

## EXAMINER'S REPORT

### FINAL EXAMINATION – JULY 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 25marks.

##### General Comments

Students performance for this paper is not satisfactory. Majority of students scored low marks for this paper in the **application / computation** part as well as in the **theoretical** parts .It was noted that most of the students have not studied well and practised past papers. Further, it was noted only a very few students have studied well and practised the past papers were able to obtained **very high marks** for this paper.

##### Question No. **01** - (Marks Allotted 16)

This question tested the theoretical knowledge on identifying a cost/revenue/profit center and a computation part on EOQ model and prepare a income statement on Marginal Costing Method.

**Performance** : Overall performance for this question is not satisfactory. **Part A** answers were not satisfactory. Assembly Department and Finishing Department are cost centers. Sales Department is a revenue center as the selling price is determined based on market information. Further, Sales Department earns the sales income by selling, therefore it is a revenue center.

In Part B, a very few students computed the correct EOQ for tyres. Other students just substituted the figures to the EOQ model without identifying the tyre demand. In this part students were required to calculate the EOQ for tyres therefore, instead of taking tyre demand by multiplying by 5, students have taken car demand for calculation. Further, they have not taken the transport cost per order also into the cost of ordering.

##### Common mistake is

- Not identifying correct tyre demand
- Not identifying the applicability of expenditure item that is relevant for the EOQ method.

In Part C, again the performance is very low. Mistakes are as follows:

- Many student prepared the cost statement without taking opening /closing stocks.
- Sales commission has been deducted from sales value which is incorrect. Sales commission is a variable cost therefore it has to be shown under variable cost.
- Taking budgeted fixed cost instead of actual fixed cost

##### Examiners' suggestions

- Practise past papers.

**Question No. 02** - (Marks Allotted 17)

This question tested on the advantages of ZBB and preparation of production budget for products, material and labor.

**Performance in part A :** Most of the students had not answered to the part A .Those who answered they gave very vague answers which are not satisfactory at all.

**Performance in part B : Answers to** part B is fairly well compared to part A .However students did not adjust the Opening/Closing stock in arriving at year's production. Further, they did not identify the available labor hours and the overtime hours needed.

**Common errors made by students are**

- Opening stock is not deducted in arriving at year's production.
- Closing stock is not added in arriving at year's production
- Not identifying the overtime hours

**Examiners' suggestions**

- Read the question carefully and practise this type of questions.

**Question No. 03** - (Marks Allotted 12)

This question tested on the calculation of basic variances.

**Performance :** Though this type of question were tested in past question papers most of the students showed their weakness in this question. Majority scored very poor marks for this question.

When computing Sales Price Variance, actual quantity sold was not shown in identifying the variance. In Sales Volume Variance, actual price has been considered which is incorrect. In computing the Direct Material Usage variance, standard usage on actual production was improperly computed. The same mistake was done in computing Labor Efficiency Variance.

**Common mistakes are:**

- The name of variance was not written although variances are calculated for Material Price and Usage.
- Calculating **Sales Price Margin** variance instead of **Sales Price** variance
- Confusion in formulas in price and usage variances .
- Forgetting to show (A) or F signs

**Examiners' suggestions**

- Practise past papers
- Variance should be shown as to **Adverse** or **Favorable**
- Apply the formulas correctly
- Read the question carefully before attempting it.

### Question No. 04 - (Marks Allotted 15)

This question tested on knowledge of Process Costing .Students were required to calculate cost evaluation statement and prepare process account based on it. Further, the question tested the application knowledge on By product, Normal Loss and Abnormal Gain.

**Performance:** Very few students were able to obtain full marks .But most of students have scored fairly good marks for this question except for By product and Abnormal Gain calculation. They were able to calculate equivalent unit of finished goods, closing WIP and apply number of units of inputs and output in the process account correctly without adjustments for By product and Abnormal Gain figures. Students knowledge on evaluation of equivalent units, specially finished goods and closing WIP were good.

**Possible Reasons:** Only very few students correctly calculated Abnormal gain .Further ,they have not deducted abnormal gain when calculating equivalent units .Some students did not deduct the scarp value of normal loss and sales value of the By product when calculating Cost per Kilogram. The cost of Finised Good, Closing WIP and Abnormal gain had not been correctly taken to the process account even calculated it correctly.

#### Examiners' suggestion

- Read the question properly before attempting
- Practise similar type of past questions
- Improve handwriting

### Question No. 05 - (Marks Allotted 15)

This question tested on breakeven point related questions and decision making with limiting factors.

**Performance:** Performance for the part A (a), (b) and (c) and Part B of the question was poor. Only few students scored full marks for this question.

In part A students have not read the question properly. They calculated (a), (b) and (c) in **unit wise only**. The **values** for (a), (b) and (c) were not calculated and shown.

In part B limiting factor was not correctly identified for all three parts. In part (a) of B, most of the students do not know to do the ranking when demand is limiting factor instead they divided the **contribution per unit by demand** which is incorrect.

In part b & c some students took **per unit value** as the limiting factor instead of **usage per unit**.

#### Common mistakes are

- Arithmetical mistakes in showing figures.

#### Examiners' suggestions

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

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

**Question No. 06** - (Marks Allotted 08)

This question tested the calculations of cost of Ordinary Share Capital, Cost of Irredeemable Preference Share Capital, Cost of Debenture, and WACC on market value carrying 8 marks.

**Performance:** Students performance to this question was very low than previous years.

**This question is very simple and needs the substitution of figures to the formula.** But students performances were not satisfactory.

Only few students did the calculation of cost of equity capital and answered well. Other students, although they wrote the formula correctly and substituted the figures correctly, found weak in solving the formula mathematically.

Calculation of Cost of Irredeemable Preference Share Capital was arrived correctly by almost all students.

But in calculating Cost of Debt, instead of computing according to the IRR method, some students did the computation according to the dividend growth model which is incorrect. They have read the question incorrectly and calculated the Cost of Debt based on irredeemable basis. The question specifies that the debentures are redeemable therefore IRR method need to be used in calculating Cost of Debt.

However, those who did the calculation under IRR method did not correctly identify the following:

1. Interest income based on par value.
2. The current value of the debt in year "o".
3. The redeemable value at year 5.
4. The IRR formular and substitution of figures to IRR formula.

**Common mistakes are**

- Forgetting to place the **+ sign** in the Cost of Equity formula correctly.
- Not applying the dividend growth % to the formula.
- **Even if formula was correctly written, they did not know to solve the formula and arrive at figure. (Weak in Mathematics).**
- 12% interest on redeemable debt were not calculated on the par value of a debenture of Rs.100/-.
- WACC formula was not based on market value.
- WACC formula is known to students, but students does not know how to solve the question correctly. **( Weak in Mathematics)**

**Examiners' suggestions**

- Practise past papers - similar type of questions were tested in every exam. Therefore, go through the past papers of at least 5 years.
- Know the formulas correctly for cost of Equity cost of redeemable debt, WACC.
- +/- signs in calculating IRR.
- Use the discount table given in the Question Paper.

**Question No. 07** - (Marks Allotted 17)

This question comprised of **three parts**.

- **Part (a)** tested on computation of Accounting Rate of Return (ARR) and its limitations.
- **Part (b)** tested the computation of NPV & IRR and recommendation to the new product .
- **Part (c)** tested the advantages of each of NPV & IRR .

**Performance** : Overall performance is very poor.

**Part (a) performance** - Most of the students did not score marks for the part (a) .The main reason was that they did not attempt for this part at all. Those who attempted this part, do not know to compute the average investment value for ARR. Some students took the initial investment figure of Rs 150 mn as average investment which is incorrect.

**Part (b) performance** – Here too, students did not get considerable marks except for few students due to mistakes such as including depreciation to the cash flow, ignoring the scrap value in year 5, incorrect signs and not showing detailed workings for cash out flows etc.

**Part (c) performance** – Very generalized answers were given and was able to obtained only few marks.

**Common mistakes are**

- Incorrect signs were used for initial investment and scrap value in the project calculation.
- It was noted that some candidates have arrived at figures for which the workings were not shown.
- Depreciation was taken as a cash outflow.
- Not familiar with the calculation of IRR

**Examiners' suggestions**

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

- Practise Past Papers.
- Write neatly.

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