



Examiner's report

MA2 Managing Costs & Finance

For CBE and Paper exams covering January to June 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 candidates to have both a clear understanding of the subject matter being examined and a logical approach.

Sample Questions for Discussion

Example 1

A company holds inventory of raw materials but has no inventory of work-in-progress or finished goods.

Which of the following statements is TRUE about the company's profit for a period comparing absorption costing with marginal costing?

- A It will be lower using absorption costing
- B It will be lower using marginal costing
- C It will be the same
- D It is not possible to determine without revenue and cost information

The correct answer is C but the majority incorrectly choose D believing it not to be possible to determine without revenue and cost information

If inventory levels increase, absorption costing gives the higher profit.

If inventory levels decrease, marginal costing gives the higher profit.

If inventory levels are constant, both methods give the same profit.

This kind of question clearly illustrates the need for candidates to read the question fully and to think carefully and logically before choosing their answer.

Example 2

Which of the following statements, about capital investment appraisal, is/are TRUE?

- (1) The discounted payback period of a viable investment project will always be longer than the non-discounted payback period
- (2) The present value of future cash outflows increases as the discount rate increases
- (3) The present value of future cash inflows decreases as the discount rate increases

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

It should be fairly obvious that discount rates decrease the value of the future cashflows so (2) is incorrect. So now we have only options B or C to choose from.

If you think logically when you discount a cashflow the value reduces; therefore the discounted payback period of a viable investment project will always be longer than the non-discounted so (1) is correct.

Illustration

	Discounted 15%	PV	Payback balance
0	-32000	15%	-32000
1	14000	0.870	12174
2	14000	0.756	10586
			3.2
3	11000	0.658	7233
4	15000	0.572	8576
			years

Non discounted	Payback balance
0	-32000
1	14000
2	14000
3	11000
4	15000
	2.4 years

Only a minority chose the correct answer as B with the rest of the candidates being a fairly equal split between selecting A, C & D

Example 3

At the beginning of a period, a company had 5,200 employees. During the period, 250 employees left and were replaced immediately. A further 300 employees were recruited during the period.

What was the employee turnover rate for the period?

- A** 9.6%
- B** 4.5%
- C** 10.3%
- D** 4.7%

Calculated as follows:

Opening position of employees	5200	
less employees that left	250	
	4950	
add employees recruited	300	
Closing position of employees	5250	
Average number of employees	5225	$= (5200 + 5250) / 2$
Employee turnover rate	4.7%	$= 250 / 5225$

The correct answer is therefore D but the majority selected the incorrect answers of A and B.

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 and think logically when answering them. A failure to read questions carefully is also apparent at times.