

**EXAMINER'S REPORT****AA2 EXAMINATION - JANUARY 2020****(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)** 11 marks and **Part (b)** 14 marks.

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

This question examined the knowledge of the candidates in various areas relating to the subject such as objectives of cost accounting, basic terms associated with cost accounting, types of costs, overhead absorption, stock levels, break-even points, etc.

Candidates were expected to reflect their overall wide knowledge on the subject.

Overall performance of the candidates regarding this question was satisfactory and considerable number of candidates obtained more than 13 marks for this question.

Common mistakes made by candidates:

**Q. No. 1.8** was very poorly answered by many candidates. Many candidates could not correctly mention whether the given statements are “true” or “false”.

- (1) Though this particular statement is “True”, majority have mentioned it as “False”. This shows the poor knowledge of the candidates regarding Budgets.
- (2) Though this particular statement is “False”, majority have mentioned it as “True”. Candidates’ knowledge on Process Costing should be improved.

- (3) Though this particular statement is “True”, majority have mentioned it as “False” due to lack of knowledge regarding overheads.
- (4) Though this particular statement is “True”, majority have mentioned it as “False” due to poor knowledge on Continuous Operation Costing.

Candidates are expected to have a sound understanding and knowledge on all areas of the subject, including theoretical concepts and their applications.

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

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

The question required to prepare the store ledger under First In First Out (FIFO) method.

However, following common mistakes were identified:

- Correct format has not been used in preparing store ledger, some had prepared T accounts to show “in” and “out” of the goods.
- Balances after each and every transaction have not been computed though it is a requirement of a store ledger.

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

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

The question examined the knowledge of the candidates in using the piece rate system to calculate the earnings of employees.

Candidates were expected to calculate the normal pay and find out the additional units produced than expected output and to calculate the bonus pay.

However, following common mistakes were identified:

- Many candidates failed to identify the normal pay of **Employee B** by multiplying his output of 1,120 units by Rs.15/-. Instead, they had used the output of **Employee A** (960 units) and continued the calculation.
- Some other candidates were unable to accurately compute the Total earnings in the instances where employees produced more units than the expected units.

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

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

The question required the candidates to prepare two accounts: Raw Material Stock Control account and WIP control account.

However, following common mistake was identified:

- Many candidates had mixed up the items to be taken into both these accounts.
- Candidates should understand the reasons for including each and every item in the respective cost ledger accounts.

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

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

The question examined the ability of the candidates to correctly apply Job Costing method and determine the price to be charged for the particular job.

Candidates were expected to calculate the direct labour and overheads for the given two departments and apply the profit margin and arrive at the selling price of the particular job.

However, following common mistake was identified:

- Poor understanding on 'margin' and 'mark-up' – Several candidates had simply applied 20% on the total cost and derived at the selling price.
- Few candidates had attempted the question considering the two departments as two products.
- Profit can be expressed based on cost (margin) and on the selling price (mark-up) and candidates should be able to clearly distinguish these two methods.

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

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

The question required the candidates to prepare a profit reconciliation statement between Cost Accounting and Financial Accounting.

However, following common mistakes were identified:

- Many candidates misunderstood the concept of profit comparison. Further they have taken Financial Accounting profit and added the figures as per the Cost Accounts. Some of them have not taken the differences between Cost Accounts and Financial Accounts. They considered only the final figures.
- Even the candidates, who have prepared the reconciliation correctly, have gone wrong in adjusting for closing stock and opening stock.

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

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

The question examined the ability of the candidates to correctly apply the knowledge about Process Costing.

Candidates performed well this question relating to process costing.

However, following common mistakes were identified:

- Candidates have misunderstood the concept of Normal loss and Abnormal loss in process costing.
- Some candidates have mixed up the two sides of the Process Account.

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

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

This question required the candidates to prepare the Overhead Allocation Statement and to calculate the overhead absorption rate of each department.

Performance was fairly good. Considerable numbers of candidates have gained satisfactory marks for this question.

However, following common mistakes were identified:

- Many candidates have made calculation errors while allocating overheads between Production and service departments.
- Though, most of the candidates have correctly initial allocation of overhead, they have not done correctly the apportionment of overhead of service departments to production departments.
- Some candidates have mixed up with the overhead apportion rates of Service Departments.

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

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

The question required candidates to prepare Sales Budget, Production Budget and Direct Material Usage Budget.

However, following common mistakes were identified:

- Considerable number of candidates have not correctly prepared the Production Budget, even though the sales (in units), Closing stock and Opening stock (in units) have been given in the question.
- Some candidates have not understood the basic principles when preparing Budgets, specially they have not understood where to start.
- It is recommended to practice more past papers.

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

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

The question consisted of two sections. **Part (A)** required the candidates to calculate the given variances. **Part (B)** required candidates to prepare Income Statement under Marginal costing method and to state two advantages of Marginal Costing method.

Overall performance of **part (A)** was satisfactory, whereas performance for **part (B)** was poor.

Following common mistakes were identified:

- When computing variances, most of the candidates have not mentioned the respective formula.
- Majority of the candidates have not mentioned whether the respective variance is “Favorable” or “Adverse”.
- Majority of the candidates have not attempted the **part (B)**.
- Considerable number of candidates have prepared the Income Statement under Absorption Costing Method, though it was not requested in the question.
- Candidates have written advantages by comparing actual and budgeted figures of the give question due to lack of understanding of the question.

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

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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 the instructions carefully given on it.
- (2) Read the question with due care and answer only what is asked in the question.
- (3) Practicing the examples of the Self-Study Text is also vital.
- (4) Re-check the calculations to ensure the arithmetical accuracy and show all the relevant workings clearly. State clearly the assumptions made when calculations are done.
- (5) Manage your time efficiently at the examination. Candidates need to practice 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 of writing answers.
- (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 well the theoretical area relating to each study area. Answer the theoretical questions as well and it will facilitate to score high marks.
- (10) Sit the examination with the firm determination of passing it.

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