

## Examiner's Report

AA3 EXAMINATION - JULY 2017

### **(AA32) MANAGEMENT ACCOUNTING AND FINANCE**

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#### **OVERVIEW:**

This paper has three sections covering 100 marks,

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

#### **General Comments:**

Majority of the candidates' performance for this question paper was not satisfactory. But some of the candidates answered well for this question paper.

#### **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.

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### **SECTION A**

#### **Question No. 01**

This question was tested on the knowledge of the personal finance. It was required to list three (03) advantages of record keeping of personal finance and two (02) ways of achieving financial independence.

**Performance:** Good

#### **Common mistakes:**

It was observed that some of the candidates have not gone through the Self-study Text from their answers. The answers could have been provided based on the general knowledge also. Some of them have not provided a proper standard answer. Although the question was based on personal finance, some candidates have written answers in relation to business organizations.

#### **Examiner suggestions:**

Candidates should go through the Self-study Text and extra reading materials relating to Management Accounting to update the knowledge. It is also required to practice answering for

past papers and practice questions in the Self-study text. It is important to obtain marks for theoretical questions to reach the pass mark.

## **Question No. 02**

This question was tested on candidates' ability to calculate Direct Material Mix Variance.

**Performance:** Average

### **Common mistakes:**

Some candidates were not aware of the formula in working out Direct Material Mix Variance. Due to lack of knowledge regarding the Management Accounting subject, most of the candidates were not able to score full marks allocated to the question.

Some candidates had not identified whether the variance is favourable or adverse.

Some of the candidates have mixed up material quantity and sales quantity and they have erroneously taken sales quantity instead of the material quantity when they calculate Direct Material variance.

### **Examiner's suggestion:**

Candidates are advised to show the workings as how to calculate the variances in this type of question. In almost every examination, there is a question in relation to variance analysis. Therefore, candidates should practice more questions about the variance analysis including advanced variances.

## **Question No. 03**

This question was tested the knowledge of budgetary planning approaches under uncertainty. It was required to prepare three tier budget for the given product.

**Performance:** Poor

### **Common mistakes:**

Some of the candidates were not able to identify that the sales quantity is increased by 50% when considering the upside in optimistic / best possible outcome and there is a 25% down side variance in pessimistic / worst possible outcome. Calculation of variable cost under three outcomes was very poor. It was observed that many candidates have not carefully read and analyzed the details relating to question and as a result they have not adjusted the relevant details in under the relevant outcome.

### **Examiner suggestion:**

Candidates must do more exercises on various types of budgets. Reading and understanding what is expected from the question is very important.

## Question No. 04

This question was tested on the knowledge of calculation of Working Capital Cycle (WCC).

**Performance:** Average

### Common mistakes:

Some of the candidates have added the trade payable settlement period to the WCC instead of deducting the same. Some candidates did not know how to calculate the trade receivable collection period and trade payable settlement period.

Some candidates have not taken the average values for trade receivables and trade payables in calculating the trade receivable collection period and trade payable settlement period.

Some have arrived at the answers without showing workings as to how they have obtained the answers. The stock residence period has been provided in the question for the year ended 31<sup>st</sup> March 2017. However, some had taken average stock residence period which is incorrect. Some have taken the 50 days as inventory residence period erroneously instead of 53 days.

### Examiner suggestion:

Candidates should practise the past papers and similar type of questions to obtain a thorough knowledge.

## SECTION B

## Question No. 05

This question was tested on decision making under risk and uncertainty using expected value methods.

**Performance:** Average. Answers for the **part A** were good but answer for the **part B** was very poor.

### Common mistakes

#### Part (a):

Some candidates have not attempted for this question due to the lack of knowledge about the theory. Certain candidates have calculated the Expected Value under each probability but have not added the three values of each package to calculate the expected value of the package. Several candidates have applied incorrect values for probabilities to the profit of the packages since they could not match the relevant probability value to the appropriate level of Tourists arrival for each package. Generally, answers for the part (a) were satisfactory.

#### Part (b):

Majority of the candidates have not answered. They didn't have a sufficient knowledge as how to calculate the maximum amount to be paid for the services of the research company. Many candidates have not understood that the Expected profit on perfect information has to be calculated and the highest expected profit of the package without perfect information should

be deducted from the value of the expected profit on perfect information to calculate the maximum amount to be paid for the services of the research company. It was observed that there were irrelevant calculations because of not understanding the question properly.

**Examiner suggestions:**

- It is vital to read and understand what is expected from the question before answering.
- Study the Self-study pack to get the basic knowledge and practice the sums. Do the past papers as much as possible.
- Candidates should develop the ability of applying the theoretical knowledge to practical scenarios.
- Candidates' knowledge should be up to date by referring other sources of books available for management accounting.

**Question No. 06**

This question was tested on the knowledge of variance analysis. It was required to calculate the sales price variance, variable overhead expenditure variance and variable overhead efficiency variance.

**Performance:** Poor

**Common mistakes**

Though most of the candidates have written the formula correctly, they have applied incorrect figures to the same.

In the case of sales price variance, most have erroneously applied 80,000 units of budgeted sales instead of 80,070 units of actual sales where actual sales should be applied to calculate the sales price.

For the **part B**, most of the candidates have not given a proper answer and most have just written down the favorable and adverse variances. They didn't have a clear idea about what is meant by an operating statement for the purpose of reconciliation. Candidates should understand that the budgeted contribution should be calculated and the variances should be adjusted to arrive at the actual contribution when preparing an operating statement reconciling the budgeted contribution with the actual contribution.

**Examiner suggestions:**

- Candidates need to develop their theoretical knowledge in relation to the formulae of variances.
- Study the self-study pack well as there are many exercises in this connection. Do the past papers and practice similar sums.
- Candidates should practice to relate the information given in the question correctly to obtain the correct answers.

## Question No. 07

This question tested on knowledge of ratio calculation and performance evaluation.

**Performance:** Poor.

### Common mistakes:

Most of the candidates didn't know how to calculate the ratios. Some of them didn't even know the relevant formulae to calculate the ratios. Most of the candidates have not calculated the company ratio to evaluate the CEO's performance. Some candidates have not mentioned whether the Branch Managers and CEO get rewarded, instead of same, they have just explained the performance based on the calculated variances. Candidates should provide a conclusion based on the supporting calculations when it has been specifically mentioned in the question.

### 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.
- Study and practice the sums in the self-study pack and past papers.
- Try to avoid the arithmetical errors.

## Section C

### Question 08

This question was tested on the candidates' knowledge in combined profit volume ratio, break-even levels in multiple products were tested in **part A**.

Candidates' knowledge in computing limiting factor(s) out of available resources, optimal product mix and related profit calculations were tested in **part B**.

**Performance:** Average

Majority of the candidates who attempted the question were not able to obtain marks for part (b) of A.

Majority of the candidates answered well for part B.

## Common mistakes

### Part A

- Many candidates have calculated contribution per package separately and added together to arrive at total contribution per package and they have forgotten to multiply by number of tourists. Therefore they couldn't calculate the correct combined profit volume ratio.
- Though some candidates have correctly calculated the combined contribution, they have taken unit contribution to calculate the Profit Volume ratio.
- Majority of the candidates have calculated the break-even level separately for two products.

### Part B

- Some candidates didn't have a clear and conclusive knowledge about limiting factors. They have calculated product mix under both factors.
- Some candidates have ranked the product according to the unit contribution, without calculating contribution per limiting factor which is a completely wrong application.
- Some candidates have not shown the necessary calculations and steps though they have calculated the final answer.
- When calculating the part (c) profit for the month at the optimal production level, some candidates have calculated profit separately for three products and have deducted fixed cost separately from all three products which is an incorrect approach.

### **Examiner suggestions:**

- Candidates should follow Self-study text book and practice on some examples.
- Workings related to the questions should be always presented in the answer scripts to score marks.
- Handwriting of the candidates should be legible and presentation of the answers should be methodical.

## **Question No. 09**

Part (A) of this question was based on investment appraisal and Part (B) of this question was based on sources of capital and cost of capital. It was required to identify the relevant cash flows, calculate the Net Present Value (NPV) and state the recommendation on which product to be launched. Identification and computation of Cost of Capital and Weighted Average Cost of Capital WACC was tested from part (B).

**Performance:** Fairly good

### **Common mistakes:**

#### **Part (A)**

- Many candidates have not properly identified the market research expenses which have been already spent on the two products as a sunk cost. It was not a relevant cost for investment appraisal.
- Some Candidates have not correctly calculated the discounting factor in obtaining the discounted cash flows. Some candidates have taken 10% as the cost of capital even though it was clearly stated that the Cost of Capital of the Company is 15%
- Majority of the candidates have not stated the recommendation based on the calculations.

#### **Part (B)**

- Many of the candidates have not taken market value of equity and debt capital for Weighted Average Cost of Capital (WACC) computation.
- Some candidates have not considered the corporate tax rate when calculating the Cost of Debenture.
- There were many arithmetical errors in calculations. Therefore candidates should double check the calculations and they should have the ability to check the reasonableness of the answers given.

### **Examiner's suggestions**

- Follow the self-study pack and reference books to obtain proper knowledge about the rationale behind the sunk cost.
- Practise the past papers since similar types of questions were repeatedly tested.
- Develop a sound knowledge regarding the aspects of Sources of Capital and Cost of Capital.

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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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