

Examiner's Report

AA3 EXAMINATION - JANUARY 2019

(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 average. Majority of the candidates scored satisfactory marks for this paper specially for question No. 08 and 09. However it was noted that majority of the candidates have either not attempted or given incorrect answers for Question No. **03, 05** and **07**.

Sectional performance:

Candidates' performance for **Section A** was satisfactory, except Question **03**, which was average.

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

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

SECTION A

Question No. 01

This question tested on knowledge of personal finance. In **part (a)** candidates were requested factors that affect the amount that will be saved for a retirement plan. Though this is an easy question, some have not answered properly. They have given the answers without considering 3 factors. Some students had not clearly understood the requirement and some students assumed this pension scheme as a government pension scheme. **Part (b)** of the question tested advantage of retirement plan. Majority has answer correctly. Overall performance for this question is satisfactory.

Examiner's suggestions:

It is recommended to read the chapter properly in the self-study pack.

Question No. 02

This question tested on how to calculate the working capital cycle. Some students had worked out working capital cycle as inventory + debtors collection period + creditors collection period. Few students had calculated the working capital cycle in times instead of number of days. Some have not considered average debtors. It was noted that some have not shown workings. Though final answer is wrong students can earn marks through workings. Some did not know how to calculate inventory residence period and trade payables settlement period considering inventory turnover and trade payable turnover respectively.

Overall performance of this question is at average level.

Examiner's suggestions:

- Read the self-study pack properly.
- Show calculations.

Question No. 03

This question tested on the basic understanding of the concept "Benchmarking". Majority did not know what is benchmarking. Though question itself was given some ideas about benchmarking. Some have answered at least without reading that. Some have given vague answers. Number of students had confused "benchmark" with trademark. Though some students have managed to mention the advantages but not correctly mentioned the disadvantages.

Overall performance of this question is at average level.

Examiner's suggestion:

- Read the question properly before attempting.
- Practise similar type of past examinations questions.
- Read the self-study Text.

Question No. 04

This question tested on how to calculate the breakeven quantity, margin of safety and profit volume ratio. The correct P/V ratio & Break-even point formula are contribution / sales x 100% and fixed cost / contribution per unit respectively.

Some students have used the following wrong ways to calculate the profit volume ratio and break-even sales in units.

$$\text{PV Ratio} = \text{Variable Overheads/ Sales} * 100.$$

$$\text{PV Ratio} = \text{Cost of Sales per Unit/ Selling price per unit.}$$

$$\text{BEP} = \text{Sales Price/ Contribution per Unit.}$$

$$\text{BEP} = \text{Variable overheads} + \text{Fixed overheads}$$

$$\text{BEP} = \text{Number of units produced/ Fixed overhead per unit}$$

Some students took the Profit per unit to calculate the Profit Volume ratio instead contribution per unit. Question was requested to calculate BEP in units only. But some students calculated in value also without reading the question. When calculating margin of safety break-even sales units should be deducted from budgeted sales units. But a few has added.

Overall performance of this question is at satisfactory level.

Examiner's suggestion:

- Practise similar type of past questions.
- Study and get clear idea about the concepts.
- Read the question properly.

SECTION B

Question No. 05

This question tested on calculation of expected value and decision making based on expected value. Majority of the students answered for the **part (a)** but they had not answered for the **part (b)**. Majority of the students have a poor knowledge on how to treat the sunk cost for calculations. Students did not know how to get decision using expected value table. Some students have just calculated the expected value but did not take the decision.

Some have mixed the probability under low, average and high when calculating expected value. When answering **part (a)** some did not know that answer of **part (a)** should be considered. Majority has not deducted income from selling preliminary research.

Overall performance of this question is at average level.

Examiner's suggestions:

- Practise past papers.
- Avoid the calculation errors.
- Workings should be shown properly.

Question No. 06

This question tested how to prepare budgetary control statement using the marginal costing format based on the flexible budget. Some students have only shown budgeted and actual figures but did not prepare the flexible budget. Some students had attempted to calculate variance analysis. Some have used the absorption method instead of marginal cost method. Some have not stated the variance column. Some have did not know that actual sales quantity is used for flexible budget. As well as when calculating fixed overhead in flexible budget. Fixed overhead shown under the original budget should be shown. But some did not know about it. Though variance should be done with actual. Some have done with the original budget.

Overall performance of this question is at satisfactory level.

Examiner's suggestion:

- Practise past papers - similar type of questions were tested.
- Improve the knowledge about budgeting.

Question No. 07

This question tested on decision making based on the incremental contribution and whether the product is further processed or not. In **part (a)** majority has not calculated incremental contribution of processed further. When calculating net profit of further processing, fixed cost on common process was considered. Based on the calculation some failed to give a decision.

In **part (b)** question clearly mentioned that using answer of **part (a)**, calculation should be made. But some have failed to do so. Variable cost on further processing should be considered only for **K3**. Some have consider **K1 & K2** product also.

Most of the candidates had deducted common process fixed cost of Rs.12,680,000/- from each products' contribution.

E.g.:-	K1	K2	K3
Fixed costs	12,680,000	12,680,000	12,680,000

When calculating further process contribution, they have deducted only the further processing variable cost for product K1 & K2 instead of variable cost of common process.

Overall performance of this question is at average level.

Examiner's suggestion:

- Practise past papers.
- Read the Self-study Text.

Section C

Question No. 08

This question tested on knowledge of cost of capital from **part A** and investment appraisal from **part B**.

This question tested on the calculation of cost of sources of capital and project evaluation on selection of a production process. It was also tested on the Equivalent Annual Value (EAV) by giving unequal life cycles for the production process.

Part (A)

Through performance was good for this part the following weaknesses were noted:

- (1) Some students had made mathematical errors in calculation.
- (2) Some students failed to use the correct formulas for the calculation.
- (3) When calculation cost of ordinary shares some had not considered growth factor.
- (4) Considerable number of students had not calculated the WACC and some have considered book value instead of market value.

Part (B)

Through performance was good for this part the following weaknesses were noted:

- (1) This was required to access the viability of investing a new project with NPV and EVA. Majority have answered well but some students have done wrong manner in tax calculation and cash flow calculation.
- (2) Common error was that depreciation was considered as cash flow when calculating NPV.
- (3) 90% had not calculated EVA. Some have divided life time of the project instead of cumulative discount factor.

Overall performance of this question is at satisfactory level.

Examiner's suggestions:

- Practise past papers.
- Follow the Self-study Text.

Question No. 09

This question tested on the knowledge of Variances on Sales Price, Sales Mix, Sales Quantity and Sales Value Variance and the second part tested on knowledge on limiting factors of labour. All the students had attended to this question and performance is satisfactory for both the **part A** and **Part B**. **Part A** was basically application of formulas for each variance. Some students did not do the Sales Mix, Sales Quantity for both **products S** and **Q** correctly.

Common mistakes identified are as follows:

A part (a)

- (1) Some students have confused to identify the Sales Quantity Variance correctly. Instead they calculated Sales Price Variance.
- (2) Not writing (A) - adverse or (F) favorable for variances.
- (3) Using incorrect formula in computing the sales variances.
- (4) Application of wrong values –This may be due to lack of practices.
- (5) There were mathematical errors when calculating variances.

A part (b) – tested the possible reasons for variances. Most of the students answered merely writing that the favorable/adverse variance is more and less than the actual which is not the reasons for variance. The correct answers would be that the actual prevailing market price is higher than the standard price, the efficient usage of material and the standard usage and due to idle time for machine breakdowns etc.

The **part B** was done correctly by most of the students except for some students who did not take the Direct Material cost to the total variable cost may be due to some oversights at the rush for time at the examination.

Overall performance of this question is at satisfactory level.

Examiner's suggestions:

- Always show your additional workings.
- Practise past papers.
- Study the Self-study Text of AAT Sri Lanka.
- Select correct variance formular for application.

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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 practising 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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