ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EXAMINER'S REPORT

LEVEL III EXAMINATION - JANUARY 2024

(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 required the calculation of Break-Even Point (BEP) and Margin of Safety of **Hope Ltd.** and the expected profit at the annual budgeted sales quantity.

Performance:

Overall performance for this question was satisfactory.

Most of the candidates applied the correct BEP formula and calculated the BEP and Margin of safety in units. Accordingly, the expected profit at the annual budgeted sales quantity too calculated correctly.

Common mistakes:

(1) Calculated the contribution per unit without considering the variable Overhead of Rs.80/-.

(2) Not done the Margin of Safety computation may be due to lack of knowledge.

(3) Budgeted Sales quantity of 75,000 units was taken as the selling price in calculating the contribution per unit.

(4) Used the formula method to calculate the expected profit at the annual budgeted sales quantity and was not able solve the formula due to incorrectly substituting the figures.

Examiner's suggestions:

Candidates should practice similar type of questions and should understand the meaning of BEP and the method of calculating it.

Question No. 02

This question required to calculate the Working Capital Cycle (WCC) of **PXL Ltd.** for the years ended 31st March 2023 and 2022 and to identify two strategies for better working capital management.

Performance:

Overall performance for this question was satisfactory.

Candidates showed the correct WCC formula and calculated the WCC. Accordingly, the inventory residence period and Trade receivable period was substituted and trade payables period was calculated correctly.

However, few candidates were not able to calculate the trade payable turnover days using the Trade Payable turnover ratio which should have been done without much effort.

Common mistakes:

(1) Forgot to calculate the WCC for the year ended 31st March 2022.

(2) Added the Trade Payable Turnover Days to the Inventory Residence Period and Trade Receivable Collection Days.

Examiner suggestions:

Candidates should practice similar type of questions and should understand the meaning of working capital cycle and the method of calculating it.

Question No. 03

This question required to prepare Sales Budget in units and value for year 2024 for products **X** and **Y** of **Ganga Ltd.**

Performance:

This question, although attempted by many candidates, but could not be resolved fully thereby earned poor marks. They calculated the new market price for the two products after the expected percentage increase in prices. Thereafter they could not resolve further due to not identifying the total market size.

Very few candidates got full marks and the majority got very poor marks.

Lack of theoretical knowledge in the area was noticeable in the answers.

Lack of practice was noticeable for this question.

Common mistakes:

(1) Price increase percentage was multiplied by the volume change and then multiplied by the old price.

(2) Not identifying the total market size which remains same after the percentage increase in market share.

Examiner suggestion:

Practice similar type of questions and understand the basics.

Question No. 04

This question required to assess whether to accept the order for the special product, considering the relevant costs.

Performance:

Not very Satisfactory.

Common mistakes:

(1) Most of the candidates earned marks for identifying the cost of **Material X** and Other Production expenses only. Some calculated the Direct Labour cost with the correct overtime rate.

(2) But most of them failed to calculate the correct cost for **Material Y** which was the opportunity cost of saleable value.

Examiner suggestion:

Candidates should learn to present the answer by properly showing respective relevant and irrelevant costs.

Section B

Question No. 05

This question tested on the knowledge relating to preparation of cash budget for the months of January, February and March 2024 for **Luxy Hotel Ltd.**

Performance

Considerable number of candidates performed well, and they identified all the expenses correctly for the relevant months. Opening cash balance was correctly shown.

However, cash inflow from rooms occupancy was not correctly identified by many candidates. They took the rooms occupancy given for the months of January, February and March 2024 as the cash inflow for those respective months. They failed to identify the revenue received in advance as the cash inflow for the months of January, February and March 2024.

Further, room rate per day was considered as the room income when calculating the cash inflow from rooms without identifying the total income for the full month.

Common mistakes:

(1) Some candidates had not shown the closing cash balance.

(2) Some have taken 30 days for January, February and March ignoring the clear instructions given that the month of February has 29 days.

(3) Although January income is received in advance in the month of November 2023, variable expenses related to January month was not considered correctly.

(4) Most of the candidates calculated the interest income correctly using the 5%per annum rate but failed to divide it by 12 to show the monthly interest income for the respective months.

Examiner suggestions:

(1) Practice past papers.

(2) Read the instructions given in the question carefully.

(3) Practice the study pack questions and answers.

Question No. 06

This question tested on the,

(a) Identification of the limiting factor/s from the given resources availability, and

(b) Calculation of optimal production mix based on the limiting resource identified.

Performance:

Candidates performance for this question was good.

Common mistakes:

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 resources availability.

However, few candidates who identified correct excess /shortage resource amount incorrectly worded the final decision the other way. For example correct amount of excess of Direct Material was worded as a shortage thereby lost the marks related to that decision.

But in finding the contribution per limiting factor, few candidates made mistakes by not correctly identifying the contribution per limiting factor. However, ranking was done correctly based on the computed contribution for limiting factor.

Examiner suggestions:

Practice past question papers to find out how to calculate the contribution per unit, contribution per limiting factor and to calculate the optimal production mix based on the identified limiting factor.

Question No. 07

This question tested on the,

(a) Calculation of Cost of Ordinary Voting Shares, (b) Cost of Redeemable Debentures and (C) Weighted Average Cost of Capital (WACC) using market values.

(b) Importance of the cost of capital.

Performance:

Overall performance is not satisfactory.

Most of the candidates calculated the cost of Ordinary Voting Shares correctly.

Some candidates calculated the cost of ordinary shares by comparing the dividend per share to market price per share using the dividend growth model.

Further, the computation for the cost of redeemable debentures was approached correctly by most of the candidates identifying the after tax interest payment correctly.

But the Net Present Values calculated at the two discount rates were correctly used in arriving at the IRR (Internal Rate of Return).

Further, WACC was not correctly calculated using market values. Candidates found it difficult to arrive at the market value of Redeemable Debentures though the current trading price (market price) is clearly given in the question.

However, they could not correctly identify the relevant cash inflows and outflows. They have mixed up inflows as outflows and vice versa. Also, they have misunderstood the year of issue of those redeemable debentures and therefore, redemption year has also been considered incorrectly.

Common mistakes:

(1) A growth rate has been considered in computing the cost of ordinary shares although the question has not indicated any growth in dividend payment.

(2) Non-identification of cash out / inflows correctly at the initial year and at the final year when calculating the cost of redeemable debentures.

(3) Difficulty in calculating the market value of Ordinary Voting Shares and Redeemable Debentures.

(4) Answers given on the importance of cost of capital was poor hence not satisfactory.

Examiner suggestions:

(1) Practice past question papers.

(2) Read question carefully and apply only the instructions given in the question.

Section C

Question No. 08

This question tested the knowledge of variance analysis by calculating,

(i) Sales Price Variance,

(ii) Direct Material Price Variance,

(iii) Direct Material Mix Variance,

(iv) Direct Material Yield Variance,

and to prepare an operating statement to reconcile the budgeted contribution with the actual contribution.

Performance:

Overall performance was poor as most of them were not able to score full marks for this question. However, it is an easily full marks scorable question for those candidates who have studied the subject thoroughly and have practiced similar past questions.

Sales price variance was correctly calculated but other variances were not correctly calculated by the majority of candidates.

Candidates found it difficult to solve the part (iii) and (iv) - direct material Mix, Yield variances although the formulae were correctly laid down.

The reconciliation statement was not performed satisfactorily as candidates have mixed up the favourable / adverse signs and hence not arrived at the correct ending.

Common mistakes:

(1) Lack of practice especially in taking the actual /standard mix in computation of Direct Material Mix and yield variances were noted.

(2) Some have not stated that the variances are (A) -adverse or (F) favourable.

Examiner suggestions:

Practice the past papers on the subject area.

Question No. 09

This question tested on the calculation of Net Present Value (NPV) of the new machinery and to assess the viability of the new machinery.

Performance:

Majority of the candidates' performances were good.

Common mistakes:

(1) Sunk cost - market research cost of Rs. 2mn was considered as a cash outflow in year "O".

(2) Depreciation has not been adjusted in the fixed overhead.

(3) Working capital recovery at the end of the project has been omitted.

(4) Contribution for each year was shown without any detailed workings as to how it has been arrived.

(5) Considering the capital allowance for year 5 as well.

(6) The discounting factor (Cost of capital) of the company is 20%. But some candidates have used 10%,15% as the cost of capital of the company which is incorrect.

(7) Capital Allowances are not a part of the cash flow of a project evaluation, but many candidates have taken into the project appraisal.

Examiner suggestions:

(1) Practice similar type of questions from the past papers.

(2) Use the cost of capital (discount factor) given in the question for discounting purposes.

(3) Need to understand the difference between the accounting profit and Taxable profit.

Question No. 10

This question required to,

- **Part (A)** - Prepare Statement of Equivalent Units and Cost and **Process 1** Account and
- **Part (B)** - Assess the option to be used by **Zeena Ltd.** by calculating the expected value.

Part (A):

Performance:

Part (A) - was satisfactory. Candidates scored marks by preparing the process 1 account, however, knowledge on preparation of Statement of Equivalent units and cost was not adequate, especially in calculating the equivalent units for Abnormal Gain.

Common mistakes:

(1) Some candidates have prepared the Process account and equivalent unit statement with given figures from the question but could not continue with further calculations.

(2) Candidates have shown opening work in progress units in preparing the statement of equivalent units calculation.

(3) Scrap Value of the Normal Loss has not been deducted in arriving at the Statement of Equivalent units and cost.

(4) Some candidates have adjusted the normal loss when calculating the equivalent units.

(5) The value of opening work in progress was not taken into consideration when identifying the total cost equivalent to respective units.

(6) Some candidates failed to prepare the **Process 1** account showing both values and quantity. They used either the values or the quantities only.

Part (B):

Performance:

Performance for this part was not satisfactory as most of the candidates have not read the requirement of the question properly.

Common mistakes:

(1) Lack of practice in using the probabilities were noticed.

(2) Expected profit approach with the use of probabilities to evaluate two options was not properly identified.

(3) Not recognised the fixed cost as a cost in arriving at the profit.

Examiner suggestions:

(1) Candidates should practice similar type of questions.

(2) It is recommended to read the relevant chapter properly in the self-study text.

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