

EXAMINER'S REPORT

LEVEL 03 EXAMINATION - JULY 2026

(3802) 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 required calculate **(a)** the Break Even Point (BEP) in units and **(b)** Margin of Safety (MOS) in units.

Common mistakes were as follows:

- (1) Some candidates have not taken the Variable Overheads to calculate the total variable cost.
- (2) In calculating the Margin of Safety, instead of subtracting, the budgeted sales was divided by BEP.

Examiner's suggestions:

Candidates should practice similar type of questions and should understand the meaning of BEP and how to calculate margin of safety.

Performance:

It was satisfactory. Candidates have practiced similar questions to calculate the BEP and Margin of Safety in units. However, most of the candidates are more familiar with **part (a)** and some candidate found difficult to calculate the Margin of Safety due to lack of understanding of what Margin of Safety means.

Question No. 02

This question tested the calculation of the Working Capital Cycle (WCC) of **Trade Ltd.** for the year ended 31st March 2026.

Common mistakes made by Candidates:

- (1) Adding the Trade Payable collection days to the inventory residence days and trade receivable settlement days to calculate the WCC.
- (2) Forgetting to average the Creditors, Debtors when calculating Trade creditors period and Trade debtors period.

- (3) Some candidates calculated the receivable collection period using total sales instead of credit sales, despite the question clearly stating that only 65% of sales were made on credit.
- (4) When calculating purchase, some candidates added opening stock and deducted closing stock to the cost of sale, instead of doing the reverse calculation.
- (5) Forgot to obtain the average Inventory although the opening and closing inventory were correctly used to arrive the average.
- (6) When calculating the working capital cycle, some of the students mentioned only the answer in days without the supporting calculations.
- (7) Some forgot to multiply by 365 to convert them to days.
- (8) Some candidates forgot to apply the working capital cycle formula after doing the calculations.

Examiner's Suggestions:

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

Performance:

It was satisfactory.

Question No. 03

This question tested candidates' understanding of the use of automation and analytical tools in the budgeting process. It required candidates to identify the benefits of automation and explain how analytical tools can support improved budgeting process.

Common mistakes made by candidates:

- (1) For **part (b)**, a majority of candidates provided generic and irrelevant answers. Instead of stating how analytical tools can improve budgeting through activities such as forecasting, trend analysis, variance analysis, or scenario modeling, many candidates provided general advantages of technology or computer systems without specifically relating them to the budgeting process.
- (2) Some candidates repeated the same points in different wording and failed to provide three distinct ways in which analytical tools support the budgeting process.

Examiner's suggestions:

- Pay close attention to the specific requirement and action verb used in the question before answering.
- Study the applications of automation and analytical tools in budgeting and understand how they assist organizations in planning, forecasting, monitoring, and decision-making.

Performance:

Poor performance. A significant number of candidates were unable to correctly identify the specific uses of automation and analytical tools in the budgeting process.

Question No. 04

This question required candidates to assess whether **X Ltd.** should bid for a project by identifying relevant and irrelevant costs and calculating the overall financial impact of the project.

Most candidates were able to identify several relevant costs and perform the required calculations to support their recommendation

Common mistakes made by candidates:

- (1) Some candidates did not write whether each cost is relevant or not.
- (2) Some candidates failed to recognize that the materials currently held in stock had an alternative use through disposal as scrap and therefore carried an opportunity cost.
- (3) Several candidates treated all labour costs as relevant without considering the different circumstances relating to skilled and unskilled labour.
- (4) A few candidates provided only a narrative discussion and failed to present the relevant cost calculations required to assess whether **X Ltd.** should bid for the project.

Examiner's suggestions:

- (1) Develop a clear understanding of relevant costing principles, particularly opportunity costs, sunk cost, etc.
- (2) Carefully identify whether each cost is a relevant cost or an irrelevant cost before performing any calculations.
- (3) Support conclusions with well-structured calculations rather than providing only descriptive answers.
- (4) Practice more relevant costing questions from past examination papers and self-study materials.

Performance:

Overall performance for this question was at satisfactory level.

Section B

Question No. 05

This question tested on the,

- Calculation of Cost of Ordinary Voting Shares,
- Cost of Irredeemable Preference Shares
- Cost of Redeemable Debentures and
- Weighted Average Cost of Capital (WACC) using market values..

Common mistakes made by candidates:

- (1) Most of the candidates have calculated the cost of Ordinary Voting Shares and Cost of Irredeemable Preference shares correctly.
- (2) Some candidates incorrectly identified the dividend growth model formula when calculating the cost of Ordinary Voting Shares. Even dividend growth was not in the question.
- (3) Some candidates did not identify the relevant cash inflows and outflows when calculating cost of debentures. They mixed up inflows with outflows and vice versa. Also, they misunderstood the year of issue of the redeemable debentures; therefore, the redemption year was also considered incorrectly.
- (4) Errors were frequent in stating and applying the IRR formula, particularly regarding the treatment of negative values.
- (5) Some have calculated WACC by using book value instead of market value. Question was clearly mentioned that market values should be considered.

Examiner's suggestions:

- (1) Read question carefully and apply only the instructions given in the question.
- (2) When calculating IRR, students should ensure that they state the correct formula and apply the appropriate figures. Particular attention should be given to the treatment of negative values when calculating the correction factor.
- (3) Students should clearly understand that WACC calculations should normally be based on market values rather than book values, unless the question specifically states otherwise.
- (4) Students are encouraged to practice a variety of past examination questions and develop a clear understanding of formulas and their correct application. Careful reading of the question and attention to calculation steps will help reduce common errors.

Performance:

Overall performance was average. While most candidates successfully calculated the cost of ordinary voting shares and irredeemable preference shares, many struggled with the complexities of IRR calculation, which is expected at the final level.

Question No. 06

This question tested on the preparation of a cash budget for the months of July, August and September 2026.

Common mistakes made by candidates:

- (1) Some candidates had not shown the closing cash balance.
- (2) While most of the candidates identified the correct interest rates (4% and 20% p.a.), they neglected to divide these by 12 to show the monthly interest income for the respective months.

- (3) Some candidates have correctly calculated the cash flow in workings but not taken to the cashflow statement.
- (4) The majority of candidates failed to identify the payment for raw materials and direct labour in the respective months.

Examiner's suggestions:

- (1) Practice past papers.
- (2) Read the question more carefully and understand the requirement.
- (3) Students should carefully analyze the timing of transactions stated in the question, particularly with regard to credit sales, cash sales, and payment terms.

Performance:

Overall performance for this question was not satisfactory level.

Question No. 07

This question tested on the,

- Identification of the limiting factor/s from the given resources availability, and
- Calculation of optimal production mix based on the limiting resource identified.

Common mistakes made by candidates:

- (1) Few candidates who identified correct excess /shortage resource amount incorrectly worded the final decision. For example, correct amount of excess of **material X1** was worded as a shortage thereby lost the marks related to that decision.
- (2) Some candidates had multiplied the contribution per unit by the number of kg per unit erroneously when arriving the contribution per kg for limiting factor.
- (3) However, ranking was done correctly based on the computed contribution for limiting factor.
- (4) Some have not mentioned the optimal product mix.
- (5) Some candidates had calculated the contribution per unit 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 identified limiting factor.

Performance:

Overall performance was satisfactory, with most candidates correctly identifying the limiting factors by comparing budgeted sales requirements against available resources.

Section C

Question No. 08

This question required to prepare Statement of Equivalent Units and Cost and **Process 1** Account.

Common mistakes made by the 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 Process1 account showing both values and quantity. They either used the values or the quantities only.
- (7) Workings related to the valuing of the Process 1 account; Abnormal Loss was not shown.
- (8) The correct format of process account and the statement showing the cost and equivalent units was not applied by some candidates.

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:

Performance was satisfactory. Candidates scored marks by preparing the process 1 account, however, knowledge in the preparation of Statement of Equivalent units and cost was not adequate, especially in calculating the equivalent units for Abnormal loss.

Question No. 09

This question tested the evaluation of an investing in a new project to manufacture of a product. It required calculating the NPV with tax adjustments and assessing of investment decision. whether investment should be accepted or not.

Common mistakes made by candidates:

- (1) 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.

- (2) Some candidates used a different discount rate (cost of capital), even though the question clearly specified a discount rate of 15%.
- (3) Numerous calculation errors were observed in the answers of many candidates. Specially adjustment for inflation had not been correctly calculated for cost & revenue.
- (4) Some candidates incorrectly recorded the launching cost in Year 1 instead of Year 0.
- (5) A few candidates presented their decision without calculating the Net Present Value (NPV).
- (6) Capital allowances are not part of the cash flow in project evaluation; however, many candidates incorrectly included them in the project appraisal.

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.
- (5) Understand the meaning of cash inflows and outflows, and then correctly identify the relevant cash inflows and outflows of the proposed investment project.

Performance:

Overall performance for this question was at an average level.

Question No. 10

(A)

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, and

Part (b) tested the knowledge of preparation of operating statement.

Common mistakes made by candidates:

- (1) Most candidates have no knowledge about the formulas in calculating the variances.
- (2) Some candidates who knew the formulas correctly were unable to correctly apply the data to the respective formula.
- (3) **Direct Material Mix vs. Yield Confusion:**
 - Incorrectly using actual quantities instead of applying the standard proportions to the actual total quantity when calculating the Direct Material Mix Variance.
 - Using actual quantities instead of standard quantities and failing to scale the standard quantities to the actual production output when calculating the Direct Material Yield Variance.
- (4) Some candidates had not mentioned whether the computed variance is adverse or favorable.

- (5) Some have wrongly identified adverse as favorable and favorable as adverse.
- (6) Some students were faced with calculation errors and entered up with presenting incorrect adverse and favorable conditions.
- (7) In preparation of operating statement, Errors in reconciling budgeted contribution with actual contribution due to incorrect treatment of Adverse (A) and Favorable (F) signs, resulting in incorrect net cost variance adjustments.

(B) Advantages of Using Technology in Management Accounting:

- (a) Most students answered the question on the advantages of using technology in management accounting correctly.
- (b) Very few students correctly answered the question on packages available for stock management. Most students listed accounting packages, such as QuickBooks, Sage, and ERP systems, rather than packages specifically used for stock management.

Examiner's suggestions:

- (1) Practice similar type of questions from the past papers. Always show your workings.
- (2) Follow the study pack and do the practical application.
- (3) Students should practice formulas of variances on different scenarios.
- (4) 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.

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