

EXAMINER'S REPORT

LEVEL III EXAMINATION - JULY 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.

General Comments:

Majority of the students' performance for this paper is not satisfactory. But some of the students answered well for the paper.

Sectional performance:

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

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

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

Question No.	Performance Rating
5	Satisfactory
6	Satisfactory
7	Average

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

Question No.	Performance Rating
8	Average
9	Satisfactory
10	Average

Section A

Question No. 01

This question is tested on the knowledge of working capital cycle and how to calculate gross profit, cost of sales, inventory residence period and trade receivable period.

Performance:

- Overall performance for this question was at satisfactory level.
- Most of the candidates had attempted and answered well for the question.

Common mistakes:

Some students had incorrectly calculated the gross profit and cost of sales. Therefore, inventory residence period is wrong and it results to get wrong final answer of the working capital cycle.

Average stock and average trade debtors were not considered in calculating the stock turn over period and debtors period by few students which is an important factor in computing the working capital cycle.

Examiner suggestions:

Students should study extra books and the study pack to update the knowledge and practice this type of questions.

Question No. 02

Tested to identify two (02) examples of performance measurements for financial perspective of the Balanced Score Card and one (01) example of performance measurement for customer perspective of the Balanced Score Card based on the given information and to state two (02) disadvantages of the Balanced Score Card.

Performance:

Overall performance for this question is at an average level.

Common Mistakes:

It seems to be that the candidates may not have practiced this type of question previously. A very few obtained full marks for this question. Candidates could be able to get examples questions itself. Some have calculated the figures without reading the question properly. **Part (b)** was very unsatisfactory as it seems to be difficult for candidates due not following this topic.

Examiner's suggestions:

- It is recommended to read the relevant chapter properly in the self-study pack.
- Practice this type of questions from the past examination question papers.

Question No. 03

This question tested on the preparation of a Income Statement for the year ended 31st March 2021 using the marginal costing method.

Performance:

Candidates' performances was at average level.

Common Mistakes:

- (1) Lack of practice of this type of question was noted.
- (2) Some candidates prepared a flexible budget instead of income statement.
- (3) Budgeted fixed cost had been taken for calculations instead of actual fixed cost.
- (4) Incorrect production has been applied from the calculation of variable cost and some have not considered closing inventory stock.
- (5) Most of the students do not know to prepare the Income statement based on marginal costing.

Examiner's suggestions:

- Read and practice the exercises of this topic in the study pack.
- Practice similar type of past questions.

Question No. 04

This question tested on the make or buy decision using relevant costing.

Performance:

Candidates performance was satisfactory level.

Common Mistakes:

Though majority has done correctly. Some have not considered saving on variable cost. Some have not given the decision to be taken.

Examiner's suggestions:

- Clearly state the decision whether to accept or reject the order.
- Practice similar type of past questions.

Section B**Question No. 05**

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

Performance:

Candidates performance of this question was at satisfactory level.

Common mistakes:

- (1) **Part (a)** requires to identify limiting factors but most of the students when found Material CD as the limiting factor did not identify whether skilled labor is a limiting factor or not. Therefore, they lost marks for not showing the calculations properly.
- (2) Variable production overhead was not considered as a variable cost in calculating the contribution.

Examiner suggestions:

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

Question No. 06

This question tested on the preparation of cash budget for the months of January, February and March 2022.

Performance:

Candidates performance was at satisfactory level.

Common mistakes:

- (1) Cash flow presentation has not been followed. Some prepared the cash budget as an income statement showing income, gross profit and net profit. A cash budget should include cash receipts and cash payments only. No accrued payments are considered in cash budget.
- (2) Some have failed to identify the requirement to maintain the minimum float of Rs. 1 million. Therefore, correct identification of the loan requirement and interest were not done.
- (3) Many candidates have not deducted discount amount from cash sales. Sales receipts, payments to supplier were incorrectly calculated.

Examiner's suggestions:

- Read question correctly.
- Practice past papers and refer study Text.
- Practice similar type of past questions.

Question No. 07

This question is tested on how to calculate cost of ordinary shares, cost of irredeemable preference shares, cost of redeemable debentures and weighted average cost of capital.

Performance:

Candidates performance was at average level.

Common mistakes:

- Most of the students have not properly used the correct formulas to calculate cost.
- When calculating WACC some candidates have taken book values instead of market values.
- Majority of the students' answers for the cost of redeemable debentures and weighted average cost of capital was incorrect.

Examiner suggestions:

- Practice past papers – similar type of questions were repeatedly tested in every exam. Therefore, go through the past papers.
- Know the formulas correctly for the cost of equity, cost of debt and WACC.

Section C

Question No. 08

This question tested to calculate Direct Material Price Variance, Direct Material Mix Variance Direct Material Yield Variance and in **part (b)** prepare an operating statement to reconcile the budgeted contribution with actual contribution.

Performance:

Overall performance is at average level.

Common Mistakes:

- Most of the students calculated the Direct Material Price Variance correctly and obtained full marks for it. But calculation of Direct Material Mix Variance and Direct Material Yield Variance became very difficult for them.
- In the operating statement, majority scored few marks by showing the variance already given in the question paper.
- Lack of practice on computation of Mix and yield variances were noted.
- Lack of practice in preparing and presenting an operating statement.
- Some students have not shown whether variances is favourable or adverse.

Suggestion to improve:

Practice the past papers on the subject area.

Question No. 09

This question is tested on how to make investment decision using net present value.

Performance:

Candidates performance of this question was at satisfactory level.

Common mistakes:

- Some of the students have taken capital allowances for all 5 years instead of 4 years.
- Majority of the students have wrongly calculated the income tax payment and students do not know how to calculate tax computation using depreciation and capital allowance adjustment. Some have adjusted maintenance cost as a disallowable expense.
- Many calculation mistakes were observed.
- Some students have not correctly understood how to apply maintenance cost which is paid at the purchase of the machine. Some have distributed maintenance cost over five years.
- Some candidates have wrongly calculated the fixed cost.
- Though some have calculated the NPV they have not given the decision.

Examiner suggestions

- Students should practice past papers.
- Students must be encouraged to show all the workings.
- Avoid calculation errors.

Question No. 10

This question tested on the process costing in **part (a)** and Calculation of the Break Even Sales (BES) in value and Combined Profit Volume (PV) Ratio of a company.

Performance:

Performance is at average level.

Common Mistakes:

- Some students has obtained low marks for preparation of Statement of Equivalent units and cost especially in calculating the equivalent units for closing WIP.
- Some had not considered the scrap value of the normal loss.
- Some did not take the equivalent units of abnormal gain to the statement and the scrap value of the normal loss in the statement.
- **Part (b)** performance was not satisfactory at all due to confusion shown by students in calculating the BES and PV. The cost of total fixed cost was not considered in calculating the BES.

Suggestion to improve:

- Practice past papers including the model paper.
- Refer the study pack.

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