

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
CERTIFICATE IN ACCOUNTING AND FINANCE (CAF) EXAMINATIONS	
EXAMINERS' COMMENTS	
SUBJECT Cost & Management Accounting (CMA)	SESSION Spring 2019

Passing %

Question-wise								Overall
1	2	3	4	5	6	7	8	
49%	77%	88%	39%	03%	27%	09%	44%	41%

General comments

Overall performance in this attempt was slightly improved as passing ratio increased from 39% to 41%. However, performance in Q. 5 – Variance analysis and Q. 7 – Cost profit volume (CPV) analysis was disappointing as evident from the above question-wise pass %.

Question-wise common mistakes observed

Question 1

- Normal loss was not correctly computed as students did not deduct closing WIP quantity from the total input.
- While computing equivalent units, weighted average method of valuation of inventory was not applied correctly as opening WIP quantity was considered to arrive at equivalent units.
- While computing total cost of process B, students neither deducted recovery from normal scrapped units nor accounted for the opening WIP cost of processes A and B.
- While preparing accounting entries for process B:
 - transfer cost of WIP (process A) to WIP (process B) was ignored; and
 - abnormal loss was accounted for incorrectly by not recording the difference of cost of abnormal loss units and recovery on sale thereof in profit or loss account.

Question 2

- Fixed overheads/allocated administrative overheads were taken into consideration. In fact, these were irrelevant for decision making.
- Production priority was determined on the basis of savings per component instead of limiting factor of machine hours.

Question 3

- Variable costs were incorrectly computed by deducting the fixed costs of Rs. 50 million from each year's total costs.
- Fixed cost was computed without deducting the depreciation.

- Amount of tax payments was computed after taking into account the working capital requirement, market value of the land and residual value of the assets at the end of project life. In fact, these items were not subjected to tax shield.
- Recovery of working capital at the end of the tenure was not shown.

Question 4(a)

Good performance was observed in this question.

Question 4(b)

- The annual demand (purchase) of Beta was not computed correctly. In fact, the computation of purchases required adjustment of opening and closing stock in projected sales and the resultant thereof was required to be adjusted for transit losses.
- While computing holding cost per unit, holding cost was not multiplied with 12 months to arrive at annual holding cost.

Question 5

- Finished goods inventory at the beginning and closing of the month were incorrectly adjusted to the goods transferred to finished goods to arrive at actual production.
- Allowable raw material quantities and allowable hours required for actual units produced were not computed correctly.
- Students wasted time in calculating at material price variance. They disregarded the fact, clearly mentioned in the question, that there is no change in the direct material prices but still many students made calculation for material price variance.
- While computing labour variances, budgeted labour hours of 10,000 for the month of February 2019 were used instead of using the allowable labour hours computed on the basis of actual production by incorporating the labour efficiency of 5%.
- Over/under applied overheads were not computed. Students restricted their answers to computation of overhead variances.
- While computing overhead variances, per unit and hourly overhead rates were interchangeably used.

Question 6

- Students were not able to compute the sales amount correctly. In fact, credit sales could be computed by reducing the existing sales by 20%. Secondly, cash sale could be computed by increasing the existing sales by 30% and then deducted the revised credit sale to arrive at cash sale. Thirdly, cash sales could then be reduced by 5% being the adjustment of sale price.
- Instead of computing the raw material consumption and variable conversion costs on the basis of budgeted production quantity, the costs were computed in line with percentage increase in sales. Other common errors in computation of costs were ignoring the adjustments of opening and closing finished goods inventories in the budgeted production quantity and not following the FIFO method of valuation.
- Opening raw material was not taken into consideration in the raw material costs. Consequently, price increase and trade discount would only be applicable on additional material to be purchased.

- Mark-up on running finance facility was computed on 100% of the running finance facility available, instead of utilized facility of 90%.

Question 7(a)

The revised contribution margin was not computed correctly by applying given margin of safety of 25% to revised fixed cost. Consequently, revised sales and variable costs were not worked out correctly.

Question 7(b)

While computing the volume increase percentage, the reduction in sales price was ignored. Resultantly, increase in sales revenue was computed instead of increase in sales volume.

Question 8

- Direct material costs were taken at Rs. 150,000 per batch instead of Rs. 75,000 per batch i.e. Rs.150 per unit multiply by 500 units being the batch size.
- Learning curve method was not correctly applied for computation of labour hours. Further, per hour cost was taken at Rs. 300 instead of Rs.100.
- While computing bid amount at 30% contribution margin, 30% profit on variable cost was added instead of grossing up the variable cost i.e. by dividing the variable cost by 70%, to arrive at the bid amount.

The End