

EXAMINER'S REPORT

AA2 EXAMINATION - JULY 2017

(AA22) COST ACCOUNTING AND REPORTING

This question paper consisted of 4 sections with altogether 10 questions. It was tested the knowledge of basic concepts related to cost accounting by this paper. The candidates were required to answer all the questions. List of action verb check list which 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 objective test questions each part worth 02, 03 and 04 marks. It was required to answer all the questions.

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) worth 15 marks.

Part (B) – worth 10 marks.

The allocated marks to each question provides guidance to candidates about the time they could spent on each question.

Overall performance of the candidates at the examination was not satisfactory. Some of the questions were even not attempted by the candidates and as a result some candidates found it difficult to secure the pass mark.

In **Section A** : Overall performance was good.

Section B : Performance was satisfactory except Q. No. 05 and Q. No. 06

Section C : Overall performance was poor except Q. No. 9.

Section D : Overall performance was poor.

Part A

Question No. 01 - (Marks Allotted 20)

The question was mainly focused on the basic cost accounting principles and basic computations relating to Cost Accounting and Reporting. Almost all the candidates attempted for this question and earned satisfactory marks. Majority of the candidates have failed to attempt correctly for the question Nos. **1.1, 1.2, 1.5, 1.6 (1), 1.8 (2)**.

The possible reasons for the non-satisfactory answers of the above mentioned question were:

- Candidates have not read the question properly and lack of understanding in relation to the fundamental concepts of Cost Accounting and Reporting was evidential from the answers. The best way to improve the performance on the objective test questions (OTQs) is to practice OTQ questions from past papers and comparing the answers given for selection, with an understanding of fundamental concepts of cost accounting.
- Some candidates did not aware about the method of answering an OTQ question and some of them have re-written the entire question along with the answer. They have spent their time unnecessarily because of this. Candidates should familiarize with the structure of the question paper properly.

Part B

Question No. 02 - (Marks Allotted 05)

This question was mainly focused on Material Control.

Part (a)

It was required to compute the Economic Order Quantity (EOQ) and the formula in relation to computation also has been provided in question paper itself. But some candidates did not know how to apply the figures correctly to the given formula and there were mathematical errors in calculations. Eg: Finding of square root in formula. Generally, most of the candidates earned full marks for this question. Some of the candidates considered the purchase price per unit in their calculations and have ended up with the incorrect answers. Applying the suitable figures and understanding the concept is very important to earn full marks. Candidates should be vigilant to filter the required data from the given data in their calculations.

Part (b)

It was tested the theoretical knowledge on objectives of material control. This was an easy and direct question. Candidates' performance was good. Majority of the candidates obtained full marks for this question.

Question No. 03 - (Marks Allotted 05)

This question was mainly focused on the calculation of **Overhead absorption rate**.

Part (a) of this question was successfully attempted by most of the candidates and obtained full marks.

Some of the candidates have not considered about the Rs.'000 of overhead cost in **part (b)**. Further, some candidates have not properly calculated the absorption rate for each of the two departments.

Careful reading of the question and understanding the subject area will facilitate candidates to earn more marks.

Question No. 04 - (Marks Allotted 05)

This question was mainly focused on labour cost and required to calculate the total earnings of **A & B** separately using the given informations.

Some candidates have not understood the question and the requirements properly. If candidates have attempted the question in a methodical way that would have been helped them to earn high marks. Majority of the candidates have struggled for linking the given information of 40 working hours and expected output per hour to calculate the number of additional units and normal pay.

Candidates should practice past papers and study pack examples to develop their knowledge on this area.

Question No. 05 - (Marks Allotted 05)

The question was mainly focused on theoretical knowledge of Zero Based Budgeting.

Majority of the candidates have not clearly understood the concept of zero based budgeting in answering. It was observed that a considerable number of candidates have not attempted for this question. Some candidates have stated advantages of budgeting instead of advantages of zero based budgeting. If candidates study the theoretical context in the Self-study Text, they could have easily earned marks for these questions.

Question No. 06 - (Marks Allotted 05)

The question was mainly focused on the reconciliation Statement between Cost Accounting & Financial Accounting for the quarter ended 31st March 2017.

Many candidates have adjusted opening stock and closing stocks erroneously when preparing profit reconciliation statement.

In overall, performance for this question was not satisfactory. Only some candidates have earned full marks for this question. Question with similar adjustments was tested in previous examinations also. Candidates should practise similar type of questions and try to avoid simple arithmetical errors in their calculations.

Part C

Question No. 07 - (Marks Allotted 10)

This question was mainly focused on Variance analysis in relation to direct material, direct labour and variable production overhead cost.

The performance of the candidates was very poor. A significant proportion of candidates obviously did not have a knowledge about how to calculate variances. Some candidates didn't have a clear and conclusive knowledge on which quantities and prices to apply and have used incorrect combinations in the calculation of the variances. Some of them have not mentioned whether the variance is 'Adverse' or 'Favourable'. Therefore the final answer was incomplete. Majority of the candidates have written incorrect formulae to calculate the variances and some have made careless arithmetical errors. It was observed that several candidates have not calculated the Direct Material Cost variance even though they have calculated Direct Material Price Variance and Direct Material Usage Variance accurately. It was just a matter of adding those two variances.

Lack of knowledge and practice was seen in this type of questions. This was iterated in last examinations and there were similar types of questions in the past papers also. Candidates should practice past papers and practice questions relating to variances in self-study Text.

Question No. 08 - (Marks Allotted 10)

The question was mainly focused on income statement based on absorption costing method.

Some candidates have not attempted for this question which is surprising. Many candidates who attempted the question have made following shortcomings:

- Failing to calculate the correct fixed cost absorption rate.
- Failing to calculate the closing inventory accurately.
- Failing to calculate the total production cost per unit accurately by adjusting the correct fixed cost per unit.
- Failing to calculate the under absorption of fixed production overheads accurately and adjust it in the income statement.
- Failing to consider the variable selling and distribution expenses in the income statement under expenses.

Lack of knowledge and practice is seen in these types of questions. This also iterated in the previous examinations. Candidates should develop a sound knowledge relating to the absorption costing method and practice the questions in the self-study text to improve the ability in answering for these types of the questions. It is very important to show all the relevant workings in answering and state the assumptions made if there is any.

Question No. 09 - (Marks Allotted 10)

This question was mainly focused on calculating the total cost to be charged for a job. This was a very simple question.

Majority of candidates score high marks for **Part (a)** of this question. When compared to other questions the performance was good. Common error made by some of the candidates was falling to show the total cost of job No. A111 although they have calculated the cost of direct material, direct labour and overheads separately

Significant number of candidates have failed to attempt for **Part (b)** of this question. It was required to state four disadvantages / limitations of standard costing. A considerable number of candidates have given irrelevant answers because of lack of understanding regarding standard costing. Some candidates have written advantages of standard costing instead of disadvantages without reading the question properly.

It was noted from the answers given by candidates that they should read the question carefully and understand the requirement of the question properly. Perusal of the Self-study text will facilitate the candidates to obtain marks from these type of questions.

Part D

Question No. 10 - (Marks Allotted 25)

Part (A) {Marks Allocated 15} This part was mainly focused on the Process costing.

From part (A) of this question it was required to prepare (a) Production cost evaluation statement and (b) Process Y account.

Many candidates have not attempted for this question which indicated that those candidates didn't have an understanding about the process costing. Some candidates have attempted for this question but they could not understand how to deal with this question to derive expected answers.

The performance was not up to the satisfactory level. Some candidates didn't know how to calculate value of Work-In Progress (WIP), abnormal loss and output / finished goods. They knew only to state the directly given amounts direct material, direct labour and overheads in the process account. Many candidates have not taken the value of the normal loss and scrap value into consideration when calculating the cost per unit in preparing the production cost evaluation statement. Some candidates have not considered normal loss when preparing the process account and some candidates have taken wrong amounts when calculating the normal loss. It was noted that some candidates have arrived at figures but the relevant workings were not shown in the answer script. Therefore it is vital to show all the workings relevant to the answer in answer booklet.

Part (B) (a) {Marks Allotted 10}

This part of the question was mainly focused on Budgeting. It was required to prepare Sales Budget, Production Budget in units and Direct Material Usage Budget in meters.

Most of the candidates have not answered for this question accurately and some of them have even not attempted for this question although it was a very easy question to score marks.

It seems that the candidates didn't have a clear knowledge in this area. Candidates did not understand how to adjust closing inventory and opening inventory to arrive at the required production quantity in preparing the production budget. Some have done arithmetical errors in preparing budgets.

Candidates must study cash budget as well as all the types of functional budgets since this is an important area of cost accounting.

- - -

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 practicing 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.
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.