

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Cost and Management Accounting	Certificate in Accounting and Finance (CAF) Examination - Autumn 2021

Passing %

1	2	3	4	5	6	Overall
40%	44%	45%	78%	11%	1%	33%

General

The overall performance in this attempt has declined (33%) in comparison to the previous attempt (48%). This drop in result can be attributed to selective studies and lack of attention towards detail and requirement of the question.

It has been repeatedly observed that examinees fail to grasp information given in the question and do not apply it correctly in the solution. It seems that either the reading time is not utilized effectively or there is lack of grip on key concepts due to selective studies. With particular reference to Q5 and Q6, it has been noted that important details provided in the question were simply ignored due to which haphazard answers were produced. It is suggested that the questions should be read more carefully and syllabus coverage should be improved so that concepts can be applied with ease in examination.

Question-wise common mistakes observed

Question 1

- Inflation was not applied for the correct number of years on various elements of cash flows under both options. Moreover inflation of 10% was applied on those items on which 5% inflation had to be applied.
- The point of time at which the decision had to be made was beginning of third year, as clearly stated in the question. Despite that cash flows were plotted for five years and incorrectly discounted.
- Impact of 20% discount on material was taken on the entire variable cost per unit instead of material cost only.
- Free give away units were not taken into account while computing sales quantity.
- Opening stock of 1500 units was not deducted from demand units for computation of production quantity.
- Reduction of 20% in variable overheads and other fixed costs was ignored.

Question 2(a)

- In determining the ranking for production in existing country, contribution per labor hour was used instead of contribution per rupee of chemical cost.
- Under the option of manufacturing from country X, excess contribution was not computed and ranking was determined on the basis of contribution per labor hour.
- In case of purchase from outside supplier, the variable selling and administrative cost was ignored and not included in the cost per unit.
- In profit maximization schedule, many examinees were unable to pick that the high priority contract units will be manufactured on priority and ranking will be applied on the remaining units.
- Total contribution under both options was either not computed or computed incorrectly and decision making was done on the basis of total profit. Contribution from units to be purchased was mostly not computed.
- Decision making was done on the basis of availability of resources rather than the total contribution.

Question 2(b)

Examinees repeated the same points by discussing it multiple times.

Question 3(a)

- Opening WIP was either not computed or computed incorrectly.
- In some cases, examinees mixed up finished goods and raw material and included the quantities of alpha and beta in the EPU.

Question 3(b)

- EPU of material and conversion cost computed in part (a) of this question was not used in computation of variances.
- In computation of material price variance, purchase returns were not adjusted.
- Actual usage at standard rate was computed by multiplying material purchased at the standard rate even though the question clearly stated that material price variance was accounted for at the time of issuance of material to production.
- Standard usage at actual mix was incorrectly computed by apportioning the actual units produced in the mix ratio instead of the standard production units.
- Impact of idle hours was not taken correctly and actual hours were computed by multiplying total hours by 90% instead of dividing it by 110%.
- In some cases, examinees were unable to identify whether the variances are favorable or adverse.

Question 4

- Normal loss was not computed correctly.
- Abnormal gain was added in the EPU of material and conversion cost instead of subtracting.
- Scrap value of normal loss was not deducted from material cost for computation of cost per unit.

Question 5

- Examinees were unable to pick that for computation of variable and fixed portions of the conversion cost, high-low method could only be applied by comparing cost at production level of 9,300 and 11,800 units because both fixed and variable costs were changing at other levels of production. Due to this in most cases, high-low method was incorrectly applied by comparing cost at production level of 14,000 and 16,000 units.
- The price before commission and commission cost at different levels of discount was not computed.
- Weighted average price was not computed and the selling price given in the question was used for computation of contribution.
- Impact of reduction of 5% in material cost and 3% in variable cost was taken in the computation even though it was clearly mentioned in the question that it is already included in the figures provided in the table.
- For computation of breakeven revenue and units, only fixed operating expense was taken as fixed cost and fixed conversion cost was ignored.

Question 6(a)

Examinees missed the point that cost may exceed NRV when cost of completion or cost to sell has increased.

Question 6(b)

- Adjustment in selling price for sales tax and market price reduction was not made for computation of NRV of the four types of inventory.
- Variable selling cost was not deducted from cost to derive NRV in many cases.
- NRV analysis on good units was not performed and straight away computation for defective units was done.
- For defective units, decision making about whether to sell with or without rework was skipped.
- Rework cost was incorrectly added to the cost of inventory.
- The question required entries for recording the adjustment in value of inventory due to NRV loss, however the total adjusted value of inventory was used in entries.
- Irrelevant entries related to sales and accounts receivable were made.
- Defective units of A and B were not bifurcated from good units for computation of value of inventory.

(THE END)