

**INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**EXAMINERS' COMMENTS**

<b>SUBJECT</b>	<b>SESSION</b>
Cost and Management Accounting	Certificate in Accounting and Finance (CAF) Examination - Spring 2021

**Passing %**

1	2	3	4	5	6	7	Overall
84%	34%	7%	41%	86%	42%	64%	48%

**General**

The overall performance in this attempt has improved significantly (48%) in comparison to the previous attempt (26%). Except Question 3, the overall performance was satisfactory. In Question 3, it was observed that most examinees simply ignored a note mentioned with the requirement of the question that month-wise/quarter-wise cash budget is not required. Despite this note, these examinees prepared month-wise/quarter-wise cash flows and made many mistakes which could have been easily avoided. It is therefore advised to all the examinees to carefully read the requirement of the questions before attempting the answer.

**Question-wise common mistakes observed**

**Question 1**

- Normal loss was computed on input units without deducting closing WIP.
- Abnormal gain was added instead of subtracting it in computation of equivalent production units for material and conversion costs.
- Scrap value of normal loss was not deducted from total process cost for computation of cost per unit.
- Incorrect entries were made for normal loss and abnormal gain, which demonstrates weak concepts. Please refer ICAP's suggested answer for correct entries.

**Question 2(a)**

- Sustainability reporting was not explained with clarity.
- Most examinees could not manage to list down the relevant external benefits.

**Question 2(b)**

- Settlement between PPL and MI was computed even at 9% interest rate. Most examinees failed to pick the point that no settlement will be made if interest rate is within the agreed cap and floor.

### **Question 3**

- Most examinees made the mistake of attempting this question by preparing a month-wise/quarter wise budget even though it was clearly mentioned in the question that month-wise/quarter-wise cash budget was not required. This resulted in wastage of time and errors in computation of cash inflows and outflows.
- Opening and closing inventory of finished goods and raw material were either not computed or computed incorrectly using annual production units instead of quarterly production.
- Cash inflows from revenue were computed using production units instead of units sold.
- Total units sold was not bifurcated correctly between cash sales and credit sales.
- Sale proceeds from solid waste was not subtracted from variable cost per unit and in many cases it was not even taken as a cash inflow in the cash budget.
- Selling prices for cash sales and credit sales were not computed separately. Most examinees computed a single selling price and computed cash inflows from revenue using that one price.

### **Question 4**

- The question explicitly required journal entries relating to inventory, yet many examinees prepared entries related to sales and receivables.
- Weighted average rates were not computed correctly under the perpetual inventory system.
- Incorrect head of accounts were debited/credited.

### **Question 5**

- Cost computed for the two departments was not allocated to Shine and Glow.
- Over/under absorbed overheads were incorrectly computed by comparing the total cost of the two departments with absorbed overheads of the two products.

### **Question 6 (a)**

- Elements of relevant cost were inflated from year 2 instead of year 1.
- Most examinees failed to correctly identify the two options available for raw material. As a result of that, in most cases the decision making process was entirely skipped and the option to convert Z1 into Z-plus was combined with partial purchase of Z-plus for computation of material cost of year 1.
- Learning effect was incorporated in computation of skilled labor hours for first nine batches of all three years instead of just year 1. This resulted in incorrect computation of labor hours for year 2 and year 3.
- Idle labor hours were not deducted from total skilled labor hours while computing relevant cost for skilled labor.
- The option to outsource the task of semi-skilled labor was ignored and no decision making was done for computation of relevant cost.
- In computation of variable overheads, skilled labor hours net of idle hours were taken instead of total skilled labor hours.
- Total fixed overheads were taken as relevant instead of just the attributable portion of 75%.

**Question 6(b)**

- Sales revenue was inflated from year 2 instead of year 1.
- Depreciation and loss on disposal was not added back for computing net cash flows.

**Question 7**

- Additional wastage of 1% was computed on total raw material units instead of raw material to be purchased from new supplier.
- Production increase of 10% was ignored in computation of costs.
- Computation of semi-skilled labor hours in replacement of skilled labor hours was computed incorrectly.
- Impact of inflation was ignored in some cases.
- Target profit was incorrectly computed by multiplying the gross profit margin with the total cost.

***(THE END)***