

STRICTLY CONFIDENTIAL

INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

DECEMBER 2014 EXAMINATIONS

KNOWLEDGE LEVEL

PAPER P3: MANAGEMENT INFORMATION

EXAMINER'S REPORT

GENERAL OBSERVATIONS

The standard of performance in the December 2014 examination was the same as the one for June 2014 with a pass rate of 59%. This was the first examination under the new syllabus, new examination format and under the Institute of Chartered Accountants in Malawi (ICAM). The format of the examination changed in the sense that whereas previously the paper had seven questions, requiring candidates to attempt six, this time the paper had 5 compulsory questions each carrying 20 marks. The first question maintained the format of the previous examinations where the items in the question were multiple choice in nature. This format is what will be followed until further notice. Unfortunately, some candidates missed the point in that they still chose which questions to attempt. Instead of attempting all the questions, they attempted 4 questions only.

The performance was very poor in question 2 while it was very good in the multiple choice question.

Question 1

This was a multiple choice question with items drawn from various topics of the syllabus. There were indications of guess work by some candidates. Such candidates passed only this question and failed the rest. Much as it may be a sign of good preparation for multiple choice questions, good candidates would score evenly across the examination paper.

Question 2

The question was on time series analysis and inventory control. Candidates seem to have been taken by surprise as a question on time series analysis hasn't appeared in the examination for some time. Candidates who rely on studying past papers may have been taken unawares. This could be the reason why the performance was the poorest in this question. Part (a)(i) required the candidates to calculate a four-quarterly trend or moving average. Some candidates merely copied the data from the question and divided the quarterly data by 4 to come up with the moving average. It was impossible to interpret some of the answers. Part (a)(ii) asked the candidates to mention the four factors into which a time series can be separated. Those who had no clue in (a)(i) equally had nothing to say in this one, or what they said was not in line with time series analysis. The same applied to part (b) which asked the candidates to state four limitations of the basic moving average system. Candidates displayed ignorance on the topic of time series analysis. Part (c) asked the candidates to state five assumptions behind the economic order quantity (EOQ). Some candidates confused this with cost volume profit (CVP) analysis. As such, instead of talking about EOQ, they talked about assumptions behind CVP analysis. Candidates are asked to always ensure that they understand the requirements of a question before they attempt it.

Question 3

This question was on process costing. Part (a) asked the candidates to distinguish a joint product from a by-product. Candidates stated that joint products come from a single process until split-off/ separation point. Correct – so what? The distinguishing feature for joint products lies in the intention behind the production of each one of them and the commercial value associated with them. When the process starts, it is not the intention of the organization to produce by-products – they are *incidental* (not *accidental* as others put it). Secondly, by-products have lower sales value than joint products. Both by-products and joint products come from a common process up to separation point. This is not what differentiates the two; if anything, that is a common feature of the two – they share common costs and are therefore produced simultaneously from the same production process. Part (b) asked the candidates to state methods of dealing with by-products. It would appear most candidates were not able to understand the meaning of the question. The question was in fact asking for the accounting treatment of by-products. Part (c)(i) required the candidates to prepare a profit statement if the products are processed further. Most

candidates who attempted this part did not have problems with it. Part (c)(ii) asked the candidates to state how profit could be maximized if one or more products were sold at split-off point. This part of the question was about incremental costs and revenues, i.e. relevant costs and revenues for decision-making. Most candidates did not realize this.

Question 4

Part (a) of the question required the candidates to state the difference between fixed and flexible budgets. Some candidates confused these with fixed and variable costs. Part (b) asked the candidates to state the benefits of budgeting. The question did not ask the candidates to state the uses of budgets as some had interpreted it. They narrated uses of budgets. There is a thin line between the two of course. Part (c) asked the candidates to prepare a flexible budget. Candidates did not have problems with it. On assumptions behind CVP analysis in part (d), again most candidates did not have difficulties with it. Candidates had problems with part (e) where they failed to compute the contribution sales ratio and break-even point. The best they could manage to do was to calculate the variable costs.

Question 5

Part (a) required the candidates to calculate the mean and standard deviation using grouped data. Most candidates did not have difficulties with this part. Some experienced difficulties in part (b) which was on investment appraisal. A few candidates failed to calculate annual cash flows correctly. They took the profit/loss as raw as presented in the question and used them to appraise the project without calculating depreciation per annum and adding it to the profit/loss for each year in order to come up with cash flows to use. This resulted in getting the whole part wrong. However, credit was given for displaying knowledge on the computation using the payback period and net present value methods of investment appraisal.

CONCLUSION

The performance was generally as good as that for the June 2014 diet. Candidates are encouraged to read questions carefully and understand their requirements before attempting them. Otherwise some candidates lost marks because they did not address the requirements of the question.

