

Examiner's Report

June 2009 Session

Paper 3

Management Accounting

General Comments

With the new syllabus coming into operation in this examination diet, the overall performance in this paper was good. This may be due to the satisfactory performance in Section A (multiple-choice questions) and Section B (compulsory question). Some candidates were able to demonstrate their understanding of both the concepts and the practice of management accounting. However, the range between the highest score and the lowest score was significant (over 80 marks). This suggests that the paper could distinguish candidates who had properly prepared for the examination from those who had not. Candidates are advised to make proper plan for their study and avoid sitting for the examination without preparation.

Candidates should also respect themselves as professionals and use pens to write the examination. However, a few candidates used pencils in answering the questions.

Section A – 15 Multiple-choice Questions

The performance of the candidates in this section was good. Over half of the candidates obtained 10 marks or more. This shows that candidates had exercised more care in answering multiple-choice questions.

Section B – 1 Compulsory Question

The performance of the candidates in this part was also good. Over three-quarter of the candidates obtained 15 marks or more in this question.

Question B1

This was a compulsory question concerning the computation of unit selling price based on (a) conventional absorption costing and (b) activity based costing. This was a very straight forward question and was generally well answered. Part (a) of the question required candidates to compute the unit selling price if all production overheads were absorbed on a machine hour basis. Most candidates got this part correct except that some of them were careless in computing the total production cost.

Part (b) aimed at testing candidates' knowledge and application of activity based costing. Few candidates could get full mark in this part as most of them were unable to identify the appropriate cost driver (number of production run) in computing the cost driver rate for assigning the overheads of quality inspection. In addition, some candidates did not show the cost driver rate for each production overhead as required in the question. Therefore, candidates should be careful in responding to the precise requirements of the question in order not to lose marks.

In part (c), candidates were asked to explain why activity based costing is superior to conventional absorption costing and comment on the result computed in part (a) and (b). Since candidates were not able to express their views correctly, they did not perform well and most of their answers were irrelevant.

Section C – 3 Optional Questions

Candidates were required to answer two out of three questions. The overall performance in this section was satisfactory.

Question C1

This question hinged on the topic of limiting factor. It was quite surprising to find that few candidates attempted this question and the passing rate was below half. Part (a) of the question required candidates to rank the priority of the products based on the contribution per labour hour and determine the optimum production plan which will maximise the monthly profit. The majority of candidates had no problem in doing this.

In part (b), only a few candidates were able to compute the fixed overhead costs correctly. Candidates should note that fixed costs tend to remain the same irrespective of changes in the level of activity. Therefore, a reduction in the production quantity for product Y would not reduce its fixed overhead costs.

Part (c) required candidates to explain what a limiting factor is in a management accounting decision. Most of the candidates did not answer this part. Candidates should note that mere avoidance of essay question will result in loss of marks.

Question C2

The overall performance for this question was quite disappointing. Part (a) of the question required candidates to calculate the contribution margin per kg and the break-even sales for the period. Some candidates had problems in computing the total variable costs and thus gave an incorrect answer for the contribution margin. As the computation of contribution margin is an important part in management accounting, candidates are advised to study this part more thoroughly.

Part (b) asked candidates to calculate the margin of safety, and then explain and comment on the margin of safety calculated for the period. Some candidates were able to compute this item correctly, but majority of them failed to explain its meaning and make proper comments.

Part (c) required candidates to compute the sales volume based on the changes in selling price, costs and expected profits. The majority of candidates failed in this part as they did not know how to calculate the new contribution and the fixed production overheads. For part (d), candidates were able to provide examples for production fixed cost and variable cost. However, they were unable to make clear distinction between a production fixed cost and a production variable cost of a manufacturing company using appropriate wordings.

Question C3

As compared with C1 and C2, this question was satisfactorily answered. This question aimed at testing candidates' ability to calculate (a) the number of equivalent unit for direct material and conversion costs, the cost per equivalent unit for direct material and conversion costs and the cost of units transferred to finished goods, abnormal loss and closing work in progress. Candidates were required to prepare a process account basing on the values computed. Most candidates exhibited sufficient knowledge in the computation of equivalent unit under weighted average method and gave correct answers.

Few candidates could obtain marks for part (b) as they failed to explain the difference between joint products and by products properly.

[END OF EXAMINER'S REPORT]