

# AAT

## AQ2016

---

# Management Accounting: Costing

---

## EXAM KIT

This Exam Kit supports study for the following AAT qualifications:

AAT Advanced Diploma in Accounting – Level 3

AAT Advanced Certificate in Bookkeeping – Level 3

AAT Advanced Diploma in Accounting at SCQF Level 6

**KAPLAN**  
PUBLISHING

**British Library Cataloguing-in-Publication Data**

A catalogue record for this book is available from the British Library.

Published by:

Kaplan Publishing UK

Unit 2 The Business Centre

Molly Millar's Lane

Wokingham

Berkshire

RG41 2QZ

ISBN: 978-1-78740-530-1

© Kaplan Financial Limited, 2019

Printed and bound in Great Britain

The text in this material and any others made available by any Kaplan Group company does not amount to advice on a particular matter and should not be taken as such. No reliance should be placed on the content as the basis for any investment or other decision or in connection with any advice given to third parties. Please consult your appropriate professional adviser as necessary. Kaplan Publishing Limited and all other Kaplan group companies expressly disclaim all liability to any person in respect of any losses or other claims, whether direct, indirect, incidental, consequential or otherwise arising in relation to the use of such materials.

All rights reserved. No part of this examination may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or by any information storage and retrieval system, without prior permission from Kaplan Publishing.

This Product includes content from the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), published by the International Federation of Accountants (IFAC) in 2015 and is used with permission of IFAC.

# CONTENTS

	<i>Page</i>
Unit specific information	P.4
Index to questions and answers	P.5
Exam technique	P.6
Kaplan's recommended revision approach	P.7

Practice questions	1
Answers to practice questions	77
Mock assessment questions	123
Answers to mock assessment questions	135

## **Features in this revision kit**

In addition to providing a wide ranging bank of real exam style questions, we have also included in this kit:

- unit specific information and advice on exam technique
- our recommended approach to make your revision for this particular subject as effective as possible.

You will find a wealth of other resources to help you with your studies on the AAT website:

[www.aat.org.uk/](http://www.aat.org.uk/)

Quality and accuracy are of the utmost importance to us so if you spot an error in any of our products, please send an email to [mykaplanreporting@kaplan.com](mailto:mykaplanreporting@kaplan.com) with full details, or follow the link to the feedback form in MyKaplan.

Our Quality Co-ordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

# UNIT SPECIFIC INFORMATION

## THE EXAM

---

### FORMAT OF THE ASSESSMENT

The assessment will comprise ten independent tasks. Students will normally be assessed by computer-based assessment.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

The learning outcomes for this unit are as follows:

	Learning outcome	Weighting
1	Understanding the purpose and use of management accounting within an organisation	15%
2	Apply techniques required for dealing with costs	35%
3	Apportion costs according to organisational requirements	19%
4	Analyse and review deviations from budget and report these to management	10%
5	Apply management accounting techniques to support decision making	21%
	Total	100%

### Time allowed

2 ½ hours

---

### PASS MARK

The pass mark for all AAT CBAs is 70%.



**Always keep your eye on the clock and make sure you attempt all questions!**

## DETAILED SYLLABUS

The detailed syllabus and study guide written by the AAT can be found at:

[www.aat.org.uk/](http://www.aat.org.uk/)

# INDEX TO QUESTIONS AND ANSWERS

		<i>Page number</i>	
		<i>Question</i>	<i>Answer</i>
<b>INVENTORY</b>			
1 – 10	Inventory	1	77
<b>JOURNAL ENTRIES</b>			
11 – 13	Inventory	7	80
14 – 16	Labour	8	81
17 – 18	Overheads	11	83
<b>LABOUR COSTS</b>			
19 – 25	Labour	12	83
<b>ACCOUNTING FOR OVERHEADS</b>			
26 – 30	Overhead allocation and apportionment	18	87
31 – 37	Overhead absorption	27	90
38 – 42	Activity Based Costing	31	92
<b>ACTIVITY EFFECTS</b>			
43 – 52	Cost behaviours	34	94
53 – 55	Segmental reports	40	97
<b>SHORT TERM DECISION MAKING</b>			
56 – 62	Cost volume profit analysis	42	99
63 – 67	Limiting factor analysis	47	102
<b>TYPES OF COSTING SYSTEMS</b>			
68 – 71	Job, batch and service costing	52	105
72 – 76	Process costing – losses/gains	53	106
77 – 83	Process costing – equivalent units	56	108
84 – 91	Absorption and marginal costing	60	111
<b>BASIC VARIANCE ANALYSIS</b>			
92 – 95	Variance analysis	64	114
<b>LONG TERM DECISION MAKING</b>			
96 – 106	Payback, NPV and IRR	67	116
<b>MOCK EXAM</b>			
Questions and answers		123	135

# EXAM TECHNIQUE

- **Do not skip any of the material** in the syllabus.
- **Read each question** *very* carefully.
- **Double-check your answer** before committing yourself to it.
- Answer **every** question – if you do not know an answer to a multiple choice question or true/false question, you don't lose anything by guessing. Think carefully before you **guess**.
- If you are answering a multiple-choice question, **eliminate first those answers that you know are wrong**. Then choose the most appropriate answer from those that are left.
- **Don't panic** if you realise you've answered a question incorrectly. Getting one question wrong will not mean the difference between passing and failing

## Computer-based exams – tips

- Do not attempt a CBA until you have **completed all study material** relating to it.
- On the AAT website there is a CBA demonstration. It is **ESSENTIAL** that you attempt this before your real CBA. You will become familiar with how to move around the CBA screens and the way that questions are formatted, increasing your confidence and speed in the actual exam.
- Be sure you understand how to use the **software** before you start the exam. If in doubt, ask the assessment centre staff to explain it to you.
- Questions are **displayed on the screen** and answers are entered using keyboard and mouse. At the end of the exam, you are given a certificate showing the result you have achieved.
- In addition to the traditional multiple-choice question type, CBAs will also contain **other types of questions**, such as number entry questions, drag and drop, true/false, pick lists or drop down menus or hybrids of these.
- You need to be sure you **know how to answer questions** of this type before you sit the exam, through practice.

## Section 1

# PRACTICE QUESTIONS

## INVENTORY

### INVENTORY

- 1** Which of the following is least relevant to the simple economic order quantity model for inventory?
- A Safety inventory
  - B Annual demand
  - C Holding costs
  - D Ordering costs
- 2** The EOQ formula includes the cost of placing an order. However, the management accountant is unsure which of the following items would usually be included in 'cost of placing an order'
- (i) administrative costs
  - (ii) postage
  - (iii) quality control costs
  - (iv) unit cost of products
  - (v) storekeeper's salary
- Which three of the above would be regarded as part of the cost of placing an order?**
- A (i), (ii) and (iii)
  - B (i), (iv) and (v)
  - C (ii), (iii) and (iv)
  - D (i), (ii) and (v)
- 3** A business, which orders 500 units each time, has looked at the delivery time and usage for the raw material and it has the following data:
- Usage: between 500 and 800 a week
- Lead time: between 1 and 3 weeks
- Calculate the maximum inventory level
  - Calculate the minimum inventory level

**4 PLASTIC**

The following information is available for plastic grade PM7:

- Annual demand 112,500 kilograms.
- Annual holding cost per kilogram £1.80
- Fixed ordering cost £3.60

**(a) Calculate the Economic Order Quantity (EOQ) for PM7 (round to the nearest whole number)**

The inventory record shown below for plastic grade PM7 for the month of July has only been fully completed for the first three weeks of the month.

- (b) Complete the entries in the inventory record for the two receipts on 24 and 28 July that were ordered using the EOQ method.**
- (c) Complete ALL entries in the inventory record for the two issues in the month and for the closing balance at the end of July using the FIFO method of issuing inventory.**

(Show the costs per kilogram (kg) in £'s to 3 decimal places; and the total costs in whole £'s).

**Inventory record for plastic grade PM7**

Date	Receipts			Issues			Balance	
	Quantity kgs	Cost per kg (£)	Total cost (£)	Quantity kgs	Cost per kg (£)	Total cost (£)	Quantity kgs	Total cost (£)
Balance as at 22 July							198	238
24 July		2.336						
26 July				540				
28 July		2.344						
30 July				710				

**(d) Using the LIFO method, the issue of 540 kg to production on the 26 July would be valued at a total of (to the nearest whole number)\_\_\_\_\_.**



**5 SURESTICK GLUE**

The following information is available for direct material SURESTICK GLUE:

- Fixed ordering cost £2.50
- Annual holding cost per litre £1.00
- Monthly demand 2,500 litres

**(a) Calculate the Economic Order Quantity (EOQ) for direct material SURESTICK GLUE (round your answer up to the nearest whole number)**

The inventory record shown below for SURESTICK GLUE for the month of June has only been fully completed for the first three weeks of the month.

**(b) Complete the entries in the inventory record for the two receipts on 24 and 27 June that were ordered using the EOQ method.**

**(c) Complete ALL entries in the inventory record for the two issues in the month and for the closing balance at the end of June using the AVCO method of issuing inventory.**

(Show the costs per litre in £'s to 3 decimal places; and the total costs in whole £'s, round up to nearest whole number).

**Inventory record for SURESTICK GLUE**

	<i>Receipts</i>			<i>Issues</i>			<i>Balance</i>		
	<i>Date</i>	<i>Quantity litres</i>	<i>Cost per litre (£)</i>	<i>Total cost (£)</i>	<i>Quantity litres</i>	<i>Cost per litre (£)</i>	<i>Total cost (£)</i>	<i>Quantity litres</i>	<i>Total cost (£)</i>
Balance as at 23 June								65	130
24 June		2.234							
26 June				180					
27 June		2.341							
30 June				250					

**(d) Using the LIFO method, the issue of 180 kg to production on the 26 June would be valued at a total of \_\_\_\_\_.**

## 6 GRAPE LTD

The inventory record shown below for glaze for the month of January has only been fully completed for the first three weeks of the month.

(a) Identify the inventory valuation method used to complete the inventory record:

- A FIFO
- B LIFO
- C AVCO

(b) Complete ALL entries in the inventory record for the two issues in the month and identified in part (a)

(Show the costs per drum in £'s to 3 decimal places; and the total costs in whole £'s).

### Inventory record for glaze

Date	Receipts			Issues			Balance	
	Quantity drums	Cost per drum (£)	Total cost (£)	Quantity drums	Cost per drum (£)	Total cost (£)	Quantity drums	Total cost (£)
Balance as at 22 January							1,650	1,980
25 January	1,200	1.250					2,850	3,480
26 January				1,300		1,587		
28 January	1,200	1.302						
31 January				1,500				

(c) Complete the following sentence with regard to LIFO as a method of pricing inventory

The LIFO method for costing issues **will/will not\*** always mean that inventory is physically issued on a rotating basis so that the last inventory in is the first inventory issued.