THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

# SUGGESTED SOLUTIONS



## 05204 – Fundamentals of Management Accounting and Business Finance

Certificate in Accounting and Business II Examination
September 2014

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA**

**Answer No. 01**

(a) **Month of October**

| | K | T | |
|---|---|---|---|
| Contribution per unit (Rs.) | 205 | 235 | |
| Utilisation of X (kg) | 2 | 1 | |
| Contribution per kg of X (Rs.) | 102.50 | 235.00 | |
| Preference | 2 | 1 | |
| | | | |
| Product mix | 1,125 | 2,250 | |
| Utilisation of X | 2,250 | 2,250 | 4,500 |

**Month of November**

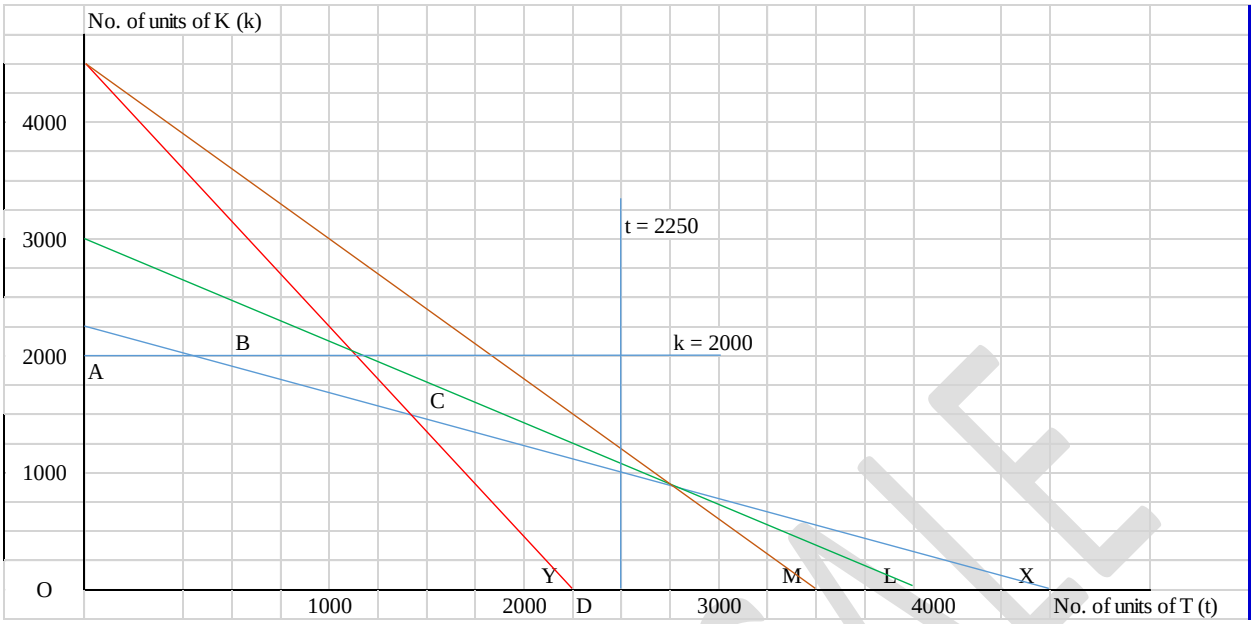
| | K | T | |
|---|---|---|---|
| Contribution per unit (Rs.) | 205 | 235 | |
| Utilisation of Y (kg) | 2 | 4 | |
| Contribution per kg of Y (Rs.) | 102.50 | 58.75 | |
| | | | |
| Preference | 1 | 2 | |
| | | | |
| Product mix | 2,000 | 1,250 | |
| Utilisation of Y | 4,000 | 5,000 | 9,000 |

(b)

| | |
|---|---|
| Shortage of supply in November (T) | 1,000 |
| Loss of contribution (235 * 1,000) (Rs.) | 235,000 |
| Maximum amount afforded for warehousing (Rs.) | 235,000 |
| | |
| ***Alternatively,*** | |
| Contribution per material Y Kg. (235/4) | 58.75 |
| Material Y to be stored (kg) | 4,000 |
| Additional contribution (maximum amount) (Rs.) | 235,000 |

(c) For the month of December: Assume - Number of units of K as k, and of T as t

| LP Model and extreme points are as follows | | |
|---|---|---|
| Maximise: 205k + 235t subject to | k=0; t=? | t=0; k=? |
| DM X (X): $2k + t \leq 4,500$ | 4,500 | 2,250 |
| DM Y (Y): $2k + 4t \leq 9,000$; $k + 2t \leq 4,500$ | 2,250 | 4,500 |
| Skilled Labour (L): $2k + 1.5t \leq 6,000$ | 4,000 | 3,000 |
| Machine Time (M): $3.5k + 4.5t \leq 15,750$ | 3,500 | 4,500 |
| Demand and non negativity | | |
| $0 \leq k \leq 2,000$ | | |
| $0 \leq t \leq 2,250$ | | |




| Feasible area is OABCD | | | |
|---|---|---|---|
| Corner point evaluation | 205k | 235t | Total |
| A (k=2000; t=0) | 410000 | 0 | 410000 |
| B (k=2000; t=500) | 410000 | 117500 | 527500 |
| C (k=1500; t=1500) | 307500 | 352500 | 660000 |
| D (k= 0; t= 2250) | 0 | 528750 | 528750 |

Optimum product mix (C) - 1,500 units each of K and T.

(d) **Binding resources** - are the resources which restrict the product mix from moving beyond the optimum mix. At the optimum point these resources are fully utilised and no more available.

In the above solution, materials X and Y are the binding resources (constraints intersecting at the optimum point)

**Shadow price** - is the additional contribution that would be earned from one extra unit of a scarce resource (binding resource).

In the above solution, the shadow price of material X would be the additional contribution that would be made through a modified solution if one more unit of material X is made available; so is Y.

(e) Resource requirement

| | **1,500 of K** | **1,500 of T** | **Total** |
|---|---|---|---|
| Material X (binding - full quantity) (kg) | | | 4,500 |
| Material Y (binding - full quantity) (kg) | | | 9,000 |
| Skilled labour (hours) | 3,000 | 2,250 | 5,250 |
| Machine Time (hours) | 5,250 | 6,750 | 12,000 |

(3)

**Examiners' Comment**

Though the average marks scored for this question is fair, the candidates' performance was very variable.

This is a five part question which tests the candidates' ability to allocate limited resources under demand constraints and maximise profitability.

In part (a) candidates were required to determine the optimum product mix under one resource constraint. Part (b) required them to calculate the maximum expenditure that could be incurred in respect of a limited resource. Part (c) asked them to determine the optimum product mix in a two limited resources and demand constraint scenario, using the graphical linear programming method. Part (d) requireed them to explain the concepts of binding resources and shadow price and part (e) asked them to calculate the resource requirements at the optimum solution (in part (c)).

Specific comment

Part (a) Many candidates did well, as expected, however, a number of them failed to appreciate that contribution per limiting factor as the criteria that should be used in determining the ranking for resource utilisation. Various other criteria such as net profit per limiting factor, P/V ratio, contribution to sales were used indicating poor grasp of the fundamental concepts.

Part (b) A number of candidates failed to recognise that the loss of contribution due to unfulfilled demand of T (1,000 units) could be paid for outsourcing the warehouse and fixed cost is irrelevant for this decision.

Part (c) Many candidates were able to draw up the objective function and some constraints correctly, but some failed to give the demand constraints and non-negativity constraints. Some had failed to identify the corner points correctly. There were candidates who had incorrectly formulated the objective function as cost minimisation.

Part (d) This part was done poorly, possibly due to candidates being unfamiliar with the terms 'binding resources' and 'shadow prices'.

Part (e) The resource requirement needed was for the optimum solution, and some candidates had failed to recognise this. Many had confined the resource requirement calculations to materials X and Y only and omitted skilled labour and machine time requirements.

**Answer No. 02**

(a) (i)

- Financing decisions - Financial Management (FM) should find sources to finance a company's short term and long term capital requirments at the most convenient and economic rates. Under this, FM will ascertain the working capital requirements (cash management), long term capital requirements, methods of financing those requirements etc.

- Investing decisions - Financial Management should decide which profitable long term and short-term investments should be selected by the entity. This involves finding new projects, evaluating the financial viability of them, selecting most advantageous projects, implementation of project etc.

- Dividend decisions - After generating returns to the entity from the above, then, thirdly FM should decide how much from the return should be distributed as dividends among the owners/shareholders of the company, taking careful consideration of tax position, cash availability (liquidity), future requirements etc.

(ii)

- Impact on the existing capital structure of the company (cost of capital). In other words current debt equity ratio.

- Impact on the **risk expectation** of the shareholders. Debt capital should be settled on time and always increase the risk of the company.

- **Current and future interest rates**. If the interest rates are high, cost of capital will increase and thereby profitability will be affected. When future interest rates are likely to be increased it should be considered when evaluating the project's vaibility.

- **Income taxes affecting the business**. Interest is tax deductible and hence the real cost of debt will be after tax interest.

- **Present profitability of the business.** If the company makes profits then it can enjoy the tax benefit of interest.

- Terms and conditions of the lender - interest rate, repayment period, security requirements etc.

(b) (i) **Dividend growth model = D1/(r-g)**

| | |
|---|---|
| Next 3 years (12*60%) = | 7.20 per share |
| After 3 years = | 10% growth |
| Discounting rate | 15% |
| | |
| 1-3 year DR | 2.283 |
| DR at 3rd year | 0.658 |

Value per share = 7.2*2.283 + ((7.2*1.1)/(15%-10%))*0.658
= Rs. 120.66 per share

**Free cash flow method**

| | |
|---|---|
| Next 3 years (12*70%) = | 8.40 per share |
| After 3 years = | 10% growth |
| Discounting rate = | 15% |
| | |
| 1-3 year DR | 2.283 |
| DR at 3rd year | 0.658 |

Value per share = 8.40*2.283 + ((8.40*1.1)/(15%-10%))*0.658

= Rs. 140.78 per share

**Alternatively;**
= (120.66/60%)*70%
= Rs. 140.77 per share

**Net asset value method**

| | **Rs. (million)** |
|---|---|
| Stated capital | 100.00 |
| Revenue reserves | 20.00 |
| Shareholders' funds | 120.00 |
| | |
| Value per share (120mn/1mn) | Rs. 120.00 per share |

**P/E Method**

| | |
|---|---|
| Current EPS | 12.00 |
| P/E ratio | 15 times |
| Discounted P/E (50%) | 7.5 times |
| | |
| Value per share 12*7.5 | Rs. 90 per share |

(ii) Share prices calculated based on all given methods are below the offered price of Rs. 200 (i.e. 110 million divided by [1 million*55%]). Therefore Rs. 110 is not a reasonable offer for GPL.

**Examiners' comment**

This question had low average marks in the paper. A fair number of candidates had not attempted the question.

Part (a) (i) tests candidates knowledge of functions of financial management.
Part (a) (ii), the impact on going for debt capital.
Part (b) tests the knowledge of various methods of share valuation.

Specific comments

Part (a) (i) The question requireed candidates to describe the functions of financial management in a limited liability company. Instead, many had described the features/operations of a limited liability company.

Part (a) (ii) Many were able to state the impact of debt capital correctly.

Part (b) (i) Many candidates answered the valuation based on P/E and net asset methods satisfactorily but failed to do so in respect of dividend model and free cash flow method, due to their lack of knowledge of application of these methods.

Part (b) (ii) Many failed to recognise that Rs. 110 million is for only 55% of shareholding and thus the offer price per share is Rs. 200 and not Rs. 110.

**Answer No. 03**

(a)
- Job costing is a specific order costing in which costs are attributed to individual/customised jobs.
- These jobs are different from one to another since they being are done according to individual customers' requirements.
- Job costing can be used for both manufacturing and service organisations.
- Organisations engaged in processing wedding cakes, birthday cakes, catering services, cutomised machine tool processing etc., are using job costing.
- Organisations in vehicle repairing, tax and audit services, machine repairing, hospital surgery etc. utilise job costing in billing their customers.

(b)
- Both job and batch costing use special order costing processes based on customer requirements.
- A 'job' will produce one unique output whereas a 'batch' will produce a number of identical outputs at the completion of the batch.
- A vehicle repair uses job costing for repairs done whereas printing of a number of copies of a book will be processed as batch costing.

(c)
- Contract costing applies to large cost units.
- It takes considerably longer period of completion.
- Profit under contract costing is determined based on the degree of work completed.
- Contract costing recognises revenue and profit before completion of the contract.

(d)

| | **Rs.** |
|---|---|
| Direct material from the stores | 450,000 |
| Less: Cost of spare part of which the price has increased | (25,000) |
| Opportunity cost of the spare part | 55,000 |
| Spare parts to be purchased | 75,000 |
| Direct labour cost - cutting | 50,000 |
| Direct labour cost - finishing | 60,000 |
| Special plant hire | 14,000 |
| Overheads - fixed work shop | 11,250 |
| Overheads - administration | 4,500 |
| **Total relevant cost of the repair** | **694,750** |

**Examiners' comment**

Performance of candidates in this question was average.

Part (a) Discussion of how job costing is helpful in both manufacturing and service organisations.
Part (b) A comparison of job and batch costing.
Part (c) Distinguishing features of contract costing vis-à-vis job costing
Part (d) Determination of relevant cost in a job

Specific comments

Part (a) - Most of the candidates obtained good marks. However, some had explained the same point in multiple ways and marks were obtained only once. Some candidates had described the points (as in essay subjects) instead of sticking into the theory and technical aspect and therefore utilised more time. Some had failed to give examples or had given many examples only for manufacturing or service organisations. Most had failed to mention the fact that jobs are different from one to another.

Part (b) - Fair marks were obtained. However, understanding about the 'Batch Costing" theory was very poor. Candidates had spent unnecessary time to give more narrative explanation, instead of highlighting features and key factors. The number of marks allocated was not considered by the candidates when deciding on the degree of elaboration.

Part (c) - Average marks were obtained. Some candidates had considered the accounting treatment, legal aspects and operational ways of construction contracts instead of costing principles. Some had explained the same points in different words (especially those who answered in Sinhala medium). Some candidates had not considered the number of marks allocated when considering the degree of elaboration required in the answer (unnecessary narrations had taken more valuable time).

Part (d) - Most of the candidates had obtained more than 90% of the total marks allocated for this part. Some lost final marks as they were failed to show the total. Some, had explained whether the costs are relevant or not without mentioning the values in the answer. Some had tried to give workings for all the items and had utilised valuable time. Some had eliminated spare parts cost of Rs. 450,000 considering it as sunk cost. Most had considered the resale value of Rs. 50,000 for frequently used spare parts (25,000) instead considering its market value (Rs. 55,000).

**Answer No. 04**

(a) (i) (1) Direct costs are related to the particular cost object (directly attributable to the cost object) and can be traced to it in an economically feasible way.

Indirect costs are related to the particular cost object but cannot be traced to it in an economically feasible way.

(2) Variable costs change in proportion to changes in the related level of activity or volume

Fixed costs remain unchanged over a wide range of activities and for a specified time period, despite wide changes in the related level of total activity or volume.

(ii) Direct variable - Raw material
Direct fixed - Salary of assembly plant supervisor
Indirect variable - Electricity cost of the assembly plant
Indirect fixed - Rent for the factory premises

(b) (i)

| **(Rs. millions)** | **Supreme** | **Deluxe** | **Regular** |
|---|---|---|---|
| Direct material costs | 84 | 54 | 62 |
| Direct labour costs | 14 | 28 | 8 |
| Indirect manufacturing cost | 42 | 84 | 24 |
| | 140 | 166 | 94 |
| Units produced (millions) | 8 | 12 | 10 |
| Cost per unit (Rs.) | 17.50 | 13.83 | 9.40 |

(ii) The unit cost in (i) above includes the allocated portion of fixed costs of Rs. 20 million. This is fixed irrespective of the changes in the volumes.

Given the volume of units changed in August, the unit cost calculated for July at a different level of volume will not be relevant for August.

Electricity cost of Rs. 90 million can be traced to each individual production line. Hence it now becomes a direct cost based on production line, though it has been categorised as an indirect cost previously.This will result in a more accurate assignment of costs to products than allocating the Rs. 150 million as indirect manufacturing costs.

This further avoids under/over costing of products and consequent under/over pricing.

**Examiners' comments**

Part (a) tested the knowledge of different classifications of costs and part (b) tested its application in a simplified abridged version of real-life situation.

SDR is a stationery manufacturing company which produces three paper products in three independent production lines. Candidates were required to calculate cost per unit of each product in part (b) (i), applying the knowledge of different classifications stated in part (a) of the question, utilising the basics of allocation of indirect costs as provided in it. In part (b) (ii) knowledge was tested in the behaviour of fixed and variable costs in the forecasting of August cost information based on July actual data.

Part (b) (iii) tested the knowledge in the further analysis of indirect manufacturing costs with a view to refine data, so that more accurate information could be provided for decision making on under/over pricing, accurate costs of products at each stage etc.

Specific comments:

Part (a) (i) Many candidates performed fairly well, but a large number of candidates considered for variable costs the volume of production and less stress was placed on the activity. A reasonable % of answers discussed how the fixed nature of the cost is applicable only within certain activity levels and how it changes beyond stipulated limits.

(ii) ABC Ltd requires to classify its manufacturing costs as per the grid, but many candidates without restricting to the manufacturing level, quoted examples from selling such as sales commission and expenses. Further, instead of providing examples (electricity, depreciation) for each category, headings of expenses such as production overheads were listed as answers.

Part (b) (i) To a very large extent, manufacturing cost/unit answers were satisfactory. Some candidates excluded the FOH Rs. 20 million but the sum clearly stated that the total of Rs. 150 million to be allocated on direct labour cost. A lesser number of candidates instead of allocating on direct labour costs adopted the basis of units produced.

(ii) A large number of candidates failed to appreciate the fixed cost element in July cost/computation is only applicable for the month of July and that it cannot be used for August with the sales figures provided in the sum at a different level of volume.

(iii) A large number of answers in the revised calculation was satisfactory. Here too, some excluded FOH Rs. 20 million.

Comments on the reclassification of electricity were disappointing. Many failed to appreciate the transfer of this item from the indirect to the direct category which results in more accurate assignment of costs to the products.

**Answer No. 05**

(a)
- Standard costing provides a prediction of furture costs that can be used for future decisions such as pricing decisions.
- Standard costing sets targets for individuals to achieve which will motivate them.
- It helps to prepare budgets and control costs.
- It helps to evaluate performance of individuals.
- It helps to value stock.
- Management by exception - Management can identify areas of the operation where more attention is required.

(b) (i) Sales margin price variance = (Actual SP - Std SP) * Act qty sold

Or = (Actual margin i.e. Actual price - Std cost, - Std margin) * Act qty sold

= (26,000,000) Adverse

Sales margin volume variance = (Act volume - Btd volume) * Standard margin

= 34,200,000 Favourable

(ii) Due to the price reduction, there is an unfavorable sales margin price varaince of Rs. 26 million. However the sales division could sell 30,000 units more than the budget at the reduced price. This has generated a favourable sales margin volume variance of Rs. 34.2 million. Therefore the sales department has been able to increase the expected profit by Rs. 8.2 million i.e. 34.2 million - 26 million. As such the performance of the sales department can be considered as good.

(iii) **Reconciliation of profit**

| | **Rs. '000** |
|---|---|
| Expected margin [(Rs. 2,500 - Rs. 1,360) * 100,000 units] | 114,000 |
| Total material variance [(700 - 780) * 130,000 units] | (10,400) |
| Total labour variance (540 - 610) * 130,000 units | (9,100) |
| Total variable overheads variance (120 - 110) * 130,000 units | 1,300 |
| Sales margin price variance | (26,000) |
| Sales margin volume varaince | 34,200 |
| **Actual profit (2,300 - 1,500) * 130,000 units** | **104,000** |

**Examiners' comment**

This question on standard costing had the highest average marks in the paper.

Part (a) State the benefits of standard costing.
Part (b) (i) Calculation of sales margin price/volume variances.
(ii) Discussion of the sales performance.
(iii) Preparation of statement reconciling budgeted with actual profit with the help of variances.

Specific comments

Part (a) - Many candidates stated acceptable benefits. However, there were candidates who had tried to repeat some points over and over again probably thinking that the examiner will award marks for such repetition. There was also a fair number of candidates who had answered this by giving the benefits of marginal costing, indicating that they have mixed up the two concepts.

Part (b) (i) - Many had incorrectly calculated sales margin volume variances by using the standard price instead of the standard margin. Some others had incorrectly indicated adverse variances as favourable (and vice-versa).

(ii) - A fair number of candidates had concentrated on commenting on the material labour and overhead variances rather than the sales variances, an analysis of which is needed to comment on the performance of the sales department. A few candidates had also tried to base their answer on a profit and loss analysis.

(iii) - Some had attempted the reconciliation without calculating all the applicable variances but by calculating the total cost variance.

**Answer No. 06**

(a) - The costs involving in EOQ model are holding/carrying cost and ordering cost.

- The relevant holding costs should include items that will vary with the levels of stock.
- The relevant ordering costs should include all incremental costs in placing an order for the stock.

Accordingly,

- Material price per kg - Not relevant since this will not change based on the level of stocks
- Holding cost of Rs. 80 per unit - If the company can reduce the stock levels it can reduce the holding cost on inventories. Therefore this is a relevant incremental cost.
- Rental of Rs. 200,000 - This does not change the level of stock and order quantity. Therefore not a relevant cost.
- Security officer's salary of Rs. 25,000 - This will not change on the order quantity and the level of stock. Therefore not a relevant cost.
- Rs. 10 per kg. stacking, handling etc. - Relevant holding cost since these costs increase according to the level of stock.
- Insurance of 50 cents - This is a relevant stock holding cost. When the stock level increases insurance cost will also increase (relevant incremental cost)
- Existing clerical staff salary of Rs. 30,000. This is not relevant since this cost will not vary according to the number of orders placed.
- Transport - This will increase the cost when the number of orders increases. Therefore these are relevant costs.
- BOI fees - This will increase the cost when the number of orders increases. Therefore these are relevant costs.

(b) According to the above;

| Stock holding cost per Kg | **Rs.** |
|---|---|
| Holding cost | 80.00 |
| Handling expenses | 10.00 |
| Insurance (1,000 * 0.05%) | 0.50 |
| **Total holding cost** | **90.50** |

Ordering cost per order

| | |
|---|---|
| Transport | 5,000.00 |
| BOI processing etc. | 1,000.00 |
| **Total ordering cost** | **6,000.00** |

EOQ = √(2 * annual demand * ordering cost per order)/holding cost per unit
**= √(2 * 250,000 * 6,000) / 90.5**
**= 5,758 kg**

Therefore the company should order 5,758 kg per order.

Please note: Marks shall be awarded if EOQ is calculated with his/her input (ordering cost and holding cost) calculated above.

(c) Savings from the quantity discount per annum

| | **Rs.** |
|---|---|
| Saving on purchase cost [250,000 * (1,000 - 995)] | 1,250,000 |
| Saving on ordering cost {(250,000/5,758) - (250,000/20,000)}* 6,000 | 185,507 |
| Total savings per annum | 1,435,507 |

| | |
|---|---|
| Additional holding cost | |
| = (Oder qty to get the discount - EOQ) * Holding cost / 2 | |
| =((20,000 - 5,758) * 90.50) / 2 = Additional holding cost | 644,451 |
| Net savings per annum | 791,056 |

There is a net saving per annum of Rs. 791,056. As such it can be recommended to order in 20,000 units per order.

**Examiners' comments**

This question had the lowest average marks in the paper. Part (a) required candidates to identify the relevant costs for the EOQ calculation out of a series of costs given in the question. Part (b) required them to calculate the EOQ based on the relevant costs identified in part (a). Part (c) required them to advise when a quantity discount is offered at a specific order quantity exceeding EOQ.

Part (a) - Answers to this part were poor with many candidates not justifying the exclusion of a particular cost from EOQ calculation. Candidates could not explain that the relevant holding costs should include items that will vary with the level of stock and the relevant ordering costs should include all incremental costs in placing an order for the stock.

Part (b) - There was a fair number of candidates who could not apply the EOQ formula correctly to calculate the EOQ.

Part (c) - A significant number of candidates had not attempted this part, and the answers from those who attempted were not upto standard. Some had commented that any quantity other than EOQ is not feasible as EOQ gives the lowest cost and some had based their answer without any supporting calculations. Only a few recognised the fact that savings from quantity discounts could compensate the total increase in holding + ordering costs.

**Answer No. 07**

(a) Cost estimation involving forecasting a future cost relating to a process based on past information, by techniques such as High-Low Method, Least-square method, engineering method etc. Budgets are prepared by organisations for a future period. Therefore the costs relating to those future periods will have to be calculated based on a cost estimation techiques.

(b) (i)

S = 21,900 + 900Q

2015-01 Quarter = 9th time period

2015-02 Quarter = 10th time period

2015-03 Quarter = 11th time period

2015-04 Quarter = 12th time period

| Accordingly | **2015** | **2015** | **2015** | **2015** | **2016** |
|---|---|---|---|---|---|
| | **Qtr 01** | **Qtr 02** | **Qtr 03** | **Qtr 04** | **Qtr 01** |
| Trend | 30,000 | 30,900 | 31,800 | 32,700 | 33,600 |
| Seasonal index | 0.70 | 0.90 | 1.30 | 1.10 | 0.70 |
| Sales (units) | 21,000 | 27,810 | 41,340 | 35,970 | 23,520 |

(ii)

| Production Budget (units) | **2015** | **2015** | **2015** | **2015** | **2016** |
|---|---|---|---|---|---|
| | **Qtr 01** | **Qtr 02** | **Qtr 03** | **Qtr 04** | **Qtr 01** |
| Sales | 21,000 | 27,810 | 41,340 | 35,970 | 23,520 |
| - Opening FG | (1,400) | (1,854) | (2,756) | (2,398) | |
| + Closing FG | 1,854 | 2,756 | 2,398 | 1,568 | |
| Production | 21,454 | 28,712 | 40,982 | 35,140 | |

(c) (i)

| | **Output** | **POHs (Rs. '000)** |
|---|---|---|
| Highest | 37,000 | 22,400 |
| Lowest | 18,000 | 18,600 |
| Difference | 19,000 | 3,800 |

Variable overheads Rs. 200 per unit
Increase of 10% (for 2015) Rs. 220 per unit

| | 2015 Qtr 01 | 2015 Qtr 02 | 2015 Qtr 03 | 2015 Qtr 04 |
|---|---|---|---|---|
| Variable overheads budget (Rs.) | 4,719,880 | 6,316,640 | 9,016,040 | 7,730,800 |

(ii) Fixed production overheads [18,600,000 – (18,000 * 200)] Rs. 15,000,000
Increase of 10% for 2015 Rs. 16,500,000
Total production for 2015 Units 126,288
FPOHs absorption rate per unit for 2015 Rs. 130.65

**Examiners' comments**

This question was poor answered by the candidates. Part (a) deals with cost estimation methods. Part (b) (i) tested the preparation of sales budgets using seasonality index, part (b) (ii) tested the preparation of production budgets, part (c) (i) tested the preparation of variable overhead budgeting using the high-low method and part c (ii) was on the calculation of fixed overhead absorption rate.

Specific comments

Part (a) - This was poorly answered. Instead of discussing the role of cost estimation techniques in budget preparation, many had discussed budgeting techniques such as zero based budgeting, incremental budgeting etc. and benefits of budgeting.

Part (b) (i) - This part was poorly answered as well. Majority of the candidates had substituted the seasonal index to Q to calculate quantity sales, although the question clearly states that Q equals the time period. Some took the 1st quarter of 2015 to be 1, whereas the question stated that the 1st quarter of 2013 is 1.

(ii) - This part was fairly answered by the candidates. However, some candidates who had incorrectly calculated the opening and closing stock, by taking them to be 20% of the demand for the quarter (instead of the month). Some had correctly adjusted the stocks in determining the production quantity.

Part (c) (i) - Answers were fair for this part. Many had answered correctly indicating candidates' adequate knowledge in high-low method.

(ii) - Although some candidates were able to calculate the fixed overhead correctly, some had made errors in calculating the absorption rate due to taking the incorrect number of units.

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