INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN
EXAMINERS' COMMENTS

SUBJECT	**SESSION**
Cost and Management Accounting	Certificate in Accounting and Finance (CAF)
	Autumn 2024

Passing %

			Question-wise						
1	2	3	4	5	6	7	8	9	**Overall**
15%	38%	56%	31%	54%	5%	56%	38%	45%	41%

General

The overall result of this session is in line with the previous session.

It is pertinent to mention that examinees struggled to grasp the key elements of the testing when answering the questions. For example, in Question 6, determining the maximum lead time depends on the level of risk the company is willing to accept; however, many examinees failed to make this connection. Likewise, in Question 8, the ranking of products should have considered the prices from external sources. Instead, many examinees based their rankings solely on the contribution margin, focusing only on their own production costs and overlooking the prices from external sources, which was a critical aspect of the question being tested.

Question-wise common mistakes observed

Question 1

- The overhead rate per unit of each product was calculated instead of the factory overhead rate per machine hour for each machine.
- Cost of electricity and power was allocated to the machines on the basis of Kilowatt hours without taking into consideration the fact that each machine was required to work for a different number of hours.
- Overheads other than electricity and power were allocated on the basis of machine hours or operators required per machine instead of machine-wise total operator hours.

Question 2

- Fixed and variable costs were computed as 40% and 60% of sales instead of 40% and 60% of the total costs, respectively.
- Savings in fixed costs were computed by reducing them in proportion to the required increase in margin of safety.
- Increased sales were calculated to achieve a 20% margin of safety despite being mentioned in the question that sales cannot be increased due to market competition.

Question 3

- Incorrect formulae were used to compute the ordering costs.
- Revised cost of insurance was added to the total of existing holding costs.
- Revised holding cost was not computed correctly as various types of mistakes were witnessed.

Question 4

- Cost of raw material did not account for the cost incurred on rejected units.
- Cost of idle labour was taken at 90% of the normal labour hour rate. Examinees failed to realize that 90% was being paid despite the labour being idle, hence, the relevant cost should have been 10% of the normal rate.
- Idle labour hours were computed as 12.5% of the labour hours utilized i.e. 280,000*12.5%, instead of 12.5% of the total available hours i.e. 280,000/87.5%*12.5%.
- Fixed overheads were also taken into account in the computation of net increase in profit from Star.

Question 5

- Incorrect formulae were used to calculate the impact of the learning curve.
- It was presumed that without training, labour hours would have no learning effect and hence only the cost of option with training was computed.
- The cost of 25 machines was computed instead of the cost of 200 machines.
- Labour hours required to produce the 21st machine, were used as the labour hours per machine for 180 machines produced i.e. 21st to 200th machine, whereas labour hours required to produce the 20th machine should have been used. A similar error was made in computing the cost of 175 machines under the option of training.
- In some cases, labour hours to produce 20/25 machines were used as the labour hours per machine for 180/175 machines instead of deducting the total hours for 19/24 machines from the total hours for 20/25 machines.

Question 6

- Maximum lead time at each risk level was either not calculated or calculated incorrectly.
- Minimum/maximum daily demand was not computed and average demand per day was considered as the minimum/maximum daily demand.
- It was not realized that stock levels would vary with the level of risk that the management is willing to take.
- Incorrect formula for maximum inventory level was used.

Question 7(a)

- Opening stock was ignored altogether and therefore, cost per unit for 2024 was not computed.
- Production was taken as equal to sales i.e. 100,000 units, ignoring the opening and the closing stock.
- Variable overheads per unit were not revised in line with the change in labour hours per unit.

- Selling and administration costs were included in determining the cost of closing stock.
- Only the fixed selling and distribution costs were deducted in arriving at a profit under absorption costing instead of deducting the total sales and administration costs.

Question 7(b)

While preparing the reconciliation of net profit under marginal and absorption costing, fixed costs in closing and opening inventories were treated inversely.

Question 8(a)

- The ranking of products for purchase or production was based solely on contribution margin, contribution margin per limiting factor, or extra charge by the supplier, rather than on extra charge per limiting factor.
- Available labour hours were computed as 87% of the total required hours.
- Required number of hours was computed by dividing the production by labour hours per unit, instead of multiplying them.
- Total overheads instead of variable overheads were used to compute the contribution margin.

Question 8(b)

- Benefits of outsourcing were mentioned on the presumption that the organization would outsource its entire production, which is rarely the case.
- Financial factors were mentioned instead of non-financial factors.

Question 9(a)

- Quantities of production were computed without accounting for wastage.
- Costs were allocated to by-product Z also, ignoring clear instructions in the question.
- Sales prices or quantities instead of NRV were used for allocating joint costs.
- For allocating joint costs, NRV of X1 instead of X was wrongly used.

Question 9(b)

- Quantity of production of X1 was computed on the basis of input of material N only, ignoring the quantity of X transferred from Department A.
- The 5% wastage in department B was calculated on the basis of raw material N only.

(THE END)