basis of allocation of overhead costs and apportionment of the service department costs to the production departments are correctly done by the majority of the candidates. However the following errors and lapses were observed.

Some candidates have calculated the depreciation of plant and equipment in annual basis and have not considered it on monthly basis.

Some candidates have not identified that three items (Indirect material, indirect wages, cost of plant and equipment) is in thousands (000). Few candidates have omitted the already allocated indirect material and indirect labour in their calculations.

Question No. 08 - (Marks Allotted 10)

This question is mainly focused on the process costing and required to prepare production cost evaluation statement using Weighted Average Cost (AVCO) method from part (a). From part (b) it was required to prepare Process 2 account.

The performance was not at the satisfactory level. Majority of the candidates have not obtained high marks or have not attempted to the question.

Some candidates have difficulty in identifying and calculating the abnormal gain. Some have, not correctly calculated the abnormal gain and some candidates have not considered the abnormal gain in calculation of equivalent units.

Certain candidates have not considered normal loss when calculating per unit cost or considered a wrong amount for the normal loss.

Even though some candidates have calculated the WIP value, output value correctly, the relevant amounts were not taken to the process accounts correctly.

Question No. 09 - (Marks Allotted 10)

The question was mainly focused on cost book keeping system.

The question required to prepare a profit/loss reconciliation statement between cost accounts and financial accounts.

Performance was not at the satisfactory level. Most of the candidates have not obtained more than half of the total marks. Most candidates correctly identified the values of treatment for depreciation, notional rent interest income, income tax, doubtful debts but they have not identified how to treat various opening and closing stock of material and finished goods.

A considerable number of candidates have no idea on reconciliation statement and they have only reproduced the details given in the question and not earned any marks. Some candidates prepared "T" accounts for each entry which is an unnecessary and time consuming activity. Certain candidates didn't have proper idea how to arrive profit from cost accounts to financial accounts or profit from financial accounts to cost accounts and some have not properly identified (+) and (-) figures. From this it is evidential that they have not properly understood the question or didn't practice the same type of questions before.

Part D

Question No. 10 - (Marks Allotted 25)

Part (A) (marks allotted 10) mainly focused on operating statements under absorption costing method.

The question required to prepare an operating statement under absorption costing system and calculate the actual profit for the month of December 2015.

The performance was not up to the satisfactory level. Majority of the candidates have not earned high marks or not attempt to the question. Some of the candidates have tried to recalculate the variances or used the budget and variance to calculate the actual amount of sales etc. to arrive at the profit. Majority have not treated the administration and distributing cost variance.

Majority of the candidates did not have an understanding what was an operating statement instead they have prepared an income statement and recalculated the variances again.

Part B (Marks Allotted 15)

This question was mainly focused on budgeting. It was required to prepare the cash budget for the first quarter of 2016 on monthly basis.

This was a simple and straight forward question but the performance was just average.

Some candidates didn't have an understanding of the format of the cash budget and some have prepared the budget for the entire quarter ignoring the fact that it has to prepare for the first quarter of 2016 on monthly basis.

Some candidates have prepared a cash book type of "T" account for each month instead of a cash budget. Few candidates have prepared profit and loss account instead of budget. Some have neglected the direct wages VPOH & FPOH in preparing the cash budget.

Majority of the candidates have scored reasonable marks. Disposal of motor vehicles, acquisition of office equipment, distribution expenses and Administration expenses receipts from cash sales and credit sales have been calculated and recorded correctly by majority. Some candidates did not have an understanding that depreciation is not included in a cash budget.

It is essential to practice past papers, the practice questions in the study pack to understand the patterns and the formats of the questions. Candidates should be extra conscious in writing formulas, substituting figures for them and about the arithmetical accuracy. It is also required to show the workings pertain to the questions with clarity and state any related assumptions very clearly if there are any.

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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.
2. Read the question several times and answer only what is asked in the question. Do not write unnecessary things.
3. Manage your time efficiently at the examination.
4. Before handing over the answer script, check whether the question numbers and your index number have been written correctly.
5. By answering past question papers, you can improve the subject knowledge as well as the ability to write answers well.
6. 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.
7. Sit for examination with the main intention of passing.

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