

## EXAMINER'S REPORT

### AA2 EXAMINATION - JANUARY 2019

### (AA22) COST ACCOUNTING AND REPORTING

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The question paper consisted of 4 sections with 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 needs 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 for 20 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

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

This question mainly focused on the basic cost accounting principles and basic computations. There were eight OTQ questions in this question. Performance of the students was good. However, most of students could not answer **1.4**, **1.5** and **1.8** which tested regarding overhead. Answer for **1.4** was given based on distribution of overhead. For **1.5**, instead of over absorption they considered as under absorption. **1.8** focused on theory parts and students have not attended properly.

Students should more concentrate on theory parts as well as calculation parts.

**Overall performance for this question was at a satisfactory level.**

## **Part B**

### **Question No. 02** - (Marks Allotted 05)

This question used the job costing of specified product or job. Student needs to identify correctly direct material, direct labor and overhead related to a product.

Most of the students have obtained 5 marks out of 5 marks allocated. When considering the direct labor cost some students considered only one department cost. Calculation of overhead cost of two departments was missed by some students. The common mistake made by some of the student is that they have calculated cost of job as two products or two separate departments. This was happened due to not reading the question properly. Some students could not calculate the profit margin correctly. Students should understand the profit calculation based on cost and selling price and the relationship between these two concepts.

**Overall performance for this question was at a very satisfactory level.**

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

This question tested on material usage budget.

Most of the students have attempted this question and achieved total marks out of 05. However, some have calculated erroneously considering finished products ( $x$  &  $y$ ) instead of raw materials **A** and **B**. However, there were arithmetical errors when calculating usage of **A** & **B**.

**Overall performance for this question was at a very satisfactory level.**

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

The question tested the knowledge of the students on calculating Production overheads absorption rate using two different methods.

Students had to calculate the production OH absorption rate using production units method and machine hours method.

Though students used correct method to calculate the absorption rate they had added budgeted direct material cost and budgeted direct labour cost with the budgeted production overhead cost to calculate the absorption rate. They did not understand that only production overheads cost was used to calculate the absorption rate.

**Overall performance for this question was at a satisfactory level.**

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

The question tested the students' knowledge on allocation and apportion of overheads.

Though this type of questions were tested at previous examinations, some have not attempted properly. They have not used the correct base to allocate the overheads. Question itself mentioned how to apportion B department's cost (Service Department). But some have not correctly calculated. Some have not considered cost of indirect material and indirect wages.

**Overall performance for this question was at a very satisfactory level.**

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

The question tested students' knowledge on contract cost. Majority did not answer properly. Cost on plant and machinery installed cost has been considered instead of depreciation on plant and machinery. Material returned from the site and stocks as at 31<sup>st</sup> March 2018 should be deducted when calculating contract cost. But it was not considered by majority.

**Overall performance for this question was not at a satisfactory level.**

**Part C**

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

This question was tested students' knowledge on preparation of income statement under absorption costing method and advantages of marginal costing method.

- (a) Majority had not attempted properly. Some have used the marginal costing method instead of absorption costing method. Production overhead absorption rate was calculated wrongly. They have considered actual overhead cost when calculating absorption rate. Some have not considered production overhead cost per unit when calculating cost of a product. Therefore, value of closing stock was also wrong. Majority had not considered under absorption of overhead in the income statement.
- (b) This part focused on theoretical knowledge of Marginal costing and Absorption costing. Majority of the candidates has not clearly understood the concept of Marginal costing and Absorption costing. If candidates study the theoretical context in the Self-study Text, they could have easily earned marks for these questions.

**Overall performance for this question was not at a satisfactory level.**

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

The question tested students' knowledge on reconciliation statement between Cost Accounting & Financial Accounting.

Majority had adjusted opening stock and closing stocks erroneously when preparing profit reconciliation statement. They should know the impact on profit due to increase / decrease in stock. Only few candidates had earned full marks for this question. Questions with similar adjustments were tested in previous examinations also. Candidates should practise similar type of questions and try to avoid simple arithmetical errors in their calculations.

**Overall performance for this question was not at a satisfactory level.**

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

The question tested students' knowledge on preparation of process Account and identification of the quantity & value of normal loss, value of output and abnormal loss.

Most of the students attempted this question. However, some of students did not considered the format of the process account. Though, majority correctly calculated the value of the normal loss, they failed to calculate the value of the abnormal loss and output.

When calculating cost per unit, value of normal loss was not considered by some students. Therefore value of output and abnormal loss was wrong.

**Overall performance for this question was at a satisfactory level.**

**Part D**

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

This question consists of two sections, Cash Budget and Variance Analysis.

Many candidates did not attempt this question which indicated us that those candidates did not study well. Question clearly stated that selling price will be increased but it was not considered by some students. When calculating collection from debtors on March 2019 sales, wrong selling price was considered. Depreciation has been considered as a payment. Some did not know about the format of cash budget. Some have not deducted depreciation from administration expenses.

**Part B (a)** The question was mainly focused on theoretical knowledge of standard costing .Majority of the candidates has not clearly understood the concept of standard costing. If candidates study the theoretical context in the Self-study Text, they could have easily earned marks for these questions.

**Part B (b)** tested about calculation of basic variances. A significant number of candidates did not know how to calculate variances.

Sign of "F" or A was not mentioned by the majority of the candidates. When calculating Direct material usage variance, student have not understood that standard usage on actual production should be considered.

When calculating fixed production expenditure variance majority considered standard cost instead of budgeted overheads. Some have not shown the formula how to calculate the variances.

**Overall performance for this question was at an average level.**

**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. Referring the Self-Study Text is essential and practising the examples of the Self-Study Text is also vital.
4. Re check the calculations for the arithmetical accuracy and show all the relevant workings clearly. State clearly the assumptions made when doing the calculations if there is any.
5. Manage your time efficiently at the examination. Candidates need to **practise question papers within the time frame** in order to overcome the time management difficulties
6. Before handing over the answer script, check whether the question numbers and your index number have been written correctly.
7. By answering past question papers, you can improve the subject knowledge as well as the ability to write answers well.
8. 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.
9. Study the theoretical area well relating to each study area. Answer the theory questions well. It will facilitate to score high marks.
10. Sit for examination with the main intention of passing.

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