

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Cost Accounting	Intermediate Examination - Autumn 2013

General:

Overall it was a balanced paper and candidates who seemed to have covered all parts of the syllabus did well in this paper. It also showed some improvement from the previous session. However, candidates who seemed to have focused on selective topics once again failed to perform well. Questions 1 and 7 were the best answered questions on the paper, followed by questions 2 and 4. Question 3 was the worst answered question.

Specific comments are as under:

Question 1 (a)

This question required to calculate the estimated cost of 1800 units of a product using 'Least square method'. A large number of candidates secured very good marks, as the question involved no complications. Still there were few cases where basic formulae were incorrect whereas some students made abnormally high number of clerical errors.

Question 1 (b)

In this part, elementary concepts of 'Period cost' and 'Product cost' were required to be explained. Generally the answers were well written and candidates secured good marks. However, some students did not understand the difference between product costs of manufacturing and merchandising concerns. Few candidates seemed confused as regards the treatment of overheads.

Question 1 (c)

The performance on this part of the question was satisfactory. However, many candidates compared the overtime amount with loss of margin on diverting labour from the production of product Zeta and ignored the normal wages which were required to be paid in any case.

Question 2

In this question, a situation was given where a manufacturing firm had 2 options for optimum utilization of its spare capacity and the candidates were asked to propose the best solution. This question was poorly attempted in general and only few candidates could secure passing marks. Common observations noted were as follows:

- There were two ways of solving the question i.e. by comparing the relevant (incremental) revenue/cost only or by comparing the total profit. Most students seemed confused and mixed up both approaches.
- Many students ignored the fact that price of single pack would be 10% less than the combined price of separate packs.
- In working out variable costs some students considered variable cost of production and ignored the variable selling costs.
- Many students ignored the fact that after introduction of single pack the regular sale of individual products would be reduced.
- Additional fixed costs on the new products were ignored.

Question 3

This was the worst attempted question. Virtually none of the candidates were able to take a correct direction. It was obvious that students had completely ignored the topic of inventory management by ABC plan. This resulted in loss of valuable marks which could have been obtained with minimum effort. A lot of candidates failed in this attempt just because they scored nothing in this question.

Question 4

The question was based on simple projected cash flow statement and was good scoring opportunity with a bit of focus. Candidates generally secured passing marks as no complications were involved. Despite simplicity, following mistakes were made and resultantly some easy marks were lost:

- (i) Many candidates failed to calculate the value of GST on sales which resulted in incorrect values of collection from debtors.
- (ii) Many candidates failed to bifurcate selling expenses into variable and fixed expenses.
- (iii) Sales tax on purchases was ignored.
- (iv) Many candidates were unable to calculate net sales tax payable.

Question 5

This question required candidates to compute Purchases, Direct labour, Under / over absorbed overheads and Actual profit of completed jobs from among the given set of data. Although it was a simple question but unfortunately performance in this question remained below average. The common mistakes observed were as follows:

- (i) While calculating the amount of purchases many candidates surprisingly ignored the value of opening and closing stock of raw material. In sharp contrast, many candidates also adjusted the value of opening and closing stock of material work-in-process.

- (ii) While calculating unabsorbed overheads, most of the candidates took into consideration the value of both direct as well as indirect wages.
- (iii) While calculating actual net profit many candidates failed to adjust the value of over-absorbed overheads.

Question 6 (a)

In this part the candidates were required to calculate the annual financial implication of a proposal under the given scenario. Majority of the candidates were unable to produce satisfactory answers. Contrary to the requirement of the question many candidates calculated the monthly implication instead of annual financial implication. In computing the increase in productivity, majority of the candidates did not consider the impact of the reduction in labour force from 500 to 400 workers.

Question 6 (b)

It required the candidates to calculate the amount of abnormal loss and cost of each unit of output. The performance on this part was satisfactory with the exception that most of the candidates failed to adjust the sale value of the scrap material from the unit cost of output while computing the amount of abnormal loss.

Question 7

This question required candidates to calculate cost of producing a carton of a product. During this process they were required to allocate overheads to various production and service departments and then allocate service department overheads to production departments.

Most of the candidates performed very well. However, in few cases the candidates selected inappropriate basis for the allocation of overheads. For instance, general lighting and indirect wages were allocated on the basis of floor area instead of more appropriate basis of light points and direct wages respectively.

THE END