

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

**Examiners' comments
Cost and Management Accounting
Certificate in Accounting and Finance
Autumn 2017 Examinations**

General:

22.73% candidates passed as compared to 29.27% in the previous attempt. The overall performance was below par although most of the questions were quite simple. Only questions 3 and 4 were well responded. The response in questions 1, 6 and 8 was average while remaining questions were responded quite poorly.

Many students made simple mistakes which could have been avoided easily. For example, in question 1, joint cost was allocated on the basis of number of units produced whereas it was specifically mentioned in the question that it has to be allocated on the basis of NRV.

Question-wise Comments:

Question 1

37.15% candidates secured passing marks in this question. Common errors are discussed below:

Question 1(a)

- Cost of abnormal loss was computed on the basis of cost of direct material only i.e. without deducting sale proceeds of solid waste and by product.
- Cost of abnormal loss was not deducted while computing the joint costs.
- Joint cost was allocated on the basis of number of units instead of their NRV.
- Sale price of J-plus was considered as the NRV of J202 i.e. cost of converting J202 into J-plus was ignored.
- While computing cost of sale of J101, packing cost was ignored.
- The entire joint cost of J202 was included in the cost of sale of J-plus instead of allocating the joint cost between work-in-process and cost of sales.

Question 1(b)

- Cost was allocated to normal loss also.
- Inventory account was credited without showing how the balance arose i.e. the entry to debit the normal and abnormal losses to solid waste inventory account and credit to WIP account was not passed.

Question 2

07.86% candidates secured passing marks in this question. 42% candidates did not attempt this question. This area i.e. integrated reporting was tested for the first time and as is usually the case, the performance was very poor. Mostly, the candidates used guesswork and remained totally out of context.

Question 3

90.28% candidates secured passing marks in this question. Common errors are discussed below:

- Over/under applied overheads were computed by comparing actual overheads with budgeted overheads instead of applied overheads.
- Underapplied overheads were termed as overapplied and vice versa.

Question 4

80.51% candidates secured passing marks in this question. Common errors are discussed below:

- The figures for year 1 were given in the question. Hence, impact of inflation was to be applied from year 2 but was incorrectly applied from year 1.
- The increase in fixed costs was ignored.
- Loss of contribution margin due to decrease in the sale of X85 was ignored.

Question 5

05.99% candidates secured passing marks in this question. Common errors are discussed below:

- Opening and closing balances of raw material, WIP and finished goods were ignored.
- Change in material and labour due to the change in wastage and efficiency respectively, was not understood correctly and various types of erroneous calculations were produced.
- 100% conversion cost was included in cost of WIP units instead of 60% conversion costs.
- Budgeted production was computed as 10% above the current year's production instead of increasing current year's sale by 10% and computing production by considering the opening and closing inventory of finished goods as equivalent to one months projected sale.
- Fixed overheads were increased by 5% (inflation) without excluding depreciation and adding the increase in depreciation.

Question 6

47.40% candidates secured passing marks in this question. Common errors are discussed below:

- Loss of contribution margin because of not producing car radiators was ignored. The fact that number of car radiators that could have been produced would depend upon the labour hours involved in production of truck radiators was generally misunderstood.

- Raw material which had already been acquired should have been considered at its opportunity cost which was 70% of the cost. This aspect was ignored.
- Cost of preparing the plant for truck production and resetting it for car production was ignored.

Question 7

11.01% candidates secured passing marks in this question. Common errors are discussed below:

Question 7(a)

- Fixed overhead variances were analysed but variable overheads were ignored.
- Budgeted overheads were considered as applied overheads.
- Applied overheads were used in the calculation of expenditure variance instead of actual overheads.
- Instead of debiting work-in-process or finished goods, applied overheads were debited.
- The difference between actual and applied overheads was closed into over applied or under applied account rather than the P&L account.

Question 7 (b)

This part was not attempted in most of the cases. Those who did attempt mostly produced totally irrelevant material.

Question 8

26.19% candidates secured passing marks in this question. Common errors are discussed below:

- Various types of errors were made in computing the projected sale as the students ignored the impact of one or more of the following:
 - Capacity of the new plant would be 20% more than the existing plant
 - Existing plant was running at 70% capacity
 - Price reduction of 2%.
- Variable costs (Direct Material, Labour and variable overheads) were computed by taking the costs for 2017 and applying the impact of changes in the costs, wastage, efficiency etc. but ignoring the increase in sales.
- Only the interest on loan and depreciation on the new plant were considered in determining the projected fixed costs whereas existing fixed costs were ignored.
- Impact of inflation was applied on depreciation also. / Depreciation of existing plant was not separated from existing fixed overheads, for arriving at the projected fixed overheads.
- Margin of safety was not computed.

(THE END)