

Examiner's report

MA2 Managing Costs & Finance

For CBE and Paper exams covering July to December 2017



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 candidate to have both a clear understanding of the subject matter being examined and a logical approach

Sample Questions for Discussion

Example 1

Which of the following statements, about presenting information, is/are TRUE?

- (1) In a component column chart, the width of each column will be the same
- (2) On a line graph, the dependent variable is on the x axis

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

With a line graph the dependent variable is on the Y-axis and the independent variable on the X-axis

An independent variable is the variable you have control over, you choose to manipulate and test to see if they are the cause. The dependent variable is the one that gets changed when the independent variable is changed.

The default settings for a component column chart mean the width of the column will be the same for each column when it is created.

Very few candidates correctly selected B; most choose A that both statements were correct and a few selected D that both statements were incorrect by mistake.

Example 2

The following unit costs are incurred in the production of 1,000 units of a product in a period:

	\$ per unit
Variable costs	7.80
Semi-variable	5.30

costs	
Fixed costs	6.50
Total costs	19.60

\$3.70 per unit of the semi variable costs are fixed costs.

What total costs would be incurred for production of 1,200 units of the product in a period?

- A** \$23,520
- B** \$21,480
- C** \$21,900
- D** \$21,160

Only a few candidates selected the correct answer in this question as B. The variable costs are \$7.80 and \$1.60 (from the semi-variable $\$5.30 - \$3.70 = \$1.60$) if you multiply these two figures by the 1,200 units, this will total \$11,280 for variable costs.

Then add the fixed cost as \$10,200 which is \$6.50 and \$3.70 from the semi-variable, multiplied by the original budgeted 1,000 units. Therefore the total cost is \$21,480 which is \$11,280 plus \$10,200.

Most candidates selected A which incorrectly takes all costs as variable, so calculating $\$19.60 \times 1,200$ units which would give \$23,520.

Others selected \$21,160 which is \$11.80 per unit for fixed cost made up of the \$6.50 given in the question as fixed plus all of the semi-variable \$5.30 taken as fixed in error. Thus 1,000 units at \$11.80 is \$11,800 plus \$7.80 as variable cost per unit multiplied by 1,200 units is \$9,360 giving a total cost of \$21,160.

Those that chose \$21,900 had calculated variable as \$13,800 which is \$7.80 plus \$3.70 multiplied by 1,200 and added fixed cost of \$8,100 which is \$6.50 plus \$1.60 in error multiplied by 1,000.

Thus many candidates displayed a complete lack of understanding of treatment of variable and fixed costs.

Example 3

Direct labour hours are used to absorb overhead in production cost centre PCC6.

Data for a period, relating to the cost centre, include:

Budgeted overhead expenditure: \$73,820

Actual overhead expenditure: \$74,960

Actual direct labour: 3,670 hours

Overhead under-absorbed: \$3,762

What were the budgeted direct labour hours for the period?

- A** 3,430
- B** 3,614
- C** 3,805
- D** 3,441

The following should aid candidates to understand how to calculate the answer for this question.

Actual overhead incurred	\$74,960
Overhead under-absorption	\$3,762
Thus budgeted must have been less	\$71,198
If actual hours are 3,670	
Then budgeted OAR per hour is (\$71,198/3,670)	19.4
Thus budgeted expenditure of	\$73,820 / 19.4
Budgeted hours are	3,805

Those candidates that selected option D treated the absorption adjustment as an over-absorption. By taking \$74,960 then adding the \$3,762 under absorption to get \$78,722. Divide the \$78,722 by the actual labour hours of 3,670 to get an overhead absorption rate of \$21.45 per hour. As budgeted expenditure is \$73,820 we divide this by the overhead absorption rate of \$21.45 and thus get 3,441 hours.

Candidates who chose B would have calculated the overhead absorption rate by ignoring the under-absorption. Thus taking the actual of \$74,960 divided by 3,670 actual hours to give an overhead absorption rate of \$20.425 per hour. As budgeted expenditure is \$73,820 divide this by \$20.425 to give 3614 hours.

Those who chose A calculated the overhead absorption rate by ignoring the under-absorption. Thus taking the actual of \$74,960 divided by 3,670 actual hours to give an overhead absorption rate of \$20.425 per hour. Then adjusting budgeted expenditure of \$73,820 by the under absorption of \$3,762 which gives \$70,058 divided by \$20.425 to give 3,430 hours.

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 and overhead absorption. 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.