



Examiner's report

MA1 Management Information

For CBE and paper exams covering July to December 2013

General Comments

The examination paper consisted of 50 multiple-choice questions, each worth 2 marks.

The three questions below, covering different aspects of the syllabus, are examples of questions that candidates found difficult. A particular feature of candidate responses was that questions on Study Guide section D1, accounting for materials, were not well answered. This indicates a general weakness in this area. Two of those questions are covered in this report which explains, for each sample question, the basis for the correct answer and for each of the incorrect options selected by some candidates.

Sample Questions for Discussion

Example 1

A unit of product P requires two kilograms (kg) of material M. Estimates for the next period include:

<i>Sales of product P</i>	<i>2,150 units</i>
<i>Opening inventory of product P</i>	<i>320 units</i>
<i>Closing inventory of product P</i>	<i>490 units</i>
<i>Opening inventory of material M</i>	<i>1,200 kg</i>
<i>Closing inventory of material M</i>	<i>980 kg</i>

What is the estimated usage of material M in the next period?

- A*** *4,470 kg*
- B*** *4,640 kg*
- C*** *4,420 kg*
- D*** *3,960 kg*

This question tested item D1c in the Study Guide regarding the calculation of material requirements. Many candidates did not appreciate that planned changes in raw materials inventory affects the amount to be purchased but does not affect the amount that will be used.

Calculation of the usage of material M requires calculation of the production quantity of product P (sales units $\pm$ change in finished goods inventory) multiplied by the amount of material M required for each unit of product P. This is Option B $\{[(2,150 \text{ sales units} + 170 \text{ units increase in finished goods inventory}) \times 2 \text{ kg per unit}] = 4,640 \text{ kg}\}$.

The most common error, was calculating the purchases of material M rather than the usage. Such candidates incorrectly made adjustment for the change in the inventory of material M as well as the inventory of product P. This is Option C, selected by majority of the candidates which was the largest group.

. Those candidates who selected Option D got the adjustment for the change in inventory of product P the wrong way round i.e. they deducted 170 units from the sales units to calculate a production figure less than sales despite the budgeted increase in finished goods inventory. Those candidates who selected Option A calculated the kg required for the sales units before adjusting for the change in finished goods inventory which was expressed in units of product.

Example 2

Are the following statements, about weighted average methods of raw materials pricing, true or false?

- (1) *The periodic weighted average method requires the recalculation of the issue price after each issue is made*
- (2) *Fluctuations in issue price are reduced if the cumulative, rather than the periodic, weighted average method is used*

	<i>Statement (1)</i>	<i>Statement (2)</i>
A	<i>True</i>	<i>True</i>
B	<i>True</i>	<i>False</i>
C	<i>False</i>	<i>True</i>
D	<i>False</i>	<i>False</i>

This question tested section D1d in the Study Guide about the different methods of raw materials pricing from inventory.

Most candidates believed that statement (1) is true. The statement is in fact false for two reasons. Firstly, the periodic weighted average pricing method only recalculates the weighted average price at the end of each period, regardless of the inventory movements during the period, and applies that price retrospectively to all of the issues in the period. It is the cumulative weighted average pricing method that may recalculate the weighted average price during a period i.e. if one or more purchases have been made. Secondly, neither of the weighted average pricing methods requires the recalculation of the issue price after each issue. The cumulative weighted average price is recalculated after each new purchase and this is then applied to all issues until a further purchase is made.

The majority of candidates believed that statement (2) is true. The statement is in fact false. The cumulative weighted average method will result in more, not less, fluctuation in price than if the periodic weighted average method is used because the issue price is recalculated more frequently.

The correct answer is, therefore, Option D: both statements are false. The correct option was selected by only a few candidates.

Selecting Option B demonstrates not only confusion and misunderstanding about the methods but also inconsistency.

Example 3

A company's budgets for a period include the following:

<i>Production output</i>	<i>5,000 units</i>
<i>Variable production overheads</i>	<i>\$7,500</i>
<i>Fixed production overheads</i>	<i>\$16,000</i>

Actual production in the period was 5,200 units and actual overheads were \$24,100.

Based on the flexed budget, what was the production overhead cost variance in the period?

- A** *\$600*
- B** *\$300*

C \$340
D \$40

This question tested section E1f on the subject of fixed and flexed budgets and the implications for variance analysis. A widespread misunderstanding of flexed budgets was demonstrated by candidates.

A flexed budget excludes the effect of a change in activity, between the original budget and actual, when calculating variances for separate elements of cost. The original budgeted total costs are flexed, that is adjusted to what they would be expected to be at the actual level of activity on the basis of their behavioural characteristics. This focuses attention, in the variance analysis, on changes from budget in respect of price and efficiency.

The flexed budget for variable costs adjusts the original total budgeted variable costs proportionately for the change in activity from original budget to actual. Budgeted fixed costs, however, would not be expected, by their nature, to be affected by any change in activity. The total flexed budget production overhead costs are then compared with the actual costs to calculate the production overhead cost variance. The correct answer to this question is \$300 { $\$24,100 - [(\$7,500 \times 5,200/5,000 \text{ units}) + \$16,000]$ } which is Option B

The most popular answer was Option A. This compared the actual production overheads incurred (for 5,200 units) with the original budget (for 5,000 units), thus failing to flex the variable production overhead costs.

Candidates who selected Option C flexed the production overhead budget, but incorrectly by proportionately flexing the fixed overheads as well as the variable overheads.

A small percentage of candidates chose Option D which, incorrectly, proportionately flexed the fixed production overheads instead of the variable production overheads.