

Examiner's report

F2/FMA Management Accounting

December 2012



General Comments

This was the third examination under the new syllabus. This syllabus amalgamates 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. 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 both the pilot paper and the December 2011 and June 2012 papers. The vast majority of poorly attempted questions were calculation based. Questions that were poorly attempted were mainly in old syllabus areas. In general the FIA FMA candidates performed worse than their F2 counterparts.

The following questions taken from the December 2012 examination are ones where the performance of candidates was weak. 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 data relates to a company's overhead cost.

Time (units)	Output	Overhead cost (\$)	Price index
2 years ago	1,000	3,700	121
current year	3,000	13,000	155

Using the high low technique, what is the variable cost per unit (to the nearest \$0.01) expressed in current year prices?

- A \$3.22
- B \$4.13
- C \$4.65
- D \$5.06

The question relates to study guide references A3h and C2n.

The correct answer is B. This is calculated by firstly adjusting the overhead cost from 2 years ago to current price levels by multiplying by 155/121, to obtain a cost of \$4,740. This figure is then used in a high low calculation (change in cost divided by change in activity) to obtain the variable cost per unit $((\$13,000 - \$4,740) / (3,000 \text{ units} - 1,000 \text{ units})) = \4.13 .

The most popular choice was alternative C, which was selected by majority of candidates. This indicates that although competent in the high low technique they failed to adjust costs to current price levels. In analysing cost data it is important that inflation is allowed for. Those who chose option D indicated that either they guessed badly, or that they could competently perform the high low calculation and that they realised a need to adjust the figures for inflation but failed to do so correctly and multiplied by 121/155). Finally a minority chose alternative A, again possibly suggesting a bad guess or alternatively that they indexed costs to price levels from two years ago.



Example 2.

A company uses a standard absorption costing system. The following figures are available for the last accounting period in which actual profit was \$108,000.

	\$
Sales volume profit variance	6,000 adverse
Sales price variance	5,000 favourable
Total variable cost variance	7,000 adverse
Fixed cost expenditure variance	3,000 favourable
Fixed cost volume variance	2,000 adverse

What was the standard profit for actual sales in the last accounting period?

- A \$101,000
- B \$107,000
- C \$109,000
- D \$115,000

The question relates to study guide reference D3a.

The correct answer is C, but was chosen by only a handful of candidates. The correct answer can be obtained by working backwards by adding appropriate adverse variances and subtracting appropriate favourable variances from actual profit. Standard profit on actual sales is exactly what it says, actual units multiplied by standard profit per unit. As it is based on actual units, a profit adjustment for the difference between budgeted and actual volumes is not required, and hence the sales volume variance should be ignored.

The calculation can be most easily understood by looking at the standard cost operating statement below.

	\$
Budgeted profit	not required
Sales volume variance	not needed
Standard profit on actual sales	109,000
Sales price variance	5,000 favourable
Total variable cost variance	7,000 adverse
Fixed cost expenditure variance	3,000 favourable
Fixed cost volume variance	<u>2,000</u> adverse
Actual profit	<u>108,000</u>

If candidates understand how the operating statement works the correct answer can be quickly calculated as $\$108,000 + \$2,000 - \$3,000 + \$7,000 - \$5,000 = \$109,000$.

Incorrect answers were fairly evenly spread across the other 3 alternatives, suggesting a large amount of guessing by candidates. Alternative D, \$115,000, represents the correct calculation of budgeted profit (that is the standard profit figure for budgeted volume). This was not the question asked. Alternative B, represents the answer obtained if candidates added back favourable variances and subtracted adverse variances. Finally alternative A, represents a calculation of budgeted profit if candidates added back favourable variances and subtracted adverse variances.

Performance on another question involving standard cost operating statements on the same paper was also poor. This suggests a lack of understanding in this area.



Example 3

A truck delivered sand to two customers in a week. The following details are available.

Customer	Weight of goods delivered (kilograms)	Distance covered (kilometres)
X	500	200
Y	<u>180</u>	<u>1,200</u>
	<u>680</u>	<u>1,400</u>

The truck cost \$3,060 to operate in the week. Each customer delivery was carried separately, and the truck made no other deliveries in the week.

What is the cost per kilogram/kilometre of sand delivered in the week (to the nearest \$0•001)?

- A \$0•003
- B \$0•010
- C \$2.186
- D \$4.500

The question relates to study guide reference B3c(ii).

The correct answer is B.

The cost per kilogram/kilometre of sand delivered is the cost of carrying one kilogram of sand for one kilometre. Kilogram kilometres can be calculated by multiplying the weight of goods delivered to each customer by the distance covered. (500kg × 200km + 180 kg × 1200km = 316,000 kilogram kilometres.) If truck costs are divided by this figure a cost of \$0.010 is obtained

Alternative C represents the cost per kilometre travelled ((\$3,060 / 1,400 km). Alternative A can be obtained by dividing truck cost by 680 kg × 1,400 kilometres = 952,000. This is a meaningless figure as it does not allow for different weights travelling different distances. Finally alternative D represents the average cost per kilogram delivered (\$3,060 / 680 kg = \$4.50)

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. In the examination candidates should ensure that they attempt the easier questions first (generally the narrative questions) 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 multiple choice questions as possible.
- 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.
- Read Student Accountant