

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Cost and Management Accounting	SESSION Certificate in Accounting and Finance – Autumn 2015

General:

The overall performance in this attempt was better than the previous attempt mainly due to very good performances in Questions 2, 3 and 7. Question-wise comments are as follows:

Question 1

An average response was observed in this question pertaining to by-products and joint products. The commonly observed errors were as follows:

- Majority of the students did not compute the abnormal loss and those who did compute the quantity did not deduct the cost thereof in arriving at the cost of good production.
- Joint cost of production should have been allocated between Sigma and Beta on the basis of NRV at split point. In arriving at the NRV of Beta many students did not deduct the cost of refining. Further, many students allocated the joint cost on the basis of sale price or on the basis of units produced.

Question 2

This was an easy question and the requirement was to compute the IRR of a project. A good performance was witnessed as more than 50% students scored full marks. However, some students lost this scoring opportunity by making the following mistakes:

- Cost of technical support was ignored while determining the net cash flows.
- Cash flows were taken from year 2 to year 5 instead of year 1 to year 4.
- Cost of sales and operating expenses were calculated on sales net of CLs share instead of gross sales.
- Those students who obtained either both negative or both positive present values could not apply them correctly in the formula for interpolation.

Question 3(a)

This part of the question was quite easy and almost all the students performed well mostly securing full marks.

Question 3(b)

This part of the question was also quite easy and majority of the students secured high marks. The mistakes observed were as follows:

- Many students considered the investment in machinery as addition to fixed cost whereas only the 10% depreciation represented the additional fixed cost.
- Most of the students computed total capacity as 125% of the capacity utilization of 6,000 units whereas the revised capacity should have been worked using the Normal Capacity of 7500 $\left(6000 \times \frac{100}{80}\right)$ units.

Question 4(a)

This part requiring computation of Equivalent units of production was quite easy and many students secured full marks. However, many students were confused as regards treatment of the Normal and Abnormal losses. In many cases, either both types of losses were included in the equivalent production or both were excluded.

Further, most of the students did not understand the significance of the fact that inspection takes place when the units are 90% complete. Consequently, they applied the normal loss percentage on the closing WIP also which was only 60% complete. Some of them applied the percentage on units started during the month and ignored the opening units. Further, many students computed the Abnormal Loss related to conversion as if the units were fully converted, instead of restricting the conversion loss to 90% of the units lost.

Question 4(b)

This part of the question required computation of variances. One of the most common mistakes observed in the students' response was that units produced and transferred to finished goods were used in calculating the variances instead of Equivalent units. Another common mistake pertained to calculation of Standard Variable Overhead Rate. It should have been computed either as Rs. 104 per unit $\{(Rs. 120 \times 130\%) - (40 \times 1.5)\}$ or Rs. 64 per hour $(Rs. 80 \times 130\% - 40)$. Instead, many students computed it as Rs. 116 per unit $(Rs. 120 \times 130\% - Rs. 40)$.

Further, many students did not specify whether the variance calculated by them was Favourable or Unfavourable.

Question 5(a)

In this part of the question, the students were required to discuss the term 'Intrinsic Value' and explain how it is computed in the case of call option and put option. Since this topic was included in the syllabus for the first time, majority of the students seemed unprepared and the overall performance was poor. Most of the students either ignored it altogether or used pure guesswork without any success.

Question 5(b)

The performance in this part was equally bad. However, some of the seemingly intelligent students were able to grasp the requirement as the data was quite simple. They were able to produce correct answers in this part despite their poor performance in part (a). Many students treated the given option as if it was a call option instead of a put option.

Question 6

The overall response to this question was poor. Only few students were able to properly handle the timing of cash flows correctly. The commonly observed errors were as follows:

- Period for collection of sales was 7 days, both in case of sales through courier as well as sales through credit card except sale of high value items. However, collection from sales of high value items was made 8 days in advance i.e. 15 days in advance less 7 days taken by bank to credit the amount. Most of the students failed to analyze this situation correctly and a number of different incorrect alternatives were tried.
- Sales of the high valued items was 25% of sale through credit card i.e. 10% (25 of 40%) of total sales. Instead, many students took it as 25% of total sales.
- While computing payment on account of purchases, most of the students correctly worked out the cost of sales for the quarter. However, the cost of sales needed to be adjusted with opening and closing stocks to arrive at the purchases, which were not correctly dealt with by a large number of students.
- Though it was specifically mentioned in the question that month-wise cash budget is not required, many candidates prepared it on month by month basis and wasted precious time.
- According to the question, stock of high value items was not maintained as these were purchased on receipt of order. Many students failed to understand this and as a result, calculated incorrect values of opening and closing stocks.
- Cost of sales was computed correctly by a number of students; however, the concept of 40% payment in current month and 60% in subsequent month was not applied correctly by most of the candidates.

Question 7(a)

Above average performance was witnessed in this question requiring calculation of Economic Order Quantity. The common mistakes were as follows:

- In such questions, it is important to convert all values to the same time frame i.e. either on an annual or monthly basis. Many students took the carrying cost on per month basis and all other values on annualized basis.
- Many students failed to understand that the final product was chocolate but the item to be purchased was coco powder. Consequently, they took the annual demand as 80,000 kg. Further, many students ignored the process losses while determining the purchase quantity. Further, the process losses were 4% of input whereas many candidates calculated it as 4% of output.

- Some students took the Ordering cost as Rs. 120 or as Rs. 6 million instead of Rs. 50,000 i.e. Rs. 6 million divided by number of orders i.e. 120.

Question 7(b)

The performance in this part was good. However, the following errors were noted:

- Buffer stock was ignored in the calculation of holding cost.
- Holding cost was calculated on the basis of EOQ instead of average stock.

Question 8

This was a theoretical question based on IFAC sustainability frame-work. The performance was very poor. Being a newly introduced topic very few students had the required knowledge and attempted part (a) through guesswork whereas part (b) was mostly left un-attempted.

Question 9

This question required the candidates to make a decision on the basis of the given situation. The options available were as follows:

1. Close the factory immediately and rent it.
2. Produce and sell 30,000 units at the current price.
3. Produce and sell 40,000 units at the lower price.

The overall performance was below average. Common mistakes were as follows:

- Majority of the students compared only option 1 with option 3 and ignored option 2.
- Most of the students assumed that in case of renting, fixed costs would not be incurred. This was not correct because fixed costs represented apportionment of expenses and since only one factory/segment was being closed, these costs would have continued to be incurred in any case.
- Most of the students got confused in determining the impact on realizable value of machine under options 2 and 3. Only the decline in value at Rs. 5 per unit should have been taken into consideration. Instead, most of the students determined the impact by adding the entire realizable value of Rs. 830,000 with the amount computed @ Rs. 5 per unit.
- Many students failed to identify the income generated from use of material in other department, if the factory was rented out.
- Many students performed calculations without clearly identifying the option to which they pertained.

THE END