

EXAMINER'S REPORT

LEVEL III EXAMINATION - JANUARY 2021

(302) MANAGEMENT ACCOUNTING & FINANCE

Overview:

This paper consisted of **three Sections** covering 100 marks.

1. **Section A** includes four compulsory questions for 20 marks - 5 marks each.
2. **Section B** includes three compulsory questions for 30 marks - 10 marks each.
3. **Section C** includes three compulsory questions each for 50 marks - 15 marks, 10 marks and 25 marks.

Sectional performance:

Section A consisted of 4 compulsory questions for 20 marks. Candidates' performance for this section was satisfactory. Question wise performance for this section was as follows:

Question No.	Performance Rating
1	Satisfactory
2	Average
3	Satisfactory
4	Satisfactory

Section B consisted of 3 compulsory questions for 30 marks. Candidates' performance for this section was also satisfactory. Question wise performance for this section was as follows:

Question No.	Performance Rating
1	Satisfactory
2	Satisfactory
3	Average

Section C consisted of 3 questions for 50 marks. Candidates' performance for this section was also satisfactory. Question wise performance for this section was as follows:

Question No.	Performance Rating
1	Poor
2	Satisfactory
3	Not Satisfactory

Section A

Question No. 01

Part (a) of this question tested knowledge on difference between financial accounting and management accounting. Majority had answered well in this question.

Part (b) of this question tested the knowledge on computation of Break Even Point (BEP) and the expected profit at the budgeted sales quantity. Majority had answered well in this question. However, some students have calculated the contribution instead of expected profit.

Performance: *Overall performance for part (a) and (b) of this question was satisfactory.*

Examiner Suggestions:

- Practice more similar type questions in the past papers.
- Study the self-study text properly to get a clear idea of the concept.

Question No. 02

This question tested the knowledge on working capital cycle. Considerable number of candidates had failed to answer correctly to this question.

Common Mistakes:

- Most of the students unable to calculate profit from the gross profit ratio of 20%. Some calculated the sales as 120(using the GP Ratio of 20%) hence arrived at the incorrect gross profit.
- Candidates were unable to arrive at the purchases given the opening, closing stocks and with calculated cost of sales.
- Average stock and average trade payable were not considered in calculating the stock turn over period and creditors' payable period. Few students had calculated the working capital cycle without considering the average factor (e.g., average creditors and average inventory) which is an important factor in computing the working capital cycle.

Performance: *Overall performance for this question was in average.*

Examiner Suggestions:

- Practice more similar type questions in the past papers.
- Study the self-study text properly to get a clear idea of the concept.

Question No. 03

This question tested on the calculation of the flexible budget (operating statement) using the given fixed budget and actual information. Majority had answered well for this question. However, following mistakes were identified:

- Some candidates prepared the flexible budget but did not show the variances arriving from flexible budget and actual information.
- Fixed cost was apportioned using number of units which is incorrect.

Performance: Overall performance for this question was at satisfactory levels

Examiners' Suggestions:

- Practise more similar type questions in the past papers.
- Study the self-study text properly to get a clear idea of the concept.
- Students must show all related working
- Read the question properly before attempting

Question No. 04

This question tested on making the decision of whether to accept the product order or not. Majority of the candidates has performed well in this question. However, the following common mistakes were identified:

- The research cost of the consultant should not be considered as a cost for this order as it is incurred before accepting this order and therefore it should be a sunk cost. Average number of students highlighted this cost as a sunk cost and did not take to the costing of the special order. Some students have not considered that but did not state that is a sunk cost.
- Some students have not calculated the outsourced labour amount. Out-sourced labor cost is cheaper than in-house labor cost. Therefore, the labor cost should be outsourced.
- Few students have failed to identify the opportunity cost of Rs 1.25 million. The opportunity cost is the financial benefit that is lost due to postponement of its existing product.

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

Examiners' Suggestions:

- Students should clearly state the decision that they have arrived at the end.
- Practise more similar type questions in the past papers.
- Study the self-study text properly to get a clear idea of the concept.

Section B

Question No. 05

This question tested on the preparation of cash budget for the months of April to June 2021 using the given information. Considerable number of students performed well in this question and they identified the income and expenses correctly for the relevant months. However, the following common mistakes were identified:

- Packing and delivery expenses are shown in the month it was incurred. The credit period of 60 days were not considered in the cash flow.
- Electricity, water and telephone payments were shown in the month it was incurred where as those payments should be shown in the following month.
- Monthly rent of Rs.50,000/- is paid quarterly and this was shown incorrectly in the cash flow in the following month instead of following quarter.
- Cash flow presentation has not been followed by some candidates. Opening and closing cash balances were not clearly shown.

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

Examiners' Suggestions:

- Practise more similar type questions in the past papers.
- Study the self-study text properly to get a clear idea of the concept.
- Students must show all related working
- Read the question properly before attempting

Question No. 06

Part (a) of the question tested the students' knowledge on identifying limiting factor using given information.

Part (b) of the question tested on calculation of optimal production mix based on the limited factors identified in **part (a)** of the question.

Most of the students have performed well in this question. However, the following common mistakes were identified:

- **Part (a)** required to identify limiting factors but most of the students found Skilled Labor Grade B as the limiting factor and did not identify whether unskilled labor is a limiting factor or not. Therefore, they lost marks for not showing the calculations properly.
- Direct material was not considered as a variable cost in calculating the contribution.

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

Examiners' Suggestions:

- Practice more similar type questions in the past papers.
- Candidates should improve the knowledge on limiting factor calculation.

Question No. 07

This question tested the knowledge on calculation of Cost of Ordinary Shares, Cost of Irredeemable Preference Shares, Cost of redeemable Debentures, Weighted Average Cost of Capital (WACC) using market values. Majority of the students were correctly answered for calculation of cost of ordinary shares and cost of irredeemable preference shares. But the performance on calculation of cost of redeemable debentures and calculation of WACC were very poor. The following mistakes were identified:

- Students have shown poor knowledge on IRR when calculating the cost of redeemable debentures.
- The WACC was not calculated based on market price.
- Not expressed the cost of capital as a percentage.

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

Examiners' Suggestions:

- Practice more similar type questions in the past papers.
- Get more knowledge on formulas of computing cost of ordinary shares, irredeemable preference shares, redeemable debentures and WACC.

Section C**Question No. 08**

This question tested the knowledge in relation to variance analysis. Further, it tested the calculation of actual direct material usage, direct labor mix variance, direct labor yield variance, and the preparation of operating statement. Most of the students have not attempted this question. The following mistakes have identified from the candidates who have attempted this question.

- Majority of the students had not proper knowledge on the concept of variances and standard costing.
- Most of the students have not calculated the actual material usage correctly. The question was given material variance and based on formula students can easily find the actual usage.
- Most of the students have found difficulty to calculate the Mix, Yield variances of labor.

Performance: Overall performance for this question was poor.

Examiners' Suggestions:

- Practice more similar type questions in the past papers.
- Study the self-study text properly to get a clear idea of the concept.
- Students must show all related working

Question No. 09

This question tested the students' knowledge on calculation of Net Present Value (NPV) and assessing the viability of an investment. Majority of the candidates have performed well in this question. However, the following common mistakes were identified;

- Some students have taken the quantity mentioned in the question as total revenue in NPV calculation.
- Some students have used unit Selling Price for Direct Material, Direct Labour, and Variable Overhead costs for each year without multiplying with the quantity.
- Many students have deducted Rs.30 million as the fixed cost without considering the depreciation of Rs. 24 million.
- Some students have deducted Rs. 30 million of capital allowances from all 5 years cash profit when calculating the taxable profit

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

Examiners' Suggestions:

- Practice more similar type questions in the past papers.
- Study the self-study text properly to get a clear idea of the concept.
- Students must show all related working.

Question No. 10

Part (a) of the question tested on the knowledge of process costing. It was required to prepare the statement of equivalent unit and process account. Majority of the candidates has performed well in this part. But few students have lack of the knowledge on preparation of Statement of Equivalent units and cost especially in calculating the equivalent units for closing Work In Progress. Further, some students have not taken the equivalent units of abnormal loss to the statement and the scrap value of the normal loss in the statement.

Part (b) of the question tested on decision making based on decision tree theory. Most of the students have not drawn the decision tree clearly. Further, most of the students have not shown their working properly.

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

Examiners' Suggestions:

- Practice more similar type questions in the past papers.
- Study the self-study text properly to get a clear idea of the concept.
- Students must show all related working.