

**INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**EXAMINERS' COMMENTS**

<b>SUBJECT</b>	<b>SESSION</b>
Cost and Management Accounting	Certificate in Accounting and Finance (CAF) Examination - Autumn 2023

**Passing %**

Question-wise									
1	2	3	4	5	6	7	8	9	Overall
5%	23%	54%	7%	64%	52%	26%	17%	34%	24%

**General comments**

The overall performance in this attempt has declined by 24% compared to the previous attempt (56%). This drop in results can be attributed to selective studies and a lack of attention to the requirements of the questions.

It has been repeatedly observed that examinees fail to grasp the 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 a lack of grip on key concepts due to selective studies. 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**

- The existing option was ignored.
- Stock out cost per day was worked out by using the entire price charged by the supplier in Karachi.
- The impact of holding cost of safety stock was ignored.
- The impact of deliveries delayed by one or two days on the calculation of total stock out cost per annum was not taken correctly.
- Holding cost per day was given in the question, still examinees presented the wrong calculations to calculate it.
- Examinees could not envisage that if one day's safety stock were held, the company would have to incur holding costs for maintaining that stock as well as stock-out costs as there is a possibility that the order will be delayed by one more day.

**Question 2(a)**

- Current scenario costs were not calculated for comparison.
- Revised labor hours under option 1, intended to improve labor efficiency, were worked out incorrectly.

- The overtime cost in current scenario and proposed option 2 was miscalculated by applying normal rate twice as total required hours were multiplied by normal rate and again overtime hours were multiplied by overtime rate which caused duplication.
- In case of piece rate wage option, the labor rate was applied to labor hours.
- The impact of the reduction in labor hours on the factory overheads was ignored.
- Overheads were not split up into fixed and variable components.

#### **Question 2(b)**

- Examinees were not able to produce correct differences between labor productivity and labor efficiency.
- Some points were repeated multiple times.

#### **Question 3**

- Annual demand was not calculated correctly.
- Holding cost per unit was calculated based on order quantity instead of annual demand.
- The costs under existing EOQ were not calculated to compare it with the two discount options.
- For comparison of total cost, order quantity instead of annual demand was taken into account.

#### **Question 4**

- Only the consumption in units was calculated instead of the consumption amounts to arrive at the correct value of raw material consumed as required in the question.
- According to the question, the supplier had increased the prices at the start of the period, and hence cost of opening balances per unit was less than the purchase price during the period. In respect of material A, examinees reduced the purchase prices by 25% to arrive at the cost of opening inventory, whereas they should have divided the purchase price by 125% or 1.25.
- Adjustments in respect of materials B and C were either ignored or made incorrectly.
- 200 units of E erroneously delivered by the supplier needed to be ignored for working as they never belonged to the company but still, they were added to the closing inventory.
- Many examinees took the NRV of the 400 damaged units of Raw Material F as Rs. 8,000 whereas it should have been taken as Rs. 9,000 i.e., Rs. 12,000 (400x30) less repair cost of Rs. 3,000
- Instead of just addressing the mistakes, to arrive at the cost of material consumed, many examinees tried to redo the entire computation i.e., added opening balances and purchases and subtracted closing balance, using the corrected quantities. This method was lengthy and must have consumed much more time than was required.

#### **Question 5**

- The variable portion of indirect labor and power and fuel costs was neither worked out nor deducted from the sales price to find out the contribution.
- While computing total fixed cost, a fixed portion of selling and distribution expenses were ignored.

### **Question 6**

- Material price variance was calculated on the basis of material consumed instead of material purchased.
- In variable OH expenditure variance, standard and actual amounts were wrongly computed.
- In variable overhead efficiency variance, actual variable FOH rate instead of standard variable FOH rate was used.
- Many examinees did not specify whether the computed variance was favorable or adverse.

### **Question 7**

- Work in process (WIP) accounts were debited/credited without mentioning the job numbers.
- Opening balances of each job were missed out in calculating the total costs of respective jobs.
- Further, estimated costs were not taken in the calculation of the cost of job B391.
- Incorrect amounts of rent and transportation were charged to WIP. Further, prepaid rent/transportation was not recorded.
- Sale of job A227 units was recorded without closing the WIP account to finished goods. Further incorrect entries were booked to record the sale.
- In respect of job B391, many examinees ignored that 16 out of 40 units were completed and transferred to the finished goods store. Instead, they considered entire units of the job as completed and transferred.
- Loss due to fire was neither calculated nor accounted for properly.

### **Question 8**

- Many examinees struggled with solving this question as they carried out incoherent steps without exactly knowing what they were trying to achieve in the end.
- Instead of adopting the short method of considering the incremental revenues and the incremental expenses under the two options, many examinees tried to calculate the total revenues and total costs under the existing as well as the export option. This not only consumed a significant amount of time but also led to many examinees missing at least one or two questions.
- A significant number of examinees did not seem to understand that product Y would be produced using Product A and hence production costs of A would have to be incurred in case of accepting the export order and only the variable cost and revenue of Product B would be reduced proportionally i.e., by 60%. There would be no revenue from the sale of A.
- Very few examinees correctly calculated the additional labor cost of labor hours which were expected to remain idle under the existing situation but were to be utilized in case the export order was accepted.
- Significant number of examinees ignored the fact that the given data pertained to a quarter. Instead, they made all time-based computations on a yearly basis.

**Question 9(a)**

- Normal loss was assigned value instead of being at zero value.
- While computing the cost of abnormal loss, expenses were inadvertently allocated to units of normal loss.
- While computing the joint costs to be allocated between production of chemicals L and M, cost of abnormal loss and NRV of by-product N were not deducted from the total cost.
- While computing a net realizable value for allocating the joint costs, only direct selling costs were considered and the further costs to be incurred for chemical M were ignored.

**Question 9(b)**

The cost of disposing of chemical waste was treated as revenue instead of being recorded as an expense on the debit side of the process account.

***(THE END)***