Examiner's report

MA1 Management Information
December 2011

General Comments
The examination paper, the first under the new syllabus, consisted of 50 multiple-choice questions each worth 2 marks. The first sitting of a new paper is always difficult for candidates especially as, in the case of MA1, the syllabus has changed significantly from the previous equivalent paper at this level. For example, spreadsheets are now a significant aspect of the syllabus and study guide. Overall, the questions on spreadsheets were relatively poorly answered.

The four questions below, taken from the December 2011 paper and covering different aspects of the syllabus, are examples of questions that candidates found particularly difficult. This report will seek to explain, in each case, the basis for the correct answer and the incorrect options selected by many candidates.

Sample Questions for Discussion

Example 1

Which of the following values would be obtainable from the cost accounts in an interlocking accounting system?

- Trade payables
- Trade receivables
- Sales revenue
- Inventory of finished goods

A 1 and 2 only
B 3 only
C 3 and 4
D 1, 2 and 4

This question tested Section A1f in the Study Guide. While the correct answer, Option C, was the most popular, only 36% of candidates selected it. Options A and D were also very popular.

An interlocking accounting system is one where separate ledgers are kept for the cost accounting function (the cost ledger) and the financial function (the financial ledger). Within the cost ledger there is a control account to provide a place to record all of the items that are of a financial accounting nature. For example, when materials are bought and an invoice is received the materials control account will be debited but instead of crediting the trade payables account the credit is to the cost ledger control account. This means that the cost ledger does not keep a separate record of the payables. The same applies with trade receivables which also go to the cost ledger control account (debit).

Option A includes values that are only obtainable from the financial ledger. Option D is Option A with the addition of finished goods inventory the value of which will be obtainable from both ledgers. Option B includes only one of the values in the list obtainable from the cost accounts.

Example 2

No inventory of material M60 is held. During a period the following transactions relating to M60 occurred:

Day 5 160 units bought at $3.50 per unit and used
Day 10 300 units bought at $3.40 per unit and used
Day 15 90 units bought at $3.70 per unit and used

Using the periodic weighted average pricing method, what was the value of the usage on day 15?

A $309
B $313
C $318
D $333

This question tested Section D1d of the Study Guide. Option B is the correct answer but Option D was by far the most popular answer (chosen by nearly 60% of candidates).

The periodic weighted average pricing method is a means of evening out any fluctuations in the buying prices of a raw material for a period so that all products that use the material are charged the same price. This is provided by Option B which is the result of dividing the total cost of the purchases in the period by the total quantity purchased to determine the weighted average price which is then applied to the usage of 90 units on day 15.

Option D simply uses the price paid on day 15.

Example 3

In order to meet the general production requirements in a factory, direct workers may work overtime which is paid at a premium over the normal hourly rate.

Which account(s) would be debited to transfer the overtime wages of direct workers from the wages control account?

A Work-in-progress only
B Production overheads only
C Work-in-progress and bank
D Work-in-progress and production overhead

This question tested Section D2a of the Study Guide. The correct answer is Option D but the most popular answer was Option B. Option A was also selected by a significant number of candidates.

The basic wages of direct workers will normally be charged as direct labour i.e. directly to work-in-progress. Where overtime is worked, at a premium cost, the charging of the overtime premiums, paid to the direct workers over and above the basic wage rate, will depend on the circumstances. Where overtime is worked to meet general production requirements, the premiums paid to the direct workers for the overtime hours would be treated as production overhead so that the premium can be shared over all production whether in normal working hours or in overtime hours. That is the situation described in the question and therefore D is the correct option (the cost of hours worked at the basic rate directly to work-in-progress and the overtime premiums indirectly via production overheads).

Where overtime is instead worked to meet the urgent demands of a particular customer then the whole of the cost of the direct workers pay will be charged to work-in-progress. This would be Option A but is not correct for the situation described in the question. Charging to production overheads only (Option B) would only be the correct option if the question only referred to the cost of the overtime premium over and above the basic rate rather than the overtime wages of the direct workers.

Example 4

During a period, 1,600 units of material were input to a process. Output completed was 1,400 units. Closing work-in-progress was 100% complete with respect to material and 60% complete with respect to conversion costs. There was no work-in-progress at the start of the period and no losses during the period.

What were the equivalent units of production?

	Materials	Conversion costs
A	1,400	80
B	1,400	120
C	1,600	640
D	1,600	1,520

This question tested Section D4ciii of the Study Guide. While the correct answer, Option D, was the most popular, it was selected by only 36% of candidates. Options B and C were also very popular.

The question requires the calculation of equivalent units for conversion costs in the 200 units of closing work-in-progress. Option B does this (200 units × 0.6 = 120) but then omits to add the 1,400 completed units. However, for materials it includes the 1,400 completed units but then fails to add the 200 units of work-in-progress that are in fact complete for material content. Option C is correct for materials but is completely wrong for conversion costs. Option A is completely wrong, failing to include the closing work-in-progress for materials, failing to include the completed units for conversion costs and calculating the incomplete (40%), rather than the complete (60%), element of conversion costs in the closing work-in-progress. Option D is correct because it combines the required elements described above.