

**EXAMINER'S REPORT****LEVEL III EXAMINATION - JULY 2022****(302) MANAGEMENT ACCOUNTING & FINANCE**

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**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**.

**Section A****Question No. 01**

This question tested the calculation of the Working Capital Cycle (WCC) of **Quest Ltd.** for the year ended 31<sup>st</sup> March 2022.

**Performance:**

Most of the candidates did not score the full marks for this question. Overall performance for this question was poor.

**Main Reasons for poor performance:**

- (1) Almost all the candidates were not able to calculate the cost of sales correctly and thereby to find the purchases made by the company.
- (2) Value of the cost of sales to be found using Inventory Residence Period. However, majority have not followed the same.

**Other reasons for the low performance were:**

- (1) Not considered the average debtors for the year.
- (2) Not considered the credit sales as 50% of the total sales in calculating the credit sales.
- (3) Formula used for the calculation of Working Capital Cycle was incorrect.

**Examiner's suggestions:**

- (1) Candidates should practice similar type of questions and should understand the meaning of working capital cycle and the method for calculating it.
- (2) It is recommended to read the relevant chapter properly in the self-study text.

## Question No. 02

This question tested on the preparation of Income Statement for the month of July 2022 using Marginal Costing Method for **Teddy Ltd.**

### Performance:

Average.

### Reasons for poor performance:

- (1) Many candidates applied Budgetary sales units of 1900 or actual production units of 1870 to calculate sales revenue, instead of actual sales units of 1915.
- (2) Many candidates applied budgetary units of opening and closing inventory for the income statement.
- (3) Many candidates could not calculate the total variable cost correctly.
- (4) Many candidates used budgetary fixed overhead cost instead of actual fixed overhead cost.

### Examiner's suggestions:

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

## Question No. 03

This question tested on the preparation of a Flexible budget (Operating Statement) for the year ended 31<sup>st</sup> March 2022 for **Rex Ltd.**

### Performance:

Satisfactory.

### Reasons for poor performance:

- (1) Some of the candidates do not know the flexible budget concept properly. Some of them have incorrectly calculated the flexible amount. Some candidates have adjusted the fixed production cost and administration cost as well. This means students have no knowledge on how to consider the fixed cost when preparing the flexible budget.
- (2) Many candidates prepared the flexible budget using only actual and budgeted figures which are given in the question. They have not calculated the flexible figures.
- (3) Many candidates calculated variances using budgeted and actual amounts.

**Examiner's suggestions:**

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

**Question No. 04**

This question tested the knowledge of candidates regarding relevant costing under short-term decision making.

**Performances:**

Satisfactory.

**Reasons for poor performance:**

- (1) Majority of the candidates have not considered the application of cost saving items. Specially they ignored the saving on direct labor and fixed cost.
- (2) Though the cost approach is easy to assess the decision, candidates had not applied relevant cost items to each option.
- (3) Most candidates incorrectly treated for compensation and ended up with wrong answers.

**Examiner's suggestions:**

- Practice similar type of past questions.

**Section B**

**Question No. 05**

This question tested on the,

- (a) Identification of the limiting factor/s from the given two labour resources available, and
- (b) Computation of optimal production mix based on limited resources.

**Performance:**

Candidates performance to this question was good. They showed their competency by correctly calculating the contribution per limiting factor and thereby calculating the optimal mix.

The contribution of the different product ranges was calculated correctly. But in finding the contribution per limiting factor, candidates made mistakes by not correctly identifying the resource requirement per unit. However, ranking was done correctly based on the computed contribution for limiting factor.

**Reasons for poor performance:**

- (1) Excess Unskilled labor and skilled labor shortage was not able to identify by the candidates despite showing the workings correctly.

For eg: skilled labor hours were short by 32 hours. Though this was correctly identified by the candidates, but in the narration it was written as excess 32 hours of skilled labor.

- (2) Incorrect calculation in finding the contribution per limiting factor.

**Examiner's suggestions:**

- Practice past question papers.

**Question No. 06**

This question tested on the preparation of cash budget for the months of October, November, and December 2022.

**Performance:**

Considerable number of candidates have performed well, and they identified the sales and expenses correctly for the relevant month. Opening cash balance was correctly shown.

**Reasons for poor performance:**

- (1) Although expenses were correctly identified in the budget, the cash inflows were not shown correctly.
- (2) Online sale of 30% has not been considered in calculating the cash inflows.
- (3) Out of the 70% of sales, all workings were shown correctly in quantity wise (in units) but not showing the value of sales by multiplying by the selling price of Rs.1,350/-.
- (4) Some of the candidates had taken credit sales (60 days) as 5% out of 65% erroneously.
- (5) Some candidates had not shown the closing cash balance.

**Examiner's suggestions:**

- (1) Practice past papers.
- (2) Practice the study pack questions and answers.

### **Question No. 07**

This question tested on,

- (1) Matters to consider when choosing a long-term funding.
- (2) Calculation of Cost of Ordinary Shares, Cost of Redeemable Debentures, Weighted Average Cost of Capital (WACC) using market values.

#### **Performance:**

Overall performance is average as most of the candidates calculated the cost of ordinary shares by comparing the dividend per share to market price per share correctly except for few who did not use the dividend growth model although dividend growth rate was given in the question.

However, cost of redeemable debentures was calculated incorrectly due to not considering the tax element and non-identification of cash out/inflows correctly at the initial year and at the final year. However, the Net Present Values calculated at the two discount rates were correctly used in arriving at the IRR (Internal Rate of Return).

Further, WACC was correctly calculated using market values.

The matters to consider in choosing a long-term funding was correctly identified.

#### **Reasons for poor performance:**

- (1) Growth rate has not been considered in computing the cost of ordinary shares.
- (2) Tax was not considered in computing the cost of debentures.
- (3) Non-identification of cash out / inflows 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 the knowledge of variance analysis by calculating,

- (a) (i) Direct Material Price Variance.  
(ii) Direct Material Mix and Yield Variances.
- (b) Reconciliation of budgeted contribution and actual contribution by preparation of an operating statement.

**Performance:**

Overall performance was good as most of them were able to score full marks for this question. But those who did not practice similar type of questions, found it difficult to solve Mix and Yield variances.

Some of the candidates calculated the Direct material Price variance correctly thereby were able to score marks satisfactorily. However, they found difficulties in calculating the Mix and Yield variances. Hence lost marks.

However, reconciliation of actual and budgeted contributions was correctly shown in the operating statement.

**Reasons for poor performance:**

- (1) Lack of practice in computation of Mix and yield variances were noted.
- (2) In computing the Direct material yield variance standard price was correctly taken to the computation but standard usage and standard mix was incorrectly identified.
- (3) Some have not stated that the variances are (A) -adverse or (F) favorable.
- (4) It was noted that some candidates laid down the formula correctly for mix and yield variances and calculated the total direct material mix variance and total direct material yield variance correctly but not shown the variance break up for each material separately thereby were unable to obtain full marks.

**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 NPV.

**Performance:**

Performance was not satisfactory, even though the question had been attempted by majority.

**Reasons for poor performance:**

- (1) New equipment value of Rs. 60 million was not considered in the 3<sup>rd</sup> year. Some candidates have considered the cost of this machine at the 4<sup>th</sup> year.
- (2) Considering depreciation charges to the cash flow calculation.
- (3) Calculating the Capital Allowances of the initial machine for 3<sup>rd</sup> year as well, although the question states that the said machinery was replaced with a new machinery in the 3<sup>rd</sup> year.
- (4) Setup cost of Rs.2 million was not considered in the initial year.

- (5) Incorrect computation of tax liability considering the depreciation adjustment.
- (6) None of the candidates have shown the tax computation for the year 5 by comparing the tax written down value against the scrap value of the machinery.

**Examiner's suggestions:**

- (1) Carefully attend the tax computation related to project appraisal.
- (2) Continue the sum, even if you are not confident on what you have done.

**Question No. 10**

From **part (A)** of this question, it was required to prepare Statement of Equivalent Units, related Cost and Process Account and from **part (B)** it was required to calculate the combined Profit Volume Ratio and the Break Even Sales Value in **part (B)**.

**Performance:**

For **part (A)**, candidates were able to score marks by preparing the process account with known information, however knowledge on preparation of Statement of Equivalent units and cost was not adequate, specially in calculating the equivalent units for closing WIP.

Further, they have not considered the equivalent units of abnormal loss in preparing the statement. Scrap Value of the Normal Loss was not considered in arriving at the Statement of Equivalent units and cost.

The cost of opening work in progress was not taken into consideration when identifying the total cost equivalent to respective units.

Performance for **Part (B)** was not satisfactory due to lack of understanding of the test area. Many candidates combined the two selling prices (1,400/- + 600/-) as combined sales and combined the two contributions of Rs.570/- and Rs.170/- and arrived at the contribution to sales ratio of 37% which was incorrect.

**Reasons for poor performance:**

- (1) Considering **Product PQ's** production /sales units also as 36,000 without reading the question properly.
- (2) Not considering the variable production overheads of Rs.120/- and Rs.25/- as variable cost.

**Examiner's suggestions:**

- (1) Practice past papers.
- (2) Study the self-study pack.