

**STRICTLY CONFIDENTIAL**

**INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI (ICAM)**

**DECEMBER 2019 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER T3.2-COSTING & BUDGETARY CONTROL**

**EXAMINER'S REPORT**

**GENERAL COMMENTS**

The performance improved slightly from that of June 2019. Some candidates did not attempt all the five questions as required. There were a lot of blank spaces in the answer booklets as well as cancellations, signifying that candidates had problems answering some questions or were not sure of their own answers. Understanding of some questions was a problem leading to candidates not answering the question in the context it was asked. It was evident that some candidates did not understand the action verbs used in the question. For example, where the question asked for significance or importance of something, candidates ended up defining the terms and that led to loss of marks.

**COMMENTS ON INDIVIDUAL QUESTIONS**

**Question 1**

Part (a) was on relevance of attributable fixed costs and understanding of cost behavior in the context of decision-making. Most candidates defined the terms instead of explaining their relevance. Some who attempted to state the relevance did not provide the relevance in the context of decision making as required by the question hence marks were lost.

Part (b) was on importance of marginal costs in decision making in relation to make or buy decisions and further processing (in process costing). Most candidates performed poorly. Some candidates wrote '*...you make a buy decision when costs are higher for making or you further process when you make profit*'. The candidates were therefore not able to clearly relate their solutions to marginal costing specifically. The incremental element was lacking.

Part (c) (i) required candidates to explain how normal losses can be used to perpetrate fraud. Most candidates indicated that this could be done by increasing the amount of normal loss by employees. Candidates should note that the level of normal losses are not set up by employees but by the company. It is therefore not possible to increase the level of normal losses.

Part (c) (ii) was on how abnormal gains can be used to introduce a group incentive scheme. Candidates were not able to contextualize the issues. They explained what an abnormal gain is or how it is treated, without answering the question.

In part (d)(i) candidates were supposed to calculate cost per equivalent unit. Most candidates lost marks for ignoring the costs and units coming from process 1. They calculated the cost per equivalent unit by using the conversion costs and materials for process 2 only. This ultimately affected the calculation of the values for the finished goods and closing work in progress in parts (d)(ii) and (d)(iii) respectively. Partial marks were awarded in parts (d)(ii) and (d)(iii) for demonstrating an understanding of the calculations despite using the wrong unit cost calculated in part (d)(i).

## **Question 2**

Part (a) was on uses of flexible budgets. The common mistake made by candidates in this area was the mentioning of either use of budgets in general or use of a cash budget. The question specifically asked for uses of a flexible budget.

Part (b) was on variances and candidates performed well. In part (b)(iii) however, some candidates calculated the material usage variance in monetary terms when the question had specifically required them to provide the variance in kilograms. Marks were not lost so long as the variance in kilograms was correct. In part (b)(iv) on actual material cost per unit produced, most candidates ignored the fact that a unit produced consumed 2.5kg of material and therefore did not multiply by 2.5 to get the material cost per unit produced. As such, what they calculated was the actual material cost per unit, not the actual material cost that went into 1 unit of the finished product. These two are different.

Part (c) (i) was on calculation of contribution/sales (C/S) ratio. Some candidates left their answers in an incomplete form. They calculated the contribution for each of the products and they did not express the contribution as a percentage of the selling price per unit. Despite the contribution being correct, no marks were awarded because that was not what the question demanded of the candidates. In some cases, candidates expressed the C/S ratio in monetary terms.

Part(c)(ii) was on listing of the products in order of their production priority in the midst of machine hours and direct labour hours being the limiting factor. Most candidates did well here, demonstrating knowledge of what was expected of them. However, others listed the products without supporting them. It was not clear how these candidates arrived at the listing of the products in order of profitability.

### **Question 3**

This question was popular and most candidates that attempted it, got high marks.

Part (a) required candidates to explain the relationship among production, material usage and material purchases budget. Some candidates presented the relationship in terms of variances. This was wrong because the question focused on budgets and not variances.

In part (b), candidates were asked to define terms used in inventory control. Most candidates did well although a few mixed up some terms.

Part (c)(i) was on calculation of predetermined production overhead absorption rate (OAR). Some candidates did not notice the fact that one cost centre was using machine hours while the other was using direct labour hours. As such, they calculated the OAR for both cost centres using machine hours thereby getting one wrong. This affected parts (c)(ii) and (c)(iii) on the calculation of production overheads absorbed and the over/under absorption respectively. Partial marks were awarded for demonstrating knowledge on how to calculate these despite using wrong OARs coming from part (c)(i). Some candidates used the actual data to compute the predetermined rates. This was wrong.

#### **Question 4**

Part (a) required candidates to explain differences between activity based costing (ABC) and absorption costing. The performance was average.

In part (b), candidates needed to state the significance of cost allocation, apportionment and absorption in absorption costing. Most candidates defined what each of the terms meant without describing the significance. This led to loss of marks.

Part (c) was on preparation of functional budgets (sales, production, material usage and material purchases budgets). Candidates performed well on sales budget but had problems with the rest of the budgets. Problems mainly emanated from the production budget especially on treatment of opening and closing stock. Some candidates subtracted closing stock and added opening stock to sales to determine the production budget instead of doing the opposite thereby getting the production budget wrong. This made the candidates get the material usage and purchases budgets wrong as well. Candidates got some marks for demonstrating knowledge on how these budgets are prepared from production budgets.

#### **Question 5**

Items in this question were from various topics with no calculations involved.

Part (a) required candidates to state the significance of margin of safety, break-even point and limiting factor. Most candidates defined or explained the terms instead of providing their significance. This was common and it could be due to lack of knowledge or understanding of the question.

Part (b) on how marginal costing understates the value of inventory and work in progress (WIP) was well done by most candidates.

Part (c) was on relationships between different budgets. Most candidates did well although a few mentioned variances just as they did in 3(a).

In part (d) on how standards are used to fulfill the given roles, most candidates did well.

## RECOMMENDATIONS

1. Candidates are reminded to understand the requirements of a question before they start answering it. Candidates lost a lot of marks because they failed to understand the requirements of the question in this paper.
2. Candidates should use past papers for guidance on format of the paper and for practice. It was evident that candidates memorized questions in past papers. The problem with this habit is that when the context changes, most candidates fail the questions.
3. On the other hand, learning institutions should take more time to prepare the candidates for examinations e.g. through adequate syllabus coverage and mock tests under examination conditions.

