

**STRICTLY CONFIDENTIAL**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**JUNE 2016 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC9: COSTING & BUDGETARY CONTROL**

**EXAMINER'S REPORT**

**GENERAL COMMENTS**

There was an improvement in the performance of candidates during this June 2016 diet compared to the December 2015 diet i.e. improvement in the presentation of solutions.

However, some candidates did not attempt all the five questions, as required. It could be that when preparing for examinations, they did not cover the whole syllabus, hence did not know or they failed to manage their time properly, therefore, ran out of time before finishing the questions. Once again, some candidates had difficulties with calculations to the extent that they just answered those parts of the question that required explanations/definitions of terms, leaving out the calculation parts. Unfortunately, it is not possible in this subject for candidates to do well without involving calculations, as that is the core of the subject.

**COMMENTS ON INDIVIDUAL QUESTIONS**

**Question 1**

The question was on cost-volume-profit (CVP) analysis.

Part (a) asked the candidates to state assumptions behind CVP analysis. Most candidates did well. However, a few lost marks because they gave the features of marginal costing. One of the assumptions behind CVP is that "*over the activity range being considered, costs and revenues behave in a linear fashion*". Some candidates who had this assumption in mind were either talking of costs or revenues only – not both.

Part (b)(i) required the candidates to calculate the break-even point in number of pairs. Most candidates did well except those who had no idea about the formula to use when calculating the break-even point. Some candidates went further to express the break-even point in monetary terms by multiplying the pairs by the selling price per pair. This was not required – hence got no extra marks for that, and was not necessary.

Part(b)(ii) required the candidates to calculate the margin of safety in number of pairs. Again most candidates did well except those who did not know what margin of safety is – hence did not even know the formula used to calculate it. Others went further to express the margin of safety in monetary terms - which was not required.

Part (b)(iii) was on the calculation of profit or loss if 15,000 pairs were sold. This was well answered by most candidates.

Part (c) required the candidates to calculate the number of pairs to be sold to attain a given target profit. The main problem here was how to deal with the K3 additional sales commission. The additional sales commission meant a reduction in the contribution per unit, as such, the contribution per unit of K30 was supposed to be reduced to K27 with the introduction of the sales commission. Some candidates ignored the K3 commission while others added it to the initial K30 contribution per unit, as a result, the denominator used was not correct – hence giving wrong answer.

Part (d) was again on breakeven point in the number of pairs to be sold, with the introduction of additional advertising cost and percentage changes in the purchase cost and selling price. The issue was again that of establishing the new contribution per unit. The starting point was to adjust the selling price and cost per unit by the percentages given so as to come up with the new contribution per unit, which would be found by subtracting the two figures. Some candidates missed that area and ended up using either the new cost or selling price per unit as the denominator – instead of the contribution per unit.

## **Question 2**

This question was on process costing. Part (a) required the candidates to state the methods used to apportion joint costs of a process over joint products. Some candidates gave methods of apportioning overheads, such as, repeated distribution and algebraic methods. These methods are not specifically for process costing. In some instances, candidates confused the concept of weighted average cost of stock valuation with the weight of output as a basis for separating joint costs.

Part (b) required the candidates to prepare T- accounts: two for processes 1 and 2 and a normal loss account. Calculation of cost per unit was the major

problem in this part of the question. This was particularly due to failure to calculate equivalent units. Candidates had problems in dealing with abnormal loss and abnormal gain. Double entry was another problem, so that, some candidates were debiting entries which were supposed to be credited and vice versa. Other candidates prepared accounts that were not required, such as abnormal gain and abnormal loss accounts which was a waste of time.

### **Question 3**

The question was on job costing. In part (a) the candidates had problems in defining the term 'relevant costs', 'job costing' and 'opportunity cost'. In defining relevant costs, candidates used the same words to define the term like in this definition "... *relevant costs are costs which are relevant for decision making*". This was not the best way to define the term – you don't use the same word to define the word. In defining opportunity costs, candidates went like "*opportunity cost is a cost forgone...*" Opportunity cost is not a cost really – rather a benefit forgone.

Part (b) asked the candidates to calculate the lowest/minimum price to quote for the job and to explain the inclusion or exclusion of costs in the quote. Some candidates included irrelevant costs and excluded relevant ones. For example, they included the profit element in the quote and excluded costs like scaffolding hire.

When explaining why some costs were included or excluded from the quote, some candidates simply said they included or excluded those costs because the costs were relevant or irrelevant. This was not enough. The question required the candidates to explain what made those costs relevant, hence included or irrelevant, therefore, excluded from the quote. Few candidates managed to do that.

### **Question 4**

The question was on standard costing with part (a) requiring the candidates to state the uses of standards. Some candidates confused uses of standards with uses of budgets. While their uses could be the similar in some areas, they are not the same.

Part (b) asked the candidates to calculate budgeted and actual profits which most candidates got right.

Problems were, however, noted in part (c) where candidates were asked to calculate variances. Some candidates mixed up the formulas/formulae. Variances are calculated by subtracting standards from actuals – not the other way round. In other words, it is actual minus standard. As a result, variances which were supposed to be favourable were adverse and vice versa. The other

problem was that some candidates left the calculations incomplete; they would calculate the variance per unit without multiplying it by the total units to get the full/total variance. For example, on calculating total sales price variance, candidates stopped at calculating the difference between the actual selling price per unit and the standard selling price per unit. This was supposed to be multiplied by the actual number of units sold to get the total sales price variance. The same problem appeared in a number of other variances. This appears to be a common problem every time candidates are asked to calculate variances.

Part (d), asked the candidates to reconcile the budgeted and actual profits. Most candidates had no idea what this part involved.

### **Question 5**

Items in this question were taken from various topics; all discursive – with no calculations involved.

Part (a)(i) the candidates were required to mention the reasons for the profit and cash flows during a period may not be the same. This was well answered by most candidates. Others, of course, stated the opposite – that, among others, profit uses cash only while cash flows include non cash items such as depreciation.

In part (a)(ii) on disadvantages of zero-based budget (ZBB), most candidates confused ZBB with Zero Deficit Budget (ZDB). As such, they talked about disadvantages of ZDB, which is different from ZBB. On problems associated with holding too much cash.

In part (a)(iii), most candidates did well. It was interesting, however, to note that the candidates interpreted holding too much cash to mean keeping the cash in the office. It should be obvious that companies do not keep a lot of cash in offices. However, because the question was general, such candidates were not penalized.

Part (b)(i) was on the definition of sunk cost. Some candidates defined it as “*irrelevant cost to decision making....*” While it is true and a fact that sunk costs are irrelevant when it comes to decision making, it is not this fact that defines sunk costs since it is not necessarily only sunk costs which are irrelevant for decision making. For example, a cost may still need to be incurred whether a particular decision is taken or not. That cost is irrelevant for decision making but it is not a sunk cost. Others defined a sunk cost as a fixed cost.

In part (b)(ii) on situations where marginal costing can be used as a decision making aid, some candidates talked about features of marginal costing and not necessarily what the question had asked for. As such, they talked about

things like the treatment of fixed costs as period costs. *Others said "marginal costing is used for decision-making"*. The question basically required the candidates to, more or less, talk about the type of decisions that can be made using marginal costing.

Part (c), was on advantages and disadvantages of incentive schemes which most candidates answered fairly well. However, others confused incentive scheme with pension. The two are different.

### **Conclusion**

In most cases, candidates showed lack of understanding the questions and in others, they displayed lack of preparedness.

Candidates are reminded of the need to always ensure that they clearly understand the questions before attempting them. Preparation should as well be in all areas of the syllabus including calculations and definitions/explanations.

