

### Question No. 07

This question tested to calculate the Cost of Ordinary Shares, Cost of Irredeemable Preference Shares, Cost of redeemable Debentures and Weighted Average Cost of Capital (WACC) using market values.

#### Performance:

Overall performance was at average levels as most of the candidates correctly calculated the Cost of Ordinary Shares by comparing the Dividend Per Share (DPS) with Market Price per Share (MPS). However, few candidates used the dividend growth model although no dividend growth rate was given in the question.

Cost of irredeemable preference shares was correctly calculated by majority of the candidates.

However, cost of redeemable debentures was not correctly calculated due to the non-consideration of tax element and non-identification of cash out flows / inflows correctly at the initial and final years.

However, the Net Present Values were correctly calculated using two discount rates and arrived at the correct IRR (Internal Rate of Return).

Further, WACC was correctly calculated using market values.

#### Reasons for poor performance:

- (1) Not practiced to solve the Cost of Ordinary Shares when there is no dividend growth.
- (2) Tax Rate was not considered in computing the cost of debentures.
- (3) Non-identification of cash flows (inflows & outflows) correctly at the initial year and at the final year when calculating the Cost of Redeemable Debentures.

#### Examiner's suggestions:

- Practice past question papers.

### Section C

### Question No. 08

This question tested on the variance analysis by calculating,

- (a)
  - (i) Sales Price Variance.
  - (ii) Direct Labor Rate Variance.
  - (iii) Direct Labor Mix Variance.
  - (iv) Direct Labour Yield (Productivity) Variance.
- (b) Reconciliation of budgeted contribution and actual contribution by preparation of an Operating Statement.

#### Performance:

Overall performance is poor.

**Reasons for poor performance:**

Most of the candidates calculated the Sales Price Variance and Direct Labor Rate Variance correctly thereby earning the marks for those variances only. However, they found it difficult to calculate the Direct Labour Mix and Direct Labour Yield Variances. Hence candidates had lost marks.

Reconciliation of actual and budgeted contributions was correctly done and shown in an Operating Statement.

**Possible Reasons for failure:**

- (1) Lack of practice on computation of Mix and yield variances were noted.
- (2) Standard Labor hours were taken in calculating the Direct Labor Rate and Direct Labour Mix variances.
- (3) Some have not stated that the variances are Adverse (A) or Favorable (F). They have just mentioned the amounts.

**Examiner's suggestions:**

Practice the past papers on the subject area.

**Question No. 09**

This question tested on the calculation of Net Present Value (NPV) and assessing the viability of the investment based on the NPV.

**Performance:**

All the candidates had attended this question and performance was satisfactory. A good attempt by most of the candidates except for few.

**Reasons for poor performance:**

Who had issues in calculating the,

- (1) Fixed cost without depreciation.
- (2) Calculation of Capital Allowances for the entire project period of 5 years instead of 4 years.
- (3) Incorrect computation of tax considering the depreciation adjustment.
- (4) Tax computation was not shown separately instead all workings were shown in the project appraisal working thereby messed up the cash flows considered in the project appraisal.

**Examiner's suggestions:**

It is recommended to understand the theoretical concepts more clearly by using Self-Study Text and practice more questions relating to this area.