

EXAMINER'S REPORT**LEVEL III EXAMINATION - JANUARY 2023****(302) MANAGEMENT ACCOUNTING & FINANCE**

Overview:

This paper consisted of **three Sections** covering 100 marks.

1. **Section A** includes four (1 - 4) compulsory questions for **20 marks**.
2. **Section B** includes three (5 - 7) compulsory questions for **30 marks**.
3. **Section C** includes three (8 & 10) compulsory questions each for **50 marks**.

Section A**Question No. 01**

This question tested calculation of,

- (a) Monthly break-even point (BEP) in units.
- (b) Target profit if the target number of bottles to be sold in the first month is 450.

Performance:

Overall performance for this question was satisfactory. However, most of the candidates did not score full marks for **part (a)** of the question.

Main Reasons for poor performance in (a) part:

- (1) Candidates were not able to calculate the total fixed cost of Rs.160,000/- (Rs.95,000/- + Rs.65,000/-) correctly. Some candidates took the specific fixed overheads of Rs.95,000/- as the total fixed cost while other candidates took the whole common fixed overheads of Rs.650,000/- plus Rs.95,000/- as the total fixed cost and thereby arrived at the incorrect BEP in units.
- (2) The candidates have failed to take 10% of the common fixed overheads of Rs.65,000/- (Rs.650,000/- * 10%) together with the specific overheads of Rs.95,000/- as the total fixed cost.
- (3) Some candidates have considered only the variable overheads as the Marginal cost ignoring the Direct Material and Direct Labour.

However, in **part (b)** Rs.95,000/- and Rs.65,000/- was taken as fixed overheads in arriving at the profit.

It was noted that candidates were confused with the terms "profit" and "contribution".

Therefore, candidates must know the difference between "profit" and "contribution" and the right place to use them.

Examiner's suggestions:

- (1) Candidates should practice similar type of questions.
- (2) It is recommended to read the relevant chapter properly in the self-study text.

Question No. 02

This question tested the calculation of Working Capital Cycle (WCC) of **Engage Ltd.** for the year 2022.

Performance:

Satisfactory.

Reasons for poor performance:

Candidates used the correct WCC formula to calculate the working capital cycle. Accordingly, the inventory residence period, trade payables period were calculated correctly but few candidates found it difficult to calculate the debtors' period from the debtors' receivable turnover period.

Other common mistakes made by candidates were as follows:

- (1) Forgetting to find the average creditors/average inventory by dividing by 2 although inventory residence period/trade payables period formulae have been written correctly.
- (2) Not able to find the purchases after arriving at the cost of sales from the given percentage of 28 gross profit margin on sales.

Examiner's suggestions:

- (1) Candidates should practice similar type of questions and should understand the meaning of working capital cycle and the formula for calculating it.
- (2) It is recommended to read the relevant chapter properly in the self-study text.

Question No. 03

This question tested knowledge on the preparation of the following:

- (a) Sales Budget in units and value for 2023.
- (b) Production Budget in units for 2023.

Performance:

Unsatisfactory.

However, following points should be noted:

Only a very few candidates answered very well which means that other candidates have not understood this question very well. However, following points should be noted:

- (1) Almost all the candidates arrived at the correct price of Rs.440/- (Rs.500/- -500*12%).
- (2) The opening balance of Rs.150,000/- was identified correctly in the preparation of the production budget.

Common mistakes made by candidates were as follows:

- (1) Not identifying the total market size and the **Top Ltd.'s** market share
- (2) Not identifying the new 60% market share after the increase in market size.
- (3) Opening stock and closing stock were adjusted wrongly when preparing the production budget.

Examiner's suggestions:

- (1) Understand the meaning of total market size and a company's market share.
- (2) Be thorough to calculate the total market size from the given market share.
- (3) Read each sentence of the question carefully.

Question No. 04

This question tested the knowledge of candidates regarding relevant costing under short-term decision of make or buy.

Performances:

Satisfactory.

However, following points should be noted:

- (1) Rs.130,000/- worth of materials are treated as sunk cost correctly and not considered for the relevant cost of manufacturing the mould.
- (2) Identifying variable production overhead and specialized labour costs correctly in the relevant cost.

Common mistakes made by candidates were as follows:

- (1) Not considering the opportunity cost of Rs.45,000/- of the unused material income that is to be forgone.
- (2) Not identifying the Labour cost with overtime cost as the labour is already occupied in other production work.

Examiner's suggestions:

- Practice similar type of past questions.

Section B

Question No. 05

This question tested the knowledge on,

- (a) Identification of the limiting factor/s.
- (b) Calculate the optimal production mix based on the limiting resource identified.

Performance:

Good.

However, following points should be noted:

- (1) They showed their competency by correctly identifying the limiting factor by comparing the total resources needed to achieve the budgeted sales units with the given three resources availability.
- (2) However, few candidates who identified correct excess /shortage resource amount incorrectly worded the final decision the other way. For example correct amount of excess Direct Material was worded as a shortage thereby lost marks related to that decision.
- (3) The contributions of respective products were calculated correctly by all the candidates. But in finding the contribution per limiting factor, few candidates made mistakes by not correctly identifying the resource requirement per unit. However, ranking was done correctly based on the computed contribution per limiting factor.

Examiner's suggestions:

- Practice past question papers.
- Working should be shown

Question No. 06

This question tested on how to prepare the cash budget.

Performance:

Good.

Reasons for poor performance:

- (1) Some candidates had not properly identified the cash collection on 60 days and 30 days credit correctly.
- (2) The majority of the candidates failed to identify the interest income correctly.
- (3) Some candidates had not presented the budget on monthly basis and they have shown quarterly budget although the question requirement was to prepare the monthly budget.
- (4) Some have not presented the net cash flow and not shown closing cash balances correctly.
- (5) Some have missed increase in prices.

Examiner's suggestions:

- Practice past papers - similar type of questions were repeatedly tested in every exam. Therefore, go through the past papers.
- Read the question carefully

Question No. 07

This question tested on calculation of the cost of ordinary voting shares, irredeemable preference shares, redeemable debentures and WACC.

Performance:

Satisfactory.

Reasons for poor performance:

- (1) Most of the candidates correctly answered for **Parts A and B**. They made mistakes in **part C and D**.
- (2) Many candidates had no idea of what the cost of shares is. They have presented their answers in Rupees instead of Percentage.
- (3) Some have applied divided growth when calculating cost of ordinary shares even though question itself was given that there is no growth.
- (4) Majority have made mistakes in calculating interest rate during years 1 - 5.
- (5) Some candidates had not considered tax when calculating the cost of debentures.
- (6) Some candidates made mistakes in calculating the market value of stocks and debentures for the computation of WACC.

Examiner's suggestions:

- Practice past papers – similar type of questions was repeatedly tested in every exam. Therefore, go through the past papers.
- Study the formulae for the cost of ordinary shares, irredeemable preference shares, redeemable debentures and WACC.

Section C

Question No. 08

This question tested on the ability to compute different types of variances and to prepare an operating statement.

Performance:

Not Satisfactory.

Reasons for poor performance:

- (1) Majority of the candidates had not correctly calculated the variances. Most of the candidates have no knowledge to compute even the basic variances.
- (2) Most candidates have no knowledge about the formula for calculating the variances.
- (3) Some candidates who knew the formulae correctly were unable to correctly apply the data to the respective formula.
- (4) Some candidates had not mentioned whether the computed variance is adverse or favorable.
- (5) Some have erroneously identified adverse variances as favorable and favorable variances as adverse.
- (6) For **Part B** of the question, majority of the candidates attempted but some candidates have mistakenly adjusted the statement. (Adverse variances as favorable and favorable variances as adverse). Some have not shown the given variances and computed variances in operating statement.

Examiner's suggestions:

- Practice the past papers. Always show your workings.
- Follow the study pack and do the practical application.
- Candidates should practice formulae of variances on different scenarios.
- Presentation of formulae with correct application in variance analysis.

Question No. 09

This question tested the knowledge on application of project appraisal under NPV method.

Performance:

Not satisfactory.

Reasons for poor performance:

- (1) Some candidates have taken only the revenue figure as cash inflow instead of gross profit. Working capital recovery in year 5 was not considered.
- (2) Some candidates have considered 4% of the commission paid as a cash inflow.

- (3) Most of the candidates incorrectly computed the tax amount. Some have not considered the capital allowances correctly for calculating the tax. Though Capital allowance can be claimed only four years, some have applied for 5 years. Some have forgot to consider scrap value at the end of 5th year.
- (4) Some candidates incorrectly considered depreciation as cash outflow.
- (5) Question itself was given that rent will be increased from 2nd year and it was forgot by some students.
- (6) Discount factor was given as 22% but some candidates have applied different discount factor without reading the question.
- (7) Based on answer some have not given their recommendation on the project.

Examiner's suggestions:

- (1) Candidates should practice the study text examples and past paper questions.
- (2) Minimize the calculation errors.
- (3) Candidates should provide all the workings.
- (4) NPV recommendation should be mentioned clearly with reasons.

Question No. 10

- **Part A** of the question tested the knowledge of process costing. It was required to prepare the statement of equivalent units and process account.
- **Part B** of this question tested calculation of expected value of each option in uncertainty and decision making based on expected value.

Performance:

Satisfactory.

Reasons for poor performance:

Part (A):

- (1) Some candidates did not consider the opening quantity when calculating the abnormal gain.
- (2) Further, the value of opening WIP was not taken into calculate the equivalent cost.
- (3) Some candidates have considered normal loss when calculating the equivalent units.
- (4) Some candidates have not considered to deduct sales value of normal loss from direct material cost when calculating the unit cost.
- (5) Some candidates added abnormal gain units when calculating the equivalent units instead of deducting the same.

Part (B):

- (1) The majority of the candidates have not answered this part and very poor performance by the ones who did.
- (2) Many candidates did not consider the probability calculations for each option.
- (3) The majority of candidates have correctly calculated only total contribution.
- (4) Most of the candidates have no idea of the expected value.

Examiner's suggestions:

- (1) Candidates should practice study text examples and past paper questions.
- (2) Show all workings clearly.

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