Examiner's report

F2/FMA Management Accounting
For CBE and Paper exams covering July to December 2013

General Comments

As always, excellent scores were achieved by some candidates. We congratulate both them and their teachers. We offer our commiserations to those who were not successful.

The structure of the exam was the same as in previous sittings, a two-hour paper containing 50 multiple choice questions – each worth 2 marks. The mix of questions across syllabus heads was in line with both the CBE demo and the pilot paper.
Candidates should note that the structure of the exam will change from 2014. Details of the new structure are available on the ACCA website.

The worst answered questions were calculation based. Calculation questions account for approximately 40% of F2/FMA exam, but 7 out of the 10 worst answered questions during this period involved calculations. The best answered questions were of a narrative nature.

As is usually the case for this paper, F2 candidates on average, performed better than FMA candidates.
The following questions are ones where the performance of candidates was very weak. Each of these questions relate to a mainstream topic in the Study Guide.

Sample Questions for Discussion

Example 1

An
A company uses a standard absorption costing system. Last month the actual profit was $500,000. The only variances recorded for the month were as follows.

	$000
Sales volume profit variance	10 adverse
Fixed production overhead capacity variance	30 favourable
Fixed production overhead efficiency variance	40 adverse
Fixed production overhead volume variance	10 adverse
Fixed production overhead expenditure	50 favourable
Direct labour efficiency variance	15 adverse

What was the budgeted profit for last month?
A $485,000
B $495,000
C $505,000
D $515,000

The correct answer is A.

This question covers syllabus area D3a.

The correct answer can be obtained by working backwards from the actual profit figure. Because we are working backwards, adverse variances must be added back and favourable variances must be deducted to get to the budgeted profit figure. It is also important to remember that the fixed production overhead capacity and efficiency variances are subdivisions of the fixed production overhead volume variance, and it is important to avoid double counting.

The correct answer is therefore

	$000
Actual profit	500
Add	
Sales volume profit variance	10 adverse
Direct labour efficiency variance	15 adverse
Fixed production overhead volume variance	10 adverse
Less	
Fixed production overhead expenditure	50 favourable
Budgeted profit	485

Only 19% of candidates correctly selected this figure, making this question the worst answered on the paper. The most popular answer was B. This answer is obtained as follows

	$000
Actual profit	500
Add	
Sales volume profit variance	10 adverse
Direct labour efficiency variance	15 adverse
Fixed production overhead volume variance	10 adverse
Fixed production overhead efficiency variance	40 adverse
Less	
Fixed production overhead expenditure	50 favourable
Fixed production overhead volume variance	30 favourable
Budgeted profit	495

The mistake here is the double counting of the fixed production overhead volume variance. The fixed overhead capacity and efficiency variances are subdivisions of the fixed overhead volume variance. Including all three in the reconciliation leads to double counting.

Alternative C was the next most popular choice. This answer is obtained by taking a similar approach to alternative B, but erroneously adding back favourable variances and deducting adverse variances.
Finally alternative D answer is arrived at by taking the same approach as alternative A, but once again erroneously adding back favourable variances and deducting adverse variances.
Majority of candidates did not know that the fixed production overhead capacity and efficiency variances are subdivisions of the fixed production overhead volume variance. This suggests a weakness in the candidates' knowledge of standard costing variances. Also most candidates show lack of skills in reconciling actual and budgeted profits. This is a weakness that has been highlighted in previous reports.

Example 2
A division currently earns a return on investment (ROI) of 20%. It is considering investing in a project which has a residual income (RI) of $1,000 at an imputed interest charge of 20%.

What is the effect on the division's ROI if the project is undertaken?

A Increase
B Decrease

C Remain the same
D Not possible to tell from this information

This question tests Syllabus heading E2 f.

The correct answer A was selected by a minority of candidates.

A useful way of answering many ratio analysis questions is to substitute some simple numbers into the problem. For example, if the division currently earns an ROI (operating profit over net assets) of 20%, this could be represented by operating profit of $20,000 and net assets of $100,000. Residual income is calculated by operating profit – (net assets x imputed interest rate). A residual income of $1,000 could be represented by an operating profit of $11,000 less an imputed interest charge of $50,000 x 20%.

Therefore the new ROI would become (existing operating profit + project operating profit) ÷ (existing net assets + project net assets) = ($20,000 + $11,000) ÷ ($100,000 + $20,000) = 25.83% = an increase in ROI.
Far quicker though is to realise that a project offering a positive residual income at an imputed interest rate of 20% must be offering a return higher than 20%, and therefore must improve the existing ROI of 20%.
Alternatives B and C were selected by similar numbers of candidates, suggesting an element of guessing. Alternative D ('not possible to tell from this information') was the most popular choice. This possibly says more about candidates' knowledge of residual income than the sufficiency of information in the question. Residual income has been highlighted as an area of weakness in previous reports.

Example 3
Two joint products A and B are produced in a process. Data for the process for the last period are as follows:

Product	A	B
	Tonnes	Tonnes
Sales	480	320
Production	600	400

Common production costs in the period were $12,000. There was no opening inventory. Both products had a gross profit margin of 40%. Common production costs were apportioned on a physical basis.

What was the gross profit for product A in the period?
A $2,304
B $2,880
C $3,840
D $4,800

The correct answer is C.

This question covers syllabus heading B3 bxii

To get the correct answer candidates had to negotiate three steps:

(i) calculate the amount of cost apportioned to product A ($12,000 x 600/(600 + 400) = $7,200)
(ii) then calculate how much of this cost is to be charged against A's sales in the period ($7,200 x 480/600 = $5,760)
(iii) then calculate the gross profit earned using the gross profit margin given ($5,760 x 40/60 = $3,840).

The most popular answer was B. These candidates appear to have correctly calculated step (i) ($12,000 x 600/(600 + 400) = $7,200) but then incorrectly applied the gross profit margin of 40% to this figure.($7,200 x 40% = $2,880) This approach fails to match production costs against sales and secondly applies the gross profit margin to cost rather than sales revenue.

Alternative A correctly completed the first two steps in the calculation to arrive at a cost of sales of $5,760 , but then incorrectly applied the gross profit margin ($5,760 x 40% = $2,304).
Alternative D failed to complete any of the required steps. Joint costs were not apportioned between products, production costs were not matched against sales and the gross profit margin was applied to costs not revenues ($12,000 x 40% = $4,800)

Inevitably examiners' reports focus on the more difficult questions that were badly attempted. The exam also contained a number of questions that were very well answered.

Future candidates are advised to:

- Study the whole syllabus, because the paper will cover the full syllabus.
- Practise as many multiple choice questions as possible.
- Read questions very carefully in the examination.
- Try to attempt the "easy" examination questions first.
- Not to spend too much time on apparently "difficult" questions.
- Attempt all questions in the examination (there are no negative marks for incorrect answers).
- Read previous Examiner's Reports.
- Read Student Accountant
- Visit the ACCA website and familiarise themselves with the new structure of the paper.