THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS' COMMENTS	
SUBJECT Cost and Management Accounting	**SESSION** Certificate in Accounting and Finance Autumn 2016

General:

The overall performance in this paper was good. The result was almost the same as in the last attempt i.e. 49.44% as compared to 49.01% for the last attempt. However, it was noted that areas where students performed poorly were same as last attempt i.e. cash budget (Q.1), cost variances (Q.7) and sustainability reporting (Q.8).

Major reason for failure of many students was lack of presentation skill as they framed their answered without any thoughtful process and workings were prepared in a haphazard manner. In some cases workings were given on the last page of the answer script without mentioning any question number.

Question-wise comments

Question 1

This question required preparation of cash budget. Overall performance in this question was below average. Marks were mostly scored in the easy part of the question i.e. sales. Most of the students were unable to compute budgeted import/local purchases correctly. Some of the common mistakes were as under:

- Instead of calculating cash and credit sales separately, many students calculated cash sales net of discount and total sales and took the difference between the two as the credit sales.
- Majority of the students did not know how to deal with the amount of advance against imports and made numerous types of errors.
- 30% growth in sales was ignored while computing closing inventory.
- Many students computed purchases and treated it as payment without adjusting opening and closing balances of trade creditors. Similarly, some students computed raw-material consumption and treated it as purchase without considering the opening and closing inventory balances.
- Sales growth of 30% was not considered for calculation of variable and operating costs whereas some students applied to the fixed cost also.
- Many students did not exclude deprecation while computing cash outflows on account of fixed costs.

Question 2

The requirement of this question was to assess feasibility for expansion of the production capacity by computing net present value (NPV) based on the given scenario. This was a very well attempted question as 78% students were able to secure passing marks. The errors observed were as under:

- Inflation rate of 5% was applied from year 1, instead of applying it form year 2.
- For calculation of NPV, given 15% cost of capital was adjusted to incorporate 5% inflation. As this adjusted rate of cost of capital was applied to all the costs, it ended up in incorrect NPV.
- Loss of the building rent is an opportunity cost, but most of the students ignored it altogether.
- Many students incorrectly treated cost of building as outflow in year 0 and written down value of the building at the end of year 4 as inflow.
- Many students computed increased fixed cost in proportion to the increase in production.
- Most of the students failed to consider the recoupment of working capital at the end of year 4.

Question 3

This question was on process costing, requiring the students to compute equivalent production units, cost of finished goods, closing WIP and abnormal loss/gain and accounting entries to record production gains/losses. The question was well attempted and 75% students were able to secure passing marks. However, the common mistakes were as under:

- Most of the students failed to correctly compute normal/abnormal loss units. It was not realized by most of the students that losses are determined on 80% completion of the process and hence both opening and closing WIP units would be excluded from the total input units as opening units were already subject to normal loss being 85% complete and closing units were not subject to inspection being 60% complete.
- While computing equivalent units of conversion, abnormal loss units were not reduced to 80%.
- Significant number of students included normal loss units in equivalent production.
- While computing cost per unit, realisable value of normal loss unis was not deducted from the material cost.
- Cost of opening WIP was incorrectly added to the material cost. Since the company's policy was to use FIFO method, WIP should have been kept separately and added to cost of finished goods.
- While recording production losses, most of the students did not prepare any accounting entry for sale value of normal losses or prepared incorrect entry by crediting profit and loss account instead of WIP account.

Question 4

The question was well answered by most of the students and about 11% students secured full marks.

Question 5

In this question, the candidates were required to determine the sale price per unit and number of units to be sold for a new chemical which the company planned to produce, in order to earn incremental profit before tax of Rs. 10 million.

An average performance was witnessed in this question. Some of the common mistakes were as under:

- Many students were unable to understand the question correctly. Instead of computing cost per batch they misunderstood the given costs as cost per batch without taking into consideration the other relevant information.
- Depreciation on existing plant was not relevant for incremental analyses but it was taken as fixed cost by most of the students.
- Fee for acquiring the right to produce and market the new product was either not considered at all or only one month charges were taken as charge for the full year. Further, some students treated these as variable cost.

Question 6

This was a very well attempted question and 91% students were able to secure passing marks. The question required optimal production plan in a situation where availability of raw material was a limiting factor. The errors observed were as under:

- Since product C was to be used internally, some students did not take it into consideration altogether.
- Instead of ranking the products on the basis of contribution margin per unit of raw material, contribution margin per unit of production or profit per unit of raw material was used for ranking.
- Committed export sales quantity of Product B was required to be produced first irrespective of its ranking. Most of the students ignored this point.

Question 7

This question required computation of material and labour variances and computation of applied fixed overheads and analyses of under/over applied fixed overheads into expenditure, efficiency and capacity variances.

Average performance was witnessed in this question. Some of the common mistakes were as under:

- Many students were unable to correctly compute actual yield and ended up in wrong material yield variance, labour efficiency variance and fixed overhead efficiency variance.
- Many students computed the variance but did not mention whether it was a favourable or an adverse variance or mentioned it incorrectly.
- To compute cost of material issued, instead of using the required FIFO method, many students used weighted average or simple average method.
- While computing material price variance, many students used cost of material purchased instead of cost of material issued to production.

- While computing material price and mix variances, many students mistakenly used per unit standard material cost of Zee instead of standard cost per kg. Whereas, while working material yield variance cost per kg was taken instead of cost per unit. Similar mistakes were also observed in the case of labour rate and efficiency variances.
- To compute fixed overhead efficiency variance, budgeted hours were taken as allowable hours instead of computing it by multiplying actual production units with standard direct labour hours per unit.

Question 8

In this question the candidates were required to explain 'sustainability reporting' and state its four internal benefits. The performance was below average. Only few students were able to fully explain sustainability reporting whereas most of the students mixed up internal and external benefits.

Question 9

This question required calculation of market value of 8% redeemable bonds when required rate of return of the bondholders was 10% and expected value of ordinary shares on the conversion date was (a) Rs. 12 per share (b) Rs. 10 per share.

The performance was very poor. 44% of the students left this question un-attempted, while most of those who attempted it had very little idea of the procedure to be followed. They are advised to refer to the suggested answer given on the Institute's website.

THE END