

MANAGEMENT ACCOUNTING & FINANCE – PAPER 6**1.0 General Performance**

- There was a slight improvement in the performance by 6.86%. The pass rate improved to 24.95% from 17.88% in the December 2010 examinations diet.
- The pass rate, though, is still low and therefore candidates need to prepare themselves adequately in future.

PERFORMANCE IN INDIVIDUAL QUESTIONS**2.0 Question 1**

- This was a set of 20 multiple choice-questions which tested the general understanding of the syllabus.
- Performance was generally above average; most candidates scored 10 or more of the 20 marks allocated.
- Candidates should aim at scoring more than ten marks from this section to improve their chances of passing.

2.2 Question 2

- Required candidates to: (a) evaluate and recommend whether credit period should be extended or not, (b) (i) determine the optimal cash to be raised by an organisation, part (b) (ii) dealt with procedures for easing problems of cash shortage
- This question was attempted by very few candidates and was poorly answered. Only a few candidates demonstrated knowledge of undertaking a cost benefit analysis.
- In part (a) candidates scored low marks despite similar questions having been set in the past.
- In part (b) the formula for determining the optimal cash to be raised was ignored by most candidates, yet it was vital in answering the question.
- Part (c) of the question was well answered; most candidates suggested practical ways of tackling the problem.
- The entire question examined two aspects of working capital management i.e. receivables and cash. This is an important part of the syllabus and a chronic problem for SMEs. Candidates should expect more questions in this area in future.

2.3 Question 3

- The question was divided into four parts each addressing a specific aspect of investment appraisal techniques
- It required candidates to: (a) calculate the net present values of six projects with different streams of future cash flows, (b) compute the profitability index of each of the projects in part (a), (c) rank all the projects using both NPV and profitability index, (d) advise on the projects to be selected
- Part (a) was popular and the majority of candidates who attempted it scored full marks. However, some candidates did not realise that they could have saved a lot of time by taking advantage of the patterns of the cash flows by discounting appropriately using both the present value and annuity tables. Some candidates had difficulty of selecting the correct discount rate to use which was the cost of capital of 12%.
- In part (b) the performance was below average. Very few candidates stated the formula for profitability index correctly. Most of them invented their own formulas. Since part (b) was poorly answered, consequently was part (c)
- Part (d) needed candidates to come up with different combinations of projects taking into account the restrictions on projects A and E and the cash available. The combination that yielded the highest NPV would then be recommended. Most candidates did not answer this part of the question satisfactorily.

2.4 Question 4

- The question tested candidates' knowledge on inventory valuation and the accounting treatment of overheads.
- It required candidates to: (a) demonstrate knowledge and application of the FIFO method of inventory valuation, (b) calculate the: (i) production overhead rate, (ii) production overhead cost, (iii) under/ over absorption of production overheads, and (iv) state two factors which influence over/ under absorption of overheads.
- In part (a) many candidates scored full marks and yet others showed complete lack of understanding of the technique. The trick was to determine the inventory issues first in order to arrive at the closing inventory balance.
- Accounting for overheads continues to tease students. Basic knowledge in computing the overhead absorption rate, and its eventual application in determining the under/ over absorption of overheads is generally lacking. Candidates should realise that proper preparation for the examination requires full understanding of both absorption and marginal costing techniques.

2.5 Question 5

- Required candidates to: (a) prepare an operating statement reconciling the budgeted profit to actual profit; (b) calculate the unit selling prices under monopoly and competitive conditions.
- Part (a) was answered by very many candidates but was misinterpreted by most of them. Therefore, the performance on this question was surprisingly below average.
- Part (b) of the question was generally well answered.

2.6 Question 6

- Required candidates to: (a) outline the essential conditions for effective budgeting, (b) identify factors that should be considered in a decision to temporarily close a production line, (c) state reasons why a company may seek to be listed on the stock exchange, (d) identify the potential benefits that a company enjoys due to the introduction of the just-in-time inventory policy.
- Part (a) was well articulated by the majority of candidates.
- In part (b) rather than mentioning the factors to be considered before deciding on the closure of a production line temporarily, most candidates stated the reasons that can lead to closure of a production line.
- Parts (c) and (d) were generally well answered.

2.7 Question 7

- Required candidates to: (a) differentiate between time basis and piece work as methods of labour remuneration; (b) explain the accounting treatment of: abnormal loss, abnormal gain, and scrap value of normal loss; (c) state three features that distinguish joint products from by-products, (d) explain why the pay back method is still the most widely used investment appraisal technique in practice, (e) differentiate between risk and uncertainty, and explain why the problem of risk is more acute with capital investment decisions than other decisions.
- Part (a) was clearly explained; in part (b) explanations were correctly stated by about half of the candidates. Answers that did not indicate the account to be debited and credited were regarded inadequate.
- In part (c) differences were satisfactorily explained by many candidates although some of them mixed them up.
- In part (d) the reasons were known by the majority of candidates.
- Most answers to part (e) of the question lacked clear explanations.