

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Cost and Management Accounting	SESSION Certificate in Accounting and Finance – Spring 2018

General:

The overall performance was good as 54% of the candidates secured passing marks. However, performance in the question on inventory management was very poor. An area of concern was the students' presentation as in many cases the calculations were performed without any description and it was left to the examiner to understand what is being done. In many cases, this results in loss of marks. Moreover, probably due to lack of practice, many students used lengthy steps to perform simple calculations where shorter alternate methods were available.

Question-wise comments:

Question 1

Very good performance was witnessed in this question as 76% candidates secured passing marks and about 40% of the candidates secured full marks. However, some students didn't calculate correct contribution margin as they took fixed cost into consideration. Moreover, many students were confused in calculation of machine hire cost. Further, some students lost easy marks by leaving the question after calculating the units to be produced and did not compute the amount of maximum profit

Question 2(a)

Below average response was observed on this part of the question as students were not generally aware of the difference between speculation and investment and applied guesswork. They are advised to seek guidance from ICAP's suggested answer.

Question 2(b)

This part was very well attempted and nearly all students secured passing marks and a large number of candidates obtained full marks. Only few mistakes were observed which are listed below:

- In year 3, production should have been restricted to 200,000. This instruction was ignored.
- Impact of rent was taken from year 1 instead of Year 0.
- Tax on rent was ignored.
- Total working capital was included in outflows in year1 to 4 instead of increase in working capital.

Question 3

Performance in this question remained below average as only 32% of the candidates secured passing marks. The common mistakes were as under:

- The required profit was calculated as 20% above the required dividend of Rs. 7 million instead of Rs. 7 million / 80%. Many students didn't compute profit after tax by grossing up the dividend and instead, simply added dividend to the required contribution margin.
- The required profit before tax was calculated as 30% above the required profit after tax instead of dividing profit after tax by 0.7 or 70%.
- Only the fixed cost relating to cost of goods sold was considered in the computation of required contribution margin. Fixed costs included in operating expenses and cost of promotion campaign was ignored.
- Contribution margin percentage was computed on the basis of budgeted statement of profit or loss i.e. the impact of revision in sale price and/or 5% increase in variable cost was ignored.
- About 26% of the candidates did not have any clue and scored one or less marks.

Question 4

Below average response was observed in this question as well, as students were not very well prepared for this type of questions which required passing of journal entries under job order costing. As a result, about 18% of the candidates secured one or less mark. The common mistakes were as under:

- Raw material purchased was considered equal to raw material consumed.
- Raw material consumed account was debited instead of work-in-process / job accounts.
- Entry to record payroll was ignored.
- Factory overheads were debited to the jobs on the basis of actual factory overheads instead of applied factory overheads, using labour hours for the purpose of allocation thereof. Majority of the candidates were unaware of the Factory Overhead Control account.
- Entry to record transfer of finished goods to cost of sales was missed.
- Entry to record damaged goods / abnormal loss was either ignored or passed incorrectly.
- Realisable value of damaged goods was ignored or credited to other income.

Question 5

The performance in this question was good as 63% of the candidates secured passing marks. However, about 16% of the candidates obtained 2 or less marks. These students were even unable to determine the equivalent production units and actual fixed and variable overheads. The other most common mistakes were as follows:

- Finished goods produced were taken in the calculation of variances instead of equivalent units produced.
- Material purchase was used for calculating material usage variance.
- One combined overhead variance was calculated and further bifurcation was not done.
- It was not stated whether the calculated variance was favourable or unfavourable.

Question 6

The requirement in this question was to calculate the expected total cost of holding the inventory and stock out costs at different levels to determine the best re-ordering level. The performance in this question was very pathetic as only 3% of the candidates secured passing marks. About 21% of the candidates were totally clueless and obtained on or less mark. A further 69% of the candidates remained restricted to the calculation of EOQ, number of orders, holding costs and and expected demand during lead time and did not have any understanding of the concept of re-order level and stock out cost.

Question 7

The overall performance in this question on cash flows was average as 42% of the candidates obtained passing marks. but due to length of the question, many students couldn't attempt completely, but those who did achieved passing marks. Following mistakes were observed in this question were:

- Majority of the candidates failed to understand how to compute the impact of increase in sales volume on cost of raw material, labour and variable factory overheads or followed very lengthy methods which resulted in loss of time resulting in time pressure on questions attempted afterwards.
- Factory overheads were 20% of cost of sales and fixed overheads were 20% of the total overheads. Hence, variable overheads were 16% of cost of sales. Most of the candidates did not seem to understand this point.
- Fixed cost was deducted from variable cost before bifurcating into Material Labour and Variable overhead which was not required.
- Depreciation was not excluded for computing payment of fixed overheads and consequently failed to complete failure. Few of the students were unable to calculate Raw material purchase of 2017.

THE END