



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JANUARY 2020

(AA22) COST ACCOUNTING AND REPORTING

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time Allowed:** Reading : 15 minutes  
Writing : 03 hours.

19-01-2020  
Morning  
[8.45 – 12.00]

No. of Pages : 10  
No. of Questions : 10

- (2) **All questions should be answered.**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**
- (5) **Use of Non-programmable calculators is only permitted.**
- (6) **Action Verb Check List with definitions is attached. Each question begins with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (7) **100 Marks.**

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**SECTION A**

**Objective Test Questions (OTQs)**

Eight (08) compulsory questions

(Total 20 marks)

**Question 01**

Select the most correct answer for question No. 1.1 to 1.5. Write the number of the selected answer in your answer booklet with the number assigned to the question.

**1.1** Which one of the following is an example for a cost centre?

- (1) A car. (2) A bakery. (3) A loaf of bread. (4) A shirt. (02 marks)

**1.2** Which one of the following statements is correct with reference to cost accounting?

- (1) It uses to identify financial position of the organization.
- (2) It helps the management for proper planning, control and decision making.
- (3) It prepares the reports according to legal requirements.
- (4) It prepares reports for a definite period only. (02 marks)

1.3 The following information relates to a stock item:

Maximum usage	300 kg
Minimum usage	120 kg
Lead time	3 - 7 months
Re-Order quantity	2,400 kg

Based on the above information, maximum stock level would be:

- (1) 2,100 kg.            (2) 360 kg.            (3) 4,500 kg.            (4) 4,140 kg.

(02 marks)

1.4 The following information was extracted from a company for the month of December 2019:

	Actual	Budgeted
Production overheads (Rs.)	487,500	520,000
Direct wages (Rs.)	620,000	650,000
Direct labour (hours)	12,500	13,000

Based on the above information, overhead absorption rate per direct labour hour is:

- (1) Rs.50/-.            (2) Rs.39/-.            (3) Rs.40/-.            (4) Rs.49/-.

(02 marks)

1.5 You are given the following information of a company for the last month:

	Rs.
Selling price per unit	75
Variable cost per unit	45
Fixed cost for the month	420,000
Expected profit	555,000

Based on the above information, Break Even Point (BEP) in units is:

- (1) 14,000 units.    (2) 5,600 units.    (3) 7,400 units.    (4) 18,500 units.

(02 marks)

1.6 Select the most suitable word / words to fill in the blanks using word / words given within brackets. Write the selected word / words in your answer booklet with the number assigned to the question:

- (1) ..... (*Flexible / Fixed*) budget is a budget which is designed to remain unchanged irrespective of the level of activity actually attained.
- (2) The ..... (*master budget / cash budget*) is a summary of all the functional budgets.
- (3) Under the absorption costing method, stocks are valued at ..... (*total production cost/ variable production cost*).

(03 marks)

**1.7** Match each of the term mentioned in **Column A** with the correct statement given in **Column B** and write the answers in your answer booklet with the number assigned to the question:

Column A	Column B
(1) Process costing.	(a) Work is undertaken to perform according to customer's specifications.
(2) Activity based costing.	(b) Uniform goods are produced in large volume with continuous flow of production.
(3) Contract costing.	(c) A costing method that assigns indirect costs to related products and services according to activities involved.

(03 marks)

**1.8** State whether each of the following statements is **TRUE** or **FALSE**. Write **True** or **False** in your answer booklet with the number assigned to the question.

- (1) The budget is used to evaluate performance of managers of an organization.
- (2) When the expected production is more than the actual production, an abnormal gain arises.
- (3) Overtime is an example for controllable overhead cost.
- (4) Service costing is a form of continuous operation costing.

(04 marks)

————— *End of Section A* —————

## SECTION B

Five (05) compulsory questions

(Total 25 marks)

### Question 02

**ABC Ltd.** uses material **P** for its manufacturing process. The following information was extracted from the companies' records of material **P** for the month of December 2019:

01.12.2019	Opening balance, 450 kg @ Rs.15/- per kg.
05.12.2019	Issued to production 300 kg.
08.12.2019	Purchased 500 kg @ Rs.18/- per kg.
15.12.2019	Issued to production 550 kg.
25.12.2019	Purchased 600 kg @ Rs.20/- per kg.

**You are required to:**

**Prepare** the store ledger under the First In First Out (FIFO) method.

(05 marks)

### Question 03

**Rosi Ltd.** is using piece rate system to calculate the earnings of employees. Two employees **A** and **B** worked during the last week and produced 960 units and 1,120 units respectively.

The following information was extracted from **Rosi Ltd.**:

Normal week	8 hours X 6 days
Expected output per hour	20 units
Piece rate per unit	Rs.15/-
Bonus	Rs.10/- per unit on additional units produced than expected output

**You are required to:**

**Calculate** the total earnings of **A** and **B** separately for the last week.

(05 marks)

### Question 04

**Sweet Ltd.** which is a sugar manufacturing company operates an integrated accounting system. The following transactions were extracted from the company's records for the month ended 31<sup>st</sup> December 2019:

	Rs.
Purchases of raw material on credit	425,165
Raw material issued to production	378,964
Direct wages paid on production	212,175
Production overhead cost	142,187
Production cost of finished goods	772,111
Stock balances as at 01 <sup>st</sup> December 2019:	
Raw material	225,000
Work-In-Progress (WIP)	185,250

**You are required to:**

**Prepare** the following accounts:

(a) Raw Material Stock Control Account.

(02 marks)

(b) Work-In-Progress (WIP) Control Account.

(03 marks)

(Total 05 marks)

### Question 05

The following information was extracted with reference to **Job No.2232** of **Been Ltd.:**

Raw material issued to the job	200 kg @ Rs.15,500/- per kg
Direct labour - Department X	250 hours @ Rs.800/- per hour
- Department Y	750 hours @ Rs.800/- per hour
Production overheads - Department X	75% of direct labour cost of department X
- Department Y	150% of direct labour cost of department Y

The company keeps a 20% profit on selling price.

**You are required to:**

**Calculate** the price to be charged on **Job No. 2232.**

(05 marks)

### Question 06

**Strong (Pvt.) Ltd.** uses the non-integrated accounting system. The profit for the month ended 31<sup>st</sup> December 2019 shown in the financial accounts was Rs.288,000/- while a profit of Rs.320,000/- was recorded as per cost accounts.

The following information was extracted from the books of accounts:

- (1) Overhead cost as per cost accounts was Rs.325,000/- and as per financial accounts it was Rs.275,000/-.
- (2) Depreciation charge in cost accounts was Rs.165,000/- and it was Rs.205,000/- in financial accounts.
- (3) A Director fee of Rs.50,000/- was recorded only in finance accounts.
- (4) Stock valuation:

	As per Financial Accounts (Rs.)	As per Cost Accounts (Rs.)
Opening stocks	123,000	122,000
Closing stocks	149,000	140,000

**You are required to:**

**Prepare** a profit reconciliation statement between cost accounts and financial accounts for the month ended 31<sup>st</sup> December 2019. (05 marks)

End of Section B

## SECTION C

Three (03) compulsory questions

(Total 30 marks)

### Question 07

**Tasty Lanka Ltd.** is a manufacturing company and produces its product “MN” through two consecutive processes. The completed output of **Process I** is immediately transferred to **Process II**.

The following information was extracted for the month of December 2019 relating to **Process II**:

Material transferred from <b>Process I</b>	Rs.250,000/- (25,000 units)
Additional material introduced	Rs.65,250/-
Direct wages and production overheads	Rs.187,250/-
Normal loss	5% on material transferred from <b>Process I</b> and scrap items can be sold at Rs.3/- per unit.
Output from <b>Process II</b>	24,250 units

There were no opening and closing work-in-progress.

**You are required to:**

**Prepare the Process II account.**

(10 marks)

### Question 08

**Woodpecker tables (Pvt) Ltd.** which produces range of office tables has two production departments (Cutting and Assembling) and two service departments (Stores and Maintenance).

The following budgeted data of **Woodpecker tables (Pvt) Ltd.** was extracted for the month ending 31<sup>st</sup> December 2019:

	Departments			
	Cutting	Assembling	Stores	Maintenance
Indirect cost (Rs.)	112,667	277,009	96,500	82,316
Floor area (Square feet)	1,575	2,100	1,050	525
Usage of electricity(Kilowatts)	1,208	1,208	302	302
Machine value (Rs.)	2,475,250	3,250,750	-	836,500
Direct Labour hours	1,200	2,800	-	-
Apportioning cost:				
Stores	60%	40%	-	-
Maintenance	50%	50%	-	-

Other overheads are extracted from the budget as follow:

	Rs.
Supervision cost of production workers	450,000
Building Rent	105,000
Machine depreciation	157,500
Electricity expenses	75,500
Machine maintenance	315,000

Supervision cost is related only to the production departments.

**You are required to:**

- (a) **Prepare** a statement showing how the overheads are allotted and apportioned to each production department. (07 marks)
- (b) **Calculate** the overhead absorption rate per direct labor hour for each production department. (03 marks)  
(Total 10 marks)

### Question 09

**Milki Ltd.** produces two products namely **P<sub>1</sub>** and **P<sub>2</sub>**. The following budgeted information was extracted for the quarter ending 31<sup>st</sup> March 2020:

- (1) Estimated direct material requirement of two products are as follows:

Direct Material required per product	P <sub>1</sub>	P <sub>2</sub>
MN <sub>1</sub> (in liters)	1	0.5
MN <sub>2</sub> (in liters)	0.8	2

- (2) Opening and closing stocks of finished goods were as follows:

Product	Stocks as at 01 <sup>st</sup> January 2020	Stocks as at 31 <sup>st</sup> March 2020
P <sub>1</sub>	1,150	1,950
P <sub>2</sub>	3,450	1,525

- (3) The budgeted sales for products **P<sub>1</sub>** and **P<sub>2</sub>** would be 15,750 units and 11,675 units respectively and selling prices are as follows:

Product	Selling price per unit (Rs.)
P <sub>1</sub>	280
P <sub>2</sub>	50

- (4) There are no opening or closing raw material stocks.

**You are required to:**

**Prepare** the following budgets for the quarter ending 31<sup>st</sup> March 2020:

- (a) Sales budget. (03 marks)
- (b) Production budget for products **P<sub>1</sub>** and **P<sub>2</sub>**. (04 marks)
- (c) Direct Material usage budget for raw material **MN<sub>1</sub>** and **MN<sub>2</sub>**. (03 marks)  
(Total 10 marks)

End of Section C

## SECTION D

A compulsory question

(25 marks)

### Question 10

(A) **SP Ltd.** manufactures product **B** and uses standard costing system. The following information relates for the month of December 2019:

(1) The standard cost card of product **B** is as follows:

		<b>Per Unit (Rs.)</b>
Direct material	2 kg @ Rs.225/- per kg	450
Direct labour	2 hours @ Rs.100/- per hour	200
Variable cost	4 hours @ Rs.75/- per labour hour	300
Fixed production overhead	4 hours @ Rs.150/- per machine hour	600
Total standard cost		1,550
Selling price		2,100

(2) Budgeted production and sales for the month were 1,000 units and budgeted fixed production overhead for the month was Rs.575,000/-.

(3) The company produced 950 units of finished products during the month of December 2019 and the actual cost for the month was as follows:

		<b>Rs.</b>
Material purchased and consumed	2,100 kg @ Rs.220/- per kg	462,000
Direct labour hours paid	2,375 hours @ Rs.105/- per hour	249,375
Variable overhead		356,250
Fixed production overhead		522,500

**You are required to:**

**Calculate** the following variances:

- (a) Direct Material Price Variance.
- (b) Direct Material Usage Variance.
- (c) Direct Material Cost Variance.
- (d) Direct Labour Rate Variance.
- (e) Direct Labour Efficiency Variance.
- (f) Direct Labour Cost Variance.
- (g) Variable Overhead Cost Variance.
- (h) Fixed overhead Expenditure Variance.

(02 marks each, 16 marks)



(B) **APL Ltd.** manufactures and sells product **Y** and the following information relates to the product **Y** for the month of December 2019:

(1) Actual information for the month is as follows:

	<b>Rs.</b>
Selling price per unit	2,000
Variable production cost per unit	1,200
Variable administration and distribution cost	225,000
Fixed production overheads	150,000
Fixed distribution overheads	250,000

(2) Production and sales for the month were as follows:

	<b>Actual (Units)</b>	<b>Budgeted (Units)</b>
Sales	800	900
Production	1,000	950

(3) Opening stock as at 01<sup>st</sup> December 2019 was 200 units.

(4) Budgeted fixed production overheads and budgeted fixed distribution overheads were Rs.175,000/- and Rs.250,000/- respectively. Fixed overheads are absorbed on the production unit basis.

**You are required to:**

(a) **Prepare** the Income statement under the marginal costing method for the month ended 31<sup>st</sup> December 2019. (07 marks)

(b) **State** two(02) advantages of using the marginal costing method. (02 marks)

(Total 25 marks)

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*End of Section D*

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## **ACTION VERB CHECK LIST**

<b>Knowledge Process</b>	<b>Verb List</b>	<b>Verb Definitions</b>
<b>Level 01 Comprehension</b>  Recall & explain important information	<b>Define</b>	Describe exactly the nature, scope, or meaning.
	<b>Draw</b>	Produce (a picture or diagram).
	<b>Identify</b>	Recognize, establish or select after consideration.
	<b>List</b>	Write the connected items one below the other.
	<b>Relate</b>	To establish logical or causal connections.
	<b>State</b>	Express something definitely or clearly.
	<b>Calculate/Compute</b>	Make a mathematical computation
	<b>Discuss</b>	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	<b>Explain</b>	Make a clear description in detail revealing relevant facts.
	<b>Interpret</b>	Present in an understandable terms.
	<b>Recognize</b>	To show validity or otherwise, using knowledge or contextual experience.
<b>Record</b>	Enter relevant entries in detail.	
<b>Summarize</b>	Give a brief statement of the main points (in facts or figures).	

<b>Knowledge Process</b>	<b>Verb List</b>	<b>Verb Definitions</b>
<b>Level 02 Application</b>  Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	<b>Apply</b>	Put to practical use.
	<b>Assess</b>	Determine the value, nature, ability, or quality.
	<b>Demonstrate</b>	Prove, especially with examples.
	<b>Graph</b>	Represent by means of a graph.
	<b>Prepare</b>	Make ready for a particular purpose.
	<b>Prioritize</b>	Arrange or do in order of importance.
	<b>Reconcile</b>	Make consistent with another.
	<b>Solve</b>	To find a solution through calculations and/or explanation.

<b>Knowledge Process</b>	<b>Verb List</b>	<b>Verb Definitions</b>
<b>Level 03 Analysis</b>  Draw relations among ideas and compare and contrast / Solve open-ended problems.	<b>Analyze</b>	Examine in detail in order to determine the solution or outcome.
	<b>Compare</b>	Examine for the purpose of discovering similarities.
	<b>Contrast</b>	Examine in order to show unlikeness or differences.
	<b>Differentiate</b>	Constitute a difference that distinguishes something.
	<b>Outline</b>	Make a summary of significant features.