

<b>INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN</b>	
<b>EXAMINERS' COMMENTS</b>	
<b>SUBJECT</b> Cost and Management Accounting	<b>SESSION</b> Certificate in Accounting and Finance (CAF) Spring 2022

**Passing %**

Question-wise									
1	2	3	4	5	6	7	8	9	Overall
32%	35%	43%	23%	77%	43%	10%	38%	73%	40%

**General comments**

The overall performance in this attempt has improved (40%) in comparison to the previous attempt (33%) which can be attributed to better performance in in Q.5 and Q.9. However, in this session, passing percentage of first timer was just 35% whereas the passing percentage of repeaters was 54%. The main shortcomings identified in the new comers' answer scripts were the selected studies and lack of practice. It is therefore advised to study the entire syllabus and practice the application of key concepts.

**Question-wise common mistakes observed**

**Question 1**

- Average demand was either not computed or incorrectly computed.
- Number of orders were incorrectly computed.
- Incorrect reorder levels were used for computation of stock out units and safety stock.
- Annual holding cost was computed instead of holding cost of safety stock.

**Question 2(a)**

The question explicitly mentioned that DIC's target profit margin is 14% which required examinees to consider both products of DIC for computation of target profit and target cost. However, most examinees ignored sales and variable costs of ice cream in this computation.

**Question 2(b)**

Methods of increasing sales revenue were discussed for closing the cost gap which was irrelevant.

**Question 3**

- Production units under both options were either not computed or incorrectly computed.
- Raw material input under the option of hiring substitute labor was not computed correctly.

- Impact of reduction in labor hours was not included in computation of labor cost under revised wage plan.
- Premium cost per hour was multiplied with total hours instead of the hours saved.
- Variable overheads were computed by multiplying per unit overhead with labor hours instead of total units.
- Rejected units were incorrectly computed under both options for computation of scrap proceeds.

#### **Question 4**

- Sales revenue of customized donuts was incorrectly computed.
- Most examinees made errors in computation of variable cost. The cost of making of both categories of donuts was inflated by 5% instead of just customized donuts. Further, packaging was not increased by 30% to incorporate the impact of volume increase.
- Annual rent was deducted from monthly contribution margin for computation of profit.
- Sales commission was incorrectly taken as fixed cost instead of variable cost.
- Contribution margin was not computed and the existing contribution margin of 20% was used for computing breakeven sales.
- Margin of safety was incorrectly computed by dividing profit with sales.

#### **Question 5**

- Fuel cost was allocated using machine hours instead of weighted machine hours.
- Incorrect basis was used for allocation of electricity and other utilities.
- Service cost was allocated using repeated distribution method instead of simultaneous equations.
- Overhead absorption rate for SA and SB was incorrectly computed by dividing department costs with total machine hours and total labor hours.

#### **Question 6**

- Adverse fixed overheads expenditure variance was taken as a favorable variance in computation of budgeted units.
- Actual material cost per unit was incorrectly determined for computation of actual units purchased. Some examinees computed actual material used as actual material purchased.
- Various mathematical errors were made due to which incorrect answers were computed.

#### **Question 7**

- Budgeted selling price was incorrectly computed.
- Processing cost of Rita was computed for 9,000 kg instead of 10,000 kg.
- Proceeds from sale of raw material were not deducted as an opportunity cost from net savings of Rs. 1,750,000.
- Labor hours were incorrectly determined for computation of labor cost.
- Penalty of early termination of contract was either not computed or computed incorrectly and the relocation allowance was taken as a relevant cost without any decision making between the two options.
- Training cost was taken as a relevant cost without computing the increase in variable overheads and comparing it with that increase.

- Scrap proceeds and cost of defective units were considered relevant.
- The entire salary of the factory supervisor was considered relevant instead of just the incremental amount.

**Question 8(a)**

Most examinees were unable to explain the assumptions used in marginal costing and ended up discussing the method of computing profit under marginal costing instead.

**Question 8(b)**

- Production units were incorrectly computed.
- Selling and administration expenses were incorrectly included in cost of production. Some examinees did not include variable factory overheads in cost of production.
- Overhead absorption rate was incorrectly computed.
- Absorbed fixed overheads were not deducted from cost of opening stock under marginal costing.
- Under-absorbed fixed overheads were incorrectly computed. Many examinees took the increase of Rs.500,000 in fixed overheads as under-absorbed overheads.
- Differences in closing stock and opening stock under both methods were not reconciled correctly.

**Question 9**

- Equivalent production units for process I were not computed and the cost of units transferred from process I was incorrectly added to material cost in computation of material cost per unit.
- Normal loss was incorrectly computed by most of the examinees.
- Cost of opening WIP was not included in the cost of finished goods.

***(THE END)***