

# Examiner's report

## MA1 Management Information

For CBE and Paper exams covering July to December 2014



### General Comments

The examination consists of 50 objective test questions, each worth 2 marks. The purpose of this report is to provide illustrations of questions set which have especially posed problems for candidates.

The questions below, covering different aspects of the syllabus, set out the approach that should be taken to answering each question correctly and also highlight common incorrect approaches that many candidates have taken and the misunderstandings that they indicate. Answering objective test questions requires candidates to have both a clear understanding of the subject matter being examined and a logical approach.

### Sample Questions for Discussion

#### Example 1

**Are each of the following statements, about documents used in the materials control cycle, true or false?**

- (1) A materials requisition will be completed when materials are needed from stores by a production department
- (2) A purchase order is sent to the purchasing department to request that materials be ordered from a supplier
- (3) A goods received note is sent to the supplier to confirm that goods have been received

	True	False
A	(1) and (2)	(3)
B	(2) and (3)	(1)
C	(1)	(2) and (3)
D	(1) and (3)	(2)

This question tests item B1a in the Study Guide regarding documents used in the material control cycle in a manufacturing facility. Of the three statements listed in the question only statement (1) is correct (Option C). The purpose of a materials requisition is to authorise the transfer of materials from stores for use in production.

Statement (2) is incorrect because a purchase order is a document which is sent to a supplier by the purchasing department. The statement describes a purchase requisition not a purchase order. Statement (3) is also incorrect. A goods received note is an internal document and is thus not sent to a supplier to confirm receipt of materials. Instead, a signed copy of the delivery note performs this function for a supplier. Copies of the goods received note are passed to various parts of the business purchasing the materials (accounts, stores, purchasing).

All four options in this question have been selected by a significant proportion of candidates which indicates widespread weakness in this area. Candidates need to understand the function of the various documents used in the materials control cycle.

#### Example 2

A company manufactures a single product with the following unit costs:

	\$ per unit
Direct materials	7.45
Direct labour	5.20
Variable production overhead	1.75
Fixed production overhead	6.40
Variable non-production overhead	0.90
Fixed non-production overhead	3.25

In marginal costing, what amount would be deducted from sales to calculate the contribution per unit of the product?

- A \$14.40
- B \$20.80
- C \$12.65
- D \$15.30

This question tests item C1d in the Study Guide on the subject of marginal costing. A marginal costing system introduces the concept of a contribution towards meeting the costs of fixed overheads. Contribution is selling price less all variable costs (i.e. both production and non-production variable costs).

In answer to this question, the variable costs per unit are \$15.30 (Option D). This is the sum of the direct materials, direct labour, variable production overhead and variable non-production overhead costs ( $7.45 + 5.20 + 1.75 + 0.90 = 15.30$ ).

The most common error made by candidates is to deduct only the variable production costs from selling price when calculating contribution. This is Option A ( $7.45 + 5.20 + 1.75 = 14.40$ ). Option C includes direct costs only ( $7.45 + 5.20 = 12.65$ ) whilst Option D is the total production costs ( $7.45 + 5.20 + 1.75 + 6.40 = 20.80$ ). This latter figure would be used to calculate gross profit, not contribution. All of the incorrect options have been demonstrated to be popular with candidates which indicates a serious lack of knowledge in this area.

### Example 3

260 kilograms (kg) of Material M are required to produce 1,000 units of Product P. Budgets for the next period include:

Sales of Product P	6,400 units
Inventory of Product P:	
Opening	2,600 units
Closing	3,000 units
Inventory of Material M:	
Opening	540 kg
Closing	480 kg

What is the budgeted usage of Material M in the next period?

- A 1,768 kg
- B 1,560 kg

- C 1,828 kg
- D 1,708 kg

This question tests item D1c in the Study Guide regarding the calculation of material requirements. The question is very similar to one of the questions illustrated in the Examiner's Report for Paper MA1 a year ago. It is disappointing that lessons have seemingly not been learned.

Usage of Material M in the period is the product of the production quantity of Product P and the amount of Material M required per unit of production. To calculate the production quantity the sales budget for Product P needs to be adjusted for the budgeted change in inventory of the product. The closing inventory of Product P (i.e. needing to be produced) is added to the sales requirement and the opening inventory (already in inventory at the start of the period) is deducted. Thus the budgeted production quantity of Product P is 6,800 units ( $6,400 + 3,000 - 2,600$ ) which multiplied by the required amount of Material M of 0.26 kg per unit of Product P is a total usage of 1,768 kg (Option A).

The three incorrect options in this question have all been demonstrated to be popular with candidates. Option B makes the mistake of subtracting the increase in the inventory of Product P from (rather than adding it to) budgeted sales [i.e.  $(6,400 - 3,000 + 2,600 \text{ units}) \times 0.26 \text{ kg/unit} = 1,560 \text{ kg}$ ]. Option D calculates the purchase quantity of Material M, instead of the usage, by in addition incorporating the budgeted change in the Material M inventory into the calculation (usage 1,768 kg + closing inventory 480 kg – opening inventory 540 kg = 1,708 kg). Option C attempts to calculate purchases but adjusts incorrectly for the budgeted change in the Material M inventory ( $1,768 - 480 + 540 = 1,828 \text{ kg}$ ).

## Summary

The objective test questions illustrated in this report reveal a number of misunderstandings, confusion or a lack of knowledge, that many candidates have demonstrated regarding the particular topics being examined. In many cases this may be symptomatic of a more widespread problem which can only be overcome by a rigorous study program and by practicing objective test questions. It is also essential that candidates read questions carefully. Failure to do so may also be a factor at times in candidates taking incorrect approaches to answering objective test questions.

Candidates preparing for future examinations should try to ensure that they develop a clear understanding of the different areas of a syllabus, that they read questions carefully and think logically when answering them.