

Examiner's report

MA1 Management Information

For CBE and Paper exams covering January to June 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. This report 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

The Wages Control Account for a period in the integrated accounting system of a business is:

	\$		\$
Wages payable	85,000	Work-in-progress	80,000
Tax	<u>25,000</u>	Production overhead	<u>30,000</u>
	<u>110,000</u>		<u>110,000</u>

What is the direct labour cost for the period?

- A** \$30,000
- B** \$80,000
- C** \$85,000
- D** \$110,000

This question tested item D2a in the Study Guide regarding the accounting for labour costs.

In an integrated accounting system, the debit entries in the wages control account record separately the net wages payable to the employees (net of tax and any other deductions) and the amounts payable to the tax authorities etc. The credit entries then record the charging of the gross wages paid either as direct labour (charged directly to work-in-progress) or as indirect labour (charged as part of the total production overheads) in the cost accounts.

The correct answer, selected by 36% of candidates, is Option B because the charge to work-in-progress, one of the credit entries in the wages control account, is the direct labour cost. This is because it can be allocated to individual products.

5% of candidates selected instead the charge for indirect labour i.e. the charge to production overhead (Option A \$30,000) which is the other credit entry in the wages control account.

A further 18% of candidates simply assumed that the total gross wages of \$110,000 are the direct labour costs (Option D).

The most popular option, however, was Option C, chosen by the remaining 41% of candidates. This incorrectly selected the net wages paid to all employees (both direct and indirect) of \$85,000 which is one of the debit entries in the wages control account. It is concerning that nearly half of candidates have such a misconception of the accounting for labour costs.

Example 2

Business X hires a machine which is used in the final packaging process in its warehouse. A basic fixed monthly amount is paid for the machine with an additional charge for each unit packaged. The number of units packaged varies from period to period.

Which of the following is/are true about the cost of the machine hire to Business X?

- (1) The total cost per unit packaged will vary from period to period*
- (2) The total cost per unit packaged will increase as packaging activity rises*
- (3) The total cost per unit packaged will decrease as packaging activity rises*

- A*** *2 only*
- B*** *3 only*
- C*** *1 and 2*
- D*** *1 and 3*

This question tested item C1b in the Study Guide on the subject of cost behaviour.

Only 21% of candidates selected the correct answer which is Option D. This recognises that not only will the cost per unit vary from period to period as activity varies but that it will also decrease as activity rises. This is because part of the period cost is fixed in total which, as a consequence, will decrease per unit the higher the level of activity.

A majority of candidates (57%) incorrectly selected Option C. These candidates also correctly recognised that the cost per unit would vary from period to period but incorrectly believed that it would increase, rather than decrease, per unit as activity rises. This would seem to have either been a misconception about cost behaviour or may have been because of a failure to read the question carefully. The total cost in a period would increase as activity rises but the cost per unit, which was asked in this question, would decrease.

The remaining 22% of candidates chose Option A (13%) or Option B (9%) thus failing to recognise that, because of the fixed cost element and the varying activity, the cost per unit would vary from period to period. The 13% of candidates who chose Option A also believed that the cost per unit would increase, rather than decrease, with a rise in activity.

Example 3

Which of the following is a reason why profit for a period for a manufacturer will differ depending upon whether absorption costing or marginal costing is used?

- A*** *Changes in raw material inventory during the period*
- B*** *Over-absorption of fixed production overhead*
- C*** *Closing finished goods inventory higher than opening inventory*
- D*** *Expenditure on variable manufacturing costs in excess of budget*

This question tested item C1d in the Study Guide on the subject of costing systems.

The essential difference between absorption costing and marginal costing, in the measurement of profit for an accounting period, results from their respective treatment of fixed production overhead costs incurred by a manufacturer. Using absorption costing these costs are included in product costs, and thus finished goods inventory valuation, affecting both the current and the next period. Using marginal costing they are treated as period costs. The profit for a period varies between absorption and marginal costing, therefore, if there is a change in the level of finished goods inventory over the period.

Fairly widespread confusion, about the reason for profit difference between absorption and marginal costing, was demonstrated with only 28% of candidates selecting the correct answer which was Option C.

The most popular answer, incorrectly chosen by 35% of candidates, was Option B. Candidates should note that the over (or under) absorption of fixed production overhead simply affects how the costs are charged to a particular period, not how much is charged depending upon whether absorption costing or marginal costing is used.

Neither changes in raw material inventories (Option A chosen by 20% of candidates) nor expenditure on variable manufacturing costs in excess of budget (Option D chosen by 17% of candidates) have any impact on the profit reported in absorption costing in comparison to marginal costing i.e. the same profit will be reported for a period in both systems.