



Examiner's report

MA1 Management Information

For CBE and Paper exams covering January to June 2015

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 which have especially posed problems for candidates.

The three sample multiple-choice questions below cover different aspects of the syllabus. The approach to correctly answering each question is explained and the common incorrect approaches, along with the misunderstandings which they indicate, are highlighted. 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

The following data relate to a production cost centre for the period just ended:

Budgeted overhead expenditure	\$53,900
Predetermined overhead absorption rate	\$24.50 per machine hour
Actual activity	2,070 machine hours
Actual overhead expenditure	\$54,670

What was the overhead over/under absorption in the period?

- A \$770 over absorbed
- B \$770 under absorbed
- C \$3,185 under absorbed
- D \$3,955 under absorbed

This question tested candidates' understanding of overhead absorption when a predetermined absorption rate is applied in a production cost centre.

An overhead absorption rate is a means of attributing overheads (indirect costs) to different products (cost units) using a measure of activity, for example the actual direct labour hours or the actual machine hours worked on each product. Generally, absorption rates will be calculated in advance of an accounting period (predetermined) and then applied throughout the period. As a consequence, overhead absorbed during a period into the cost of products manufactured may differ from overhead actually incurred. This is over or under absorption: an adjustment is required in the determination of profit or loss.

In the above question, overheads in the production cost centre were under absorbed by \$3,955 in the period (Option D) because the actual overhead expenditure of \$54,670 exceeded the amount absorbed (2,070 actual machine hours \times \$24.50 per machine hour = \$50,715) by that amount. A small majority of candidates believed incorrectly that over/under absorption resulted from the comparison of actual overhead expenditure with the budgeted overhead expenditure (Options A & B). Relatively few candidates believed that over/under absorption resulted from the comparison of overhead absorbed with the budgeted overhead expenditure (Option C).

Example 2

Which of the following statements, about relative cell references in spreadsheets, is/are TRUE?

- (1) \$C\$6 is an example of a relative cell reference
- (2) A relative cell reference in a formula changes when the formula is copied to another location

- A Both 1 and 2
- B Neither 1 nor 2
- C 1 only
- D 2 only

This question tested candidates' knowledge of relative and absolute cell references in spreadsheet formulae

Relative cell references are cell references that are simple column and row references (for example C6). A relative cell reference changes when a spreadsheet formula is copied from one cell to another. For example, if the formula =SUM(C6:C8) in cell C9 of a spreadsheet is copied to cell D9 of the same spreadsheet then the formula in cell D9 becomes =SUM(D6:D8). Statement (2) is therefore true.

If automatic amendment to a copied spreadsheet formula is not required then absolute referencing must be used in the formula. \$C\$6 [see statement (1)] is an example of an absolute cell reference: a dollar sign \$ is inserted before each column reference and before each row reference to make a whole formula absolute i.e. such a formula does not change when it is copied to another cell. For example, =SUM(\$C\$6:\$C\$9) would remain unchanged wherever it is copied. Statement (1) is therefore not true. Absolute referencing can also be applied partially to make either only the column reference or only the row reference absolute.

The correct answer is Option D. Only a small majority of candidates correctly identified that statement (1) is not true (Options B & D). Also, only a small majority of candidates correctly identified that statement (2) is true (Options A & D). Option C, chosen by more candidates than either Option A or Option B, was completely incorrect.

Example 3

Which of the following payments to direct workers in a factory would be charged as indirect labour?

- (1) Overtime premiums resulting from a general increase in sales demand
- (2) Time spent training on the operation of new equipment

(3) Idle time caused by machine breakdown

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

This question tested candidates' knowledge of the distinction between direct and indirect labour costs.

Indirect labour is expenditure on labour which is not charged directly to cost units. Instead it is charged initially to cost centres and then absorbed into cost units, along with other indirect costs, as overhead. As direct workers in a factory are employed directly on the manufacture of products (cost units) it is generally possible to identify their wages as direct costs to individual products. There are, however, exceptions as it is not always fair or feasible to do this.

Each of the items in this question are examples of payments to direct workers which would be charged as overhead. For example, it would be unfair to penalise those cost units that are scheduled for production in overtime hours if the overtime is required to meet a general increase in sales demand. Equally it would be unfair to charge the cost of idle time to those cost units that are being produced on a machine when it breaks down. Also, time spent training on the operation of new equipment would not be able to be related directly to output of saleable product.

The correct answer is, therefore, Option D. Equally popular was Option C where candidates wrongly believed that overtime premiums paid to direct workers resulting from a general increase in sales demand would be charged as indirect costs.

Summary

The three multiple-choice questions illustrated in this report reveal a number of misunderstandings, confusion or a lack of knowledge amongst candidates 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. Candidates preparing for future examinations should try to ensure that they develop a clear understanding of the different areas of the syllabus, read questions carefully and think logically when answering them.