

**EXAMINER'S REPORT****LEVEL III EXAMINATION - JANUARY 2025****(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**

**Part (a)** of this question tested the calculation of Break Even Point (BEP) in units. **Part (b)** of the question tested the expected profit under reduced selling price at increased sales volume.

**Common mistakes:**

- Some candidates have applied wrong formula to calculate the BEP.
- Some candidates have not considered the variable overhead as a variable cost.
- Some candidates have not correctly calculated the reduced contribution and some have not deducted the fixed cost when calculating the expected profit.
- Some candidates failed to consider the increased sales volume when calculating the total contribution for the **part (b)** of the question.

**Examiner's suggestions:**

Candidates should practice similar types of questions and should understand the meaning of BEP and methods of calculating it.

**Performance:**

- Overall performance for the question was at a satisfactory level.
- Most of the candidates applied the correct BEP formula and calculated BEP, expected profit under the reduced selling price.

**Question No. 02**

This question tested the calculation of the working capital cycle (WCC) of **Rits Ltd.**, for the year ended 31<sup>st</sup> March 2024 and to identify two strategies for managing the trade receivables of the company.

**Common mistakes:**

- When calculating the working capital cycle, some of the students mentioned only the answer in days without supporting calculations.
- Some of the candidates failed to apply the working capital cycle formula correctly.
- Adding trade payable settlement period to the inventory residence period when calculating the working capital cycle.
- Forgetting to find the average creditors / average debtors / average inventory by dividing opening and closing balances by 2.
- In **Part (b)** of the question, some of the candidates had provided with creditors management strategies instead of providing strategies for managing trade receivables.
- Majority of candidates have not given sound answers to the **Part (b)** of the question. Some candidates have given irrelevant answers.

**Examiner's suggestions:**

- Candidates should practice similar types of questions in the past papers and should study extra books and the study pack.
- Candidates should understand the meaning of working capital cycle and the method of calculating it.

**Performance:**

Overall performance for the question was at an average level.

**Question No. 03**

This question required to prepare the flexible budget (Operating Statement) for the year ended 31<sup>st</sup> December 2024 for **EFG Ltd.**

**Common mistakes:**

- Most of the candidate's theoretical knowledge of the flexible budget concept was very poor. A considerable number of candidates have incorrectly calculated the flexible amounts.
- Some candidates have adjusted the fixed production overhead and fixed administration and distribution expenses when preparing the flexible budget.
- Few candidates who flexed the budget did not calculate the variance between the actual and flexed the budget.

**Examiner's suggestions:**

- Practice the study pack questions.
- Practice similar types of past questions.

**Performance:**

- Overall performance for the question was not at satisfactory level.
- Main reason was their inability to flex the budget at the actual units of 14,000.

### Question No. 04

This question required to assess whether to manufacture **AX3** component internally considering the relevant costs.

#### Common mistakes:

- Some of the candidates have added all the costs irrespective of whether it is relevant or irrelevant.
- Some candidates were unable to identify the sunk cost (inventory cost). This expenditure was wrongly added to the cost.
- When produced externally, the majority have not considered the inventory sales and compensations.
- When produced internally, the majority have wrongly calculated the material cost.
- The question required to consider the annual production requirement. Nevertheless, few candidates considered unit cost basis to assess the manufacturing of component internally or by comparing with Rs.800/-.

#### Examiner's suggestions:

- Practice similar types of past questions and should study the extra books and study pack.
- Candidates should learn to present the answer by showing workings and respective relevant and irrelevant costs properly.

#### Performance:

Overall performance for the question was at an average level.

## Section B

### Question No. 05

This question tested the knowledge relating to preparation of cash budget for the months of January, February and March 2025 for **Poppy Ltd.**

#### Common mistakes:

- Some candidates had not shown the closing cash balance, and opening cash balance.
- Many of the candidates failed to identify the correct interest income. Even though most of the candidates calculated interest income per annum, they have failed to divide it by 12 to show monthly interest income.
- Some candidates have erroneously calculated the cash received from credit sales and material cost.

#### Examiner suggestions:

Practice past question papers.

#### Performance:

Overall performance for the question was at a satisfactory level.

## Question No. 06

This question tested the identification of limiting factor and calculation of optimal product mix based on limiting factor.

### Common mistakes:

- Some of the candidates have used an incorrect contribution per unit for limiting factor and optimal product mix.
- Some candidates had multiplied the contribution per unit by the number of hours per unit erroneously when getting the contribution per hour for limiting factor.
- Some have not mentioned the optimal product mix.
- Some candidates have calculated the contribution per kg and contribution per hour and just ranked based only on the contribution.

### Examiner's suggestions:

- Practice past papers.
- Always show your workings.
- Avoid calculation errors.
- Should improve the knowledge on the limiting factor.

### Performance:

Overall performance for the question was at a satisfactory level.

## Question No. 07

This question tested on calculation of the cost of ordinary shares, redeemable debentures, and calculation of weighted average cost of capital using market values and factors to be considered choosing long term funding sources.

Most of the candidates calculated the costs of ordinary shares correctly. Few candidates used dividend growth model when the question did not state in growth in dividends. The computation for the cost of redeemable debentures was calculated by correctly identifying the after-tax interest payment but non-identification of cash out/inflows correctly and the mix up of at the initial year of issue of the debenture and at the final year of redeeming showed candidates lack of knowledge. But the Net Present Values calculated at the two discount rates were correctly applied in arriving at the IRR (Internal Rate of Return).

Further, WACC was not correctly calculated using market values. Candidates have found difficult in arriving the market value of Ordinary shares and Redeemable Debentures though the current trading price (market prices) was given in the question.

Some candidates have answered **part (d)** of the question assuming that the factors need to be considered when a company is planning to invest in a project.

### Common mistakes:

- Not showing the cash out / inflows correctly at the initial year and at the final year when calculating the cost of redeemable debentures.

- Difficulty in calculating the market value of Ordinary Voting Shares and redeemable debentures.
- Some students made mistakes in calculating the market value for the WACC.
- Some have calculated WACC by using the book value instead of market value.
- Some candidates have not considered tax when arriving at interest, and some have not properly identified the issue amount and the redemption amount.
- Some candidates have not properly used the formulas.

**Examiner's suggestions:**

- Practice past question papers.
- Study the formulas for how to calculate the different type of ordinary shares and debentures.

**Performance:**

Overall performance for the question was at average level.

**Section C**

**Question No. 08**

This question tested the Net Present Value of the new product and decide whether the **Nova Electronics Ltd**, should proceed with the new product.

**Common mistakes:**

- Most of the candidates incorrectly computed the tax amount. Some have not considered capital allowances when calculating the tax.
- Though capital allowance can be claimed only for four years, some have applied for five years.
- Depreciation and capital allowances are not part of the cash outflow of project evaluation. But some candidates have taken them into project appraisal.
- Some candidates have taken accounting profit as the taxable profit.
- Even though the cost of capital percentage was given, some candidates have used their own figures to calculate the NPV.
- Some of the candidates have taken marketing expenses for all 5 years and some have not shown it in the year 1.
- Working capital recovery at the end of the period has been omitted.
- Some candidates have provided recommendations without considering the NPV.
- Some have not considered inflation and some have shown the inflation effect on the quantities. Some candidates have not calculated annual sales amounts and variable production cost correctly with the given increase inflation.

**Examiner's suggestions:**

- Students should practice the study text examples and past paper questions.
- Minimize the calculation errors.
- Students should provide all the workings.

**Performance:**

Overall performance for the question was not at Satisfactory level.

**Question No. 09**

**Part (a)** of this question tested on the knowledge of variance analysis. It was required to calculate sales price variance, direct material price variance, material mix variance and material yield variance.

**Common mistakes:**

- Most candidates have no knowledge about the formulas for calculating the variances.
- Some candidates who knew the formulas correctly were unable to correctly apply the data to the respective formula.
- Some candidates had not mentioned whether the computed variance is adverse or favorable.
- Some have wrongly identified adverse as favorable and favorable as adverse.
- Some students were faced with calculation errors and entered up with presenting incorrect adverse and favorable conditions.

**Part (b)** of the question tested on preparation of operating statement to reconcile the budgeted contribution with the actual contribution.

- Most of the candidates incorrectly applied Fixed overhead expenditure variance of Rs.3,325,000/- as adverse in the operating statement.
- Some candidates have prepared a profit statement instead of operating statement.
- For the budgeted contribution, some candidates have used selling price to calculate the contribution.

**Examiner's suggestions:**

- Practice similar type of questions from the past papers. Always show your workings.
- Follow the study pack and do the practical application.
- Students should practice formulas of variances on different scenarios.
- Presentation of formula with correct application in variance analysis.

**Performance:**

Overall performance for the question was not at satisfactory level. Majority of the candidates found it difficult to solve direct material mix variance and direct material yield variance.

## Question No. 10

**Part (A)** of this question tested on the knowledge of process costing. It was required to prepare the statement of equivalent unit and Process 2 account.

Performance for this part of the question is at a satisfactory level. Candidates scored marks by preparing the process 2 account, however, knowledge in the preparation of the Statement of Equivalent units and cost was not adequate, especially in calculating the equivalent units for abnormal loss.

### Common mistakes:

- Some candidates have shown opening WIP in preparing the statement of equivalent units.
- Some candidates have considered normal loss when calculating the equivalent units.
- Scrap value of the normal loss had not been deducted in arriving at the statement of equivalent units and the cost or it is deducted from all three cost calculations namely material, labour and overheads.
- Some candidates had added scrap value to the cost.
- Many candidates have wrongly calculated the abnormal loss.
- Some of the candidates deducted abnormal loss and closing WIP in calculating the equivalent units.
- Some candidates had failed to prepare process 2 account showing both quantity and values.
- In calculating the value of the WIP, some candidates applied cost per units without considering the level of completion.
- Workings related to the valuing of process 2 account and abnormal loss were not shown.
- The value of opening work in progress was not taken into calculation when identifying the total cost equivalent to the respective units.

### Part (B) :

**Part (B)** of the question requires to assess the suitable option for exporting the product.

Performance for **part (B)** was not satisfactory. Many of the candidates did not earn good marks for this part. Candidates have not considered probability at all.

### Common Mistakes:

- Most of the candidates had not applied the correct probability ratio.
- Some have taken only high sales revenue for the calculation and based on that, they arrived at the decision.
- Some candidates had calculated high and low demand levels separately and deducted fixed cost under both levels.

### Examiner's suggestions:

Candidates should practice study text examples and past paper questions.