



Examiner's report

F2/FMA Management Accounting

For CBE and Paper exams covering January to June 2015

General Comments

The examination consists of two sections. Section A of the paper contains 35 objective test questions – each worth 2 marks, and section B contains 3 MTQs worth ten marks each. All questions are compulsory. The paper is two hour examination. Specimen exams reflecting this structure are available on the ACCA website together with a number of practice MTQs

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

In section A the worst answered questions were calculation based. Calculation questions accounted for approximately 46% of section A questions, and as usual were answered worse than the narrative based questions. Seven out of the 10 worst answered section A questions were calculation based in the January to June 2015 diet.

. There was little difference in performance between section B calculation and narrative questions.

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.

Section A: Sample questions for discussion

Example 1

A company uses standard marginal costing. Its budgeted contribution for the last month was \$20,000. The actual contribution for the month was \$15,000, and the following variances have been calculated:

Sales volume contribution variance	\$5,000 adverse
Sales price variance	\$9,000 favourable
Fixed overhead expenditure variance	\$3,000 favourable

What was the total variable cost variance?

- A \$9,000 adverse
- B \$9,000 favourable
- C \$12,000 adverse
- D \$12,000 favourable

The correct answer is A.

This is calculated by finding the balancing figure. The total variance between budgeted contribution and actual contribution is \$5,000 adverse (\$20,000 - \$15,000). The sales volume and sales price variances sum to \$4,000 favourable, so to balance, the variable cost variance must be \$9,000 adverse.

The most popular answer was B (\$9,000 favourable), This implies they used the correct approach but made an error on the sign of the variance.

Answers C and D included the fixed overhead expenditure variance in the reconciliation of the two contribution figures. This is incorrect because it would be needed to reconcile profit figures, but not contribution figures.



Questions on the reconciliation of budgeted and actual profits or contributions regularly cause candidates difficulty on this paper and future candidates are recommended to study this area carefully.

Example 2

Normally no losses are expected from a process. Any abnormal losses are sold for scrap.

Which of the following calculates the net cost to the company of one unit of abnormal loss?

- A Total input cost ÷ actual output units
- B Total input cost ÷ expected output units
- C (Total input cost – total scrap value) ÷ expected output units
- D (Total input cost ÷ expected output) – scrap value per unit

The correct answer is D.

The principle here is that whilst it is reasonable to build the net cost of normal (expected) losses into production cost (because they are a normal feature of the process) , it is not reasonable to do the same with abnormal losses, because, as their name suggests, they are not a normal feature of the process.

The production cost of abnormally lost units is the same as the cost of good production (Total input cost less the revenue from the sale of normal losses ÷ expected output). In this case no losses are expected, so this is equal to total input cost ÷ expected output. Because the abnormal losses can be sold for scrap, their *net* cost is the cost per unit of making them, less the revenue derived from their sale that is (Total input cost ÷ expected output) – scrap value per unit.

A simpler approach is to eliminate the incorrect options.

Answer A is incorrect because it would spread the cost of abnormal losses over all production units

Answer B is incorrect because it fails to recognize the benefit of abnormal losses (their scrap sales revenue)

Answer C was chosen by majority of candidates. presumably because it resembles the text book equation for calculating unit cost (Total input cost – revenue from normal losses) ÷ expected output. It is incorrect here because

(i) all the losses are abnormal

(ii) it spreads the scrap value benefit of abnormal losses across all units produced.

Example 3

A company uses a blanket overhead absorption rate of \$5 per direct labour hour. Actual overhead expenditure in a period was as budgeted.

The under/over absorbed overhead account for the period have the following entries:

DR		CR	
\$		\$	
Production overhead	<u>4,000</u>	Profit or loss account	<u>4,000</u>
<u>4,000</u>		<u>4,000</u>	

Which of the following statements is true?

- A Actual direct labour hours were 800 less than budgeted
- B Actual direct labour hours were 800 more than budgeted
- C Actual direct labour hours were 4,000 less than budgeted
- D Production overhead was over absorbed by \$4,000

The correct answer is A.

The debit to the profit or loss account implies that overheads were under absorbed. We are told that actual overhead expenditure was in line with budget, so the only cause of the under absorption has to be actual activity being less than budgeted. A shortfall of 800 direct labour hours would lead to an under absorption of 800 direct labour hours x \$5 per hour = \$4,000.

Selecting answer B and D, suggest that candidates were confused with debits and credits or under and over absorption of overhead.

Only a minority selected C, presumably most rejected it because it did not allow for the overhead absorption rate of \$5 per direct labour hour.

Overall candidates need to make sure they understand the causes of under or over absorption of overhead and the bookkeeping entries involved.

Section B

Section B contains 3 questions, one from each of syllabus areas C Budgeting, D Standard Costing and E Performance Measurement. This approach will continue in future papers. The balance of questions in section A reflects this weighting so as to preserve the overall balance of the paper.

Common problems with section B questions included the following

- A poor understanding of purchases budgets, particularly the effect of production levels on purchases.
- An inability to calculate and explain fixed production overhead expenditure, volume, capacity and efficiency variances.
- An imprecise knowledge of value for money concepts, particularly economy and efficiency.

Future candidates are advised to:

- Study the whole syllabus, because the paper will cover the full syllabus.
- Practise as many 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.
- For paper exam, present section B answers as tidily as possible