

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

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

Passing %

Question-wise									Overall
1	2	3	4	5	6	7	8	9	
22%	86%	11%	3%	16%	58%	5%	77%	53%	40%

General comments

The overall performance in this attempt has improved significantly (40%) compared to the previous attempt (24%), which can be attributed to better performance in Q.2, Q.6, Q.8 and Q.9. However, many examinees did not adhere to the fundamental principles of taking examinations. It is generally observed that examinees often attempt answers without a clear strategy and format. This leads to omitting important information in the questions, unnecessary lengthy calculations, and a significant waste of time, ultimately resulting in incomplete papers or loss of marks.

Question-wise common mistakes observed

Question 1

- The full cost of a unit produced in a process was not calculated.
- While computing wastage only material and/or labor costs were taken into account.
- The cost of process A was not carried forward to process B.
- The number of units produced by each worker in each process were not calculated.
- The number of units rejected per worker per month in each process was not calculated. Therefore, the total cost of all rejected units, savings in case of a 1% decrease in wastage, and the resulting bonus were not calculated.

Question 2

- Common overheads were not allocated or allocated to production departments only.
- Instead of calculating the FOH rate for each production department, a combined FOH rate was calculated.

Question 3(a)

- Instead of dividing 8,000 by 80% to calculate the total input required for product Z, wrong calculations were produced.

- Instead of making calculations on full capacity i.e. 80,000 hours, calculations were made on 72,000 hours.
- Examinees calculated the quantity of Y which would be sold without further processing by dividing 64,000 hours (80,000 hours less 16,000 hours consumed in the production of Z) by 4. They failed to recognize that out of 16,000 kg of Y, 6250 kg would be consumed in the production of Z and hence only 9,750 kg of Y would be sold without further processing.

Question 3(b)

- The cost of raw material to be used in the production of Z was calculated incorrectly.
- The per unit contribution margin of both products Y and Z was calculated incorrectly, despite that the total contribution margin of product Y was given in the question.
- Contribution margin with and without further processing was not calculated and compared to arrive at the decision.

Question 4

- Examinees tried to solve the question by computing and comparing the contribution margin percentage or contribution margin per kg of the two products and ignored the fact that the time required to produce each product was different.
- Production capacities of EMV33 and LTM78 based on limiting factors were not calculated.
- Machine set-up and revert-back time was ignored.
- Idle labor hours and their cost were either ignored or calculated incorrectly.
- The variable cost of LTM78 was not calculated correctly.
- While computing the contribution margin of EMV33 and/or LTM78, fixed costs were also taken into account.

Question 5

- The impact of correction in discount was directly added and subtracted from the inventory of products A and B respectively, instead of recalculating the purchases and the raw material consumed, to arrive at the correct cost of goods manufactured.
- Instead of deducting the amount of discount from product A, some examinees added it to product A and deducted it from product B.
- Examinees ignored the adjustment related to direct labor and indirect labor as they thought that there would be no impact on the production cost of A and B because decrease in direct labor was offset by the increase in indirect labor. They failed to realize that indirect labor was to be distributed between both products whereas direct labor related to product A was charged to that Product only.
- Examinees just divided the cost of closing stock with the quantity of closing stock to work out per unit cost.
- Units produced were wrongly calculated by taking raw material opening and closing units into account in place of finished goods opening and closing units.
- Cost per unit of the closing inventory of finished goods was not revised on the basis of the revised cost of goods manufactured.
- NRV of the damaged units was computed as 80% of the cost rather than 80% of the selling price.

- Damaged units were valued on the basis of NRV without testing whether NRV was less than or more than cost.

Question 6

- The right drivers for allocating the cost were not selected. For example, delivery expenses were allocated on the basis of cost per unit or average size of the order, instead of the number of units sold. Commission was distributed on the basis of number of units sold instead of the amount of sales, etc.
- Examinees selected the right drivers but could not calculate product wise their value correctly.

Question 7

- Instead of calculating the revenue that would be lost and the costs that would be saved if production of product A was stopped, fixed and variable costs were calculated without drawing any conclusion or even totaling the avoidable costs.
- Examinees could not assess that when production of A will stop, there would be no need to pay any overtime i.e., overtime for production of Product B and C would also be saved.
- The impact of savings of financial charges due to changes in raw material inventory, finished goods inventory, and debtors was ignored.

Question 8(a)

- While computing EPU, normal loss units were also taken into account.
- Incorrect calculations were made for abnormal gain and abnormal loss units in processes A and B, respectively.

Question 8(b)

- The FIFO method was used instead of the weighted average method while computing the cost of transferred-out units.
- While calculating the cost of material in department B, the cost transferred from department A was ignored.
- Cost of disposal of rejected units of process A was considered as sale value and deducted from the cost instead of adding to the cost.

Question 9

- Examinees calculated the standard cost of material per kg and standard labor and overhead costs per kg incorrectly as they simply divided the total costs by total units produced and ignored the fact that 10 kg of material and 2 labor hours were required to produce each unit.
- Similarly, the calculation for actual material consumed and actual labor hours was incorrect. Total actual costs of material and labor were divided by the standard cost per kilogram and standard labor per hour, instead of divided by actual cost per kilogram and actual labor per hour respectively.
- Examinees failed to mention whether the variance calculated by them was adverse or favorable whereas many examinees mentioned the same incorrectly.

- Examinees mistakenly believed that actual labor hours equated to allowed labor hours, and the same misconception applied to actual and allowed material quantities.

(THE END)