THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS' COMMENTS	
SUBJECT Cost and Management Accounting	**SESSION** Certificate in Accounting and Finance – Spring 2017

General:

Overall result of this attempt was much below as compared to the performances in the last two attempts. Majority of the students seemed unable to complete the questions and solved the easier parts of the questions only. This type of situation is usually attributed to lack of practice i.e. where the candidates try to understand the concepts without actually practicing them. As a result, they are unable to understand the finer points. The candidates are advised to note that good practice is essential if one is to perform well in subjects involving mathematical problems.

Besides the above, it was noted that about 26% of the candidates were totally unprepared for the examination as they scored less than 30 marks. The performances were particularly poor in question # 1, 4, 5 and 9 as in each case between 27% to 64% of the students could not secure any mark as they were unaware of even the very basic concepts.

Question-wise comments.

Question 1

The overall performance was average as 33% students secured passing marks. However, very few of them could score high marks. On the other hand, about 37% of the students had no idea whatsoever and could not secure any mark. The common mistakes were as follows:

- Instead of applying the learning curve effect on direct labour hours, some candidates applied it on direct labour cost.
- Fixed cost was not ignored in calculating the contract price.
- Instead of computing the labour hours required by the eighth batch and then applying them on the remaining 12 batches, many candidates used average labour hours for the first eight batches. Similar type of errors were observed in the calculation of set-up costs also.
- Cost of direct material and variable overheads were ignored.
- Contract price was calculated as 130% of cost instead of by computing profit at 30% of the contract price.

Question 2

This question was based on a simple situation according to which a company wanted to adopt stock management system based on Economic Order Quantity (EOQ) model in place of its existing practice. The requirement was to compute the Economic Order Quantity (EOQ) and the saving which could be achieved by adopting the EOQ model.

The performance was average and around 40% of the students secured passing marks. Many students restricted their answer to requirement (a) of the question. Other common mistakes were as follows:

- Cost of financing the inventory was ignored in the calculation of holding costs. Some students applied the total holding costs in the formula, instead of applying the holding cost per kg.
- Many candidates did not know how the new purchase price was to be calculated i.e. by dividing the existing cost by 0.9 (90%) and multiplying it by 0.92 i.e. 92%.
- Sales tax was included in the cost of purchase although it was refundable.
- Financing cost was computed on the existing price instead of the revised price. Many students computed the financing cost on monthly basis i.e. at 1% instead of 12% on an annualised basis.
- A number of students couldn't understand that the number of purchase orders under the existing situation was 2 per annum.

Question 3

In this question, the candidates were required to prepare work in progress account in a job order system and to pass accounting entries related to over/under applied overheads and production losses/gains.

The overall performance was average as 42% students scored passing marks. However, most of the students did well in preparing the work in progress account but displayed poor understanding of the accounting entries.

The common mistakes were as follows:

- Equivalent units were computed incorrectly as abnormal gain was added rather than being deducted. Some students included normal loss in the calculation.
- While calculating per unit cost of raw material, proceeds from sale of normal loss units was ignored.
- Actual factory overheads were debited to the work in process account instead of applied overheads.
- Accounting entry for closing the under/over applied factory overheads was ignored by many students.
- A number of students who had posted the abnormal gain correctly into the WIP account could not pass the complete accounting entry which showed lack of conceptual understanding.

Question 4

The performance in this question on budgeting was poor as only 13% candidates could secure passing marks. The requirement was to prepare budget for material purchases, direct wages and overheads and cash payment budget for a month (June) which required some calculations involving previous as well as future months.

Majority of the students made some apparent errors. On the other hand, many knowledgeable candidates seemed to suffer from lack of practice and presentation skills, as a result of which they indulged in long and repetitious computations instead of developing a proper format which would have made the calculations much easier.

Other common mistakes were as follows:

- Normal loss was added to cost of sales although it is already included in cost of goods produced.
- Cost of sales was taken as the cost of goods manufactured i.e. opening and closing stock of finished goods were ignored. Consequently, raw material purchases were computed incorrectly.
- Majority of the candidates were unable to calculate payment to canteen contractor correctly as they failed to realise that since 5% contribution to canteen contractor was included in wages, amount excluding the contribution could be calculated by dividing the gross amount by 1.05 i.e. multiplying by 100 and dividing by 105.
- While computing payment of overheads, depreciation was not excluded.

Question 5

This 4 mark question pertained to interest rate hedging and was quite simple. However, the overall performance was quite poor. Though 27% candidates secured passing marks, about 40% students did not attempt it altogether and 26% could not secure any mark. It seemed that majority of the students had not covered this part of the syllabus in their studies which has been included in the syllabus recently. However, even if they had tried using common sense, they could have scored marks. The candidates are advised to avoid selective studies.

Question 6

The overall performance in this question pertaining to standard marginal costing was average and about 40% of the candidates secured passing marks. The common errors were as follows:

- Majority of the candidate were unable to segregate the Standard Overhead Rate between fixed and variable rates. Most of them didn't try and are advised to seek guidance from the suggested answer in this regard.
- In part (a) many students prepared incomplete P&L i.e. discontinued after computation of contribution margin.
- Many candidates presented the net variances i.e. did not bifurcate the variances between price & usage variances, rate & efficiency variances, etc.
- In part (b), many candidates ignored the difference between closing stock under standard and actual costs.
- Production cost was calculated on the basis of 10500 units instead of 12000 units.

Question 7

In this 16 mark question, the candidates were required to evaluate an investment proposal. Average response was observed in this question as compared to previous attempts in which students were scoring high marks in NPV based questions, as only 36% candidates secured passing marks. In many cases, simple mistakes were witnessed merely because of not reading the question carefully. The common errors were as follows:

- Many students ignored the fact that the cars would operate on a 24 hour basis and hence the number of drivers and number of mobiles, etc. would be three per car.
- Many students ignored inflation altogether whereas many students applied it even on the first year.
- Residual value of car was taxed instead of profit on disposal of car. Many students ignored it altogether.
- Some students wasted precious time in computing the IRR which was not required.
- Majority of the students did not understand that insurance premium would be paid from Year 0 to 3 but for tax purposes, it would be charged in Year 1 to 4.
- Many candidates increased the car maintenance cost by 15% instead of 15.5% (1.05*1.1-1).

Question 8

According to the scenario in this question a company's production capacity was limited to 50,000 machine hours. The candidates were required to identify the type of components and their quantity, which the company should acquire externally, based on the given information.

This was the best attempted question and 77% candidates secured passing marks and 39% students secured full marks. However, some candidates made simple mistakes as are discussed below:

- For the purpose of ranking, the difference between cost of buying and variable cost of production should have been divided by the number of machine hours. Instead, the production cost was divided by the machine hours.
- Many candidates ranked the components on the basis of machine hours only.
- Total factory overheads were included in the cost of production instead of variable overheads. Some students included allocated administrative overheads in the cost as well.

Question 9

In this 08 mark question, the candidates were required to compute the budgeted sale which would give a company 25% margin of safety on sale and to compute the budgeted production based on the budgeted sale as computed above. The overall performance was below average as only 25% candidates secured passing marks.

In this question also, the candidates seemed to suffer from lack of practice as they carried out unnecessary calculations where simple alternatives were available. For example, contribution margin per unit could have been computed by taking the sale price per unit and the cost per unit. Instead, many candidates calculated it by first calculating the total contribution margin. Another major issue was that the candidates' lack of understanding about margin of safety and how it had to be calculated. Other common errors were as follows:

- Sales commission to marketing agents was ignored.
- In computing the fixed costs, annual bonus was ignored.
- Revised variable costs were computed on the basis of revised selling price of Rs. 3,300 instead of existing sales price of Rs. 3,000 whereas sales commission to marketing staff was computed on existing sales price of Rs. 3,000 instead of revised sales price.

THE END