

## Examiner's Report

AA3 EXAMINATION - JULY 2019

### **(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 - **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 Nos. **05, 06, 07, 08** and **09**. However majority of candidates had shown lesser performance for Question Nos. **01** to **04**.

#### **Sectional performance:**

Candidates' performance for **Section A** was average.

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

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

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### **SECTION A**

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

This question tested the difference on the concepts of Savings and Investment with an example of each. Though this is an easy question, some candidates have not highlighted the difference and they have given generalized answers based on the mere meaning of the two words. It seems that they have not referred the study pack, past papers, suggested answers, etc. Limited number of candidates had given correct answers and obtained full marks.

***Overall performance for this question was at an average level.***

#### **Examiner's suggestions:**

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

## Question No. 02

This question tested the difference between the feedback control and feed forward control and knowledge on advantages of feedback control. Very few candidates have scored high marks giving the correct answers. Others had the difficulty in differentiating these two controls.

***Overall performance for this question was at an average level.***

**Examiner's suggestions:**

- Refer the self-study pack properly.
- Practice this type of questions from the past examination question papers.

## Question No. 03

This question tested the Trade Receivable collection Period in the working capital cycle from **part (a)** and the strategies to improve the receivable period from **part (b)**. Majority of candidates have written correct formula and calculated the debtors collection period correctly. However, most of the candidates were not able to calculate the credit sales correctly and taken the cost of sales as sales.

Most of the candidates did not give proper answers for **part (b)**.

***Overall performance of this question is at average level.***

**Examiner's suggestion:**

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

## Question No. 04

This question tested the knowledge on computation of Pay Back Period. This is a simple straight forward question. Most of the candidates who attempted this question obtained full marks. However, some candidates had taken depreciation in to the cash flows and subsequently calculated the payback period.

***Overall performance of this question is at satisfactory level.***

**Examiner's suggestion:**

Practise similar type of past questions.

## SECTION B

### **Question No. 05**

This question tested the expected values of three strategies and its evaluation without perfect information from **part (a)**, it was required to assess whether the **WB Ltd.** should obtain the service of the economic research firm from **part (b)**. Considerable number of candidates performed well for **part (a)** of this question. However, some candidates did not compute the total expected value according to each strategy and not identified the best strategy. Some candidates had not shown the workings. Majority of the candidates had not attempted the **part (b)**.

*Overall performance of this question is at an average level.*

#### **Examiner's suggestions:**

- Practise past papers.
- Refer the self-study pack.
- Workings should be shown properly.

### **Question No. 06**

This question requires preparation of a three tier budget. Considerable number of candidates had calculated revenue, drivers' commission and fixed driver's salary correctly but they failed to apply the inflation into three scenarios.

*Overall performance of this question is at an average level.*

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

- Practise past papers.
- Refer the self-study pack.

### **Question No. 07**

This question tested the knowledge on computation of the sources of capital from **part (a)** and the advantages of debt capital over equity capital from **part (b)**.

Few candidates had done the computations correctly and obtained full marks.

Some candidates made the following mistakes:

- (1) Not applied correct formulas.
- (2) Not considered the dividend growth model formula when calculating the cost of ordinary shares.
- (3) The market price of debt capital was not considered when WACC was calculated.
- (4) Not expressed the cost of capital as a percentage.
- (5) Identified the advantages of debt capital from the customers' perspective and not from Company perspective for **part (b)**.

*Overall performance of this question is at an average level.*

**Examiner's suggestion:**

- Practise past papers.
- Refer the Self-study Text to familiarize with the theoretical aspect.

**Section C**

**Question No. 08**

**Part (A)** of this question tested make or buy decision, and **part (B)** tested the knowledge on linear programming.

Most of the candidates answered both **part (A)** and **(B)** very well. Only few candidates had not understood the concepts.

Some candidates had made the following mistakes:

- (1) For **part (A)** lack of knowledge on marginal costing.
- (2) Considered the fixed production overhead for decision making.
- (3) For **part (B)** variables, objective function and constraints had not been written in graphical method.
- (4) Feasible region not correctly identified.

***Overall performance of this question is at satisfactory level.***

**Examiner's suggestions:**

- Practise all the examples in Self-study Text.
- Present all workings.
- Practise the past question papers.

**Question No. 09**

This question tested the knowledge on project evaluation from **part (A)** and tested the knowledge on calculation of Variances and preparation of an operating statement reconciling both budgeted and actual contribution from **part (B)**.

Almost all the candidates had attempted this question and scored high marks for both **part (A)** and **(B)**.

Majority of the candidates had presented the operating statement correctly for **part (b)** of **(B)**.

Some candidates had made the following mistakes:

**Part (A)**

- (1) Some candidates had considered capital allowance for all 5 years instead of 4 years.
- (2) Depreciation had been recorded in the cash flow.
- (3) Capital allowance and depreciation had not been adjusted when tax is calculated.

## **Part (B)**

- (1) Some had not stated that the variance is Adverse (A) or Favorable (F).
- (2) Not written the correct formula for mix and yield variances.
- (3) No proper understanding at which point standard mix / actual mix is applied when mix variance is computed.
- (4) No adequate understanding at which point standard usage / total usage is applied when yield variance is calculated.

***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 formula 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 each unit or area.
- (2) Candidates should read the question carefully 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-check the question numbers before handing over the answer scripts.
- (5) Follow 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 always gives advantage 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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