

## Examiner's Report

Final Examination – January 2014

### (59) Management Accounting and Business Finance

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#### SECTION A

#### Management Accounting (75 marks)

##### OVERVIEW

This paper has two sections:

1. **Section A** covers the Management Accounting part for 75 marks and
2. **Section B** covers the Business Finance part for 25 marks.

##### General Comments:

Majority of students showed a very good performance in the **application / computation** parts. However lacked the **theoretical** knowledge in areas of Q3, Q4 and Q6. **Theoretical knowledge** also should be taken into consideration as it carries 13 marks in the whole paper which in turn would be valuable in passing the exam.

##### Question No. **01** - (Marks Allotted 15)

This question tested the theoretical knowledge of the difference between Management Accounting and Financial Accounting, application of O/H allocation and apportionment of cost and the profit reconciliation between the cost accounts and financial accounts.

**Part A** of this question tested the **difference** between Management Accounting and Financial Accounting for two marks. This part was answered well by students. They differentiated the two accounting methods by users/frequency of reporting /data wise. Only a few wrote vague answers such as Management Accounting is used to prepare management accounts and Financial Accounting is used to understand the finance position.

**Part B** – tested on the applicability of Overhead allocation, primary and secondary apportionment. The performance of this part was very good except for **depreciation calculation**.

**Depreciation calculation** needs to be shown for the month of December only. But students showed the calculation for the year as given in the question. Further, arithmetical negligence in totaling has been seen in very few cases.

**Part C** - Those who have practised similar type of questions relating to profit reconciliation between the cost accounts and financial accounts obtained good marks for this part. However, most of the students did not know what should be included in calculating financial cost profit. Answers to this part needs **practice** of similar questions in the past papers and **understanding** of the two accounting methods. For Eg. Notional Rent is considered as an expenditure in cost accounts only.

##### Common mistakes are:

1. Notional rent was shown as an expense in financial accounts.
2. Research expenses were deducted in cost accounts.

##### Examiner's suggestions:

Practising of past papers and understand the applicability of expenditure item that is relevant for the particular accounting method.

**Question No. 02** - (Marks Allotted 20)

This question tested on the Absorption costing method of preparing the Income statement in **part A** and a question on process costing in **part B** .

**Performance in part A-:** Most of the students had not answered this part A. They simply showed the Sales value, Fixed and Variable admin & selling cost only. Some students, had not calculated absorption rate correctly based on the standard production instead they have used the actual production, thereby lost marks for incorrectly valuing opening stock, closing stock and fixed manufacturing cost. Further, majority of the students had not identified over/under absorption cost in the Income Statement. Only a few students prepared the Income Statement by identifying the over/under absorption cost correctly.

**Performance in part B:** Some students had answered part B well and prepared process account and production cost evaluation statement correctly after identifying the scrap value. Majority of the students did not correctly calculate equivalent units therefore, cost per unit was wrong.

**Common errors made by students are:**

- Absorption rate was not calculated correctly.
- Input from previous process had not been considered.
- Scrap value was not correctly calculated in the production cost evaluation statement.
- WIP was not calculated correctly.

**Examiner's suggestions:**

- Practise past papers.
- Read AAT text book relating to subject.

**Question No. 03** - (Marks Allotted 10)

This question tested on the theoretical part of advantages of Zero based budgeting, difference between Fixed and Flexible budget and preparation of a cash budget.

**Performance:** Few students were capable of gaining full marks for this question .On average student performance is not satisfactory mainly due to unsatisfactory answers to Part A and B. Answers to Part C were at a satisfactory level. Cash inflow was correctly shown by students but **other expenses** excluding depreciation was not shown evenly for three months under the cash outflow. Instead they showed the quarterly estimate for each month which is wrong. 5% Discount is shown as a cash inflow.

**Possible Reasons:** Students do not have a good theoretical knowledge on Zero based budgeting and Fixed and Flexible budget. The key words that need to emphasize in defining or differentiating has been omitted by students.

Some does not know how to prepare a cash budget instead they showed a cash book type of "T" account for each month. Instead of preparing the cash budget from April to June few students have prepared the cash budget for April and June omitting May.

**Examiner's suggestion:**

- Format of a cash budget is essential in preparing the cash budget
- Depreciation is not from part of a cash flow item in preparing cash budgets.
- Practise past papers to enhance the knowledge
- Read the question properly
- Improve handwriting

**Question No. 04** - (Marks Allotted 14)

This question tested on the advantages of Standard Costing, Variance Analysis and preparation of a standard cost sheet.

**Performance:** Most of the students showed their weakness in theory part A and the calculation to part C. Part B too was not at a satisfactory level. Majority scored less than 5 marks for this question Part C of the question was not understood by the majority. Therefore instead of standard cost sheet per unit, total cost had been calculated and cost per unit was derived by dividing from 18,000 units.

**Common mistakes are:**

- Confusion in formulas in price and usage variances.
- Forgot to indicate the variance whether it is Adverse (A) or Favourable (F).

**Examiner's suggestions:**

- Practise past papers
- Variances should be indicated as to **Adverse** or **Favorable**
- Apply formulas correctly
- Read the question carefully before attempt it.

**Question No. 05** - (Marks Allotted 16)

This question tested on break even analysis, decision making with limiting factors and make or buy decisions

**Performance:** Performance for the part A and Part B of the question was very satisfactory. But some students have considered the fixed cost when arriving at the contribution. In part (C) most of the students compared the manufacturing cost with buying price, but they have considered Fixed Cost element for decision making, therefore, they lost marks.

**Common mistakes are:**

- Fixed cost was taken into account when making decision.
- Arithmetical mistakes were seen showing figures in 000's.

**Examiner's suggestions:**

- Practise past papers
- Always show your workings
- Improve your hand writing.

**SECTION B**  
**Business Finance (25 marks)**

**Question No. 06** - (Marks Allotted 10)

This question tested on the general knowledge on overcoming a temporary cash shortage carrying 3 marks and calculations of cost of equity, cost of debt and overall WACC on market value carrying 7 marks.

**Performance:** Students performance to part B was better than previous years. However, **the theory part A lacked the skills in answering a general question of how to** solve a temporary cash shortage. They answered long term funding methods of share issue, issue of debentures, long term bank loans etc. The question emphasized on the key word “temporary” which means a very short term funding. Therefore, most of the students lost three marks for this part.

In **Part B** the calculation of cost of equity capital was answered well. In calculating cost of debt the only major mistake done by students was not correctly calculating the interest income based on par value.

**Common mistakes are:**

- Forgetting to place the **+** signs in the formula correctly for cost of Equity.
- **Even if they wrote formula correctly, they do not know to solve the formula and arrive at figure.**
- 18% interest on redeemable debt was not calculated on the par value of a debenture of Rs.1,250/-.
- WACC formula was not based on market value.

**Examiner’s suggestions:**

- Practise past papers - similar type of questions were repeatedly tested in every exam. Therefore, practise past papers.
- Understand the formulas correctly for cost of Equity, cost of redeemable debt, WACC, etc.
- Correctly use +/- signs in calculating IRR.

**Question No. 07** - (Marks Allotted 15)

Part A of this question tested the drawbacks of payback period which was well answered by majority and Part B to calculate:

1. Net Present Value and IRR
2. Recommendation to the choice of the project

**Performance:** All most all the students attempted and got fairly good marks. Overall performance is very good except for very few students who included depreciation for the project evaluation.

**Common mistakes are:**

- Incorrect signs were used for initial investment and for scrap value in the project evaluation.
- It was noted that some candidates have arrived at figures for which the workings were not shown.
- Depreciation was taken as a cash outflow.
- Considering IRR is superior than NPV.

**Examiner's suggestions:**

- Careful in **showing the cash outflows and inflows signs in project calculation (Cost to be shown within brackets and inflows without brackets).**
- Always show your additional workings.
- Practise of past papers.

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**SOME TIPS TO SCORE MARKS IN THIS PAPER**

- Read the question and the requirement carefully.
- Start each question on a new page.
- Answer theory part well. You can easily score marks from each theory part.
- Always show your workings / notes to show how you arrived the number.

Eg: Q7 project evaluation

- Write neatly.

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