

EXAMINER'S REPORT**LEVEL III EXAMINATION - JULY 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**.

General Comments:

Majority of the candidates' performance for this paper was not satisfactory level. But, some of the candidates answered well for the paper.

Sectional performance:

Section A has four compulsory questions for 20 marks. The candidates' performance for this section is satisfactory. Question wise performance for this section is as follows:

Question No.	Performance Rating
1	Satisfactory
2	Not Satisfactory
3	Not Satisfactory
4	Good

Section B has three compulsory questions for 30 marks. The candidates' performance for this section is satisfactory. Question wise performance for this section is as follows:

Question No.	Performance Rating
5	Good
6	Good
7	Satisfactory

Section C has three questions for 50 marks. The candidates' performance for this section is not satisfactory. Question wise performance for this section is as follows:

Question No.	Performance Rating
8	Not satisfactory
9	Satisfactory
10	Satisfactory

Section A

Question No. 01

This question tested on how to calculate the working capital cycle.

Performance:

Satisfactory.

Common mistakes:

- (1) Some candidates have not correctly calculated the creditors settlement period.
- (2) Some candidates have not calculated the average creditors/average inventory by dividing the opening and closing balances by 2.
- (3) Most of the candidates have not correctly calculated the purchases. They couldn't correctly calculate the creditors' settlement period. Therefore, the working capital calculation was wrong.
- (4) Some Candidates have wrongly added the creditors settlement period to get the working capital cycle.

Examiner's suggestions:

Candidates should practice the past papers and practice the questions in the study pack.

Question No. 02

This question tested on the overhead absorption costing method.

Performance:

Not Satisfactory.

Common mistakes:

- (1) Majority of the candidates incorrectly calculated the overhead absorption rate. Further, they were unable to understand the under provision/over provision of overhead to prepare the profit statement.
- (2) Some have incorrectly calculated the cost per unit, which resulted in the wrong calculation of the cost of sales.
- (3) Some candidates included the non-production overhead for cost of sales instead of deducting from gross profit.

Examiner suggestions:

Candidates should practice similar types of questions in the past papers and should study extra books and study pack to update the knowledge.

Question No. 03

This question tested on how to prepare the Flexible budget.

Performance:

Not Satisfactory.

Common mistakes:

- (1) The majority of the candidates' answers were satisfactory for this question.
- (2) But some of the candidates did not correctly calculate the variable cost for each level of sales.
- (3) Some candidates have not correctly taken the fixed cost for each level.

Examiner suggestion:

- (1) Read the question properly before attempting.
- (2) Practice similar types of past questions.
- (3) All workings must be shown.

Question No. 04

This question tested on theoretical knowledge on Standard costing.

Performance:

Good.

Common mistakes:

- (1) Majority of the candidates' answers were good for this question.
- (2) Some of the candidates have not given the sound points.

Examiner suggestion:

Practice similar types of past questions and should study the extra books and study pack.

Section B

Question No. 05

This question tested on how to prepare the cash budget.

Performance

Good.

Common mistakes:

- (1) Cash inflows from sales including cash collection in advance before 60 days of delivery was not identified correctly by many candidates.
- (2) The majority of the candidates failed to identify the interest income. However, some candidates have calculated the interest income correctly using the 6% per annum rate but failed to divide by 12 to show the monthly interest income for the months of July, August and September.
- (3) Some candidates have shown quarterly budget although the question asked to prepare the monthly budget.
- (4) Some candidates had not presented the net cash flow and closing cash balances.

Examiner suggestions:

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

Question No. 06

This question tested the identification of limiting factor and calculation of product mix based on the limiting factor.

Performance

Good.

Common mistakes:

- (1) Some candidates had only shown the calculations but not the limiting factor based on the calculations.
- (2) Some of the candidates have used the incorrect kg per unit in computation for limiting factor and optional product mix.
- (3) Some have not correctly calculated the contribution per limiting factor.
- (4) Some have not mentioned the optional product mix.

Examiner suggestions:

- (1) Practice past papers.
- (2) Always show your workings.
- (3) Avoid calculation errors.
- (4) Should improve the knowledge on the limiting factor.

Question No. 07

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

Performance:

Satisfactory.

Common mistakes:

- (1) Most of the candidates correctly answered for **Part (a)** and **(b)**. They made mistakes in **part (c)** and **(d)**.
- (2) Many candidates didn't know what is cost of shares. They answered in Rupees instead of Percentage.
- (3) Majority have made mistakes in calculating interest rate during years 1 - 6.
- (4) Some candidates had not considered tax for calculating the cost of debentures.
- (5) Some candidates found difficult in arriving the market value of Redeemable Debentures/Irredeemable Preference shares though the current market price is given in the question.

Examiner suggestions:

These questions were repeatedly tested and same mistakes are done in every year.

- (1) Practice past papers – similar type of questions was repeatedly tested in every exam. Therefore, go through the past papers.
- (2) Study the formulas 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 type of variances.

Performance:

Not satisfactory.

Common mistakes:

- (1) Majority of the candidates had not correctly calculated the variances even though these are the basic variances.
- (2) Most candidates have no knowledge about the formula for calculating the variances.
- (3) Even though some candidates knew the formulas but did not correctly apply the data specially for Direct Labour Mix and Direct Labour Yield Variances.
- (4) Some candidates had not mentioned the adverse or favorable in the variance whereas some have wrongly identified adverse as favorable and favorable as adverse.

Examiner suggestions:

These questions were repeatedly tested and same mistakes are done in every year.

- (1) Practice past papers. Always show your workings.
- (2) Follow the study pack and do the practical application.
- (3) Candidates should practice formulas of variances on different scenarios.
- (4) Presentation of formula with correct application in variance analysis.

Question No. 09

This question tested on the application of project appraisal under NPV method. Further, annuity factor application for two positive NPVs under different life span was also tested. Corporate tax calculation and adjustment was tested under NPV calculation as well.

Performance:

Satisfactory.

Common mistakes:

- (1) Many candidates did not take the growth in demand to calculate Direct Material, Direct Labour and Variable Overhead.
- (2) Most of the candidates incorrectly computed the tax amount. Some have not considered capital allowances when calculating the tax.
- (3) Some candidates wrongly considered depreciation and capital allowances as cash outflow.
- (4) Some candidates have taken the incorrect rates as cost of capital instead of 20%.
- (5) Most of the candidates have correctly calculated sales revenue under growth criteria and correctly applied for evaluation
- (6) Initial disposal value of Rs 4mn has been shown at the end of the useful life of the new machine
- (7) Candidates had not selected the optimal project by calculating the annualized NPV for each project since those two projects have different life spans.

Examiner 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.

Question No. 10

Part A of the question tested on the knowledge on process costing. Candidates were required to prepare the statement of equivalent unit and process account.

Part B (a) of the question tested on recognizing of relevant cost and Part B (b) tested on the contribution and Break even sales calculation under given data.

Performance:

Satisfactory

Common mistakes:**Part A**

- (1) Some candidates have not taken the value of opening WIP to calculate the equivalent cost.
- (2) Some candidates have considered normal loss when calculating the equivalent units.
- (3) Some candidates have not considered to deduct sales value of normal loss from direct material cost when calculating the unit cost.

Part B (a)

Majority of the candidates answers for this question was unsatisfactory. Many of the candidates had not properly identified relevant cost. Further, some candidate have not identified market research expenditure as sunk cost.

Part B (b)

Majority of the candidates did not correctly calculate the Combined PE ratio. Therefore, they were not able to calculate the correct BEP.

Examiner suggestions:

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