

EXAMINER'S REPORT

AA2 EXAMINATION - JULY 2015

(AA22) COST ACCOUNTING AND REPORTING

These candidates were the first batch of new AAT curriculum.

This question paper consisted of 10 questions to test the knowledge of candidates regarding the concepts related to cost accounting. The candidates were required to answer all the questions. List of action verbs 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 worth 01, 02 or 03 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 - worth 25 marks.

Standard of this question paper was good. The performance of the candidates in the examination was satisfactory. However, it was noted that candidates had a problem with the time allocation for each question. They had to sacrifice one or two other questions because of this reason. Some of the candidates have written very lengthy answers though 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 the answer expected from them.

In order to improve these skills, candidates must practice study pack scenarios, model papers and past papers of other similar institutes before sitting the examination.

Question No. 01 - (Marks Allotted 20)

This section consisted of 07 OTQ,'s and tested the overall knowledge of candidates regarding cost accounting & reporting. Almost all the candidates had attempted this question, however only a few candidates were able to earn reasonable marks for this question.

Candidates should be familiar with basics / fundamental concepts of cost accounting in order to handle properly the questions of this nature.

In general, majority of the candidates have attempted poorly for question 1.6 & 1.7 of this section.

Part B

Question No. 02 - (Marks Allotted 05)

This question required candidates to value the stock as at 30th June using FIFO method. Majority of the candidates have attempted this question and were able to obtain very good marks for this.

In the question, there was no requirement to prepare the stock ledger, because of that, the candidates had the opportunity of doing it without much wastage of time.

However, there were some candidates who got confused with valuing of stock issues under this method.

Question No. 03 - (Marks Allotted 05)

This question required candidates to prepare the overhead allocation and apportionment statement for **Zink PLC**. Almost all the candidates attempted this question and were able to obtain sufficient marks for this question without much effort.

When reading the question, some candidates have misunderstood the requirement of the question and hence prepared only the overhead allocation without allocating the costs of service departments to production departments. Further some candidates have omitted the already allocated indirect material and indirect labour in their calculation.

Many candidates,

- (I) Confused with figures in thousands and had written in the normal lengthy way.
- (II) Omitted reallocation of service departments costs to production departments.

Question No. 04 - (Marks Allotted 05)

This question required candidates to prepare profit statement for the quarter ended 30th June 2015 for **Teena (Pvt) Ltd.** using marginal costing method. It was noted from the answers given by candidates that their knowledge in this area is very limited. Some of the candidates have prepared Profit & Loss statement instead of preparing profit statement. Majority of the candidates have missed the closing stock of 200,000, due to not computing of the same. Candidates' performance for this question was not that satisfactory.

Question No. 05 - (Marks Allotted 05)

This question tested on the knowledge of Break-even point and the margin of safety. Though it was a very simple question, majority of the candidates were unable to obtain full marks. As the question given the budgeted annual fixed cost, candidates should have divided it by 12 and needed to take the fixed cost applicable for one month. However, this adjustment has not been made correctly by majority of the candidates. Thereby, they have missed the correct answers for subsequent parts as well. Also, some of the candidates have confused with the formula.

Question No. 06 - (Marks Allotted 05)

This was based on standard costing and part (a) of the question required candidates to state advantages of standard costing and part (b) required candidates to prepare the standard cost card for the product **BM**. This was a very simple question for which marks could have obtained very easily.

It was noted from the answers that majority of the candidates have attempted this question and were able to obtain 4 or more marks for this question. However, fewer number of candidates have prepared cost cards for material "X" and "Y" separately instead of preparing the same for product **BM**.

Part C

Question No. 07 - (Marks Allotted 10)

This was based on process costing and this required candidates to prepare the Process A account and the production cost evaluation statement using Average Cost (AVCO) method. About 90% of the candidates attempted this question. But the performance of them were not that satisfactory. A common mistake that was seen in the answer script was preparing the process account without the production cost evaluation statement and majority of the candidates have not correctly calculated the equivalent units for abnormal loss and work-in-progress (WIP). Also there were few candidates without the knowledge of preparing process account and they have used a different format (statement format) for this purpose. However, majority of the candidates have correctly computed the normal loss, but it has been named as "Normal Loss" instead of "Scrap Account" in the process Account.

However, considerable number of candidates have scored full marks for this question.

Question No. 08 - (Marks Allotted 10)

This question required candidates to calculate basic variances related to Material, Labour and Sales. Candidates' performance for this question was average. Fewer number of candidates have not attempted this question. From those who have attempted, considerable number of candidates have not computed material usage variance and labour efficiency variance correctly. It was noted that they were not familiar with the formulae and they have not mentioned the variances as adverse or favourable.

Question No. 09 - (Marks Allotted 10)

This question required candidates to prepare ledger accounts to record the given transactions as per the Intergrated Accounting System. Majority of the candidates have not attempted this question. From those who have attempted also, only a very few correct answers were noted. Majority of the candidates had lack of understanding about this area of the syllabus. Considerable number of candidates have prepared ledger accounts as per Financial Accounting and some of the candidates have prepared journal entries as per Financial Accounting. So, it is advised to study this area properly and to practice questions of this nature.

Question No. 10 - (Marks Allotted 25)

It was required from this question to prepare the cash budget for the 4 months on monthly basis, calculate balances of raw material stock, debtors and creditors as at 31st October 2015 and to explain the difference between Top-down approach and Bottom-up approach in relation to budgeting.

Almost all the candidates have attempted this question. But the answers given by them were very poor and below the standard. Majority of the candidates scored marks for correctly stating only distribution expenses and administration expenses. Receipts from debtors have not been computed correctly by majority. Computations relating to payments to raw material suppliers have not been even attempted by the majority of the candidates. Those who have attempted also have arrived at incorrect amounts, as the payments for each month. The main reason for this was that lack of understanding of the candidates regarding the step-by-step approach that should be followed in the preparation of budgets. i.e. specially to compute payments to be made to suppliers, candidates should first prepare the production budget, and then raw material purchase budget. But this process has been missed by majority of the candidates. Even some candidates were unaware of the format of the cash budget. Also some have prepared the budget for the entire quarter without preparing it on monthly basis.

For part (c) of the question, majority (90%) of the candidates have written (explain the general meaning of the word) answers. However, the quality of the answers were very poor. Majority of the answers were not relevant to the question. Most of the mistakes are done due to negligence in reading the question.

Few candidates had attempted the question number 10 with a plan and accordingly build up a correct answer. They had selected the correct format and presented the answer in the appropriate format. They could avoid double work and managed their time effectively. They had presented relevant working to the extent the examiner could select correct figures from the workings and award marks to those workings.

- - -

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. Sit for examination with the main intention of passing.

_ * * * _