

Examiner's Report

AA3 EXAMINATION - JULY 2018

(AA32) MANAGEMENT ACCOUNTING AND FINANCE

OVERVIEW:

This paper has three sections covering 100 marks,

1. Section A includes four compulsory questions for 20 marks - **05 marks each**.
2. Section B includes three compulsory questions for 30 marks - **10 marks each**.
3. Section C includes two compulsory questions for 50 marks - **25 marks each**.

General Comments:

Candidates' performance for this paper was average. Majority of the candidates scored satisfactory marks for this paper specially for question No. 08 and 09. However it was noted that majority of the candidates have either not attempted or given incorrect answers for Question No. **01** and **02**. The main reason for this was that all those questions have focused theory aspects relating to Management Accounting and the poor knowledge of the candidates regarding those areas.

Sectional performance:

Candidates' performance for **Section A** was satisfactory, except Q 01 and 02, which was poor.

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

Candidates' performance for this **Section C** was satisfactory.

SECTION A

Question No. 01

This question tested on personal financial planning and it was required to state 02 advantages and 03 basic rules of personal financial planning.

Only a handful of candidates scored full marks for this question. However, almost all the candidates attempted the question.

It was noted from the answers that candidates didn't possess a proper knowledge about the personal financial planning in Management Accounting and therefore they had just written the vague answers without concentrating on the technical aspect. Due to this reason, they were unable to mention advantages and basic rules applicable for personal financial planning too.

Examiner suggestions:

It is recommended to study the entire syllabus giving due care to theory parts in the self-study pack.

Question No. 02

It was required to explain the terms Economy, Efficiency and Effectiveness with regards to Value for Money.

Majority of the candidates have not attempted for this question. Those who attempted also failed to score satisfactory marks. Main reason for poor answers was not understanding the question properly and not knowing the facts related to Value for Money. It was noted from the answers that considerable number of candidates were unaware of these key terms related to Value for Money.

Examiner suggestions:

It is recommended to study the entire syllabus giving due care to theory parts. Perusal of the self-study pack of AAT Sri Lanka is a must to answer for these kinds of questions.

Question No. 03

It was required to calculate the trade receivables collection period (in days) for the year ended 31st March 2017 and 31st March 2018 for part (a) and state two strategies used for managing the trade receivables considering the current situation for part (b) according to the calculations in part (a). This was a very simple question and similar kind of questions has been tested in previous examinations as well.

Some of the candidates did not know how to calculate receivables collection period. Some candidates have not considered average receivables in the calculations. Some candidates have incorrectly considered the cost of sales for calculation instead of sales. Certain candidates have incorrectly taken average sales for calculation instead of sales.

A considerable number of candidates failed to state two strategies used for managing the trade receivables considering the current situation for part (b) according to the calculations in part (a). Candidates should develop the skill of identifying and analyzing the strategies based on the calculations. Overall performance for this question was average.

Examiner suggestion:

- Read the question properly before attempting.
- Practice similar type of past examinations questions and other sums in the self-study Text.
- Improve handwriting.

Question No. 04

It was required to calculate the relevant cost of labour for the special order based on the given information in the question. In answering, many candidates have not considered the skilled labour under minimum pay as an irrelevant cost. Candidates should understand that it is a sunk cost. As a result they have taken all the skilled labor hours for calculation. Some candidates have failed to calculate the required additional skilled labour hours correctly.

Examiner suggestion:

- It is required to understand thoroughly about the concepts relevant to relevant costing and their applications in sums.
- It is recommended to practice similar type of past paper questions.

SECTION B

Question No. 05

It was required to prepare the payoff table showing the contribution for the given decisions based on the provided information for part (a) and identify the Maximax and Maximin criterion / solutions.

Considerable number of candidates did not perform well and did not score marks for this question. It was required to prepare the payoff table under the anticipated demand of either low, mid or high. However, some candidates were unable to capture that information. Specially most of the candidates could not understand the three demand conditions clearly and construct the payoff table to 03 shifts. The common mistake that was observed was not constructing the table properly with the relevant rows and columns. Moreover, most of the candidates have not shown workings properly. Some candidates have done mathematical mistakes in arriving at the figures.

Certain candidates have not identified the Maximax and Maximin criterion / solutions for part (b) based on the payoff table. It was observed that certain candidates didn't possess an understanding about identifying Maximax and Maximin criterion / solutions.

Examiner suggestions:

- It is recommended to practice similar type of past paper questions and practice examples available in the self-study text.
- Workings should be shown properly.

Question No. 06

This question was based on the relevant cost - decision making. It was required to assess whether Component X should be purchased from outside or not based on the given information.

Considerable number of candidates did not perform well and did not score high marks for this question. Overall performance was at an average level. Considerable number of candidates was unable to perform the necessary computations to identify the additional costs and cost savings relevant to the decision. There were few candidates who have done the computations correctly, but were unable to provide the recommendation based on the calculations.

Examiner suggestion:

- It is recommended to practice similar type of past questions.
- When the question has been asked as "assess", it is required to provide the recommendation based on the calculations.

Question No. 07

It was required to prepare an operating statement showing budgeted figures, actual figures and the variations between budgeted and actual figures for the month of June 2018.

The candidates' performance for this question was average. A considerable number of candidates have not shown the variations between budgeted and actual figures for the month of June 2018. Certain candidates have made arithmetical errors in calculations. Few candidates have not considered variable selling commission in preparing the operating statement.

Examiner suggestion:

- It is recommended to practice similar type of past paper and other practice questions.
- Candidates should study the relevant formats in preparing the operational statement.

Section C

Question No. 08

This question tested on knowledge of cost of capital from **part A** and investment appraisal from **part B**.

(A) Overall performance for this part of the question was good. Therefore a considerable number of candidates have scored high marks.

It was observed that some candidates have made mathematical errors in calculations. Some of them have made mathematical errors such as + or - in writing the formula of Cost of Capital. Certain candidates have not considered the growth factor % to the formula of Cost of Capital of ordinary shares. Some candidates have not written the % mark when calculating the Cost of Ordinary Shares and Cost of Debentures.

A considerable number of candidates have not calculated the weighted average cost of capital using market values.

(B) It was required to assess the viability of investing in a new project with a NPV and IRR computation. This question was answered well by majority of the candidates. Some did not show initial investment as a cash outflows by using brackets. Some candidates have not considered working capital and recovery of working capital in their calculations. Further, some candidates have computed capital allowance for the 5th year as well. Moreover, some candidates have considered capital allowance in the NPV computation which was incorrect.

Examiner suggestions:

- Study the theory of the subject and the formulae relevant to cost of capital. It is not sufficient to by heart the formulae, but candidates should understand the rationale behind it the each formula.
- It is always required to show the relevant steps and workings in obtaining answers.
- Try to avoid the arithmetical errors and double check the answers.
- Study and practice the sums in the self-study pack and past papers.

Question No. 09

Part (A)

This question tested on the knowledge of Standard Costing Variances and preparing an operating statement to reconcile the budgeted contribution with the actual contribution.

Performance:

Almost all the candidates attempted for this question and performance was satisfactory for part (A). Some candidates have failed to compute the Sales Volume Margin Variance correctly. Some candidates have not identified whether the calculated variance is adverse (A) or favourable (F). Some candidates have prepared a flexible budget instead of Operating Statement.

Part (B)

It was required to calculate the combined profit volume ratio and monthly break-even levels in boxes for each type of products separately. A considerable number of candidates have calculated the contribution per box but many of them have failed to calculate the combined profit volume ratio and monthly break-even levels in boxes for each type of products separately. Some candidates have made incorrect calculations by calculating profit volume ratio separately for the two products.

Examiner suggestions:

- Study the theory of the subject and the formulae. It is not sufficient to by heart the formulae, but candidates should understand the rationale behind it the each formula.
- It is always required to show the relevant steps and workings in obtaining answers.
- Try to avoid the arithmetical errors and double check the answers.
- Study and practice the sums in the self-study pack and past papers.

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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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