

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

This question tested the calculation of the Working Capital Cycle (WCC) of **TEC Lanka Ltd.** for the year ended 31st March 2025.

Candidates showed the correct WCC formula 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 unable calculate the inventory residence period and Trade receivable period turnover days correctly.

Common mistakes made by candidates:

- (1) Considerable number of candidates have used 80% of the sales when calculating debtor collection period.
- (2) Forgetting to find the average creditors/ average debtors / average inventory by addition of opening and closing balance and dividing by 2.
- (3) When calculating the working capital cycle, some of the students mentioned only the answer in days without the supporting calculations.
- (4) Adding creditors' settlement period to the inventory residence period and debtors' collection period to calculate the WCC.
- (5) Forgetting to consider the phrase "All sales and 80% of purchases are made on credit basis"

Examiner's suggestions:

- Candidates should practice similar type of questions.
- Candidates 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 quarter ended 30th June 2025 using the Marginal Costing method.

Common mistakes made by candidates:

- (1) Most of the candidates were unable to calculate the sales income correctly; instead, they used the budgeted sales units to calculate the sales income
- (2) Some candidates had confused the actual and budgeted figures in their calculations.
- (3) Some candidates were confused about the concept of marginal costing.
- (4) Some candidates wrongly deducted fixed costs when calculating the contribution.
- (5) Budgeted fixed overheads were taken into the income statement instead of actual fixed overheads by some of the candidates
- (6) Few candidates included under/over absorptions in the statement, which is irrelevant under the marginal costing method.
- (7) Some of the candidates have not made opening and closing stock adjustments when calculating actual marginal cost of sales.

Examiner's suggestions:

Candidates should practice similar type of questions to earn full marks and understand the basics in preparing an Income statement under marginal costing method.

Performance:

Overall performance for this question was at satisfactory level.

Question No. 03

This question required to assess whether **Rix Ltd.** should shut down one of its business units due to the loss-making situation.

Common mistakes made by candidates:

- (1) Some candidates have provided a decision without showing any supporting calculations.
- (2) Some candidates have made their decision without considering all the facts.
- (3) The decision given by some candidates does not match their final answer.
- (4) Most of the candidates had not read the question carefully; therefore, only a few items were identified as relevant or irrelevant for decision-making.

Examiner's suggestions:

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

Performance:

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

Question No. 04

This question was required to prepare the Production Budget for the months of August and September 2025 in units.

Common mistakes made by candidates:

- (1) Some of the candidates were unable to correctly calculate the sales units for the respective months.
- (2) Some candidates incorrectly added the opening stock in units and deducted the closing stock in units when calculating the budgeted production units.
- (3) A Lack of knowledge on how to compute production units was evident in the answers.
- (4) Many candidates appeared to struggle with calculating the ending stock.

Examiner's suggestions:

- Practice similar types of past questions.
- Candidates should understand the basics in preparing the budgeted production units.

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

Section B

Question No. 05

This question tested the knowledge of identification of limiting factor/s, calculation of optimal product mix based on the identified limiting factor/s and explain whether the company should purchase any shortfall at these prices or not. Most of the candidates earned above average marks for **part (a) & (b)** of the question. Many candidates struggled to answer **Part (c)**, which asked whether Jams Ltd should purchase the shortfall at the given prices.

Common mistakes made by candidates:

- (1) A few candidates calculated the total contribution instead of the contribution per bottle for each type of Jam and then proceeded with completing the subsequent steps required to determine the optimal production mix. As a result, they did not earn any marks.
- (2) Some of the candidates have used an incorrect contribution per unit for identified limiting factor and calculated inaccurate optimal product mix.
- (3) 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.
- (4) Some have not mentioned the optimal product mix.
- (5) Some candidates had calculated the contribution per kg and just ranked based only on the contribution.
- (6) A few candidates identified the shortage of 800 bottles, but the subsequent calculations to determine the reduced contribution were shown incorrectly.

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.
- Avoid calculation errors.
- Always show your workings.

Performance:

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

Question No. 06

This question tested on calculation of, Cost of Ordinary Shares, Cost of Irredeemable Preference Shares, Cost of Redeemable Debentures, and Weighted Average Cost of Capital (WACC) using the market value.

Average number of candidates calculated Cost of ordinary shares correctly. However, few candidates incorrectly used the market price as the numerator and the dividend as the denominator. Some candidates were unable to write the dividend growth formula correctly. Instead of adding the growth rate (g), they mistakenly multiplied it. **Part (b)** was correctly calculated by most of the candidates, except for a few who wrote the formula incorrectly. While most candidates correctly calculated the cost of redeemable debentures by identifying the after-tax interest payment, some candidates failed to correctly identify the cash inflows and outflows. Additionally, confusion between the initial year of issue and the final year of redemption highlighted a lack of understanding. But the Net Present Values calculated at the two discount rates were correctly applied in arriving at the IRR (Internal Rate of Return).

Further, in **Part (d)**, WACC was correctly calculated using market values. However, candidates struggled to determine the market value of ordinary shares and redeemable debentures, despite the current trading prices being provided in the question

Common mistakes made by candidates:

- (1) Some candidates wrote the correct formula for the cost of ordinary shares using the dividend growth model correctly. However, they failed to solve it accurately due to a lack of mathematical skills.
- (2) Few candidates had not considered growth rate when calculating the cost of ordinary shares.
- (3) Many candidates failed to accurately present and identify the cash inflows and outflows at the initial and final years when calculating the cost of redeemable debentures.
- (4) Some candidates have calculated the Weighted Average Cost of Capital (WACC) using book values instead of market values.

Examiner's suggestions: Practice past question papers.

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

Question No. 07

This question tested the knowledge relating to preparation of a cash budget for the months of July, August and September 2025 for **Spark & Stich Ltd.**

Average number of Candidates have identified all expenses correctly for the relevant months and the opening cash balance was correctly presented. While many candidates correctly recognized the cash inflow from sales income, a few recorded it under incorrect months.

Common mistakes made by candidates:

- (1) Some candidates failed to present both the opening and closing cash balances.
- (2) Most of the candidates correctly calculated the interest income using the annual rate of 4% but failed to divide it by 12 to reflect the monthly interest income for the respective months.
- (3) Some candidates failed to identify the interest income.
- (4) Many candidates did not calculate the payment for raw material purchases correctly, and some, despite arriving at the correct amount, failed to record it in the appropriate month.
- (5) Staff salaries were misunderstood by some candidates. An arrears payment of Rs.560,000/- was made in August, leading them to incorrectly assume that the staff salary for July was Rs.240,000/- (Rs.800,000/- – Rs.560,000/-).

Examiner suggestions:

Practice similar type of past questions and should study the study pack.

Performance:

Overall performance for this question was at satisfactory level.

Section C

Question No. 08

This question tested the evaluation of a new product using Net present value. It was required to calculate the NPV with tax adjustments and assess whether the company should proceed with the new product. Only a few candidates scored full marks, despite the question being very simple.

Common mistakes made by the candidates:

- (1) Some students applied for capital allowances over all five years instead of four-year period.
- (2) The majority of candidates incorrectly calculated the income tax payment and demonstrated a lack of understanding in computing tax using depreciation and capital allowance adjustments.
- (3) Annual sales figures and variable costs were not calculated accurately, as many candidates failed to apply the given inflation adjustments correctly.
- (4) Numerous calculation errors were observed among answers of many candidates.
- (5) Some candidates incorrectly recorded the launching cost in Year 1 instead of Year 0.
- (6) A few candidates presented their decision without calculating the Net Present Value (NPV).

- (7) Some candidates used cumulative discounting factors or applied incorrect discounting factors when calculating the Net Present Value (NPV).
- (8) Working capital recovery in the final year of the project was omitted by some candidates.
- (9) Capital allowances are not part of the cash flow in project evaluation. However, many candidates incorrectly included them in the project appraisal.
- (10) The company's discounting factor (cost of capital) is 20%; however, some candidates incorrectly used 10% or 15% in their calculations.

Examiner's suggestions:

- (1) Practice similar type of questions from 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.
- (4) Minimize the calculation errors.

Performance:

Overall performance for this question was at an average level.

Question No. 09

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

Common mistakes made by candidates:

- (1) Most of the candidates have no knowledge about formulas for calculating variances.
- (2) Some candidates who knew the formulas correctly were unable to correctly apply the data to the respective formula.
- (3) Some have wrongly identified adverse as favorable and favorable as adverse.
- (4) Some candidates had not mentioned whether the calculated variance is adverse or favourable.

Part (b) of the question tested the Preparation of an operating statement to reconcile the budgeted contribution with actual contribution.

Common mistakes made by candidates:

- (1) Some candidates mistakenly reversed the variances in their statements, treating adverse variances as favorable and vice versa.
- (2) Some candidates failed to include both the given and computed variances in the operating statement.
- (3) Some candidates have included fixed cost variance in the operating statement.

Examiner's suggestions:

- (1) Practice similar type of questions from past papers. Always show your workings.
- (2) Follow the study pack and do the practical application.
- (3) Candidates should practice formulas of variances on different scenarios.
- (4) Presentation of formulae with correct application in variance analysis.

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

Question No. 10

Part A of the question tested the knowledge of process costing. It was required to prepare the statement of equivalent units and cost and process account.

Part (B) it was required to calculate break-even sales (in Rs.) for **Product P** and **Product Q** separately.

Common mistakes made by candidates:

- (1) Some candidates prepared the process account and equivalent unit statement using the figures provided in the question. But they were unable to proceed with the subsequent calculations.
- (2) Some candidates failed to include the value of opening work-in-progress (WIP) when calculating the equivalent cost.
- (3) Some candidates have included normal loss when calculating equivalent units.
- (4) Some candidates failed to deduct the scrap value of normal loss from the raw material cost when calculating the unit cost, leading to an overstatement of cost per unit.
- (5) Some candidates have deducted scrap value of normal loss from all three cost calculations namely raw material, direct labour, variable production overheads.
- (6) Some candidates included only quantities or only values in the Process 1 account, revealing incomplete understanding of process costing.
- (7) Many candidates misunderstood the requirement and calculated individual C/S ratios for each product instead of the combined ratio, revealing gaps in interpreting the question correctly.

Examiner's suggestions:

- (1) Candidates should practice study text examples and past paper questions.
- (2) Read the relevant chapters properly in the self-study text.

Performance:

Overall performance for this question was not at an average level.

Part (A) was generally well attempted, demonstrating sound understanding. However, responses to **part (B)** were unsatisfactory, indicating gaps in knowledge or misinterpretation of the requirements