Managing Costs & Finance (MA2) September 2022 - August 2023 Examiner's report

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for those sitting the exam in the future.

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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.

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 six 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.

Example 1

Vroom manufactures toy cars, and all sales are made to retailers who have credit accounts.

Vroom sells 50,000 cars a month at $10 each. A 3% discount is given for payment in the month of sale. 30% of customers take up this offer. The remaining customers pay in the following month.

What are the cash receipts that Vroom would expect to receive each month?

$

The correct answer is $495,500

Vroom sells 50,000 cars each month at $10 each, so total monthly revenue is $500,000.

In the month of sale, 30% of customers pay and take up the offer of the 3% discount.

Received in the month of sales = 0.3 x 0.97 x $500,000 = $145,500

The remaining 70% of customers pay in the following month.

Received in the following month = 0.7 x $500,000 = $350,000

Total cash receipts each month = $145,500 + $350,000 = $495,500

Example 2

A business has recorded that the actual activity for a period was 80% of the original fixed budget and has produced the following analysis:

Flexed budget for the period (based on actual activity):

	$
Sales	100,000
Variable costs	45,000
Fixed costs	40,000
Net profit	15,000

What was the original fixed budgeted net profit for the period?

Choices:

1. $28,750
2. $18,750
3. $4,000
4. $40,000

The correct answer is 1. $28,750

The flexed budget is based on an activity of 80%, so sales and variable costs in the flexed budget will be 80% of the level they were in the original fixed budget. Fixed costs are fixed so they will be the same in the flexed and the original fixed budget. The original fixed budget was:

	Flexed budget		Original fixed budget
	$		$
Sales	100,000	/ 0.80	125,000
Variable costs	45,000	/ 0.80	56,250
Fixed costs	40,000	Fixed	40,000
Net profit	15,000		**28,750**

The incorrect answers are:

2. Treating the fixed costs as variable.

	$
Sales	125,000
Variable costs	56,250
Fixed costs	50,000
Net profit	18,750

3. Incorrectly multiplying sales and variable costs by 80%.

	$	
Sales	80,000	(100,000x0.8)
Variable costs	36,000	(45,000x0.8)
Fixed costs	40,000	
Net profit	4,000	

4. Only including the fixed costs.

Example 3

Are the following statements relating to confidentiality true or false?

(1) Confidential information should never be disclosed to anybody

(2) Confidential information should never be held in computer files

Choices:

1. **Both statements are true**
2. **Both statements are false**
3. **Statement 1 is true, statement 2 is false.**
4. **Statement 1 is false, statement 2 is true.**

The correct answer is 2. Both statements are false

Confidential information should never be disclosed to anybody is incorrect. While the confidentiality of information must always be respected, it can be disclosed if for legal or professional reasons, or we may have a duty to disclose the information.

Confidential information should never be held in computer files is incorrect. Confidential information can be stored in computer files, although access to computer systems (files) containing confidential information should be restricted and protected.

Example 4

The total cost of a job is estimated at $20,000. The profit mark-up is 22%.

What is the profit margin for the job, expressed as a percentage (correct to one decimal place)?

	%

The correct answer is 18.0%

It is useful to do this calculation using a simple table, starting with the information given in the question:

	$	Mark-up %
Sales		
Costs	20,000	
Profit		22%

Profit mark-up is calculated on costs, so costs are 100%, making sales 122%. The values of sales and profit can then be calculated. Profit = 22% x $20,000 = $4,400. This means sales are $20,000 + $4,400 = $24,400.

	$	Mark-up %
Sales	24,400	122%
Costs	20,000	100%
Profit	4,400	22%

The profit margin = profit/sales = $4,400/$24,400 = 0.1803 = 18.0%.

Example 5

A new project requires an investment in machinery of $200,000 payable now (year 0). The project will generate additional sales of $150,000 per annum in years 1 to 5, with additional variable costs of $40,000 per annum. The machine will be depreciated on a straight-line basis over the five years with no residual value.

What is the net cash inflow for year 1 to be included in the appraisal of this investment?

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The correct answer is $110,000

The investment of $200,000 is an outflow in year 0 and depreciation is not a cash flow. The net cash inflow for year 1 will be sales less variable costs = $150,000 - $40,000 = $110,000.

Example 6

A business sells a single product for $65 per unit. Variable costs per unit are $53 and total annual fixed costs are $30,000. The business has a margin of safety of 1,750 units.

What is the budgeted annual sales revenue for the business?

$

The correct answer is $276,250

The margin of safety is calculated as budgeted sales – breakeven sales. The margin of safety is given, so to calculate the budgeted sales revenue, first calculate the breakeven sales.

Breakeven sales in units = fixed costs/contribution per unit

= $30,000/($65-$53) = 2,500 units

The margin of safety is 1,750 units, therefore the budgeted sales units = 2,500 + 1,750 = 4,250.

Make sure to read the question carefully, the requirement asks for the budgeted annual sales **revenue**, so multiply the budgeted sales units by the selling price: 4,250 x $65 = $276,250.

Conclusion

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.