

Examiner's Report

June 2017 Session

Paper 3

Management Accounting

General Comments

The overall performance in this paper was slightly worse than the last session. The difference between the highest score and the lowest score was significant. This shows that the paper could distinguish candidates who had properly prepared for the examination from those who had not. Therefore, candidates are advised to plan properly for their study and avoid sitting for the examination without preparation. As compared with previous sessions, candidates were more willing to attempt the essay type questions in this session. Although some candidates got very low or no marks, they are still encouraged to attempt all questions as mere avoidance of essay type questions will cause them to lose marks.

In this session, candidates performed satisfactorily in the multiple-choice questions.

Among the long questions, Optional Question C2 was answered most satisfactorily. Optional Questions C1 and C3 were not answered well. Quite a number of candidates did not demonstrate adequate knowledge on variance analysis and process account.

In this session, few candidates' writing was illegible and untidy. It was hard for the markers to comprehend their answers. Hence, candidates are advised to write their answers in a more readable manner.

Section A – 15 Multiple-choice Questions

More than half of the candidates obtained pass marks in this section. One candidate did not answer this section and another one did not attempt Questions A11 to A15. As this section contributes 20% of the overall marks, candidates are strongly advised to attempt all multiple-choice questions in the examination paper.

Section B – 1 Compulsory Question

Question B1

The performance of the candidates in this section was fair. More than half of the candidates who attempted this question achieved pass marks.

Part (a) of the question tested candidates' ability in calculating the budgeted sales units for each of the two products and the budgeted fixed overhead costs for the coming year. More than two-third of the candidates gave incorrect answers for the units sold since they mistakenly treated the sales mix as the expected proportion of sales revenue (\$) instead of the sales volume (units). Consequently, wrong figures were provided for budgeted fixed overhead costs.

For part (b), majority of candidates were able to handle the computation of contribution margin for both products. However, none of them could compute the break-even sales volume for each of the two products correctly. They failed to use the total fixed overhead costs and the contribution of the two products in sales mix proportion in the computation. This again reveals candidates' deficiency in handling sales mix situation and their lack of practice in this area.

Part (c) required candidates to derive an optional production plan for the company in view of the limited supply of direct labour hours and compute the maximum profit accordingly. Whilst some candidates scored high marks, others did not have a good understanding of this topic. They failed to recognise the need to calculate the contribution margin per direct labour hour so as to rank the products and derive the optional production plan to maximise the company's profit.

Part (d) was an essay type question which required candidates to define quantitative information and illustrate with examples whether it could be financial information or non-financial information. In general, candidates were able to give relevant examples. However, majority of them failed to define quantitative information accurately.

Section C – 3 Optional Questions

Question C1

This question was designed to test candidates' knowledge on budgeting and variance analysis and the overall performance was not satisfactory. Some candidates scored very low marks and one of them even got zero mark.

Part (a) required candidates to re-draft the operating statement in a flexible budgeting format showing whether each of the variances was favourable or adverse. Some candidates obtained poor marks because they failed to adjust the cost elements and sales revenue to cope with the level of activity actually attained. Few of them did not re-draft the flexible budget and only compared the budget and actual figures provided in the question. This shows that candidates either did not understand the question or they lacked the knowledge on flexible budget.

Candidates were asked to calculate material price and usage variances, as well as labour rate and efficiency variances in part (b). This part was badly answered. It was quite disappointing to find that a majority of candidates could not master the technique in computing the basic material and labour variances. Most of them failed to calculate the standard material price per kg and labour cost per hour based on the information provided and thus gave incorrect answers. As the computation of variance is an important part in management accounting, candidates are advised to study this part more thoroughly.

In part (c), candidates were required to explain two possible causes for both direct material price variance and labour hour efficiency variance calculated in part (b). It is glad to notice the improvements of some candidates in answering essay type question. They were able to give relevant causes for both variances and score high marks.

Question C2

Question C2 was the most popular question in Section C and was well-answered.

This question aimed at testing candidates' knowledge on absorption and marginal costing systems. Candidates were asked to prepare operating statements, using absorption costing system for one month and marginal costing system for two months in parts (a) and (b) respectively. Majority of candidates had no problem in preparing the statements. Some could not score high marks in part (a) as they failed to absorb the fixed production overhead costs according to the units produced. As a result, wrong answers were derived for the closing inventory as well as the over-absorbed fixed production cost. In part (b), some candidates did not realise that variable selling expenses were not production cost and should not be included in the calculation of the closing inventory. Candidates are reminded that fixed overhead costs tend to remain the same irrespective of changes in the level of activity in the short term. Therefore, they should not adjust the fixed overhead costs for each month in preparing the operating statements.

Part (c) required candidates to reconcile the budgeted profits calculated under the absorption and marginal costing systems for both months. Few candidates scored full marks in this part as majority of them failed to recognise that the differences were mainly due to the different treatments of the fixed production overhead costs under both systems in calculating the closing inventory.

In part (d), candidates were asked to explain over- and under-absorption of overhead. This part was simple and most candidates performed fairly well.

Question C3

This was the least popular question in this section and was poorly answered. Less than half of the candidates obtained pass marks.

This question aimed at testing candidates' knowledge in the computation of equivalent units and preparation of the process account. Part (a) required candidates to calculate the number of equivalent units and the cost per equivalent unit for materials, labour and overheads using the first-in-first-out method. The poor performance of the candidates may be due to the fact that they did not know how to compute the equivalent units for each component (i.e. completed unit + closing WIP – opening WIP – abnormal gain). In addition, some candidates wrongly included the opening WIP costs in calculating the cost per equivalent unit.

Candidates were asked to prepare the process account in part (b). The majority of candidates did not exhibit sufficient knowledge in computing the costs for the completed units, abnormal gain and closing WIP. In addition, some of them did not show detailed workings for the costs calculated as required in the question and thus lost marks. Therefore, candidates should be more cautious in reading the questions.

[END OF EXAMINER'S REPORT]