

MANAGEMENT DECISION AND CONTROL – PAPER 10

1.0 General Performance

- There has been an improvement in performance. The pass rate was 35.75% compared to 26.43% for the December examinations diet.
- Many candidates limited themselves to the theoretical parts of questions and ignored computational parts which limited their chances of passing the examination.
- Some candidates demonstrated limited understanding of some topics like transfer pricing, limiting factor analysis, make or buy decisions. Generally, candidates did not seem to understand the concept of information systems and how they apply in functional business areas.
- Some candidates simply reproduced facts as stated in the questions as opposed to application.
- Candidates' hand writing was poor and logical layout of computational answers was lacking/demanding.
- Application of basic principles of management decisions and control are still lacking where by candidates still treat the paper as theory rather than practical.
- There was a problem in answering discursive questions.
The general impression got from candidates' answers was that they were not adequately prepared

2.0 PERFORMANCE IN INDIVIDUAL QUESTIONS

2.1 Question 1

- Required candidates to: (a) identify shortcomings of the return on capital employed (ROCE) method of measuring performance, (b) discuss the shortcomings of negotiated transfer pricing, (c) prepare an alternative statement which would most appropriately measure performance of each division disclosing internal and external sales, management fees and the allocation of internal variable costs of the selling division to the receiving division, and (d) discuss how the use of 'dual' transfer prices could affect the measurement of the divisional performance within the group.
- Candidates did not understand what the question was up to. Most candidates reproduced the numbers in the questions without splitting the sales and variable costs.
- Part (d) of the question was also poorly answered; candidates could not explain dual transfer prices and illustrate their impact in the group.

2.2 Question 2

- Require candidates to : (a) prove that the company had insufficient materials and sufficient labour hours, (b) formulate a production plan that would best utilize the materials which was the limiting factor (identifiable in part (a)).
- Most candidates arrived at the expected answer and therefore received full marks for this number.
- However, a few candidates failed to arrive at the contribution per limiting factor for materials and labour which completely undermined their ability to arrive at correct answers.
- In some exceptions, some candidates attempted to use linear programming (including graphs) which was completely unnecessary.

2.3 Question 3

- Required candidates to: (a) compute break-even point in total and for each product (the break-even point expected was in units and in value), (b) determine the effect on contribution, break-even points as a result of the change in the sales mix to 1:1. Candidates were also expected to give advice on whether such change was desirable.
- In part (a) most candidates only arrived at the break-even point in units or in values but not both.
- Some candidates did not seem to understand that the proposed change in the sales mix required the sales units to be apportioned equally between the two products.
- In part (b) most candidates did not re-compute the break-even point in units and values after the change in the sales mix

2.4 Question 4

- Required candidates to: (a) evaluate a make or buy decision for each of the four components, (b) explain features in services organizations that create problems for the application of activity-based costing
- This question was fairly attempted, but some candidates were unable to eliminate fixed costs in considering the make or buy decision.
- Some candidates did not understand part (b) of the question which required features in the service organizations that create problems in application of activity-based costing and not features of services.

2.5 Question 5

- Required candidates to: (a) explain the problems of learning curve theory, and (b) (i) explain target costs and how they are developed and used, (ii) identify and explain the shortcomings of standard costs.
- This question was generally well attempted by the candidates and no major weaknesses were noticed.

2.6 Question 6

- Required the candidates to write a memo explaining the different information systems in finance and customer service functions.
- Most candidates were able to produce a memo in an appropriate format.
- However, nearly all candidates failed to highlight the different information systems that may be used in finance and customer service functions.

2.7 Question 7

- Required candidates to: (a) explain the concept of value chain analysis and how the changes being considered may impact in contribution, (b) discuss how profit sharing arrangements might be used in the group of companies named in the question.
- Most candidates could not explain how value chain analysis could be applied in the company.
- Nearly all candidates failed to explain the concept of profit sharing arrangements and how it could apply in the company.