

EXAMINER'S REPORT**LEVEL III EXAMINATION - JANUARY 2026****(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 required the calculation of **(a)** the break-even point (BEP) in units and **(b)** the expected profit for the month at the budgeted sales quantity.

Common mistakes made by candidates:

- (1) Some candidates did not include variable overheads when calculating the total variable cost.
- (2) Some candidates applied the wrong formula to calculate the break-even point (BEP).
- (3) While most candidates correctly calculated the break-even point (BEP), they failed to calculate the profit for the given quantity.
- (4) Sales value was used instead of contribution to calculate profit (Eg: deducting budgeted fixed overhead expenses directly from sales value).

Examiner's suggestions:

Candidates should practice similar type of questions and should understand the meaning of BEP, meaning of expected profit and the method of calculating it.

Performance:

Overall performance for this question was at satisfactory level.

Question No. 02

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

Most candidates were able to apply the WCC formula and compute the cycle with a reasonable level of accuracy. The inventory residence period, trade receivables collection period, and trade payables settlement period were generally identified and incorporated appropriately.

However, the accuracy of certain component calculations varied among candidates, which affected the final WCC figure in some cases.

Common mistakes made by candidates:

- (1) A few candidates stated the WCC formula incorrectly.
- (2) Some candidates incorrectly added the Trade Payable settlement period to the inventory residence period and trade receivable collection period to calculate the WCC.
- (3) Some candidates forgot to calculate the average creditors, debtors, and inventory by adding the opening and closing balances and dividing by two.
- (4) Some candidates applied the cost of sales rather than the value of purchases when calculating the trade payables settlement period.
- (5) Some candidates did not calculate the purchases value correctly. When calculating purchases, some candidates incorrectly added the opening stock and deducted the closing stock from the cost of sales, instead of deducting the opening stock and adding the closing stock.
- (6) When calculating the working capital cycle, some candidates mentioned only the answer in days without supporting calculations.
- (7) Some candidates forgot to multiply by 365 to convert the figures into days.

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 a satisfactory level.

Question No. 03

This question required candidates to **(a)** explain the difference between 'Feedback Control' and 'Feedforward Control' and **(b)** state two approaches to budgeting.

Common mistakes made by candidates:

- (1) A majority of candidates misunderstood the requirements of the question and provided irrelevant answers. They wrote their own responses instead of addressing the actual requirements of the question.
- (2) Most candidates provided general answers, such as describing actions taken before or after results, without explaining the difference between actual and planned output or the necessary corrective modifications. Consequently, many candidates missed the key points.
- (3) For **part (b)**, most candidates wrote about types of budgeting (e.g., sales budget, cash budget) instead of addressing the specific requirement of the question.

Examiner's suggestions:

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

Performance:

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

Question No. 04

This question required candidates to assess whether **Techno Ltd.** should accept the short-term project and to determine whether each cost is relevant or not.

Common mistakes made by candidates:

- (1) Most candidates incorrectly identified the business analyst and project manager salaries as relevant costs, and the testers' costs as irrelevant costs.
- (2) Some candidates did not indicate whether each cost was relevant or not.
- (3) A few candidates, instead of calculating the total relevant cost and the expected profit or loss from accepting the project, wrote descriptive or essay-type answers.

Examiner's suggestions:

- Read the question more carefully and identified whether costs are relevant or irrelevant.
- Candidates should practice similar type of questions to earn full marks.

Performance:

Overall performance for this question was at an average level.

Section B

Question No. 05

This question required to prepare the cash budget for the months of January, February and March 2026.

Common mistakes made by candidates:

- (1) Most candidates calculated the interest income correctly using the 4% per annum rate but failed to divide by 12 to show the monthly interest income for the respective months.
- (2) Some candidates failed to identify the interest income.
- (3) Candidates were unable to calculate the forecasted sales for the respective months correctly.
- (4) Other variable overhead expenses were not presented correctly.
- (5) The majority of candidates failed to identify the payment for raw materials in the respective months.
- (6) Some candidates failed to present both the opening and closing cash balances.

Examiner's suggestions:

- Practice similar types of past questions.
- Read the question more carefully and understand the requirement.
- Candidates 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 at a satisfactory level.

Question No. 06

This question required candidates to **(a)** identify the limiting factor/s regarding the availability of labour (resources) and **(b)** determine the optimal production mix based on the identified limiting factor/s. They showed their competency by correctly identifying the limiting factor by comparing the total resources needed to achieve the budgeted sales units with the given resources availability.

Common mistakes made by candidates:

- (1) Some candidates correctly calculated the excess or shortage of resources but incorrectly reported the final outcome, such as presenting an excess of skilled labour as a shortage, which led to mark deductions.
- (2) Some candidates erroneously multiplied the contribution per unit by the number of hours per unit when calculating contribution per hour for the limiting factor.
- (3) Ranking based on the computed contribution per limiting factor was generally done correctly.

- (4) Some candidates did not state the optimal product mix.
- (5) Some candidates calculated contribution per unit but ranked products based only on the contribution, ignoring the limiting factor.

Examiner's suggestions:

Practice past question papers.

Performance:

Overall performance for this question was at a satisfactory level.

Question No. 07

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 the cost of Ordinary Voting Shares and Cost of redeemable Preference correctly. Further, the computation for the cost of irredeemable debentures was approached correctly by most of the candidates identifying the after-tax interest payment correctly. 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) Average number of candidates correctly wrote the formula and substituted the values for the cost of ordinary shares using the Dividend Growth Model. However, they failed to arrive at the correct answer due to weak mathematical skills when solving the formula.
- (2) Some candidates were unable to write the dividend growth formula correctly. A common mistake was multiplying the growth rate (g) instead of adding it.
- (3) Most candidates calculated **Part (b)** correctly. However, a few made mistakes due to writing the formula incorrectly.
- (4) The cost of redeemable debentures was generally calculated correctly using after-tax interest, but some candidates lacked understanding of cash flows, confusing inflows with outflows and misunderstanding the issue year, which led to errors in identifying the correct redemption year.
- (5) When calculating the IRR, some candidates did not write the formula correctly, and even when they did, the figures were often misapplied; in particular, many candidates made errors when handling negative values in the IRR calculation factor.
- (6) Many candidates struggled to determine the market value of ordinary shares and redeemable debentures, despite the trading prices being provided.
- (7) Some candidates calculated WACC using book values instead of market values.

Examiner suggestions:

- Practice past question papers.
- Read question carefully and apply only the instructions given in the question.

Performance:

Overall performance for this question was at an average level.

Section C

Question No. 08

This question tested the calculation of the Net Present Value (NPV) of two projects and required candidates to identify the best investment option from the two projects. Only a few candidates scored full marks, even though the question was very simple. Performances were average due to **Project A**.

However, **Project B** was evaluated correctly, showing all cash inflows and cash outflows, except that a few candidates did not correctly show the inflationary adjustments.

Part (b) was not satisfactory, as most candidates did not know how to calculate and identify the best project when the projects had different time periods. Only a few candidates demonstrated the correct understanding that NPVs of projects with different life cycles cannot be compared directly. The correct approach is to calculate the Equivalent Annuity and use it to select the best project.

Common mistakes made by the candidates:

- (1) Some candidates applied capital allowances over five years instead of the correct four-year period when evaluating Project A.
- (2) Depreciation was incorrectly included in the project evaluation.
- (3) Many candidates incorrectly calculated tax by using accounting profit instead of properly calculating taxable profit after adjusting for capital allowances.
- (4) Fixed costs were omitted in the evaluation of Project B, and some figures were incorrectly shown in thousands while others were shown in millions.
- (5) Some candidates used an incorrect discount rate, even though the question clearly specified 15%.
- (6) Numerous calculation errors were observed in many answers.
- (7) In Part (b), most candidates did not attempt the question, and many were unaware that NPV must be adjusted for different project durations using the Equivalent Annuity method.
- (8) Capital allowances, which are not cash flows, were incorrectly included in project appraisal.
- (9) A few candidates made decisions without calculating NPV.

Examiner's suggestions:

- Practice similar type of questions from the past papers.
- Use the cost of capital (discount factor) given in the question for discounting purposes.

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 sales price variance, direct material price variance, direct material mix variance, direct material yield variance. Majority of the candidates found it difficult to solve direct material mix variance and direct material yield variance.

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) Most candidates had no knowledge of the formulas for calculating variances.
- (2) Some candidates who knew the formulas were unable to correctly apply the data to the respective formula.
- (3) Actual sales quantity was used instead of actual material used when calculating the Direct Material Price Variance.
- (4) Lack of practice was evident, particularly in computing Direct Material Mix and Yield Variances using the actual/standard mix.
- (5) Some candidates had not mentioned whether the computed variance is adverse or favourable.
- (6) Some candidates incorrectly identified adverse variances as favourable and favourable variances as adverse.
- (7) Some candidates incorrectly included fixed overhead expenditure variance in the operating statement.
- (8) A few candidates merely listed adverse and favourable variances instead of preparing a full operating statement reconciling budgeted contribution with actual contribution.
- (9) For the budgeted contribution, some candidates incorrectly used the selling price instead of the contribution per unit.
- (10) Some candidates attempted to reconcile budgeted profit instead of budgeted contribution, even though the question required contribution reconciliation.

Examiner's suggestions:

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

Performance:

Overall performance for this question was at an average level.

Question No. 10

Part (A) of the question required candidates to prepare a Statement of Equivalent Units and Cost as well as **Process 3** account. Candidates scored marks mainly for preparing the **Process 3** account. However, their knowledge of preparing the Statement of Equivalent Units and Cost was not adequate, especially in calculating the equivalent units for abnormal loss.

Part (B) of the question required candidates to prepare a Payoff Table showing the contributions from different decisions and to identify which product should be introduced under the Maximax criterion. Many candidates did not earn any marks for this part. Some candidates omitted **Part (B)** entirely. Others calculated the contribution per product correctly but were unable to proceed further due to lack of practice.

Common mistakes made by candidates:

- (1) Some candidates prepared the **Process 3** account and Statement of Equivalent Units using the figures provided in the question, but were unable to proceed with the subsequent calculations.
- (2) Candidates included opening work-in-progress units in the equivalent units calculation, but often failed to incorporate the value of opening WIP when calculating the total equivalent cost per unit.
- (3) 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.
- (4) Conversely, some candidates deducted the scrap value of normal loss from all three cost components, raw materials, labour, and overheads, which was incorrect.
- (5) Some candidates adjusted the normal loss incorrectly when calculating equivalent units.
- (6) The value of opening work in progress was not included when calculating the total equivalent cost per unit.
- (7) Some candidates failed to prepare the **Process 3** account showing both quantities and values, using either values or quantities only.
- (8) Some candidates did not show the workings related to the valuation of the **Process 3** account, including the value of finished goods, abnormal loss, and the working program.

(9) Some candidates did not follow the correct format for the Process Account and the Statement showing cost and equivalent units.

Examiner's suggestions:

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

Performance:

Overall performance for this question was 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 -

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