

Examiner's Report

AA3 EXAMINATION - JANUARY 2018

(AA32) MANAGEMENT ACCOUNTING AND FINANCE

OVERVIEW:

This paper has three sections covering 100 marks,

1. Section A includes four compulsory questions for 20 marks - **05 marks each**.
2. Section B includes three compulsory questions for 30 marks - **10 marks each**.
3. Section C includes two compulsory questions for 50 marks - **25 marks each**.

General Comments:

Candidates' performance for this paper was at a reasonable satisfactory level. Majority of the candidates scored satisfactory marks for this paper specially for question No. 08 and 09. However it was noted from the answers that majority of the candidates have either not attempted or given incorrect answers for Question No. **01** to **04**. The main reason for this was that all those questions have focused theory aspects relating to Management Accounting and the poor knowledge of the candidates regarding those areas.

Sectional performance:

Candidates' performance for **Section A** was satisfactory, except Q 3. which was poor.

Candidates' performance for this **Section B** was not satisfactory.

Candidates' performance for this **Section C** was satisfactory.

SECTION A

Question No. 01

It was required to explain the term "earned income" with two examples and to state an advantage and a disadvantage of earned income.

Only a handful of candidates scored full marks for this question. However, almost all the candidates attempted the question.

It was noted from the answers that candidates were unaware of the term "Earned income" in Management Accounting and therefore they just explained the meaning of the term without concentrating on the technical aspect. Due to this reason, they were unable to mention advantages and disadvantages too.

Examiner suggestions:

It is recommended to study the entire syllabus giving due care to theory parts.

Question No. 02

It was required to state three examples for methods of performance measurement for financial perspective and two examples for customer perspective in balance Scorecard.

Majority of the candidates not attempted the question. Those who attempted also failed to score satisfactory marks. Main reason for poor answers was not understanding the question properly and not knowing the facts related to Balance Scorecard. It was noted from the answers that considerable number of candidates were unaware of the term "Balance Scorecard."

Examiner suggestions:

It is recommended to study the entire syllabus giving due care to theory parts.

Question No. 03

It was required to calculate the length of the working capital cycle. This was a very simple question and similar kind of questions have been tested in previous examinations as well.

Trade payable settlement period was given in the question, however some candidates incorrectly re-calculated the same by dividing 365 from 20. Some candidates erroneously computed working capital cycle as $5 + 8 - 20 = -7$ days. Further, there were some candidates who added trade payable period in computing the length of the working capital cycle.

Overall performance for this question was very low.

Examiner suggestion:

- Read the question properly before attempting.
- Practice similar type of past questions.
- Improve handwriting.

Question No. 04

It was required to identify the cash flows of the given investment project and to calculate the payback period of the project.

Those who attempted were able to score marks only for the part (a). Overall performance for this question was at a very low level.

Some candidates calculated depreciation of the machinery incorrectly without considering the residual value. Further, they have not shown the residual value as a cash inflow at the year 4. Fewer number of candidates have computed discounted CFs to calculate the Payback Period.

Examiner suggestion:

- It is recommended to practice similar type of past questions.

SECTION B

Question No. 05

It was required to prepare a three tier budget for the next year.

Considerable number of candidates did not perform well and did not score marks for this question. This was a very simple question, which required a budget for three tiers/instances such as Most Likely, Best Possible and Worst Possible. Rates of variations have been given very clearly in the question. However, candidates were unable to capture those. Specially most of the candidates could not understand the economic conditions clearly. For an example, when the rate of inflation increases, the price also increases, resulting worst economic conditions. On the other hand, when the rate of inflation decreases, the price also decreases and resulting best economic conditions.

The common mistake that was observed is considering highest rate of inflation as the best option. Moreover, most of the candidates have not shown workings properly.

Examiner suggestions

- It is recommended to practice similar type of past questions.
- Workings should be shown properly.

Question No. 06

It was required to identify the limiting factor and to compute the optimal production mix based on the resource availability.

Considerable number of candidates did not perform well and did not score marks for this question. Overall performance was at a very low level. Considerable number of candidates were unable to perform the necessary computations to identify the limiting factor. There were few candidates who have done the computations correctly, but were unable to state it as Labour hours. Fewer number of candidates have applied Linear Programming method to identify the limiting factor. Further they haven't computed the contribution per limiting factor correctly.

Examiner suggestion:

It is recommended to practice similar type of past questions.

Question No. 07

It was required to assess the viability of investing in the new machinery with a NPV computation.

This question was very poorly answered by majority of the candidates. Some did not show initial investment as a cash outflows by using brackets. Further, some candidates have computed capital allowance for the 5th year as well. Moreover, some candidates have considered capital allowance in the NPV computation which was incorrect. There were candidates who have taken accounting profit as a cash inflow.

Examiner suggestion:

It is recommended to practice similar type of past questions.

Section C

Question No. 08

(A) It was required to assess with reasons whether the given company should accept the order or not with supporting calculations. This question tested the knowledge of relevant cost / irrelevant cost.

Overall performance for this question was at a satisfactory level. Majority of the candidates have correctly identified almost all the relevant expenses correctly. However, following mistakes were noted.

- Considering only the relevant costs and not writing/mentioning the irrelevant costs such as Design cost, Supervisor cost and monthly labor cost.
- Computed according to the Contribution Approach instead of following the Profit approach.

(B) It was required to draw a decision tree and to assess the given decision. The performance for this part of the question was not that satisfactory. However, considerable number of candidates have attempted this part and were able to score reasonable marks. The common mistake that was observed is showing the advertising cost also in the decision tree.

Examiner suggestions:

It is recommended to practice similar type of past questions.

Question No. 09

Part (A)

This question tested on the knowledge of Standard Costing Variances, preparing an operating statement to reconcile the budgeted contribution with the actual contribution and Cost of Capital.

Performance:

Almost all the candidates attempted for this question and performance was satisfactory for part A(a) and Part B (b) only. Performance for the part A(b) and part B(a) was not satisfactory because candidates didn't have a sound knowledge of preparation of operating statement and calculation of Cost of Capital.

The following mistakes were observed in evaluating the answers for part (A):

- Majority of the candidates have failed to compute the Sales Volume Margin Variance correctly and a considerable number of candidates have calculated Sales Volume Variance instead of Sales Volume Margin Variance.
- Not identifying whether the calculated variance is adverse (A) or favourable (F).
- Preparing flexible budget instead of Operating Statement.

Part (B)

The following mistakes were observed in evaluating the answers for part (B)

- Mathematical errors such as + or - in writing the formulae relating to Cost of Capital.
- Not considering the growth factor % to the formula in calculating the Cost of Ordinary Voting Shares.
- Not using the % mark when calculating the Cost of Capital.
- Not using the IRR technique correctly in calculating the cost of Listed Debentures.

Examiner suggestions:

- Study the theory of the subject and the formulae. It is not sufficient to by heart the formulae, but candidates should understand the rationale behind it the each formula.
- It is always required to show the relevant steps and workings in obtaining answers.
- Try to avoid the arithmetical errors and double check the answers.
- Study and practice the sums in the self-study pack and past papers.

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General points to be considered in developing the level of Understanding of candidates

1. Studying well the full contents of the syllabus completely and develop a thorough understanding about the level of knowledge expected for the each unit or area.
2. Candidates should read the question carefully a several times and should show all the relevant workings related to the computations with clarity.
3. State the assumptions clearly if there are any assumptions involved in answering the questions.
4. Handwriting should be legible and the numbers of questions should be correctly written. Re-checking of question numbers etc. before handing over answer scripts is a must.
5. Following correctly the instructions given in the question paper.
6. Perusal of past question papers and suggested answers would help sharpening of knowledge, skills and experience. It is always advantageous because the similar patterns and the structures may repeat in the real examination papers.
7. Referring the **self-study text** is essential and practicing the examples of the **self-study text** is also vital.
8. Refer books, articles, magazines in relation to this subject and other reading materials related to the relevant subject areas.
9. Time Management is crucial in the examination. By looking at the marks allocated to the each question candidates can make an estimation of the time they require to spend in answering.
10. Appearing for the examination with a firm determination of passing the examination with due preparation.

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