

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS – FINAL EXAMINATIONS

SUBJECT	SESSION
Management Accounting	Summer 2007

General:

Generally the performance was poor. Even in questions on activity-based costing and EOQ where in the past, students scored high marks, a large majority could not do well.

Q.1 To repair existing machine (considering relevant costs) or purchase new one.

This question was one of those in which the performance was relatively better. Common mistakes were as follows:

- (i) Material cost to repair the existing machine was taken at Rs.690,000/- inclusive of sales tax. Sales tax was adjustable against output tax and should have been excluded.
- (ii) Some students considered the cost based on weighted average i.e. Rs.580,000 in their computation, which was obviously not relevant under the given scenario.
- (iii) While considering the labour cost of department "A" many students calculated the contribution lost at Rs. 10 per man hour instead of Rs. 10 per Re. 1 of labour. Moreover, a large number was of the view that only the contribution lost i.e. Rs. 240,000 (labour cost of Rs. 24,000 x 10) was relevant instead of considering the entire loss of revenue.
- (iv) Many students included the labour cost of department "B" although it was not a relevant cost because its workers were sitting idle and no extra payment was required to be made to them for carrying out the repairs of machine.

Q.2 Statement of gross margin and preparation of cash budget.

This was a simple question involving routine type of information. Any student with reasonable knowledge of the common issues involved in the process of budgeting could have secured good marks. However, the students did not approach this question with any planning. As a result they wasted much of their time. Shortcomings noted were as follows:

- (i) Value of sales was split in the ratio of 6:2:4 whereas the question clearly stated that the ratio was in respect of quantities sold. Surprisingly, a large number of students couldn't make simple arithmetical calculations and couldn't work out the product-wise sales. Lengthy method were often used for making simple calculations.

- (ii) While computing the cash outflow in respect of purchase of components, opening and closing stocks were mostly ignored. Moreover, the fact that payment is made after 30 days was also ignored by many candidates. The information that 50% of the overheads were payable in the current month and 50% in subsequent months, was also ignored by many candidates.
- (iii) Surprisingly, in many cases, the fixed overheads were included in computing gross margin.
- (iv) In view of the inordinate time spent on Part (a), many students did not attempt Part (b).

Q.3 Calculating cost per unit under ABC costing method.

In the question, overhead cost per unit was to be determined using the ABC method. On an average, the students scored 4 marks out of 15 in a question where in the past, the score used to be very high. The main reason for such a poor performance was that instead of giving the basis of allocation in a straight forward manner, the examiner had changed the pattern slightly. However, the students who expect to qualify as Chartered Accountants, must be in a position to change their approach according to the situation. This quality was generally lacking. In fact, it is only possible if the concepts are very clear.

The following deficiencies were generally witnessed:

- (i) It was strange to see students completely abandoning the machine hour basis which was still appropriate for allocation of many overheads including salaries of cleaners and maintenance staff, indirect materials, electricity and gas and other expenses.
- (ii) Many students could not calculate the number of set-ups (i.e. by dividing total output with batch size). Consequently they incorrectly allocated set-up costs on the basis of batch size.
- (iii) Inspection costs were wrongly allocated i.e. according to inspection time per batch instead of inspection time for total output.
- (iv) Many students unnecessarily calculated cost of each type of overhead per unit of product. The same result could have been obtained very easily and in much less time by directly allocating the total of each type of overheads, on the same basis.

Q.4 Determining EOQ, whether to avail discount, cost of safety stock.

An oft-appearing and high-scoring exam question, it was poorly attempted this time with only 1 out of 8 student passing and students averaging 3 marks out of 15. Common mistakes were:

- (i) Stockholding costs were taken at Rs. 30 per unit whereas only the variable cost i.e. Rs. 18 was relevant.
- (ii) Many students did not include financing cost as a part of carrying costs.
- (iii) Due to unknown reasons, many students took the financing costs as 10% of Rs. 30 i.e. Rs. 3.00 per unit of inventory. The correct amount was Rs. 30 i.e. 10% of Rs. 300.
- (iv) While considering whether to maintain safety stock or not, many students re-calculated ordering costs in various ways. In fact, ordering cost was in no way connected with the safety stock.
- (v) A large number of examinees did not know that average inventory will increase by 20,000 if safety stock is increased by the same amount. They concluded incorrectly that average inventory will increase by 50% of 20,000 i.e. by 10,000 units.

Q.5 Maximum profit determined by graphical method.

Although about 15% of the students did not attempt the question, yet 72% of those who did attempt, obtained pass marks and 24% scored full marks. Generally, the students lost marks on account of the following:

- The lines representing the constraints were extended beyond the X-axis and Y-axis.
- The constraints $a \geq 0$ and $b \geq 0$ were mentioned by very few candidates.
- In certain cases the constraints and the objective function were not determined correctly.
- Many students failed to identify the feasible region.

Q.6 Measuring change in profit on implementation of quality management program.

It was another simple question. Any student with the ability to understand the impact of change in various policies related to the operations of the company could have solved it correctly. However, most students lacked a proper approach and tried to solve the question in bits and pieces. The question required a comparison of the current position and position after the implementation of quality management program (QMP). The correct approach would have been to draw up a four column worksheet showing current position relating to each of the two types of furniture and the expected position after implementation of QMP. Most students used the other approach i.e. they tried to calculate the increase in revenues and cost saving resulting from the change in each policy. This was a very lengthy method and consequently, lot of time was wasted.

(THE END)