

Think Ahead



**F2 FMA  
Management  
Accounting**

F2 Examiner  
February 2015

## Candidate performance

### F2

	%
D 14	58
J14	60
D13	61
J13	64

**Historic 57 (since 2007)**

The candidate performance statistics include both the computer and paper based exam. The average pass rate since 2007 when computer based exams were introduced has been 57%.

## Structure of the paper

### Section A

35 Objective test items × 2 marks = 70

### Section B

3 Multiple task questions × 10 marks = 30

The structure of the paper comprises 35 OT questions worth 2 marks each, and 3 MTQs( multiple task questions) worth 10 marks each. Exam papers are constructed using a set of balancing rules, to ensure that all syllabus areas are given appropriate coverage. The specimen papers available on the website are constructed using the same balancing rules.

Section B will always contain one question on each of the following syllabus areas:

Budgeting

Standard Costing

Performance measurement.

It should be noted that budgeting is quite a wide syllabus area comprising investment appraisal and forecasting techniques as well as traditional budgeting areas. In recent exam sessions it was apparent that many candidates appeared to have never heard of NPV.

## Common areas of difficulty

- Calculation questions generally
- Number entry items
- Spreadsheet based questions
- Standard costing operating statements
- Net present value questions

Calculation based questions typically account for half the paper and always top the list of the worst answered questions. In particular “variance backwards” type questions and questions involving the reconciliation of actual and budgeted profits are badly answered.

## Number entry - example

Task 3 0 of 2 marks

Kinn Co budgets to produce 3,175,000 units in Quarter 3 to meet sales demand and to achieve a closing finished goods inventory of 175,000 units.

What is the budgeted cost for raw material usage in Quarter 3 to the nearest thousand dollars?

•  '000

- If the correct answer is \$57,150,000 it must be entered as 57,150. Answers of 57,150,000 would be marked as incorrect.

Number entry questions on the CBE appear to be generally badly answered. It could be that these questions are inherently more difficult because unprepared candidates don't have a choice of 4 answers to guess at, or it could be that candidates are entering figures incorrectly.

Number entry questions will ask candidates to enter numbers in a particular format (e.g. to the nearest \$000 or to 2 decimal places etc.) and it is important that candidates follow the rules. It is also important to double check your calculation.

There is an article on the website on changes to the structure of Paper F2/FMA which covers FAQs on MTQs and pay particular attention to number entry questions.

## Spreadsheet question - example

	A	B	C	D
1		<b>Fixed budget</b>	<b>Flexed budget</b>	<b>Actual</b>
2	<b>Sales units</b>	1,200	1,500	1,500
3		\$	\$	\$
4	<b>Sales revenue</b>	30,000	37,500	40,000
5	<b>Direct material</b>	10,800	na	12,000
6	<b>Direct labour</b>	7,200	na	11,000
7	<b>Contribution</b>	12,000	na	17,000
8	<b>Fixed costs</b>	<u>8,500</u>	<u>8,500</u>	<u>9,000</u>
9	<b>Profit</b>	<u>3,500</u>	<u>13,000</u>	<u>8,000</u>

What would be the correct formula for cell C6?

Regularly, questions use screenshots of spreadsheets in sections A and B of both the paper and computer based exam. These type of questions are not well answered. Questions may ask for candidates to select a correct formula, or to calculate a value or to select an appropriate label.

Spreadsheets are an everyday part of business life and are included in the F2/FMA syllabus. Candidates need a basic understanding of how they work to answer most of the questions

## Standard costing operating statements example

EA company's actual profit for a period was \$27,000.  
The only variances for the period were

	\$
Sales price	5,000 adverse
Fixed overhead volume	3,000 favourable
Fixed overhead capacity	4,000 favourable
Fixed overhead efficiency	1,000 adverse

**What was the budgeted profit for the period?**

- A \$25,000
- B \$26,000
- C \$28,000
- D \$29,000

If you have read examiner reports over the last few sittings you will already know that questions on standard costing operating statements are generally poorly answered. Given above is an example of a calculation question (the correct answer is D, whereas B was the most popular choice of candidates). See below for a further example of questions on this area.

## Standard costing operating statements example

	A	B	C
1	<b>Standard Cost Operating Statement</b>		
2	<b>Product X</b>		
3	<b>Period 1</b>	<b>\$</b>	<b>Adverse/ Favourable</b>
4			
5	Budgeted profit	200,000	
6	????	25,000	adv
7	Standard contribution on actual sales	175,000	
8	Sales price variance	10,000	fav
9	Total variable cost variance	8,000	adv
10	????	177,000	
11	Budgeted fixed overhead	60,000	
12	Fixed overhead expenditure variance	2,000	????
13	Actual profit	119,000	

This question shows a “terminology” type question on this syllabus area, similar to one used on the December 2014 paper based exam. Again this was badly answered, particularly for cells A6 and A10.



## NPV questions - example

A brief project description followed by a requirement to calculate

- (i) The immediate (year zero) incremental net cash flow;
- (ii) The final year (year 5) Incremental net cash flow;
- (iii) The present value of the labour cost savings over the new machine's useful life.

Investment appraisal questions on both the paper based and computer based exam are commonly poorly answered.

Because of software constraints and the own figure rule problem questions tend to ask “parts of “ investment appraisal questions in section B rather than the full calculation, and slide 9 gives examples of the type of approaches used. It is appreciated that when teaching this area you will demonstrate complete calculations to students, but it would be sensible to tell students that the exam is unlikely to ask for “full answers”.

Candidates' problems in this area tend to occur at a very basic level, for example not knowing what NPV is, or confusing NPV with NBV and indeed not appreciating that depreciation is irrelevant.

However, students don't require a detailed knowledge of the concepts of relevant costs for this syllabus.

## Advice

- Study the full syllabus
- Practice, practice, practice
- Don't miss the easy questions
- Read the question carefully and ATQ (answer the question set)
- Don't be careless with your calculations
- Guess if necessary!



Advice for success on this paper remains unchanged, study the full syllabus, practice questions, read questions carefully, carefully do your calculations and leave no question unanswered.



Thank you