SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Accounting for Decision Making (ADF)

EXAMINATION DATE: 9 December 2019

Section 1
General comments

As with the past sittings, Candidates, who were not prepared scored below the passing grades, especially for question 1 and 4 for this exam. Candidates are advised to prepare themselves and to cover all examinable topics within the ADF syllabus in order to pass.

It was noted that a high percentage of Candidates who attempted ADF this sitting were badly prepared. Time management was the other biggest hurdle for many Candidates who attempted the paper. As a result, many Candidates did not attempt question 4.

Section 2
Analysis of individual questions

Question 1

In general, this question tested Candidates on their conceptual understanding of Relevant Costing. Those Candidates who were well prepared on this topic did well in this question while those who were ill-prepared, or demonstrated a lack of time management did poorly.

Candidates were required to compute the relevant cost of skilled labour for one Maxistore shed. Candidates did poorly for **part (a).** The common mistakes made by the Candidates were as follows:

1. Computed the hourly rate of skilled labour wrongly. Many Candidates made the wrong assumption that the hourly rate of skilled labour is proportionate to the hourly rate of semi-skilled labour based on the time taken by semi-skilled labour and skilled labour to work on garden offices.

2. Did not consider the fact that skilled labour is in short supply and hence Candidates did not compute the lost contribution if skilled labour is diverted from garden office to manufacture Maxistore shed and overtime hourly rate for skilled labour.

3. Computed other costs that are irrelevant to the skilled labour for Maxished.

It has been noted that those Candidates who were not able to answer **part (a)**, generally also could not answer **part (b)**.

Part (b) required Candidates to calculate the relevant costing of a Maxistore shed. Candidates did not answer the question well. This was attributed to either:

1. a lack of understanding on the topic especially where they were required to explain the possible reason(s) for each item. Candidates were unable to distinguish between relevant and irrelevant costs. As a result, they have included irrelevant costs in the computation of relevant cost of Maxistore shed.

2. due to a lack of understanding of relevant costings. Candidates were unable to compute the relevant cost items especially for wood and bonded steel plating.

3. simply answering out of context.

Question 2

Generally, most Candidates did reasonably well on this question.

For **part (a) and (b),** most Candidates understood the concept of target cost and cost gap. However, many Candidates mixed up "internal rate of return" to be profit margin, and some Candidates made mistakes in their calculation by not taking into account the 5-year horizon.

Most Candidates were able to present satisfactory answers for **part (c)**. Some Candidates lost marks as they provided one-line answers without further explanations. One common mistake was that Candidates listed down various costing methods as one of the methods to reduce costs. This is not true as the costing methods help to track costs (better) but the costing method itself does not reduce costs.

Question 3

This question was based on a fundamental examination topic. On average, Candidates marginally failed this question.

Parts (a) and (b) required Candidates to demonstrate their understanding of the breakeven point and to determine the breakeven points. The question required the Candidates to determine the number of breakeven points, and the corresponding number of coats and sales revenue for two different scenarios.

Half of the Candidates demonstrated conceptual understanding and they were able to determine the answer correctly using a variety of methods when working out their calculations (such as contribution analysis, weighted average method, algebraic or profit volume calculation). Candidates who were unable to compute the quantity and sales revenue at break-even point because most of the Candidates calculated the required units of individual products separately, rather than using a pre-determined sales mix.

Part (c) required Candidates to discuss the limitations of the breakeven analysis based on their calculations in **Part (a)** and **(b)**. Candidates who were prepared for the topic and attempted the question part achieved a pass mark, whereas those who failed to attempt the question or those who did not manage their time well only managed to answer this part of the question partially.

Question 4

In general, the majority of the Candidates did not revise and prepare for the topic of Economic Value Add (EVA). The majority of the Candidates were unfamiliar with the concept of EVA. Hence, it was the most badly answered question for this sitting.

Part (a) required Candidates to calculate the EVA for the year ended 31 December 20x9, and state any assumptions made. None of the Candidates know the exact formula for calculating EVA which is NOPAT less Capital Charge on Invested Capital. Candidates were advised to show workings so that partial marks could be given for partly correct calculations. Almost all the Candidates did not add back or deduct from Operating Profit or how to adjust for tax items. The majority of the Candidates failed this part of the question.

Part (b): Almost all the Candidates only highlighted the difference between accounting profit and EVA, but did not explain the share price movement or made poor attempts in explaining. Candidates did not highlight that Truetone Music Reproduction Services (TMRS) had not generated sufficient returns to compensate the providers of finance, and that it had in fact destroyed value which was likely reflected in its share price. A large proportion of the Candidates failed this part of the question.

Part (c): Candidates were expected to calculate the Return on Capital Employed (ROCE) for the company for 20x9. Very few Candidate remembered the exact formula for calculating ROCE, which is Profit before Interest and Tax / (Equity + Long-term Debt). The common mistake made by the Candidates was not knowing what Capital Employed means. The majority of the Candidates failed this part of the question.

Part (d): A common mistake made by Candidates was to re-state the formula or highlight the difference in calculation method between EVA and ROCE i.e., citing the mechanics, without explaining the two benefits of the EVA approach as required by the question. Candidates were expected to explain why EVA is better aligned to the objective of maximising shareholder wealth compared to accounting-based measures and hence is less prone to accounting distortions. There were a handful number of Candidates were able to cite at least one benefit of the EVA approach.

Part (e): Most Candidates only explained that benchmarking would motivate employees to seek improvements in performance as improvement targets were based on peer comparisons. However, they failed to quote more reasons to support benchmarking as a useful tool for TMRS to better allocate time and resources for

strategic, tactical and operational reviews. The minority of the Candidates managed a pass mark for this part of the question.