Examiner's Report

AA3 EXAMINATION - JANUARY 2017

(AA32) MANAGEMENT ACCOUNTING AND FINANCE

OVERVIEW:

This paper has three sections covering 100 marks,

1. Section **A** includes <u>four</u> compulsory questions for 20 marks

2. Section **B** includes <u>three</u> compulsory questions for 30 marks.

3. Section **C** includes <u>two </u>compulsory questions for 50 marks.

General Comments:

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

Sectional performance:

Students' performance for **Section A** was satisfactory, except Q 3. Which was poor.

Students' performance for this **Section B** was not satisfactory.

Students' performance for this **Section C** was not satisfactory.

SECTION A

Question No. 01

This question tested on the knowledge of the personal finance. It was required to list two (02) advantages of a "Good debt" and three (03) implications of a bad debt for a person.

Performance: Satisfactory

Common mistakes:

Candidates have answered this question based on their general knowledge and answers were not up to the standard. Question was based on personal debt but most of the candidates have given the answers considering trade debtors instead of personal debt. some candidates have written vague and incomplete answers.

It was evidential that they have not referred the study pack or any other relevant reference.

Examiner suggestions:

Candidates should refer extra books and the Self-study Text to update the knowledge, and practice answering to these types of questions.

Question No. 02

This question tested on the computation the length of the working capital cycle.

Performance: Satisfactory

Common mistakes:

Some candidates didn't have adequate knowledge about how to calculate the length of the working capital cycle. Candidates have erroneously added trade payable period to calculate the working capital cycle. Some of them have not shown the working for calculating the trade receivable collection period in their answers.

Examiner's suggestion:

Practice past papers and refer the self-study Text and other relevant materials. Always show your workings in answering. Avoid the simple arithmetical errors and double check the calculations.

Question No. 03

This question was tested the knowledge of payoff tables in decision making and required to identify maxi max regret solution and mini-max regret solution using a regret table.

Performance: Poor

Common mistakes:

It was observed that many candidates didn't have adequate knowledge on how to calculate maxi-max regret solution and mini-max regret solution using a regret table.

Most of the candidates have used various methods for calculating the answer without considering the correct method.

Examiner suggestion:

Study the text book and get the theoretical knowledge about the topic and practice these types of questions under various scenarios.

Question No. 04

This question tested on the project evaluation under pay back method.

Performance: Satisfactory

Common mistakes:

Some of the candidates have incorrectly considered depreciation into the cash flow. Certain candidates have not considered scrap value in calculating the cash flows. Some have just stated number of complete years in computing the payback period and ignored the number of remaining months in their answers.

Examiner suggestion:

- Practice similar types of past paper questions.
- Obtain a clear and conclusive knowledge on relevant and irrelevant items to be considered for cash flows.

Question No. 05

This question tested on the knowledge of variance analysis of sales price variance and sales volume margin variance.

Performance: Not satisfactory.

Common mistakes:

Candidates did not possess adequate theoretical knowledge on sales variances. Most of the candidates did not know the formula to calculate the sales margin volume variance.

Majority of the candidates had not considered (+) / (-) signs in relation to favourable and adverse variances accurately in their calculations.

Part (b) answers were wrong due to the incorrect formula and substitution of incorrect figures.

Examiner suggestions:

- Improve the theoretical knowledge in relation to formulas and variances.
- Practice past papers.
- Indicate Favourable (F) and Adverse (A) correctly and consider (+) / (-) signs correctly in calculations in relation to variances.
- Avoid the arithmetical errors.

Question No. 06

This question tested the knowledge of the long-term funding resources, calculation of cost of capital and weighted average cost of capital.

Performance: Not satisfactory.

Common mistakes

Majority of the candidates didn't understand the question properly. Part (a) of the question tested on long term sources of capital, whereas the majority of the candidates didn't answer properly. Part (b) of the question has been answered satisfactory by the candidates.

Part C - Most of the candidates have calculated cost of redeemable debenture by using various irrelevant formula instead of IRR method.

Part D - Majority of the candidates didn't have the basic idea in relation to the calculation of WACC and used irrelevant formulas to calculate WACC.

Examiner suggestions:

- State specific and relevant answers for theory questions.

- Practice past papers since similar types of questions were repeatedly tested. Therefore, go through the past papers.

- Follow the study pack and do more question related to this area. Have a sound knowledge regarding the theoretical aspects of sources of capital and cost of capital.

Question No. 07

This question tested on the investment appraisal. Accordingly, identification of cash flows, calculation of net present value and how to arrive the decision based on NPV calculation were tested.

Performance : Poor.

Common mistakes:

- Some of the candidates have not done calculations in relation to the tax payments correctly.

- Some of the candidates did not consider the scrap value of the machine when calculating tax.

- Some of the candidates have identified the working capital at the year one when the question has clearly stated that it should be kept at the beginning of the project.

- Some of the candidates have calculated I.R.R. instead of NPV.

- Majority of the candidates have not stated the recommendation based on the answer obtained for part (a).

Examiner suggestions:

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

- Be careful in showing the cash outflows and inflows signs in investment appraisal.

Section C

Question 08

This question was based on multiple limiting factor decision making using graphical method of linear programming. It was required to compute the total contribution at the optimum production mix.

Performance: Not Satisfactory.

Almost all the candidates have scored full marks for part (a). Answers for other parts of the question were not satisfactory.

- Majority of the candidates didn't draw the graph in order to identify the optimal production mix.

- Most of the candidates have missed to convert the formula in to minutes.

- Some of the candidates have ignored demand constraints, when drawing the graph.

- Some have not mentioned the non-negativity constraints.

- Most of the candidates have not read and understood what was tested by this question. They have not identified the method that should be used for this question.

- Some candidates have not mentioned greater than or equal and less than or equal signs in their answers.

- Most of them have not marked the feasibility area in the graphs.

Examiner suggestions:

- Candidates have to apply greater than or equal, less than or equal marks with proper understanding.

- Candidates need to study the relevant topic properly and practice similar questions.

- Candidates should follow all the steps in linear programming to arrive at the answer in these types of questions.

Question No. 09

Part (A) of this question tested on how to prepare a budgetary control statement using Fixed and Flexible budget and theoretical knowledge is tested under objectives of budgetary control system.

Part (B) tested the candidates' knowledge on calculating variances and operating statement reconciliation.

Performance: Not Satisfactory.

Common mistakes:

Part (A) (a) - Majority of the candidates didn't prepare operating statement systematically.

Many of the candidates didn't calculate the flexible budget and they have calculated the variances based on the given original budget and actual budget

Some of the candidates were failed to identify and mention favourable or adverse for the calculated variances.

Part (A) (b) - Only very few candidates were able to identify and explain objectives of the budgetary control correctly. Some candidates just identified the objectives, but have not explained the identified objectives although question has clearly stated to explain the objectives of a budgetary control system.

Part (B) (a) & (b) - Most of the candidates have written the formula, but didn't apply the figures correctly. Some candidates have tried to calculate variances using incorrect methods instead of using standard formulas. Therefore, most of the answers were wrong.

Few candidates wrongly applied adverse and favorable marks to the answer and thereby lost marks.

Part (B) (c) - Some candidates have just mentioned the given variances under favorable and adverse columns without calculating actual contributions and revised budgeted contributions.

Some candidates have forgotten to take Revenue variance (207,000) in preparing the operating statement.

Examiner's suggestions:

- Candidates should practice on formulas of variances in different scenarios.
- Candidates must show all the workings.
- Presentation of formulas with the correct application of figures in variance analysis is important.
- Candidates should follow Self-study Text and practice on various type of questions to have the confidence in these areas
- Presentation of the answers should be in a systematical way.

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General points to be considered in developing the level of Understanding of candidates

1. Studying well the full contents of the syllabus completely and develop a thorough understanding about the level of knowledge expected for the each unit or area.

2. Candidates should read the question carefully a several times and should show all the relevant workings related to the computations with clarity.

3. State the assumptions clearly if there are any assumptions involved in answering the questions.

4. Handwriting should be legible and the numbers of questions should be correctly written. Re-checking of question numbers etc. before handing over answer scripts is a must.

5. Following correctly the instructions given in the question paper.

6. Perusal of past question papers and suggested answers would help sharpening of knowledge, skills and experience. It is always advantageous because the similar patterns and the structures may repeat in the real examination papers.

7. Referring the **self-study text** is essential and practicing the examples of the **self-study text** is also vital.

8. Refer books, articles, magazines in relation to this subject and other reading materials related to the relevant subject areas.

9. Time Management is crucial in the examination. By looking at the marks allocated to the each question candidates can make an estimation of the time they require to spend in answering.

10. Appearing for the examination with a firm determination of passing the examination with due preparation.

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