

**EXAMINER'S REPORT**  
**AA2 EXAMINATION - JULY 2016**  
**(AA22) COST ACCOUNTING AND REPORTING**

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This question paper consisted of 4 sections with altogether 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 objective test questions each worth 01 or 02 marks. It was required to answer all the questions.

**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 13 marks. Part (B) – (a) worth 8 marks Part B – (b) worth 4 marks.

Standard of the question paper and the performance of the candidates at the examination was at a satisfactory level. It was noted from the answers that majority of the candidates were able to manage the time allocation. The allocated marks to each question provides guidance to candidates about the time they could spent on each question.

**Part A**

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

These questions were mainly focused on the basic cost accounting principles and basic computations such as re-order level, absorption of overhead cost, etc. Almost all the candidates attempted this question. Some candidates scored more than 15 marks out of 20. Considerable number of candidates failed to score 4 marks for question 1.7. Some candidates had no clear knowledge of standard costing system, activity based costing and zero based budgeting.

Some candidates did not aware as to how to answer a OTQ type question and some of them have re-written the entire question along with the answer. They have spent their time for unnecessary work.

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)

This question was mainly focused on the methods of remuneration under cost of labour. Majority of the candidates have not scored full marks for this question. Considerable number of candidates wasted their time to convert hours into minutes.

Even though majority of the candidates calculated bonus rate per hour correctly. They failed to find out the additional number of hours properly. They just applied the additional production as 20 shirts.

Candidates should practice past papers and study pack scenarios to develop their knowledge on this easy area.

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

This question was mainly focused on the calculation of inventory value by using first-in-first-out (FIFO) method.

Majority of the candidates scored full marks for this question. Few candidates failed to calculate the issue cost under FIFO method. Further a very few candidates have not applied the correct format of the stock ledger.

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

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

This question required candidates to prepare a production budget.

Majority of the candidates have not read the requirement of the question properly. There were few candidates who have prepared the trading account under the Financial Accounting instead of the requirement of the question.

Some candidates failed to prepare the production budget correctly. It was noted from the answers that they were lack in the knowledge to apply opening and closing stocks to prepare the production budget.

Candidates should read the question carefully and understand the requirements of it properly before attempting.

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

The question was mainly focused on pricing and costing of a job. This question required candidates to calculate the price to be charged for a job.

Majority of candidates scored 2 - 3 marks only for this question. A very few candidates scored full marks for this question. Some candidates have not correctly computed the margin on the job, though it required a very simple computation. Some candidates have computed the profit margin on the total direct cost of the job. They have ignored the overheads.

Candidates should read the question carefully and apply correct methods and should improve their arithmetical accuracy to obtain full marks for this kind of simple questions.

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

This question mainly focused on the break-even analysis, specially calculation of break-even point and margin of safety in units.

Majority of candidates have not calculated the fixed cost per month. They have directly applied the annual fixed cost to calculate the break-even point. Therefore, full marks could not be obtained by majority.

Candidates should practice similar type of questions.

## Part C

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

This question mainly focused on the preparation of cash budget on monthly basis.

Performance was at a satisfactory level. Most of the candidates had correctly calculated the forecasted revenue as well as forecasted expenditure.

Majority of the candidates had scored about 7-9 marks.

A fewer number of candidates had not prepared the cash budget on monthly basis, instead they have prepared for the entire quarter in totals.

Most of the candidates had erroneously treated the acquisition cost of the machinery as a cash inflow, instead of considering it as a cash outflow.

Candidates should practice more questions of this nature to score full marks.

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

The question mainly focused on the ability of candidates to allocate overhead among different departments and apportioned to each of the production departments.

Majority of the candidates attempted the question. It was observed from the answers that the basis of allocation of overhead cost among production and service departments had been applied correctly by majority of the candidates. The correct percentages have also been applied to apportion the overhead cost of service departments between two production departments. Majority of candidates had scored around 7-8 marks.

There were fewer number of candidates, who have prepared the statement without considering the cost of indirect material and indirect wages.

Candidates should practice similar questions.

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

This question mainly focused on preparation of a reconciliation between cost accounts and financial accounts.

Majority of the candidates correctly identified and calculated the adjustments not relevant to stocks i.e. income tax and depreciation. However, overall performance of this question was not at a satisfactory level. Considerable number of candidates scored about 6-9 marks.

Most of the candidates had not properly understood the concept of reconciliation between two set of accounts. Further effect of the stock valuation had not been correctly adjusted to the profit. Majority of the candidates had made adjustments in two set of profits separately. Fewer number of candidates computed the profit under both the methods and wasted their time.

It is important to read the question carefully before attempting it. Further, candidates should practice past examination papers and study pack.

## Part D

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

**Part (A)** {Marks Allocated 13} mainly focused on candidates' knowledge on process costing

This question required candidates to prepare a process account.

The performance was not up to the satisfactory level. Considerable number of candidates were not aware as to how to calculate WIP, the value of abnormal gain and the value of finished goods. They could only put the directly given figures specially, direct material, direct labour and overheads to the process account correctly and majority gained marks only for that part. Value of the finished goods, WIP, scrap value were not calculated correctly by majority. Some candidates have not considered normal loss when calculating the per unit cost or have considered a wrong figure for the normal loss.

**Part (B) (a)** { Marks Allotted 8}

Mainly focused on calculation of variances. Performance was not at a satisfactory level. It was observed that candidates didn't have clear knowledge in this area. Some candidates have made mistakes in substituting figures to formulae. Some of them have not mentioned whether the variance is 'Adverse' or 'Favorable'. Therefore, candidates were unable to score the full marks allocated.

Candidates should follow and practice past examination papers and similar examination papers to improve their knowledge.

**Part B (b)** (Marks Allotted 4)

This part required candidates to state 4 advantages of standard costing.

This was a theory question.

Most of the candidates were unable to obtain the full marks allocated.

It was noted from the answers that some candidates have tried to write answers for this question using the concepts highlighted at the OTQ part of the same question paper. Specially question number 1.7 (1) of OTQ states "Standard costing system is widely used to fulfill the statutory reporting requirements of companies". Majority of candidates have repeated this statement as the correct answer.

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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 on it.
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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