Module: Accounting for Decision Making (ADF)

Examination Date: 13 December 2017

Section 1
General comments

Similar to the first examination in June 2017, this examination adopted a single case to address four independent questions. The case examined possible decision-making, accounting/costing, and inventory related issues for a company specialising in selling healthy snacks.

The overall performance in this examination was significantly worse than the one in the June 2017 examination session. Many Candidates were ill prepared for key topics, such as decision-trees for decision-making and sales mix variance calculations.

Application of knowledge for decision-making is the key objective of the module. Candidates therefore are required to communicate their qualitative and quantitative work clearly by addressing/referencing the scenario in the case and any additional data provided with each question part.

Apart from specifically addressing the case facts, Candidates must improve their qualitative answers by separating key points into paragraphs. Some Candidates provided written answers with one or two pages without a paragraph break. Candidates are reminded that examinations in the Singapore CA Qualification (Foundation) programme not only test technical competency but also test communication skills, in particular, your ability to frame answers using language that is clear to a layperson. Obviously, when marking your answer scripts, markers are looking for accurate answers that are focused on the question asked, but they are also looking for answers that convey information in a way that others can easily understand and that show a deep appreciation for any ethical and professional issues posed.

As in the previous examination session, many Candidates failed to read the requirements properly and wasted valuable time by providing irrelevant answers in many instances. In order to score a passing mark, Candidates must read the requirements carefully and specifically answer each question part (no irrelevant calculations or motherhood statements)!

Candidates are strongly advised to make good use of the verbs list provided in the appendix attached to each examination paper to ensure that their answer is in line with what the Examiner expects and this will help them to maximise their mark.

To be a Chartered Accountant, you need to be highly proficient in all aspects of accounting, which includes financial reporting, taxation, internal and external audit,
financial management, Singapore law, ethics, and management accounting. Sure, you can specialise, but each aspect within the Singapore CA Qualification is highly interdependent on the other aspects. To truly be a Chartered Accountant of Singapore, you must be proficient in all areas covered in the academic base.

### Section 2

**Analysis of individual questions**

#### Question 1

This question tested Candidates’ proficiency in inventory management, focussing on economic order quantity, safety stock, and re-order point. Well prepared Candidates scored highly in this relatively straight-forward question. Candidates were also required to identify various inventory holding costs.

Unfortunately, many under-prepared Candidates were unable to appreciate the common scenario that delivery of re-ordered items will not be done on a supplier’s rest days even though the retail case study company operates daily. This was the scenario in the question. The majority of the Candidates ignored this logical business operations fact in their calculations.

Candidates are reminded to think about the practical side when presented with unfamiliar case facts. Even if you have no work experience dealing with inventory, think about how you buy food items at home. You don’t wait for the rice to run out before stocking up! A lot of what we do in business has practical applications in our private lives, it is just that we often don’t make the connection. Despite our obsession with ‘never-sleep’ living, most shops and particularly suppliers, rarely operate 24/7. In real life, there are very few suppliers that work 24/7, exceptions include medical device/supplies delivery, critical infrastructure equipment repairs, electricity and other utilities suppliers (gas, sewerage, etc.), but healthy snacks are not a critical priority. Sure, some manufacturers work 24/7, but deliveries to customers rarely follow the same pattern.

As noted in the general comments section, some Candidates failed to recognise what was expected in their answer, because they ignored the key instruction (verb). For instance, when asked to ‘identify”, Candidates must name the item AND provide an explanation as to why the item/s that they identified are relevant to the facts given in the question.

#### Question 2

Question 2 addressed issues relating to multi-product breakeven analysis, operating leverage, and variance analysis, which were all based on a variable costing format. Very few companies focus solely on a ‘single product’, so getting the product mix right to optimise profit is essential.

Good Candidates were able to score better than satisfactory in this question. Many Candidates, however, were unable to do the simple operating leverage calculations required and no Candidate managed to compute the mix variances correctly.
In answering qualitative questions about the performance of and suggesting follow-up action to the sales and marketing division (Parts (c) and (d)), many Candidates neglected to read the requirements properly and answered using the performance and other issues of the company instead. These irrelevant answers wasted Candidates’ time and effort and, consequently, these Candidates underperformed.

**Question 3**

**Part (a)** of this question required Candidates to compare and contrast activity-based and process costing techniques. Most Candidates were well prepared for the activity-based costing method but not for the process costing method. Answers to process costing were often brief and superficial. The vast majority of Candidates did not recognise that the two costing techniques are not mutually exclusive. These two techniques can co-exist to form an activity-based process costing which could be applied in the scenario of the question.

**Part (b)** of the question required Candidates to draw a decision tree and to calculate the expected values of the decision points. The ill prepared Candidates drew some sort of a diagram but which was not a decision tree and did not provide any relevant calculations. Many Candidates did not score well in this question part because they either were unable to construct the correct decision tree or neglected to provide the relevant calculations for each decision point. Some Candidates provided incorrect expected values on the decision points but without any workings or reference as to how the figures were derived. A point to note is that markers looked to a Candidate’s workings to provide partial marks when the individual answer nodes were incorrect.

For **Part (b) (ii)**, Candidates needed to articulate how they might act (put themselves in the shoes of …) if they were the investor company (PBK) or the investee (Meiwei) company. Being able to view situations from different perspectives is a critical soft skill of a Professional Accountant, and this soft skill together with technical competence was tested in this question part. Most Candidates performed poorly for this part.

Finally, the topics in Question 3 are clearly spelt out in the ADF syllabus learning outcomes. Candidates need to study topics identified in the learning outcomes and should not waste their time trying to spot topics to the exclusion of others.

**Question 4**

**Part (a)** of the question asked Candidates to articulate why financial accounting and information from the General Ledger are less informative for good decision-making purposes than quality management accounting information. In general, this part was well answered.

**Part (b)** required Candidates to provide advice to the directors of the case study company to ensure data and information is relevant and useful to create sustainable value and growth. This question part was badly answered by the majority of Candidates, with most Candidates providing completely irrelevant answers by elaborating strategies or using different strategic tools without touching on how to
make data and information relevant. This outcome may be a reflection of poor time management (being the last question part to complete for most Candidates) or, more likely, a poor appreciation of the value of quality management accounting information to the success of a business, both short-term and in perpetuity.