

Examiner's report

F2/FMA Management Accounting

December 2011



General Comments

This was the first examination under the new syllabus. This syllabus brings together the old CAT T7 Planning control and performance management paper (now the FIA FMA paper) and the old ACCA F2 Management accounting paper, into one common syllabus and examination. This involved the introduction of some new topics to FMA and F2 students and a change in examination format. The two hour paper contained 50 multiple choice questions – each worth 2 marks. The mix of questions across syllabus heads was exactly in line with the pilot paper. The general performance of candidates was a little disappointing. This is only partially explained by the introduction of new topics; only 40% of the poorly attempted questions related to “new” topic areas. The remaining 60% of poorly attempted questions related to areas common to both of the old syllabi. The change in examination format was most significant for the FIA FMA candidates and overall they performed worse than their F2 counterparts. Most, but not all, of the poorly attempted questions were calculation based.

The following questions taken from the December 2011 examination are ones where the performance of candidates was weak – in each case less than 30% of the candidates selected the correct answer. Each of these questions carried 2 marks and each related to a mainstream topic in the Study Guide.

Sample Questions for Discussion

Example 1. The following shows the total overhead costs for given levels of a company's total output.

Cost \$	Output units
4,000	1,000
7,000	2,000
10,000	3,000
9,500	4,000

A step up in fixed costs of \$500 occurs at an output level of 3,500 units.

What would be the variable overhead cost per unit (to the nearest \$0.01) using the high low technique?

- A \$1.67 per unit
- B \$1.83 per unit
- C \$2.75 per unit
- D \$3.00 per unit

This question relates to study guide reference A 3. h).

The high low technique estimates variable cost per unit by looking at the change in costs between the highest and lowest levels of **output**. The correct answer is A. This can be calculated by finding the change in cost between the highest and lowest output levels not explained by the step in fixed costs ($\$9,500 - \$4,000 - \$500 = \$5,000$), and dividing by the change in output between the highest and lowest output levels. ($\$5,000 / (4,000 \text{ units} - 1,000 \text{ units}) = \1.67 per unit.

Many candidates incorrectly based their calculations on the change in costs between the highest and lowest levels of cost, and hence selected option D ($(\$10,000 - \$4,000) / (3,000 \text{ units} - 1,000 \text{ units})$) or C ($(\$10,000 - \$4,000 - \$500) / (3,000 \text{ units} - 1,000 \text{ units})$). This mistake suggests some confusion between the independent variable, output, and the dependent variable, cost.

Example 2. A company calculates the following under a standard absorption costing system.

- (i) The sales volume margin variance
- (ii) The total fixed overhead variance
- (iii) The total variable overhead variance

If a company changed to a standard marginal costing system, which variances could change in value?

- A (i) only
- B (ii) only
- C (i) and (ii) only
- D (i), (ii) and (iii)

This question relates to study guide heading D 1 b).

The correct answer is C. In a standard absorption costing system the sales volume margin variance is based upon profit per unit, whereas under a marginal costing system it is based upon contribution per unit. In a standard absorption costing system the total fixed overhead variance includes expenditure and volume variances. Under marginal costing only the expenditure variance is included. Variable cost variances are the same under both systems. Only 15% of candidates selected the correct alternative. The most frequent answers were A (37% of candidates), and B (30 %of candidates). This is essentially a knowledge based question, and the poor results suggest that candidates need to do more work in this area.

Example 3. A company has current assets of \$1·8m, including inventory of \$0·5m, and current liabilities of \$1·0m.

What would be the effect on the value of the current and acid test ratios if the company bought more raw material inventory on three months' credit?

	Current ratio	Acid test
A	Increase	Increase
B	Decrease	Increase
C	Increase	Decrease
D	Decrease	Decrease

This question relates to study guide reference E 2 a).

The correct answer is D, both ratios will decrease. The opening current ratio (current assets /current liabilities) is $\$1.8m/\$1.0m = 1.8$, and the opening acid test (current assets less stock/ current liabilities) is $\$1.3m/\$1.0m = 1.3$. Purchasing (say) \$1.0m of inventory on short term credit will decrease the current ratio to $(\$1.8m + \$1m)/(\$1.0m+ \$1.0m) = 1.4$. The acid test would also decrease to $\$1.8m/(\$1.0m+ \$1.0m) = 0.9$. Only 23% of candidates selected this alternative. The most frequently chosen alternative was C (41% Of candidates). On this type of question if the answer is not immediately clear candidates should substitute in some simple numbers to test out the effects of a transaction.

Inevitably examiner's reports focus on the more difficult questions that were badly attempted. The exam also contained a number of questions that were very well answered. In the examination candidates should ensure that they attempt the easier questions first to ensure they gain the "easy marks". They can then go on to attempt the more difficult or time consuming questions last.

Future candidates are advised to:

- Study the whole syllabus.
- Practise as many questions as possible in preparing for the examination.
- Read questions very carefully in the examination.
- Attempt all questions in the examination (there are no negative marks for incorrect answers).
- Try to attempt the "easy" examination questions first.
- Not to spend too much time on apparently "difficult" questions.
- Read previous Examiner's Reports.