



# Examiner's report

## MA1 Management Information

### For CBE and Paper exams covering January to June 2017

#### General Comments

The intention of this report is that, when considered in conjunction with previous reports, candidates at future sittings will have a resource which maximises their chance of success. The most effective way to use these reports is to consider both the technical content of each question, and the approach to answering the question – noting that different question types will require slightly different approaches.

In considering the technical content, candidates should make sure that they have a clear understanding of that content. While not every candidate will use exactly the same approach, it is important to ensure that a logical and sequential approach is applied, based on relevant technical knowledge.

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 predetermined overhead absorption rate in a production cost centre for a period was \$14.60 per machine hour.

Budgeted and actual overheads and machine hours in the cost centre for the period were:

	<b>Overheads</b>	<b>Machine hours</b>
Budget	\$94,900	6,500
Actual	\$96,720	6,745

What was the overhead over/underabsorption?

- A \$1,757 over-absorbed
- B \$1,820 under-absorbed
- C \$3,577 over-absorbed
- D \$3,577 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 over absorbed by \$3,577 in the period (Option A) because the actual overhead expenditure is \$96,720 and this is less than the amount absorbed of \$98,477 (6,745 actual machine hours  $\times$  \$14.60 per machine hour = \$98,477)

A small majority of candidates believed incorrectly that over/under absorption resulted from the comparison of actual overhead expenditure with the budgeted overhead expenditure (Option B). Many candidates wrongly believed that over/under absorption resulted from the difference between actual and budget machine hours multiplied by the overhead absorption rate of \$14.60 (6,745-6,500)  $\times$  \$14.60 = \$3,577 (Option C & D)

## Example 2

**Which of the following are necessary aspects of the control which the management of a business exercises over transactions?**

- (1) Ensuring that new customers have a good credit rating
- (2) Ensuring that only bona fide employees are on the payroll
- (3) Ensuring that payments to suppliers are appropriately authorised

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

The majority of candidates selected ensuring that new customers have a good credit rating and ensuring that payments to suppliers are appropriately authorised as both necessary aspects of the management over transactions. However they incorrectly excluded the statement on ensuring that only bona fide employees are on the payroll. It is critical to ensure only bona-fide employees are paid salary and expenses with proper authorisation.

Majority incorrectly selected B which excluded statement 2 and only a handful of candidates correctly chose A; with all three being necessary aspects of control over transactions.

This kind of question clearly illustrates the need for candidates to read the question carefully and to think carefully and logically before choosing their answer. Candidates who selected the wrong choice appear not to thought carefully about what are necessary management controls over transactions.

**Example 3**

The following spreadsheet includes financial data for product X for a period:

	A	B
1	Product X	
2		\$
3	Sales	96,200
4	Production costs	58,740
5	Opening inventory	6,110
6	Closing inventory	7,980

Which formula will calculate the gross profit margin (%)?

$$A = (B3 - B4 - B5 + B6) / (B3 * 100)$$

$$B = (B3 - B4 - B5 + B6) * 100 / B3$$

$$C = (B3 - B4 + B5 - B6) / (B3 * 100)$$

$$D = (B3 - B4 + B5 - B6) * 100 / B3$$

The correct answer was B.

The gross profit margin is calculated by dividing gross profit by sales and multiplying the result by 100.

In order to calculate gross profit we need to take sales minus production costs minus opening inventory and add on closing inventory so the formula is  $= (B3 - B4 - B5 + B6)$  this then needs to be divided by the sales figure in B3 and multiplied by a 100 to get a percentage.

So the correct formula to achieve a gross profit % is  $= (B3 - B4 - B5 + B6) * 100 / B3$ .

The majority of candidates selected option C incorrectly which took sales minus production cost and added on opening inventory and deducted closing inventory by mistake and then wrongly divided by sales \* 100.

**Summary**

Based on the performance of candidates in these questions, it can be observed that there were two major reasons for incorrect choices being made. The first is that there was a lack of awareness / understanding of fundamental issues in the syllabus such as the use of spreadsheets. The second is that the questions were not read carefully enough, which led to confused thinking.

Candidates preparing for future sittings are strongly encouraged to ensure that they have developed a clear understanding of the key points of each area of the syllabus and that they read carefully and think logically when attempting questions.