SRI LANKA

Association of Accounting Technicians of Sri Lanka

July 2015 Examination - AA2 Level

Questions and Suggested Answers
Subject No : 22

COST ACCOUNTING AND REPORTING (CAR)

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EDUCATION AND TRAINING DIVISION

AA2 Examination - July 2015
(22) Cost Accounting and Reporting

SUGGESTED ANSWERS

SECTION - A

Answers to ALL questions are expected

Suggested Answers to Question One:

1.1 (3)

1.2 (2)

Working Hours	1880
Standard units / hour	60
Total standard units	112 800
Total units manufactured	135 360
	112 800
Excess units manufactured	22 560
Incentive	22 560 x 2
	45 120.00

1.3 (3)

1.4 (4)

1.5 (1)

1.6 (1) Economic Order Quantity (2) Ideal Standards
(3) Job Costing (4) Good Received Note

1.7 (1) True (2) False (3) True

1.8

Inrespect of	Financial Accounting	Cost Accounting
(1) Time span	Transactions are recorded and statements are prepared for a definite period.	Transactions are identified with cost unit/cost object
(2) Coverage of transactions	It covers transactions of the whole business	It covers only a part of the transactions. Viz: Manufacturing
(3) Purpose	It is prepared to present operational results and financial position of the business	It aims to help management for proper planning, control and decision making.
(4) Analysis of expenditure	It analyses the expenditure accoring to the function	It analyses expenditure on different bases. (Eg: Direct and indirect variable and fixed etc...)
(5) Efficiency	The overall results and financial position of the business is revealed by financial statements.	It analyses the profitability of each department, cost unit, job or process.

End of Section A

SECTION -B

Answers to ALL questions are expected
(Total 32 Marks)

Suggested Answers to Question Two:

(FIFO)

Date	Receiving			Issuing			Balance	
	Units	Price	Value	Units	Price	Value	Units	Price
2015.06.01							100	2,000
2015.06.04	300	22	6,600				400	8,600
2015.06.08				100	20	2,000		
				200	22	4,400	100	2,200
						6,400		
2015.06.12	700	25	17,500				800	19,700
2015.06.18				100	22	2,200		
				100	25	2,500	600	15,000
						4,700		
2015.06.28				400	25	10,000	200	5,000

Suggested Answers to Question Three:

Overhead Cost Appropriation Sheet

(Rs. '000)

Cost Item	Appropriation Basis	Value	Manu. Department			Service Dept.	
			A	B	C	X	Y
Indirect Material	Grants	1,350	500	400	300	100	50
Indirect Wages	Grants	2,000	800	300	400	200	300
Electricity	Kilowatt (10:8:6:5:3)	360	112.50	90	67.50	56.25	33.75
Factory Rent	Floor Area (4:3:3:1:1)	180	60	45	45	15	15
PPE Insurance	Cost (20:24:18:16:14)	184	40	48	36	32	28
Employee Food	No. of Emp. (8:6:4:3:2)	230	80	60	40	30	20
		4,304	**1592.5**	**943**	**888.50**	**433.25**	**446.75**
Second. Appropri.							
X Service Dept.	(5 : 3 : 2)		216.63	129.97	86.65	(433.25)	
Y Service Dept.	(3 : 4 : 3)		134.03	178.60	134.03		(446.76)
			1943.16	**1251.57**	**1109.18**	**0**	**0**

Suggested Answers to Question Four:

Profit/Loss Statement - Marginal Cost Method

Sales (45 x 60,000)		2,700,000
Variable Cost of Sales		
Opening Stocks	-	
Variable Manu. Costs (20 x 70,000)	1,400,000	
	1,400,000	
(-) Closing Stocks (20 x 10,000)	(200,000)	1,200,000
		1,500,000
(-) **Fixed Costs**		
Manufacturing overhead costs	380,000	
Sales & Distribution costs	80,000	
Administration costs	130,000	(590,000)
Net Profit		**910,000**

Suggested Answers to Question Five:

(a) Unit contribution = Sales price - variable cost/unit

= 400 - (125 + 75 + 50)

= 400 - 250

= Rs. 150

Break even point (Quantity) = $\frac{\text{Fixed costs}}{\text{Unit contribution}} = \frac{300,000}{150}$

= 2,000 units

(b) BEP (value) = BEP units x sales price

= 2,000 x 400

= Rs. 800,000

(c) Margin of safety (units) = Budgeted sales units - BEP units

= 3,000 - 2,000

= 1,000 units

(d) Margin of safety (value) = 1,000 x 400 = Rs. 400,000

Suggested Answers to Question Six:

(a) **Advantages of Standard Costing : Any two (02) of the following;**

(i) It helps the management in formulating and production policy.

(ii) It acts as a yardstick of performance. i.e. standard costs are compared with actual costs, the variances are analysed and effective cost control measures are taken. Thus increasing the profits is possible by reducing and controlling cost.

(iii) It reduces avoidable wastage and losses.

(iv) It facilitates to reduce clerical and accounting cost and managerial time.

(v) Executives and above, become more responsible as it shows clearly who is responsible for the cost centres.

(vi) It facilitates timely cost reports and operating statements (or performance reports) to the management.

(b) Standard cost sheet

Cost Item	Quantity	Standard Price	Cost (Rs.)	Total costs (Rs.)
Direct Material				
X	10 kg	10	100	
Y	5 kg	50	250	350
Direct wages	Hours 5	30	150	450
Variable overhead costs			50	50
Fixed overhead costs				300
Unit standard costs				**850**

Suggested Answers to Question Seven:

(a) Manufacturing, costs and evaluation statement

Actual		**Proportionate units**						
		Material		**Wages**		**Overhead**		
Normal loss	175		-		-		-	
Abnormal loss	25	100%	25	100%	25	100%	25	
Finished stock	2,900	100%	2,900	100%	2,900	100%	2,900	
Closing stock	400	100%	400	100%	200	50%	200	
	3,500							
Proportionate units **A**		**3,325**		**3,125**		**3,125**		
Cost Statement								
Process costs		173,250		120,000		80,000		
(-) Normal loss sales		(350)						
Net costs **B**		**172,900**		**120,000**		**80,000**		
Unit costs **B / A**		172,900/3,325 52		120,000/3,125 38.4		80,000/3,125 25.6		= 116
Evaluation Statement								
Abnormal loss		116 x 25						2,900
Finished stock		116 x 2,900						336,400
Closing stock		(52 x 400) 20,800		38.4 x 200 7,680		25,6 x 200 5,120		33,600

(b) **Process A Account** **Rs.**

	Units	Value		Units	Value
Raw Material	3,500	173,250	Normal loss	175	350
Labour		120,000	Abnormal loss	25	2,900
Overhead		80,000	Finished stock	2,900	336,400
			Closing stock	400	33,600
	3,500	**373,250**		**3,500**	**373,250**

Suggested Answers to Question Eight:

Rs.

(a) Material price variance = Quantity purchased (standard price - actual cost)
= 37,500 (50 - 48)
= 75,000 (Favourable)

(b) Material usage variance = Standard price (standard usage - actual usage)
= 50 (40,000 - 37,500)
= 125,000 (Favourable)

(c) Labour usage variance = Hours worked [(standard rate / hour) - (acrual rate / hour)]
= 7,070 (140 - 150)
= 70,700 (Adverse)

(d) Labour efficiency variance = standard rate (Standard hours - hours worked)
= 140 (7,000 - 7,070)
= 9,800 (Adverse)

(e) Sales price variance = Sales units (Actual price - Budgeted price)
= 1,000 (4,800 - 5,000)
= 200,000 (Adverse)

Suggested Answers to Question Nine:

Manufacturing overhead control account

			Rs.
Wages control	70,000	Work in progress control account	69,000
		Under Absorption	1,000
	70,000		70,000

Finished goods control account

Work in progress control account	220,000	Cost of sales control	180,000
		Bal c/f	40,000
	220,000		220,000
Bal b/f	40,000		

Cost of sales control account

Finished stock control	180,000	P and L	180,000
	180,000		180,000

Sales Account

Trading and P/L	260,000	Cash	260,000
	260,000		260,000

Cash at Bank Account

Sales	260,000	WIP (C/I)	1,000
		WIP (D/W)	80,000
		Prod. OH (I/W)	70,000
		B/C/F	109,000
	260,000		260,000

Raw material stock control account

Creditors control	80,000	Working progress control	76,000
Cash	1,000		
		Balance c/f	5,000
	81,000		81,000
Bal b/f	5,000		

Creditors control account

Bal c/f	80,000	Stock control account	80,000
	80,000		80,000
		Bal b/f	80,000

Work in progress control account

Raw material stock control	76,000	Finished stock control	220,000
Wages control	80,000		
Manu. overhead	69,000		
		Bal c/f	5,000
	225,000		225,000
Bal b/f	5,000		

Wages control account

Cash	150,000	Work in progress control account	80,000
		Manu. overhead control	70,000
	150,000		150,000

Suggested Answers to Question Ten:

(a) **Cash Budget** **(Rs. '000)**

	July	August	September	October	Total
Receipts					
Received from debtors					
Vehicle sales	8536	8080	7600	7980	32196
	-	-	1480	-	1480
Total receipts	**8536**	**8080**	**9080**	**7980**	**33676**
Payments					
Payment to creditors	5780	6012	5535	7281	24608
Admin cost	90	90	90	90	360
Sales and distribution cost	91	97	117	117	422
Loan payment	-	-	120	120	240
Vehicle return	-	-	-	2800	2800
Direct labour	648	640	784	776	2848
Total Payments	**6609**	**6839**	**6646**	**11,184**	**31,278**
Net receipts/(Payments)					
Excess/(shortage)	1927	1241	2434	(3204)	1398
Opening cash balance	1358	3285	4526	6960	1358
Closing cash balance	**3285**	**4526**	**6960**	**3756**	**3756**

(b) As at 2015.10.31

(i)	Raw material stock	= 1,170,000/-
(ii)	Debtors	= 9,120 + 8,930
		= 18,050,000/-
(iii)	Creditors	= 7,040,000/-

Workings (Rs. '000)

01.

	July	August	September	October
Sales				
Sales requirement	800	840	960	940
Sales price	9,500	9,500	9,500	9,500
Income	7,600	7,980	9,120	8,930

02. Manufacturing Cost

	July	August	September	October
Sales requirement	800	840	960	940
(+) Finished goods closing stock	120	80	100	130
	920	920	1,060	1,070
(-) Finished goods opening stock	(110)	(120)	(80)	(100)
Manufacturing requirement	810	800	980	970

03. Material purchase budget (Rs. '000)

	July	August	September	October
Material usage requirement				
(Manu. requirement x 8)	6,480	6,400	7,840	7,760
(+) Closing raw material stock	1,200	950	1,200	1,300
(-) Opening raw material stock	(1,000)	(1,200)	(950)	1,200
Material purchase requirement	6,680	6,150	8,090	7,860
Material purchase cost	900	900	900	900
Purchase cost	6,012	5,535	7,281	7,074

04. Labour cost budget (Rs. '000)

	July	August	September	October
Labour hour requirement				
(Manu. requirement x 4)	3,240	3,200	3,920	3,880
Wages/labour hour	200	200	200	200
Labour cost	648	640	784	776

(c) Difference between Top-down and Bottom-up approaches.

	Top-down Approach to budgeting	Bottom-up Approach to budgeting
1	Superiors set targets and those targets are communicated to subordinates as their targets.	Subordinates are also given an opportunity to involve in setting targets.
2	Employees are more likely to reject the targets set by superiors without their intervention.	Employees are more likely to accept the targets and be committed to achieve them since they have been involved in setting the targets.
3	Top-down approach to budgeting creates the information asymmetry gap.	This reduces the information asymmetry gap.
4	Employees are not encouraged from these targets.	These targets can encourage positive attitudes of employees and help motivate them. So, it will lead to non-rejection of targets and rich performance.
5	Sometimes known as non participatory approach of budgeting.	Sometimes known as participatory approach of budgeting.