

## Examiner's Report

### AA3 EXAMINATION - JULY 2015

### **(AA32) MANAGEMENT ACCOUNTING AND FINANCE**

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#### OVERVIEW:

This paper has three sections covering 100 marks,

1. Section **A** includes four compulsory questions for 20 marks
2. Section **B** includes three compulsory questions for 30 marks.
3. Section **C** includes three questions of which two are compulsory for 50 marks.

#### **General Comments:**

Candidates' performance for this paper was at a low level. Majority of the candidates scored low marks for this paper to the application/ **computation** parts and to the **theory** parts.

#### **Sectional performance:**

Section A includes four compulsory questions for 20 marks. Candidates' performance for this section was satisfactory except for Question No.3. Question wise performance for this section is as follows:

<b>Question No.</b>	<b>Performance Rating</b>
1	Satisfactory
2	Good
3	Very Low
4	Satisfactory

Section B includes three compulsory questions for 30 marks. Candidates' performance for this section was low for all questions. Question wise performance for this section is as follows:

<b>Question No.</b>	<b>Performance Rating</b>
5	Low
6	Very Low
7	Low

Section C includes two optional questions for 50 marks out of three. Candidates' performance for this section was satisfactory except for Question No. 9. Question wise performance for this section is as follows:

<b>Question No.</b>	<b>Performance Rating</b>
8	Good
9	Very low
10	Satisfactory

## **DETAILED REPORT**

### **Question No. 01** (Marks Allotted 05)

This question tested the examples of good debt in part (a) and the difference between Savings and Investments in part (b).

**Performance:** Overall performance for this question was satisfactory.

Answer to Part (a) was good but answer to the part (b) was not that satisfactory. In part (b) most of the candidates differentiated by using only one criteria i.e. short term returns to long term returns for 03 marks.

Some candidates couldn't identify the difference between savings and savings accounts. Most of the candidates have differentiated savings accounts instead of savings from investments.

#### **Common mistakes:**

- Only one criteria is used to differentiate savings from investments.  
i.e. Return - candidates have mentioned that for savings, return is short-term, whereas, for investments, return is long-term.

#### **Examiner Suggestions:**

- Read the study pack.

### **Question No. 02** (Marks Allotted 05)

This question tested on the computation of working capital cycle for **3 Star PLC**. Performance was good however, following mistakes were noted:

- Some candidates have not considered the averages of inventory, receivables and payables.
- Not relating to the correct denominator.

For eg: Average inventory to cost of goods sold.

Average payables to purchases etc.

#### **Examiner suggestions:**

- Practice the exercises of this topic in the study pack.

### **Question No. 03** (Marks Allotted 05)

It is expected from this question to test the knowledge of relevant cost/irrelevant cost and deciding whether to accept/reject an order based on the relevant costs.

Overall performance for this question was very low and most of the candidates could not score marks for this question, due to following reasons:

**Possible Reasons for failure:**

- Not considering the replacement cost applicable for 20 sq. meters available in the stores.
- Assumed 100 sq. meters is needed for the order instead of 120 sq. meters.
- Majority had considered idle staff labor cost as relevant for the order.
- Considered the incentive as irrelevant for the order.
- Considered the additional increase in overhead as irrelevant for the order.
- Most of the candidates had not identified the relevant and irrelevant costs correctly.
- Had stated the decision without showing any workings for the part (b).

**Examiner suggestion:**

- Read the question properly before attempt it.
- Practice similar type of past paper questions.
- Improve handwriting.

**Question No. 04** (Marks Allotted 05)

This question tested the expected sales at each campaign given when probability of outcomes is expected.

**Performance:** Candidates' performances was satisfactory. However due to the following reasons some candidates have gone wrong:

- Not considered the probability of percentages into the calculation.
- Ignored the **variable cost** when calculating the net income.
- Some of the candidates failed to calculate expected sales correctly.
- Confusion as to how to find the expected sales when probabilities are given

**Examiner suggestion:**

- Study this area (Expected value & Probability) properly.
- Improve the mathematical skills to solve these kind of questions.

**SECTION B****Question No. 05** (Marks Allotted 10)

This question tested on the linear programming method of finding contribution of two products.

**Performance:**

Considerable number of candidates had not scored good marks for this question.

Some candidates have correctly attempted the part (a) but had not attempted for part (b) and (c).

- (a) From the given information, though it was very easy to calculate the contributions and contribution per limiting factor, majority of the candidates were unable to correctly compute those. Their mathematical knowledge seems to be very poor.

- (b) Due to not computing the correct contributions for part (a), majority were not able to formulate the decision variable and other functions. The less than mark (<) was not shown by majority. Some of the candidates have explained decision variables, objective function, constraints in general words rather than in the form of equations.
- (c) Again poor mathematical skills were shown by majority in solving these equations.
- (d) Due to above weaknesses majority of the candidates could not compute correctly. Some had shown graphical representations. However marks were awarded for the graphical presentation accordingly.

**Common mistakes:**

- Mathematical mistakes in showing figures.
- Not understanding the objective function.

**Examiner suggestions:**

- Practice past papers
- Always show your workings

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

This question tested the theory part on issuing of debentures and computation of Cost of Debt and overall WACC.

**Performance:** Candidates' performance to this question was very unsatisfactory and performance level was very low.

**Performance to the (a) part** - was not satisfactory but compared to the other sub-parts of this question candidates were able to write some general advantages of debentures over a bank loan.

**Performance to the (b) part** - was unsatisfactory. The question clearly specifies that the option I debenture is redeemable but majority of the candidates have calculated under the irredeemable cost of debenture formula which was incorrect. The question specifies that the debentures are redeemable, therefore the IRR method needs to be used in calculating Cost of Debt.

Further, that the current value, that is year "0" value of debenture is the market value of Rs.102/-. But most of the candidates used Rs.100/- as the year "0" value which was incorrect.

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

- 1) Interest income has not been computed on par value.
- 2) Par value of the debenture has been taken for the year "0".
- 3) Redeemable value of Rs.102/- has been taken for the year 5.
- 4) Incorrect IRR formulae has been used.
- 5) Substitution of figures to IRR formula has not been done correctly.

Though it is clearly mentioned in the question not to consider tax, majority have considered a tax rate in the calculation of cost of option 2.

For option 3 also, majority of the candidates have considered a tax rate in the calculation and has calculated the total interest cost for the 5 years and has shown it as the cost of the bank loan.

**Performance to the (c) part** - was not satisfactory due to not solving the part (a) and (b) correctly. Also majority of the candidates have not used correct formula to compute WACC.

#### **Examiner suggestions**

- Practice past papers.
- Study formulae correctly for the cost of redeemable debt and WACC.
- Be careful on +/- signs in calculating IRR.
- Be careful when substituting figures to formulae.
- Use the discount table given in the Question Paper.

These weaknesses were highlighted in the previous examiner reports under the old syllabus and are still continuing.

#### **Question No. 07** (Marks Allotted 10)

This question comprised of **four parts** and tested on the marginal cost related areas such as break even point, profit etc.

**Performance:** Overall performance was low. Considerable number of candidates have attempted part (a) only. Other parts were not done or vague attempted.

**Part (a) performance** - Most of the candidates had scored the two marks for this part.

**Part (b) performance** - much vague calculations were shown as answers.

**Part (c) performance** - much vague calculations were shown as answers.

**Part (d) performance** - much vague calculations were shown as answers.

#### **Common mistakes:**

- Not considering the No. of outlets to the calculation in part (b).
- Not considering the annual fixed cost of Rs.330,000 \* 12 in finding the annual profit.
- Not considering the overall fixed cost to find the break even units in part (c).
- A fewer number of candidates have attempted part (d).

#### **Examiner suggestion:**

- Read the question carefully.

## SECTION C

### **Question No. 08** (Marks Allotted 25)

This question tested the theory part on advantages and limitations of standard costing and computation of related variances.

Overall performance was good. Candidates were able to correctly calculate the variance for part (b) especially for Direct Material A and part (c). However, they made mistakes in computing Direct Material B price variance by taking Rs.55/- as the standard rate. Most of them calculated the part (d) and part (e) with calculation errors.

#### **Common Mistakes:**

- Considered Rs.55/- as the standard rate.
- Unable to compute the total standard direct material cost and thereby the actual number of packs produced.
- Incorrect formulae were used for yield and planning variances.
- Not mentioned whether variances are Adverse (A) or Favourable (F).

#### **Examiner suggestions:**

- Read the question carefully.
- Be careful to mention Adverse/Favourable.
- Understand the concepts behind formulae of variances.

### **Question No. 09** (Marks Allotted 25)

Most of the candidates has avoided choosing this question. Only 2% of the candidates opted to do this question. Those opted, were able only to calculate the part (a) and unable to do the part (b) correctly.

But from the 2% of the candidates who attempted this question, only one candidate was able to get full marks of 25 for this question. Overall performance for this question was very poor.

#### **Common mistakes:**

- Not computing the sales units applicable for respective months.
- Not showing the closing stock in the production budget
- Not showing the opening stock in the production budget.
- Not preparing the purchase budget and cash budget.
- Not doing the part (c).

#### **Examiner suggestions:**

- Careful in showing the cash outflows and inflows signs in these type of calculations. (Cost to be shown within brackets and inflows without brackets).
- Always show your additional workings.
- It should be noted by the candidates that budgets should be prepared step-by-step. For eg: without preparing production budget, candidates will not be able to prepare the direct material purchase budget.

**Question No. 10** (Marks Allotted 25)

It was expected from this question to identify cash-flows, compute pay-back period, ARR, NPV and IRR of those cash-flows and assess the decision based on the NPV computation and to explain the concept "Time Value of Money".

Overall performance was satisfactory for this question.

Most of the candidates were able to find/show only the fixed cash outflows and the service costs for year 4, 5 only. Some did not show these as cash outflows by using brackets ( ).

Further, it was noted that majority did not know how to find the payback period and ARR

**Common Mistakes:**

- Scrap value of the existing machine has been shown in year 5.
- Cash inflows and cash outflows were not differentiated by using brackets such as ( ).
- Annual increase in variable cost has been computed incorrectly.
- Tax savings on capital allowances are not considered for cash flows.
- Had considered cumulative discounted rate to find the present value.
- Had used incorrect formulae to compute IRR.

**Examiner suggestions:**

- Read the question carefully.
- Practice past papers.
- In project appraisals, be careful to show cash outflows within brackets.
- Show additional workings.

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