

EXAMINER'S REPORT**LEVEL III EXAMINATION - JULY 2024****(302) MANAGEMENT ACCOUNTING & FINANCE**

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**

- (a) This question tested the calculation of the Working Capital Cycle (WCC) of **WOT Ltd.** for the year ended 31st March 2024 and to identify two strategies to be used for improvement of Trade Payables settlement period of the company.

Candidates showed the correct WCC formular and calculated the WCC. Accordingly, the inventory residence period and Trade receivable period were calculated, and trade payables period was substituted correctly.

However, few candidates were not able to calculate the inventory residence period and Trade receivable period turnover days correctly.

- (b) Candidates have lack knowledge on how to improve the trade payable settlement period.

Common mistakes made by candidates:

- (1) Trying to calculate the WCC for the year ended 31st March 2023 also.
- (2) Adding the Trade Payable turnover days to the inventory residence days and trade receivable collection days when calculating the WCC.
- (3) Forgot to obtain the average Inventory although the opening and closing inventory were correctly used to arrive the average.
- (4) Trade Receivable Turnover Ratio in times was incorrectly transferred to days by multiplying with 365 days or finding difficult to calculate in days.
- (5) When calculating the working capital cycle, some of the students mentioned only the answer in days without the supporting calculations.
- (6) Majority have not given sound answers for the **Part (b)** of the question.

Examiner's suggestions:

Candidates should practice similar type of questions and should understand the meaning of working capital cycle and the method of calculating it.

Performance: Overall performance for this question was at satisfactory level.

Question No. 02

This question required to prepare the Income Statement for the month ended 31st May 2024 using the Marginal Costing method.

Common mistakes made by candidates:

- (1) Most of the candidates were not able to calculate the sales income correctly instead, they were taking the budgeted sales units to calculate the sales income.
- (2) Some candidates had confused the actual and budgeted figures for the calculations.
- (3) Some candidates were confused with the concept of marginal costing. Some have wrongly deducted the fixed cost when calculating the contribution.
- (4) Opening and closing stock values were not shown in the Income Statement. Instead, sales units at marginal cost was taken straightaway as the Variable Cost of Sales. Therefore, they lost marks.
- (5) Budgeted Fixed Overheads were taken into the Income Statement instead of actual Fixed Overheads.
- (6) Few candidates showed under/over absorptions too in the statement which is irrelevant under Marginal Costing Method.

Examiner's suggestions:

Candidates should practice similar type of questions to earn full marks.

Performance: Overall performance for this question was not at satisfactory level.

Question No. 03

This question required to prepare the Production Budget for the year 2025 in units for and to identify two objectives of the budgetary process.

Common mistakes made by candidates:

- (1) Candidates calculated the new sales units for 2025 but opening stock in units were added and closing stock was deducted in arriving at the budgeted production units which is totally incorrect.
- (2) Lack of knowledge on how to compute the production units was noticeable in the answers.
- (3) Lack of practice was noticeable for this question.
- (4) Adding the opening stock and deducting the closing stock to arrive at the production units.

- (5) The majority of the candidates' answers were satisfactory for this question.
- (6) But some of the candidates did not correctly calculate the sales value in 2024.
- (7) Some students have wrongly done the stock adjustment when calculating the production budget.

Examiner's suggestions:

Practice similar types of questions and understand the basics in preparing the budgeted production units.

Performance: Overall performance for this question was at satisfactory level.

Question No. 04

This question required to assess whether to accept the new client's project.

Most of the candidates earned marks showing all relevant cost to assess the project whether it should be accepted or not.

Common mistakes made by candidates:

- (1) Taking fixed salary as a relevant cost when the question states that the fixed salary is paid whether the project is accepted or not.
- (2) Taking accommodation expenses for 6 weeks when the question clearly states that it is a monthly payment and should be paid at the beginning of the month
- (3) Considering Rs.300,000/- preliminary site visit cost as a relevant cost.
- (4) Not showing the project fee of Rs. 3.5 million when assessing the project.
- (5) Assessing whether to accept this project or not, in the project evaluation format.

Examiner's suggestions:

Presentation of the answer with detail costs and income should be practiced by the candidates.

Performance: Overall performance for this question was at satisfactory level.

Section B

Question No. 05

This question tested on the preparation of a cash budget for the months of August, September and October 2024 for **Furniture Ltd.**

Candidates have identified all the expenses correctly for the relevant months and opening cash balance was correctly shown. Cash inflow from advance received and balance payment upon completion was identified correctly by many candidates. A few number of candidates have messed up the balance payment upon completion although the question clearly elaborate the order start month and completion month.

Common mistakes made by candidates:

- (1) Some candidates had not shown the closing cash balance.
- (2) Many candidates forgot to show the machinery purchase of Rs. 8 million in the cash budget.
- (3) Depreciation was shown in the cash budget although the fixed expenses exclude the depreciation
- (4) Most of the candidates calculated the interest income correctly using the 5% per annum rate but failed to divide it by 12 to show the monthly interest income for the respective months.
- (5) Some candidates had not calculated the closing cash balance.
- (6) The majority of the candidates failed to identify the interest income.
- (7) Some candidates have shown fixed assets purchase for all three months erroneously.

Examiner suggestions:

- Practice past papers.
- Practice the study pack questions and answers.

Performance: Overall performance for this question was at satisfactory level.

Question No. 06

This question tested on calculation of,

- (a) Cost of Ordinary Shares,
- (b) Cost of Irredeemable Preference Shares
- (c) Cost of Redeemable Debentures and
- (d) Weighted Average Cost of Capital (WACC) using the market values.

Cost of ordinary shares were well calculated by many candidates except for a few who consider the market price as the numerator and the dividend as the denominator.

The computation for the cost of redeemable debentures was correctly calculated by 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 found difficult in arriving the market value of Redeemable Debentures though the current trading price (market price) is given in the question.

Common mistakes made by candidates:

- (1) Some candidates wrote the formula for the cost of ordinary shares using the dividend growth model correctly. But they were failed to solve the formula correctly due to lack of mathematical knowledge.
- (2) Most of the candidates had not considered growth rate when calculating the cost of ordinary shares.
- (3) Not showing the cash out / inflows correctly at the initial year and at the final year when calculating the cost of redeemable debentures.
- (4) Difficulty in calculating the market value of Ordinary Voting Shares and Redeemable Debentures.
- (5) Instead of 16% redeemable debenture interest cost, few candidates have used some other different interest cost that is not given in the question paper.
- (6) Many candidates did not identify the cash inflows and outflows correctly at the beginning and ending of the year when calculating redeemable debentures.
- (7) Some candidates made mistakes in calculating the market value for the WACC.
- (8) Some have calculated WACC by using book value instead of market value.

Examiner's suggestions:

Practice past question papers.

Performance: Overall performance for this question was not at a satisfactory level.

Question No. 07

This question tested on the calculation of,

- (a) The optimal production mix based on the limiting resource given in the question,
- (b) The maximum price to be paid for a kilogram of Material A with justification.

Common mistakes made by candidates:

- (1) Candidates showed their competency by correctly identifying the contribution per limiting factor and the subsequent steps to calculate the optimal production mix.
- (2) However, few candidates calculated the total contribution made by each size of pillows and the subsequent steps to calculate the optimal production mix which did not earn any marks.
- (3) **Part (b)** was correctly calculated by only few candidates. Some of them have straightway added the contribution per limiting factor of Rs.246.25 to the cost of one kilogram of **Material A** of Rs.1,100/- to find the maximum price to be paid as Rs.1,246.25.
- (4) Some candidates added all the other expenses excluding **Material A** cost for Ordinary size pillow, against the selling price and found maximum price that could be paid for one kilogram of **Material A** by dividing the amount by 4.

- (5) However, it was noted that few candidates calculated the **Material A** shortage of 5,000 Kg or 1,250 units of Ordinary size pillows but could not calculate further.
- (6) Answer for the **Part (a)** is satisfactory but answer for the **Part (b)** is very poor due to the lack of theoretical knowledge.
- (7) Some of the candidates have used an incorrect contribution per unit for limiting factor and optimal product mix.
- (8) Some candidates had multiplied the contribution per unit by the number of kg per unit erroneously when arriving at the contribution per kg for limiting factor.
- (9) Some have not mentioned the optimal product mix.
- (10) Some candidates had calculated the contribution per kg and just ranked based only on the contribution.

Examiner's suggestions:

Practice past question papers to find out how to calculate the contribution per unit, contribution per limiting factor and to calculate the optimal production mix based on the limiting factor and how to calculate the maximum price of any variable cost.

Performance: Overall performance for this question was not at a satisfactory level.

Section C

Question No. 08

This question required to prepare Statement of Equivalent Units and **Process 3** Account.

Candidates scored marks by preparing the **process 3** account. However, knowledge on preparation of Statement of Equivalent units and cost was not adequate, especially in calculating the equivalent units for abnormal loss.

Common mistakes made by candidates:

- (1) Some candidates have prepared the Process account and equivalent unit statement with given figures from the question but could not continue with further calculations.
- (2) Candidates have shown opening work in progress units in preparing the statement of equivalent units calculation.
- (3) Scrap Value of the Normal Loss has not been deducted in arriving at the Statement of Equivalent units and cost or it is deducted from all three cost calculations namely Material, labour and overheads.
- (4) Some candidates have adjusted the normal loss when calculating the equivalent units
- (5) The value of opening work in progress was not taken into calculation when identifying the total cost equivalent to respective units.
- (6) Some candidates failed to prepare the Process 3 account showing both values and quantity. They either used the values or the quantities only.
- (7) Workings related to the valuing of the Process 3 account, Abnormal Loss was not shown.

- (8) Some candidates have considered normal loss when calculating the equivalent units.
- (9) Some candidates have not considered deducting sales value of normal loss from the direct material cost when calculating the unit cost.

Examiner's suggestions:

- (1) Candidates should practice similar type of questions.
- (2) It is recommended to read the relevant chapters properly in the self-study text.

Performance: Overall performance for this question was at a satisfactory level.

Question No. 09

This question tested on the computation of the Net Present Value (NPV) of the modification of the existing machine and to assess the viability of the modification of the machine.

Common mistakes made by candidates:

- (1) Annual sales amounts and the variable production cost had not been calculated correctly with the given increase in inflation. This effected in the sales commission calculations too.
- (2) Depreciation was shown in the project evaluation even though fixed cost excludes depreciation. Marketing expenses had been shown in the year 2 instead of year 1.
- (3) Working capital recovery /residual value of the machine at the end of the project has been omitted.
- (4) Contribution for each year was shown without any detailed workings showing how it had arrived.
- (5) Considering the capital allowance for year 5 as well.
- (6) The discounting factor (Cost of capital) of the company is 15%. But some candidates have used 10%,15% as the cost of capital of the company which is incorrect.
- (7) Capital Allowances are not a part of the cash flow of a project evaluation, but many candidates have taken into the project appraisal.
- (8) Taking accounting profit as the taxable profit.
- (9) Some candidates recorded residual value of Rs.5,000,000/- to year 0.
- (10) Some candidates have incorrectly considered depreciation and capital allowances as cash outflow.

Examiner's suggestions:

- (1) Practice similar type of questions from the past papers.
- (2) Use the cost of capital (discount factor) given in the question for discounting purposes.
- (3) Need to understand the difference between the accounting profit and Taxable profit.

Performance: Overall performance for this question was at an average level.

Question No. 10

This question tested the knowledge of variance analysis by calculating,

Part (A)

- (a) Direct Material Price Variance.
- (b) Direct Material Mix Variance.
- (c) Direct Material Yield Variance.
- (d) Direct Labor Rate Variance.
- (e) Direct Labor Efficiency Variance.
- (f) Fixed Overhead Expenditure Variance.

Part (B)

Requested to calculate the Break-Even Point(BEP) in units for three products

Common mistakes made by candidates:

- (1) Majority of the students had not correctly calculated the variances .Calculation of material mix, yield variance and labor efficiency were very poor.
- (2) Most candidates have no knowledge about the formula for calculating the variances.
- (3) Some candidates knew the formulas but did not correctly apply the data to the formula.
- (4) Some candidates had not mentioned the adverse or favorable in the variance.
- (5) Some have wrongly identified adverse as favorable and favorable as adverse.
- (6) Very low number of student attempted part B of the question. No one correctly calculated the combined CS/PV ratio.

Examiner's suggestions:

- (1) Practice similar type of questions from the past papers.
- (2) Always start your answer in a new sheet/page and not in the middle of the sheet where the previous answer was finished. Candidates do not comply this requirement.
- (3) Write the question number clearly in the allocated space.
- (4) Show your workings clearly as it will help to earn your marks.

Performance: Overall performance for this question was not at satisfactory level.