

EXAMINER'S REPORT

LEVEL III EXAMINATION - JULY 2020

(302) MANAGEMENT ACCOUNTING & FINANCE

Overview:

This paper consisted of three sections covering 100 marks.

1. **Section A** includes four compulsory questions for 20 marks - 5 marks each.
2. **Section B** includes three compulsory questions for 30 marks - 10 marks each.
3. **Section C** includes three compulsory questions each for 50 marks - 15 marks, 10 marks and 25 marks.

General Comments:

Candidates' performance for this paper were satisfactory. However there were some common mistakes.

Sectional performance:

Section A consisted of 4 compulsory questions for 20 marks. Candidates' performance for this section was satisfactory. Question wise performance for this section was as follows:

| Question No. | Performance Rating |
|--------------|--------------------|
| 1 | Satisfactory |
| 2 | Not satisfactory |
| 3 | Satisfactory |
| 4 | Good |

Section B consisted of 3 compulsory questions for 30 marks. Candidates' performance for this section was also satisfactory. Question wise performance for this section was as follows:

| Question No. | Performance Rating |
|--------------|--------------------|
| 1 | Good |
| 2 | Good |
| 3 | Good |

Section C consisted of 3 questions for 50 marks. Candidates' performance for this section was also satisfactory. Question wise performance for this section was as follows:

| Question No. | Performance Rating |
|--------------|--------------------|
| 1 | Satisfactory |
| 2 | Satisfactory |
| 3 | Satisfactory |

Section A

Question No. 01

Part (a) of this question tested on the knowledge of the Management Accounting. It required the candidates to state two advantages of Management Accounting of an organization.

Part (b) of this question tested on the knowledge of the profit analysis/Break-even analysis. It required the candidates to calculate Break Even Point in units and Margin of safety in units.

Common mistakes:

For **Part (a)** - Some candidates have given detailed answers instead of stating facts.
- Some answers given were not relevant to the question.

For **Part (b)** - Some candidates have not calculated the Break Even point and Margin of Safety correctly due to lack of knowledge.

Performance: Overall performance for part (a) and (b) of this question is satisfactory.

Examiner Suggestions:

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

Question No. 02

This question tested the knowledge on the budgetary control. It was required to explain two objectives of the budgetary process of an organization and state two strategies that an organization can adopt when there is a cash surplus situation.

Common Mistakes:

Some candidates have given irrelevant answers. Eg: they have mentioned “Invest in long term assets”, “Give donations to staff” etc.

Performance: Overall performance for this question is not that satisfactory.

Examiner Suggestions:

- Improve hand writing
- Improve theoretical knowledge relating to the subject.

Question No. 03

Part (a) of this question tested on the application of the working capital cycle. It was required to calculate the length of the working capital cycle of the given company. Most of the candidates have attempted this part and have obtained full marks.

From **Part (b)** of this question, it was required to state two strategies that the organization can use to improve trade payable settlement period.

Common Mistakes:

Some candidates have made mistakes when computing respective days for inventory and trade receivables. When calculating the working capital cycle, some candidates have added instead of deducting the payable days. Some candidates have not shown the workings.

Performance: Overall performance for this question is satisfactory.

Examiner Suggestions:

- Theoretical answers should be specific and relevant to the answer.
- Workings should be clearly shown.
- Practice similar type of past questions.

Question No. 04

This question tested on the knowledge of project evaluation of a new investment using payback period. It was required to calculate the payback period of the new investment project for the given company and state with reasons whether the project should be accepted.

Common Mistakes:

- When calculating the number of months of the payback period, some candidates have applied the formula incorrectly.
- Some candidates have mentioned that the project should be accepted as the cash flow is positive.

Performance: Overall performance for this question is satisfactory.

Examiner Suggestions:

- Study to calculate the number of months of the payback period.
- Practice more sums and study the self-study text properly.

Section B

Question No. 05

This question tested on the knowledge of cash budget. It was required to prepare the cash budget for the given month. Most of the candidates attempted this question and were able to obtain full marks.

Common Mistakes:

- Some candidates have calculated the cash receipts correctly as per the given percentage and deducted 2% as bad debts. They had no idea that the total percentage of cash receipts is 98%
- Some candidates have adjusted the finance expenses to the loan repayment of Rs.250,000/-
- Some candidates have taken full administration expenses without removing depreciation. They had no clear idea about cash flows and non-cash flows.
- Some candidates have prepared the answers with four columns named October, November, December and the total, although the question expected only the month of December 2020 with the workings. This shows that the students had not correctly identified the requirements of the question.

Performance: *Overall performance for this question is good.*

Examiner Suggestions:

- Understand the question well before attempting.
- Practice more past papers
- Get a clear idea about cash and non-cash flows

Question No. 06

This question tested on how to calculate the optimal product mix when the company has a limiting factor. Most of the candidates have attempted this question and obtained full marks.

Common Mistakes:

- When calculating Variable Overheads per unit, some candidates have considered only the unskilled labour hours.
- Some candidates have used unskilled labour hours per unit as the limiting factor to calculate the contribution per limiting factor.
- Some candidates have multiplied the Unit contribution by skilled labour hours requirement per unit instead of dividing it.
- Few candidates have tried to solve using formulae.
- Some candidates have calculated total contribution instead of unit contribution.

Performance: *Overall performance for this question is good.*

Examiner Suggestions:

- Read the question and understand well before attempting.
- Practice more similar past paper questions.

Question No. 07

This question tested on the candidates' ability to calculate cost of ordinary shares, cost of Irredeemable preference shares, cost of redeemable debentures and WACC. Most of the candidates have correctly done the cost of ordinary shares and cost of irredeemable preference shares and obtained full marks.

Common Mistakes:

- Most of the candidates have not applied correct formula mainly in calculating the cost of debentures.
- Few candidates have taken issued price instead of market price to calculate the cost of ordinary shares and the cost of irredeemable preference shares.
- Cost of debentures were calculated as Irredeemable debt.
- Market price had not been considered when calculating WACC.

Performance: *Overall performance for this question is satisfactory.*

Examiner Suggestions:

- Practice more and more questions in past papers and self-study text.
- Read the question well and understand the requirement of the question.

Section C

Question No. 08

This question tested on how to calculate Direct Material Price Variance, Material Mix Variance, Material Yield Variance, Labour Rate Variance and Labour Efficiency Variance.

Common Mistakes:

- Most of the candidates have not correctly calculated the variances.
- Some candidates have incorrectly mentioned the favorable and adverse situations.
- Though the written formulae of variance is correct, the application of the figures to the formulae was incorrect at most of the instances.

Performance: *Overall performance for this question is satisfactory.*

Examiner Suggestions:

- Candidates should practice formulas of variances for different scenarios.
- Should practice more similar questions in past papers in order to keep the formulae in mind and the application of figures to the formulae.

Question No. 09

This question tested on the evaluation of a new project using NPV. It was required to calculate the NPV with tax adjustments and assess the viability of the investment. Only few candidates have scored full marks although it was a very simple question.

Common Mistakes:

- Some candidates have not calculated the capital allowances correctly. They have taken full amount of Rs. 32 million for the calculation of capital allowances.
- Some candidates have taken full amount of Rs.32 million as investment and additional Rs.9 million as the working capital.
- Some candidates have not included the Rs. 9 million of working capital as recoverable at the end of the project.
- Some candidates have taken full amount of fixed cost without removing depreciation which is not a cash flow, when calculating NPV.

Performance: *Overall performance of this question is satisfactory.*

Examiner Suggestions:

- Read and understand the question properly before attempting the answer.
- Go through the study pack thoroughly and practice the sums given in the self-study text.
- Understand the cash flows and non-cash flows given in the scenario.
- Practice similar past paper questions.

Question No. 10

Part (a) of this question tested on the knowledge of process costing. It was required to prepare the Statement of Equivalent unit and Process 01 account. Most of the candidates have scored full marks or considerable marks for this section.

Part (b) of this question tested on decision making based on expected value. It was required to assess which marketing campaign is to be used by the given company.

Some candidates have attempted only one part out of two parts (part “a” or “b”).

Common Mistakes:

Part (a):

- Some candidates have considered normal loss when calculating the equivalent units.
- Some candidates have not deducted the sale value of normal loss from direct material cost when calculating the unit cost.
- Some candidates have only attempted the process account and have included the cost of material, direct labour and variable overheads amounts which was originally given in the question.

Part (b):

- Some candidates have multiplied expected selling price by probability.
- Some of the candidates ignored the variable cost, applied probability to the expected sales and deducted fixed cost in arriving at the decision.
- Some candidates have taken total sales value and deducted the variable cost per unit of Rs.1,150/- from the total selling price and multiplied by total expected sales units.

Performance: *Overall performance of this question is satisfactory.*

Examiner Suggestions:

- Study the self-study text and similar books to get a clear idea about the concept.
- Understand the question well before attempting the answer.
- Practice similar type of past questions and self-study text examples.

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