

Examiner's Report

December 2017 Session

Paper 3

Management Accounting

General Comments

The overall performance of the candidates in this paper was better than that of the last session. The questions that were answered most satisfactorily were the Compulsory Question B1 and the Optional Question C1. Optional Question C3, relating to joint products and by-product, was attempted by very few candidates and was poorly answered.

Same as previous sessions, candidates performed poorly in the essay type questions. Some just attempted the computational questions and ignored the essay type questions. Candidates should note that mere avoidance of the essay type questions will cause them to lose marks. Therefore, candidates should seek to improve their written English as well as the knowledge on basic management accounting concepts, principles and their applications. In addition, candidates are strongly advised to read the questions carefully and present their answers according to the stated requirements. Failure to follow the requirements, such as decimal points, will cause marks to be deducted. Last but not least, candidates should show their workings as clear as possible because marks are awarded on a quantum meruit basis.

Section A – 15 Multiple-choice Questions

The performance of the candidates in the multiple choice questions was not satisfactory. Since multiple-choice questions usually cover a wide range of topics, both conceptual and computational, in the syllabus, candidates are encouraged to study all parts of the syllabus when preparing for the examination.

Section B – 1 Compulsory Question

Question B1

This question which aimed at examining candidates' knowledge on overhead absorption was answered most satisfactorily.

Part (a) of the question was designed to test candidates' ability: (i) to allocate and apportion the budgeted production overheads to the various departments; (ii) spread the service departments' overheads over the two production departments based on the information provided; and (iii) select appropriate absorption basis for the computation of budgeted production overhead rates for the two production departments. Candidates in general were able to recognise the appropriate basis for the absorption rates and compute the total overheads to be assigned to the two production departments correctly. However, few candidates mistakenly added up both departments' machine hours and labour hours in their computations and thus came up with wrong answers.

Part (b) asked candidates to calculate the price to be quoted for a job. Few candidates got full marks in this part as majority of them failed to consider the overheads of the assembly department in their computation. Candidates should note that assembly department is also a production department and its overheads are part of the production costs.

Part (c) required candidates to compute the amount of under- or over-absorbed production overheads for each of the two production departments and it was generally well answered. Failure in this part was mainly due to the inability to apply the overhead rates calculated in part (a) to the actual machine hours and direct labour hours respectively.

Part (d) was an essay type question which required candidates to define and explain the accounting treatments for over-absorbed and under-absorbed production overheads. Majority of the candidates were able to state that over-absorption occurs when the production overhead absorbed is higher than the actual overhead incurred and vice versa. However, few of them were able to explain the related accounting treatments.

Section C – 3 Optional Questions

Question C1

This was the most popular question in this section and the performance was good. It was a straight forward question which aimed at testing candidates' knowledge on activity based costing.

Candidates were asked to calculate the unit production cost of a product if all production overheads were absorbed basing on machine hours in part (a). Most candidates got this part correct, though few candidates used incorrect machine hours in computing the production overhead absorption rate.

Part (b) of the question required candidates to apply activity based costing to calculate the cost driver rate for each of the four activities. Some candidates did not know how to derive the number of production runs and thus failed to calculate the correct cost driver rate for the set up costs. In addition, some did not show the cost driver rate for each activity as required by the question and only provided the amount of overheads allocated to each product. Candidates should be careful in responding to the precise requirements of the questions in order not to lose marks.

In part (c), candidates were asked to prepare a profit statement for the company using activity based costing. Few candidates could get full marks in this part as they only calculated the profit for each product and left out the total figures of the company in their answers. This again reveals candidates' carelessness in reading the question.

Part (d) required candidates to explain any three limitations of using activity based costing. This part was badly performed as majority of candidates provided less than three limitations and some of their answers were irrelevant.

Question C2

This was also a popular question and the performance was average. This question aimed at testing candidates' knowledge on breakeven analysis (C-V-P analysis).

Part (a) of the question required candidates to prepare an operating statement for the company using marginal costing approach. Majority of candidates had no problem in preparing the statement and scored full marks in this part.

Part (b) asked candidates to calculate the unit contribution margin, the margin of safety in bottles and in percentage for the product for the last financial year. Some candidates were able to compute the contribution margin correctly, but majority of them did not know how to calculate the margin of safety in bottles and in percentage for the product.

In part (c), candidates were required to prepare a projected operating statement for the coming year using marginal costing approach, and advise whether the proposed changes of the marketing manager were worthwhile or not. Some candidates obtained poor marks in this part. The marketing manager of the company proposed to cut the selling price and spend an additional amount on marketing so as to increase the sales from the present level to its full capacity. With the increase in production volume, a bulk discount on the direct materials could be negotiated with the suppliers. Some candidates misunderstood the question about the increase of sales volume. They misinterpreted an increase of 25% as an increase of 75%. Consequently, wrong figures resulted. Even though some candidates managed to compute the sales volume correctly, they forgot to compute the variable costs based on the new sales volume and gave incorrect answers. Candidates should note that variable costs, unlike fixed costs, are costs that change in proportion to the production output. Therefore, total variable costs changes if there is an increase or decrease in the production output.

Part (d) was answered unsatisfactorily as majority of candidates were unable to explain breakeven analysis and state three assumptions of breakeven analysis. As break-even analysis is an important concept in management accounting, candidates should study this topic in more details.

Question C3

This question hinged on the topics of joint products and by product. It was the least popular question in this section and the result was very disappointing. All candidates who attempted this question failed to achieve a pass mark. This was probably because these topics were not expected and practised by candidates. Candidates are therefore advised to prepare all topics included in the syllabus since they are all examinable.

Part (a) required candidates to apportion the common process costs for two joint products using different basis: (i) physical unit; (ii) sales value at the end of the common process; and (iii) net realisable value. As stated in the question, it was the company's policy to credit the by-product revenue to the process account. Therefore, candidates should deduct such revenue from the common process costs and then apportioned the resultant figures. All candidates did not realise this and wrong answers were thus provided.

In part (b), candidates were asked to apportion the common process costs for the joint products using the sales value basis if the by-product sales revenue was credited to the sales account. In this case, the by-product sales revenue was not to be deducted from the common process cost and the costs could then be apportioned directly. Again, candidates did not know how to handle this. Some of them mistakenly added the by-product sales revenue to the total sales value of the joint products and gave incorrect answers.

Part (c) was also badly answered and candidates were unable to advise which products should be further processed into enhanced products. Candidates did not know that only incremental cost and incremental revenue were necessary for making decision on further processing, and that joint cost and method of apportionment were irrelevant.

Part (d) asked candidates to define incremental cost and explain why and how it is used in making decision on whether to sell or process further. This part was not performed well by candidates. Candidates failed to explain incremental cost and its relevancy in making decisions.

[END OF EXAMINER'S REPORT]