

## SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

**MODULE:** Accounting for Decision Making (ADF)

**EXAMINATION DATE:** 7 December 2018

### **Section 1**

#### **General comments**

The structure of the December 2018 exam paper comprised of 4 small cases, 1 small case for each question. This is a change, as opposed to June 2018 exam where the exam paper comprised of 1 large case study with 4 questions. SAC has published a mock paper in the new exam structure prior to the examination in September 2018.

Another change pertains to the medium used for the examination. December 2018 exam session was the first time Candidates used e-Exam software, with each of them recording their answers using their personal laptop (in full lockdown mode – no internet/network connectivity or hard drive access) instead of traditional pen and paper. Notwithstanding the use of laptops, all SCAQ Foundation Module examinations continue to be a restricted open-book format with Candidates being able to bring in a double-sided A4 page of personal notes for reference.

Overall, Candidates were able to answer quantitative questions satisfactorily. However, Candidates were generally weaker in the qualitative questions, for example questions on analysis of results and explanation on two concepts or differences. This exam will continue to test Candidates' understanding of the concepts and this ensures they can be applied in various circumstances in the real world. Furthermore, Candidates would need to improve on their time management as it was observed that Candidates did not answer Question 4 sufficiently.

### **Section 2**

#### **Analysis of individual questions**

#### **Question 1**

##### **Part (a)**

There were two issues to be discussed (i) the likely impact on factory manager's motivation, and (ii) the likely impact on factory manager's subsequent performance.

Most Candidates highlighted that the factory manager is likely to react negatively or will be demotivated, but many Candidates did not explain why. Candidates who provided explanation attributed the factory manager's negative response to unfairness as it is unfair to measure performance using an un-flexed budget.

Some Candidates did not even state the likely impact on the factory manager's subsequent performance/behaviour. Candidates would do well to occasionally re-read the question whilst they are writing their answer, and one final time once they

think they have completed their answer. This will prevent this all-to-often occurrence from happening.

**Part (b)**

Candidates were required to prepare a more appropriate variance report to use as a basis for performance evaluation.

Generally, Candidates did not perform well for this question. Some Candidates flexed the Sales, Materials and Labour line items correctly, but they were unsure whether to flex Production Overheads and Selling & Distribution Expenses.

Another common mistake made by the Candidates was not stating whether the computed variances were Favourable (F) or Unfavourable (U) and Candidates did not calculate the Profit amount for the Flexed Budget. Some Candidates were confused whether the variance should be F or U, thus presenting the opposite answer. A favourable variance can easily be remembered as simply “good news”. The omission of F or U often costs Candidates dearly, and should be the more straightforward marks available in an answer.

A significant number of Candidates only compared the difference between the Master Budget and Actual but did not realise that the Master Budget should be flexed to provide an apple-to-apple comparison. It is possible to do well for this question part as there were Candidates who scored full marks.

**Part (c)**

This question part required Candidates to compute as many variances for sales, materials and labour, and to give one possible explanation for each variance computed.

Many Candidates did not realise that the question asked only for variances on sales, materials and labour, and spent unnecessary time calculating many other variances for Production Overheads and Selling & Distribution Expenses which were not required. Once again, Candidates would do well to occasionally re-read the requirement as they write up their answer to ensure they are still answering the question set. A significant number of the Candidates did not split the sales variance into sales price and sales volume variances but regurgitated their answers for Question 1(b), hence no marks were awarded. It is highly unlikely that marks will be awarded twice for the repeated answers.

For sales variance, most Candidates did not calculate the budgeted unit contribution and hence calculated the sales volume variance based on unit selling price of \$150 instead of unit contribution margin of \$49. Generally, Candidates were able to calculate material variances but they were unsure of how to calculate the labour variance and most of the Candidates did not calculate the labour efficiency variance correctly. Some Candidates did not provide ONE possible explanation for each variance they have computed, hence lost the marks allocated for explanations.

Generally, Candidates did not perform well for this question as they were unable to compute a large number of variances and also did not provide possible explanations on the respective variances. Nonetheless, it is possible to do well for Question 1(c) as there were Candidates who scored the full 13 out of 13 marks.

**Part (d)**

This part was poorly attempted by the Candidates as almost all students did not understand or remember throughput accounting. Many Candidates left their scripts blank or were totally wrong in concept. Candidates should read the syllabus as part of their final preparation to ensure they are familiar with all the concepts noted in the syllabus. The exam is prepared from the syllabus so it should be a core reference point for Candidates.

**Question 2**

**Part (a)**

This question required the Candidates to explain why focussing on traditional variances is not suitable for modern manufacturing. Most Candidates did not do well for this question part as Candidates did not identify the key characteristics of modern manufacturing and explain why traditional variances are unsuitable based on the key characteristics identified. Some Candidates have identified the emphasis on quality as the key reason. However, Candidates had wrongly listed various costs which they thought were not included in traditional variance and hence should be included in modern manufacturing. The topic of management accounting needs to constantly evolve in the modern world, and throughout their professional life Candidates will need to mould and flex the concepts they learned in their studies to new circumstances. For this reason, this concept is likely to be examined repeatedly in this paper.

**Part (b) and (c)**

Generally, most Candidates were able to demonstrate their understanding on the preparation and interpretation of cost of quality report and hence they performed very well.

**Part (d)**

Candidates did reasonably well for this question as most Candidates had correctly identified on average 2 key performance indicators.

**Question 3**

**Part (a)**

The question required Candidates to identify the relevant costs to be included for a job and the minimum price that should be charged to the client for this job.

Candidates' performance for this question were satisfactory. Common errors made by most Candidates were the inclusion of fixed cost of the accountant, head office costs and mark up for costing this job in the preparation of quotation. These costs are not required to be included, as the company wants to price the contract to ensure

that they win the work and the owner's stipulation is that only relevant costs are covered by the price quotes.

Most Candidates have also included cost for caustic soda. This is a savings instead of a cost as utilising the caustic soda for this job would save the company the cost of disposing the caustic soda safely.

In addition, Candidates did not specify that certain cost are incremental costs as they need to be purchased or incurred for this job; or replacement of inventory used for this job. Most Candidates also could not identify that the cost of diverting the skilled labour is the lost contribution from existing jobs plus the skilled labour cost. Candidates should be constantly repeating the phrase "future, incremental, cash flow" in their minds when seeking out and quantifying relevant costs. It is how forecast cash flows change that needs to be included.

**Part (b)**

The question requires Candidates to explain the implications of setting prices using relevant cost with future work for the customer.

Most Candidates have only quoted one or two implications for this whereas more implications are expected for this answer. Candidates should be guided by the mark allocation to help them assess how many points to write.

**Part (c)**

The question required Candidates to explain four differences between management accounting and financial accounting.

Almost all the Candidates did very well for this question, as they were able to identify and explain some or all four differences between management accounting and financial accounting. However, there are some Candidates who were ill-prepared for this question part and they did not do well.

**Part (d)**

The question required Candidates to explain how the company manages the quality, cost and time triangle.

Most Candidates were able to identify the interdependency of quality, cost and time in a project, and explained some aspects of how this is managed. Majority of Candidates were able to evaluate 2 out of 3 points of the quality, cost and time triangle.

**Question 4**

This question tested Candidates' knowledge on Return on Investment (ROI) and Residual Income (RI) and their application to part (a) and (b) of this Question. Part (c) to (e) are testing Candidates' application on their answer derived from part (a) and (b).

Most Candidates did not perform well for this question. It seemed like they were running out of time to answer this question well. This is especially true for those Candidates who left this question as the last question to attempt as it was observed from the answer scripts that the Candidates rushed through their answers. Due to poor time management, Candidates seemed not to have sufficient time to complete this question. From the Candidates' answers, they demonstrated that they understood the requirements for each Question parts. However, they did not have sufficient time to expand on their answers which resulted in the loss of marks. Divisional performance assessment is an important part of the work of the accountant, and therefore an important part of the syllabus. Understanding the calculations but also the implications they have on the behaviour of managers is vital.

**Part (a), (b) and (c)**

Only some Candidates understood the term "controllable", so most Candidates did not manage to get the correct answer. Furthermore, a lot of Candidates did not comment on whether the divisions had achieved their targets.

**Part (d)**

Most Candidates seemed to answer this part of the question on transfer pricing from a financial accounting perspective for which they scored some marks. Almost half of the Candidates did not attempt this question part.

**Part (e)**

Many Candidates do not understand the meaning of "cost centre" resulting in inappropriate responses to the question.

There were a number of instances where Candidates spent unnecessary time writing lengthy responses on a single concept whereby a single point was repeated multiple times which can only be awarded 1-2 marks. This is in contrast to some good Candidates who clearly stated their points with clear and concise explanations, such that time could be well spent to answer other parts to the question.