

**STRICTLY CONFIDENTIAL**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**DECEMBER 2015 EXAMINATIONS**

**KNOWLEDGE LEVEL**

**PAPER P3: MANAGEMENT INFORMATION**

**EXAMINER'S REPORT**

**GENERAL COMMENTS**

Five candidates sat the paper and two of them passed it representing a pass rate of 40%. Some candidates only attempted some parts of the questions leaving out others possibly because they failed to manage time.

There was good performance in the first question which was a multiple choice one, and poor in question 5 on standard costing.

**Question 1**

This was a multiple choice question with items therein drawn from various topics of the syllabus. The candidates demonstrated mastery of the areas covered in this question as four of them passed while only 1 failed.

**Question 2**

This question was on index numbers. None of the candidates passed this question. It could be because they did not expect it as index numbers have not featured in the examination for a number of years and the candidates might, therefore, have concluded that the topic was not examinable although it was in the syllabus. Candidates are reminded that

every topic in the syllabus is examinable, as such they should expect questions to be set from any part of the syllabus. Part (a) required the candidates to define Laspeyres and Paasche indices. One or two candidates talked about base quantities without mentioning base prices. An index is not an index unless it takes into account prices and quantities. Part (b) asked the candidates to state the advantages and disadvantages of the two types of indices. The candidates got it wrong. Advantages and disadvantages of the two types of indices lie in their characteristics, such as ease of calculation, weights used in calculation, the nature of the indices themselves and what happens when prices are rising. An analysis of the characteristics of the two types of indices along these lines should easily give out their advantages and disadvantages.

Part (c) involved the calculation of an index of an industrial production. The candidates had no clue as to where to start from. As such, they did not even attempt it.

### **Question 3**

The question was on standard costing with part (a) asking the candidates about purposes of standard costing. This was well answered. Part (b) asked the candidates to explain three types of standards and to state how they related to their purposes. The candidates did not know what to do here. Some talked about the types of variances such as labour rate, material price, usage etc while others provided examples of areas where standards can be set such as overhead, material cost or usage etc. Part (c) involved calculations of actuals based on the variances provided (working backwards). This was a problem to the candidates. However, it should be mentioned that a problem was noted during pre-marking with

the suggested solutions for (c)(i) and (ii). The suggested solutions went beyond the requirement by calculating standard hours per unit and standard kg per unit when the requirement was to calculate standard labour rate per hour and standard material cost per kg respectively. For purposes of marking, marks were reallocated so as to align with the requirement.

Part (d) asked the candidates to define terms. Candidates had no problems with this.

#### **Question 4**

This question was on budgeting. Part (a) asked the candidates to describe stages in the budgeting process. Candidates failed to identify them. Part (b) asked the candidates to prepare a cash budget for 3 months. Candidates had problems in allocating cash collections from credit sales. Answers were poorly presented.

Part (c) asked the candidates to state the purposes for which cost information is required. Candidates did not come out clearly in their explanations. Some even repeated the answer in a different form. Repetition of answers did not earn the candidates any marks.

Part (d) asked the candidates to explain the meaning of “prime cost” and “overheads”. The candidates answered the item satisfactorily.

**Question 5**

The question was on investment appraisal. Part (a) asked the candidates to state the factors to be considered when choosing between NPV and IRR as methods for investment appraisal. This was poorly answered. Candidates looked not prepared in that area. Part (b) on calculations using NPV approach was well done to a great extent. However, some candidates got carried away with the usual decisions that are made following NPV calculations whereby the option with the higher NPV is chosen. This was not the case in this question. It was the option with the lower NPV which was supposed to be chosen as it represented the lowest cost to the company. Assumptions/reservations on the choice picked were not mentioned by the candidates and that made them lose marks.

**CONCLUSION**

The performance was not good. Candidates are encouraged to carefully read the questions before attempting them to ensure that they understand them. In a few cases candidates lost marks because they did not understand the requirements of the question. Above all, candidates should be prepared to answer any question from any part of the syllabus.

