

EXAMINER'S REPORT

AA3 EXAMINATION - JANUARY 2020

(AA32) MANAGEMENT ACCOUNTING AND FINANCE

Overview

This paper consists of three sections covering 100 marks.

1. **Section A** includes four compulsory questions for 20 marks - 5 marks each.
2. **Section B** includes three compulsory questions for 30 marks - 10 marks each.
3. **Section C** includes two compulsory questions each for 50 marks - 25 marks each.

General Comments:

Majority of the candidates' performance for this paper were satisfactory. However there were some common mistakes.

Sectional performance:

Section A had four compulsory questions for 20 marks. Candidates' performance for this section was satisfactory. Question wise performance for this section was as follows:

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

Section B had three compulsory questions for 30 marks. Candidates' performance for this section was also satisfactory. Question wise performance for this section was as follows:

Question No.	Performance Rating
1	Satisfactory
2	Satisfactory
3	Satisfactory

Section C had two questions for 50 marks. Candidates' performance for this section was good. Question wise performance for this section was as follows:

Question No.	Performance Rating
1	Good
2	Good

Section A

Question No. 01

This question tested on the financial independence of an individual. It was required to explain ways to achieve financial independence. Most of the candidates have not attempted correctly this question.

Common mistakes:

Some candidates had not clearly understood the requirement of the question. Some candidates have just mentioned “to do a job by an individual to achieve financial independence”. They have given answers without considering the requirement of the question. Most of the candidates were lack with the knowledge about financial independence.

Performance: *Overall performance for this question is not satisfactory.*

Examiner suggestions:

Candidates should improve understanding on theoretical concepts relating to the subject.

Question No. 02

This question tested on weaknesses in budgetary control. It was required to explain three limitations of budgetary control.

Common mistakes:

Some candidates have mentioned about the good side of budgetary control instead of limitations. Some candidates have discussed features of budgetary control, some have discussed about government budget instead of weaknesses of budgetary control.

Performance: *Overall performance for this question is satisfactory.*

Examiner suggestions:

Candidates should improve their knowledge relating to budgetary control.

Question No. 03

This question tested on the applications of the working capital cycle. It was required to calculate the working capital cycle of the given company. Most of the candidates attempted this question and able to obtain full marks.

Common mistakes:

Some candidates have made mistakes when computing respective days for stocks, trade receivables and trade payables etc. When calculating the working capital cycle, some candidates have added the payable days instead of deducting. Some candidates have not shown the workings.

Performance: *Overall performance for this question is good.*

Examiner suggestions:

- Read the question properly before attempting.
- Practice similar type of past questions.
- Go through the study pack properly.

Question No. 04

This question tested on the knowledge of application of relevant cost concepts. It was required to calculate the relevant cost of the special order and to state whether it should be accepted or not.

Common mistakes:

Most of the candidates have failed to find the relevant cost of material amount. Also they have gone wrong when considering direct labour cost of the special order. Most of the candidates have not understood the fact that company has idle time of 340 labour hours. Therefore, the direct labour cost is not a relevant cost, however majority of the candidates have considered direct labour cost as a relevant cost.

Performance: *Overall performance for this question is satisfactory.*

Examiner suggestion:

- Practice similar type of past questions.
- Study and get clear idea about the concepts.
- Show workings clearly.

Section B

Question No. 05

This question tested on decision making based on expected value. It was required to assess which product should be introduced by the given company based on the expected value.

Common mistakes:

- Some candidates have not considered the probability. They have just done the mathematical calculations without taking into account the probability.
- Some candidates have multiplied units by probability but not by respective values.
- Some candidates have added distribution cost to the sale price erroneously.

Performance: *Overall performance for this question is satisfactory.*

Examiner suggestions:

- Practice past papers.
- Avoid calculation errors.
- Show workings.

Question No. 06

This question tested on preparation of the operating statement/budgetary control statement by using marginal cost method based on the flexible budget.

Common mistakes:

- Most of the candidates have not calculated the flexible budget correctly.
- Fixed cost had been flexed according to the activity level.
- Some candidates have not properly understood as to how to calculate the variances. They have mixed-up favorable conditions verses adverse conditions.
- Fixed budget had been named as flexible budget erroneously.

Performance: *Overall performance for this question is satisfactory.*

Examiner suggestions:

- Practice past papers.
- Should improve knowledge on budgeting.

Question No. 07

This question tested on identification of the limiting factor and how to calculate optimal product mix when the company has a limiting factor.

Common mistakes:

- Some candidates did not have enough knowledge to identify the limiting factor.
- Some have not calculated the contribution per meter and ranked it in the order.
- Some candidates have multiplied unit contribution by material requirement per unit instead of dividing it.
- Some candidates have tried to solve using the graphical method.
- Calculation mistakes were also observed.
- Few candidates have found the resource availability without ranking the contribution.
- Workings have not been shown properly.

Performance: *Overall performance for this question is satisfactory.*

Examiner suggestions:

- Practice past papers.
- Show workings
- Avoid calculation mistakes.

Section C

Question No. 08

Part A of the question tested on the candidates' ability to calculate cost of ordinary shares, cost of preference shares, cost of debentures and WACC.

Part B of the question tested the buy or not decision based on the NPV calculations.

Common mistakes:

Part A

- Most of the candidates have not understood the correct concept. They have not applied correct formulae mainly in calculating the cost of debentures and WACC.
- Not practiced to solve the dividend model mathematically when there is no growth of dividend was expected.
- Tax was not taken into account in computing the cost of debentures.
- Cost of debentures were treated as irredeemable.
- Market price had not been considered when calculating the WACC.

Performance: *Overall performance for this question is good.*

Part B

- Most of the candidates have not understood as to what the relevant costs and what the irrelevant costs are.
- Some candidates have considered capital allowances for 5 years instead of 4 years and depreciation has been recorded under cash flow. As a result tax computation also has gone wrong.
- Considered the scrap value/disposal value for capital allowances calculation.

Performance: *Overall performance for this question is good.*

Examiner suggestions:

- Practice past papers.
- Always show your workings.
- Study text should be followed to get the theoretical knowledge properly.

Question No. 09

Part A of this question tested on make or buy decision which has to be taken by comparing the relevant cost of manufacturing internally with the relevant cost of outsourcing.

Part B tested on how to calculate material mix variance, material yield variance, material price variance and preparation of the operating statement incorporating calculated variances to reconcile budgeted contribution with actual contribution.

Common mistakes - Part A:

- Most of the candidates were not able to complete the answer. Those who did the calculations correctly did not mention the net savings amount correctly (Rs.562,000/-).
- Some candidates have deducted fixed and variable selling and distribution cost of Rs.240,000/- and Rs.460,000/- from the outsourcing cost of Rs.10,880,000/-. When arriving at the net savings of manufacturing, those two costs should be considered as irrelevant. When arriving at the total cost of outsourcing, those two costs should be added to the outsource purchase price.
- Some candidates have ignored annual fixed production cost of Rs.750,000/- when calculating the total cost of manufacturing.

Performance: Overall performance for this question is good.

Common mistakes - Part B:

- Majority of the candidates have not correctly calculated the variances. Those who calculated the variances correctly were able to prepare the operating statement correctly using the correct format.
- Though the written formulae of variances were correct, most of the instances substitution of figures was incorrect.
- Some candidates have mentioned the adverse and favorable status incorrectly.
- Some candidates have totally ignored to mention the variances as adverse or favorable.
- For direct material yield variance calculation, most of the candidates have applied budgeted units of 17,500 instead of actual units of 16,700.
- Some of the candidates have not mentioned the calculated variances in the operating statement.

Performance: Overall performance for this question is good.

Examiner suggestions:

- Candidates should practice formulae of variances in different scenarios.
- Candidates must be encouraged to show all the workings.
- Presentation of formulae with the correct substitution of figures in variance analysis.