

STRICTLY CONFIDENTIAL

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

DECEMBER 2015 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC9: COSTING & BUDGETARY CONTROL

EXAMINER'S REPORT

GENERAL COMMENTS

The paper has five questions and the candidates are required to attempt all the five questions. However, some candidates managed to answer only four questions out of the five. This affected their performance. Notwithstanding that, there were a few candidates who still passed the paper after attempting four questions. It was apparent from the scripts that the candidates failed to manage their time properly such that they ran out of time before they could attempt the fifth question. As usual, many candidates only answered those parts of the question that required explanations/ definitions of terms, leaving out the calculation parts. Unfortunately, it is not possible to pass this subject by answering definitions/explanations only as these carry less marks allocated to a question. There was poor numbering and cancelation of answers in a considerable number of scripts.

The performance was the poorest in question one on activity-based costing. In general, the overall pass rate in the paper is less than that achieved at the June 2015 session.

COMMENTS ON INDIVIDUAL QUESTIONS

Question 1

The question was on activity-based costing (ABC) with an element of traditional absorption costing. The performance in this question was the poorest on the paper. Candidates displayed lack of preparedness.

Part (a) required the candidates to state the advantages of activity-based costing. Many candidates gave advantages of the traditional absorption costing. ABC has an element of absorption costing in it – yes, but that does not make the two the same.

In part (b), the candidates were asked to calculate the annual profit per machine for each of the three sizes of machine using “... *the current basis for*

charging the costs of support activities to machines". This part of the question needed the candidates to use the traditional absorption costing method by using the total sales revenue to apportion the overheads. The candidates failed to realize that the overheads were to be apportioned using the total sales revenue. Instead, they ended up apportioning the overheads based on other means not related to the question.

In (c), the candidates were required to calculate the annual profit per machine for each of the three sizes of machines using ABC. The candidates were expected to start by calculating the rate per cost driver by dividing the overheads by the number of cost drivers. Most candidates failed to calculate the number of cost drivers. That failure affected the calculation of the rates. The numbers of cost drivers for planned and unplanned maintenance were supposed to be calculated by multiplying the number of machines by the number of visits – not dividing or just adding up as some candidates did. For customer account handling, the numbers of machines were supposed to be divided by 2, being the average number of machines and then add the results (not multiply!) to come up with the number of drivers. Most candidates failed to do that. Some did not even attempt to calculate for cost drivers.

Question 2

This question was on cash budgeting.

Part (a) required the candidates to state the advantages of preparing cash budgets. Most candidates gave advantages of budgeting in general and not necessarily of "cash budgets".

Part (b) asked the candidates to state the problems of holding very small amounts of cash. It would appear that when candidates hear about "cash", what comes to their mind is hard cash in hand excluding cash in the bank. As such, most answers were pointing to problems related to small amounts of hard cash in hand. Candidates are reminded that cash in bank is also cash. It should be common knowledge, at this stage, that businesses normally keep their money (cash) in banks.

Part (c) asked the candidates to prepare a cash budget. The performance was generally good. However, some candidates missed the opening cash balance of K10,000 which was the budgeted closing balance at 31 December 2015. Others had problems in coming up with fixed overheads. They just subtracted depreciation from the total overheads without realizing that the balance was supposed to be divided over four months. The balance for January 2016 was supposed to come from the closing balance for December 2015 (i.e. K5,000). The treatment of dividend received was a problem to some candidates. They treated it as dividend paid; as such, it appeared as a payment. This was a cash

receipt and not payment. In some cases, candidates indicated depreciation as a payment. Candidates are reminded that depreciation is not a cash payment. In rare cases, another group of candidates had problems with the presentation of the cash budget. They presented the closing cash balances as 'profit' while others did not even carry forward the closing cash balance for a particular month as opening balance for the following month. There were also problems with timing of cash receipts and payments. Some candidates were not able to relate payments and receipts to relevant months. Candidates failed to correctly apply key words like "after" or "in the month" of production.

In spite of the problems listed above, the overall performance in the question was encouraging. Many candidates answered well in this question.

Question 3

The question was on decision making in the midst of a scarce resource (limiting factor). Part (a) asked the candidates to define the term "limiting factor". Many candidates did that without problems. Part (b)(i) asked the candidates to calculate the shortfall in the number of hours to produce the budgeted production. This was also well answered, generally. Those who did not do well failed to divide the total labour cost by the cost per labour hour in order to find the required number of hours. In (b)(ii), the candidates were asked to calculate the order of profitability with labour hours as a limiting factor. Candidates were expected to apply the concept of contribution. Specifically, the contribution per labour hour was the ultimate determinant. Most candidates did well in this part of the question. However, a few just used the profit as calculated in the question to calculate the profit per labour hour and rank the results. Others calculated the contribution quite alright but subtracted the fixed costs to get to the profit again. It is not the profit that is important at this stage – but the contribution. In some instances, candidates used the longer route by calculating the unit cost for each variable cost item instead of calculating the total contribution and finding the unit contribution by a single division. Such candidates wasted a lot of precious time in the examination.

Some candidates had problems in ranking the order of profitability. This should not have been a problem as the ranking is merely based on the contribution per labour hour starting with the highest to the lowest. Part

(b)(iii) asked the candidates to calculate the production mix to maximize profit. This was mainly based on the results from (b)(ii). Those who failed to get (b)(ii) right, got this part wrong.

Part (c) was on decision-making. It asked the candidates to state whether or not product L should be discontinued since it was making a loss. The decision was supposed to be based on contribution as well, not profit. Those who talked

about profit in part (b)(ii) ended up talking about profit as well at this stage. They were expected to give contribution as the determining factor. A good number of candidates scored good marks in this question.

Question 4

This question was on contract costing. It seems to have caught the candidates unawares. Their answers showed that they were not prepared for such type of a question. The area of contract costing has not been examined for a while and candidates seem to have concluded that the area was no longer examinable. Candidates are reminded that as long as an area is in the syllabus, it is examinable and can be examined at any point in time. They need, therefore, to be prepared for anything and everything in the syllabus.

Part (a) asked the candidates to state the features of a contract. Many candidates gave the features of a contract as defined in Business Law. They mentioned the elements of a valid contract such as offer, acceptance and consideration. Candidates need to understand that this is a construction contract in accounting, and not in Business Law.

Part (b) asked the candidates to prepare a contract account. Since most candidates did not understand contract costing, they did not know what to do. Some prepared something like a profit and loss account (showing profit/loss at the end). Those who were able to prepare a T- account, mostly had problems in the treatment of various costs. Costs that were supposed to be debited were credited and vice versa. In some cases, estimated costs to complete the contract and contract price found their way into the contract account.

In part (c) the candidates were asked to calculate the total profit on the contract and the profit to be recognized for the first year. In some cases, they prepared a profit and loss account at this stage. They failed to apply the contract completion percentage to calculate the profit to be recognized.

Question 5

This question was discursive. It had items/elements taken from various topics, with no calculations involved.

Part (a)(i) asked the candidates to define the term “incremental budget”. This was well defined by most candidates. However, the major problem was in the fact that candidates were referring to “...*previous year’s budget*” as opposed to “...*previous year’s actuals*” as the basis for preparing an incremental budget.

Part (a)(ii) asked the candidates to mention disadvantages of incremental budget. This was not well answered by most candidates. The answers were not coming out clearly.

In (a)(iii) the candidates were asked to mention the benefits of budgeting. Some candidates talked about cash budgeting, as such, instead of talking about the benefits of budgeting in general, they talked about the benefits of cash budgeting.

Part (b) asked the candidates to state the advantages and disadvantages of standard costing. A few candidates talked about standards and not standard costing as a system. The two, though closely related, are not necessarily the same.

Part (c) was well answered by most candidates who showed mastery of the topic.

CONCLUSION

There is need for proper revision and thorough coverage of the syllabus.

Candidates are further encouraged to read and make use of technical articles on the subject that appear in the Students' Newsletter produced by the Institute. These provide additional insights into how to tackle different topics of the subject, and are helpful.

Candidates should make themselves comfortable with all areas of the syllabus. Every area is examinable as long as it is in the syllabus and addressed in the study manual.

The question on contract costing took candidates by surprise. This should be a wakeup call to candidates that they need to cover everything in the syllabus. The fact that a particular area rarely features in the exam does not mean it is not examinable.

