

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
CERTIFICATE IN ACCOUNTING AND FINANCE (CAF) EXAMINATIONS	
EXAMINERS' COMMENTS	
SUBJECT Cost & Management Accounting (CMA)	SESSION Spring 2020

Passing %

1	2	3	4	5	6	7	Overall
41%	28%	53%	55%	54%	7%	63%	48%

General comments

The overall performance in this attempt has improved markedly (48%) in comparison to previous attempt (31%). However, performance in Question 6 reflected selected study as majority of examinees performed poorly on a straight-forward question on bond valuation.

It is generally observed that examinees tend to attempt answers without strategizing the approach and format for the answer resulting in missing out important information given in the questions, uncalled long workings and wastage of time. It is suggested to utilize the reading time effectively and read the requirement and information given in the questions carefully before answering the questions.

Question-wise common mistakes observed

Question 1

- Idle time variance was either not calculated or wrongly calculated.
- Instead of calculating fixed production overhead expenditure variance, overall fixed production overhead variance was calculated.
- Every variance was analyzed on a standalone basis and examinees could not draw a holistic picture by taking the total variance into consideration, e.g. material usage and material price variances were evaluated separately without considering the impact of total material variance.
- Evaluation in many cases was restricted to whether the variances were favorable or not and no discussion was done on departmental heads' views.
- Discussion of likely impact on the long-term profitability of the company was missing.

Question 2

- Labor supply constraint factor was missed altogether as sales volume was expected to increase by 25% but labor efficiency could only be increased by 15%. Therefore, entire production cost was computed on the basis of 25% increased production instead of 15% increase.
- Production capacity of 6 million units was wrongly taken as last year's production.

- Labor supply constraint was not considered thereby option of import from China to meet the demand was also missed out.
- For calculation of sales commission, prior year's sales volume and the increased sales volume were not divided correctly by using the ratios given in the question.
- Sales commission percentage was applied to sales volume instead of sales revenue.

Question 3

- Evaluation of option of discontinuing the operations now was altogether missed out.
- Tax on gain on sale of equipment if operations are discontinued now was ignored.
- Cash flows were presented for five years despite the fact that it was mentioned that two years had already been elapsed. Due to this, discount factor was wrongly applied in determining the net present value.
- The given trends in sales, variable costs and fixed costs were either not considered or wrongly applied while determining the projected cash flows for the remaining three years.
- Residual value was subtracted from cost while computing depreciation by using reducing balance method.
- Residual value was not considered while computing the gain / loss on sale of equipment.

Question 4

- Instead of determining the total cost of each given element and later on to divide with total number of units, many examinees attempted to compute cost per unit of each given element separately. This approach required more detailed computation and examinees made mistakes out of confusion.
- Cost of penalty for AA-2 was added to the contract cost instead of subtracting it.
- Irrelevant costs were also included in the cost of contract.
- Cost of idle hours saved was added in the cost of contract instead of subtracting it.
- Learning curve information was either ignored or wrongly applied.

Question 5

- Normal loss was either ignored or wrongly computed while determining the units produced.
- Sales revenue was computed on the basis of units produced instead of units sold.
- NRV was applied while computing the sales revenue instead of the selling price.
- Cost of Process I was allocated using per unit NRV instead of total NRV.
- Opening and closing stocks of Product R were included in the quantity schedule of Process I.
- Cost of Process II was not deducted while computing NRV of Product R at the end of Process I.

Question 6

- Redemption value of bonds was compared with present value of shares while interest element was altogether ignored.

- Interest amount was computed on the basis of annual mark-up rate instead of semi-annual mark-up rate.
- Cash flows were discounted by using mark-up rate instead of cost of capital.
- The annual cost of capital rate was used for discounting semi-annual cash flows.

Question 7 (a)(b)

- Many examinees could only offer 2-3 situations. Some examinees repeated the same situation with different wordings to meet the requirement of listing four situations.
- EOQ model was attempted to be applied despite the fact that information regarding bulk purchase discount was given in the question.
- Annual production was taken as annual usage and normal loss of 5% was not considered.
- Cost per kg was applied to order quantity size instead of annual usage for the purpose of determining total purchase cost.
- Fixed cost was not excluded from the calculation of holding cost per unit.

The End