

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

## EXAMINERS' COMMENTS

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SUBJECT	SESSION
Cost Accounting	Intermediate -Autumn 2007

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### Overall Feedback

Generally, the paper was well attempted. However, in a number of cases, exceptionally lengthy procedures were used to calculate values which could have been calculated in a simple way. As a result lot of time was wasted which affected the performance in other questions.

### Question-wise Comments

Q.1 This was a simple question on joint product costing and was well attempted by many candidates. However, following common mistakes were observed in many scripts:

- A large number of candidates could not compute the production cost of Zee and made all sorts of calculation errors. Only 128,000 kg of product Cee was used in the production of Zee. This fact was ignored by most candidates as they included the full quantity of 134,000 kg of Cee for ascertaining the cost of Zee.
- Some candidates added the value of bye-product Vee in sale, instead of adjusting it from the production cost of Zee.
- Few candidates allocated the selling and administrative expenses on the basis of weight of the selling products although the question clearly stated that these should be allocated on the basis of sales value.
- Instead of preparing a profit and loss statement showing separately the profitability of each of the three main products, many candidates prepared combined profit and loss account. Such irresponsible attitude was really surprising.

Q.2 Part (a) of this question required determination of EOQ and number of orders to be placed on the basis of EOQ. Majority of the candidates knew and applied the formula correctly and were able to gain full marks in this part of the question.

However, the performance in Part (b) which required computation of storage and ordering costs was average. Following common mistakes were observed:

- (i) A large majority of the unsuccessful students was totally ignorant about the concepts and relied on guess work.
- (ii) Many candidates computed storage costs on the quantity per order, instead of average stock.

- (iii) Many candidates did not compute the ordering and storage costs in the existing situation and resultantly they were unable to work out the savings.

Q.3 Surprisingly, this easy question proved to be the worst attempted. It required determination of profit under various price levels using extremely simple data. In spite of this, many mistakes were witnessed which mostly involved errors in applying the basic rules. Some of these are listed below:

- (i) The fixed costs were given on a per unit basis and the calculation was based on budgeted production, but many candidates made the mistake of changing the total fixed costs for each level of production. On the other hand, the incremental fixed cost of Rs. 30,000 associated with cheaper grade material, was relevant but was ignored.
- (ii) Most of the candidates failed to compute the wastages on finished goods which should have been worked out using the factor 3/97.

Q.4 It was an easy, well attempted and high scoring question. The students who failed to perform well, made the following types of mistakes:

- (i) Depreciation was recorded as an outflow.
- (ii) Simple procedure of computing each month's production i.e. by adding 40% of current month's sales to 60% of next month's sales, could not be performed.
- (iii) Cash/running finance balances were not carried forward to the next months. Some students showed the injection of funds through running finance, equivalent to the negative cash balance and closed each month's cash with zero balance.
- (iv) The initial cash inflow from Mr. Nooruddin's savings was ignored.
- (v) Surprisingly, few candidates recorded purchase of machinery as a cash inflow instead of cash outflow.

Q.5 A poor performance was observed in this question relating to computation of break even units and sales. A large number of students had no idea about computation of the break even where a sales mix was involved. Most of them apportioned the fixed costs among the three products and simply applied the break-even formula on each of them without taking into account the sales mix.

Q.6 It was an easy question and many students secured full marks. Some of the mistakes noted in the scripts were as follows:

- (i) Some of the variable costs were classified as fixed and vice versa.
- (ii) Some candidates included the price of vans in fixed costs.

- (iii) Surprisingly, most of the candidates failed to explain the reasons for different costs per km in respect of each route. They simply needed to explain that the more km the van travels, the cheaper it becomes because a large portion of the costs are fixed and do not increase with the increases in mileage.

Q.7 This was a simple question requiring calculation of hourly wage rate and labour cost variance. Any student with reasonable knowledge of basic mathematics and the related concepts could have secured good marks. Shortcomings noted in the answer scripts were as follows:

- (i) Many students couldn't even calculate the bonus as they didn't know the method of computing the efficiency ratio i.e. by dividing the standard time with the actual time.
- (ii) Some students who computed the efficiency ratio correctly applied the whole of the excess of 24% into the basic wage rate instead of incorporating 75% of 24% i.e. 18%.
- (iii) Instead of computing the total labour cost variance, many candidates computed either the labour efficiency variance and/or labour rate variance which were not required.
- (iv) Many candidates correctly computed the total labour cost variance but followed a very lengthy procedure i.e. instead of comparing the total actual labour cost with total standard labour cost, they calculated the labour efficiency variance and labour rate variance and then added the two to arrive at the total variance. It resulted in wastage of precious time which in many cases affected the performance in other questions.

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