Examiner’s report

F2 Management Accounting
December 2010

General Comments

This was the seventh examination under the current syllabus. The two hour paper, as usual, contained 50 multiple choice questions – 40 carried two marks each and the other 10 carried one mark each. This mix continues to be exactly in line with the pilot paper. The overall general performance of candidates improved at this sitting compared with recent sittings. The performance on an individual question basis also improved – on this occasion, on only a very few questions was the correct answer not selected by at least 40% of the candidates.

The following questions taken from the December 2010 examination are ones where the performance of candidates was weak – in each case less than 40% 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

A company which operates a process costing system had work-in-progress at the start of last month of 400 units (valued at $3,000) which were 40% complete in respect of all costs. Last month 1,500 units were completed and transferred to the finished goods warehouse. The cost per equivalent unit for output produced last month was $20. The company uses the FIFO method of cost allocation.

What is the total cost of the 1,500 units transferred to the finished goods warehouse last month?

A $26,800
B $28,200
C $29,800
D $30,000

The correct answer was C. This question tested Section D6(g) and (h) in the Study Guide.

If 1,500 units were completed in the month then 1,100 units [1,500−400] must have been started **and** finished in the month. These are valued at $22,000 [1,100×20]. The 400 units from opening work-in-progress (WIP) were already 40% complete so last month would have had 60% of work done to complete them. The total value of the 400 units is therefore calculated as: $3,000 + $[400×0.6×20] = $7,800. The total value of the month’s output was $[22,000 + 7,800] = $29,800.

Each of the three wrong answers was selected by at least 17% of the candidates. Candidates selecting answer A had simply failed to add in the $3,000 opening WIP value. Answer B could have been obtained by valuing the 400 units as follows: $3,000 + $[400×0.4×20] = $6,200. This had taken the percentage **to complete** the WIP as 40% instead of 60%. Answer D was simply 1,500 units valued at $20 per unit and made no adjustment for WIP.

Example 2

A company uses standard marginal costing. Last month the budgeted contribution was $20,000 and the only variances that occurred were as follows:

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Sales price	3,000 Adverse
Sales volume contribution	5,000 Favourable
Fixed overhead expenditure	1,000 Adverse

What was the actual contribution last month?
A $18,000
B $19,000
C $21,000
D $22,000

The correct answer was D. This question tested Section E5(b) of the Study Guide – the reconciliation of budgeted and actual contribution under marginal costing.

The fixed overhead expenditure variance is not relevant to a reconciliation of budgeted and actual **contributions**. Fixed costs are deducted afterwards from contribution to arrive at profit. Therefore the correct calculation of actual contribution was:
[20,000 – 3,000 + 5,000] = $22,000.

Answer A was obtained by adding the adverse sales price variance and subtracting the favourable sales volume contribution variance to the budgeted profit. Answer B could have been obtained in two [wrong] ways. First, by simply deducting the adverse fixed overhead expenditure variance from the budgeted contribution. Second, by netting the three variances listed in the question and then **deducting** this net figure from the budgeted contribution – there were two errors made in this case. The most popular wrong answer was C [chosen by a third of the candidates] which **added** the net of all three variances listed to the budgeted contribution.

Example 3
Are the following statements, which refer to different types of budgets, true or false?

Statement 1
An annual budget that can be broken down into monthly budgets, which differ depending on the number of working days in each month, is called a flexible budget.

Statement 2
An annual budget set before the start of a year based on estimated sales and production volumes is called a fixed budget.

	Statement 1	Statement 2
A	True	True
B	False	False
C	True	False
D	False	True

The correct answer was D. This question tested section E3(a) in the Study Guide – the explanation of fixed, flexible and flexed budgets.

A flexible budget is one which recognizes different cost behaviour patterns and is designed to change to reflect different volumes of activity. Therefore statement 1 is false. Statement 2 describes a fixed budget and is therefore true.

All three incorrect answers were selected by significant numbers of candidates – even the least popular choice [Answer C – the exact opposite to the correct answer] was chosen by nearly 16% of the candidates. This seems to indicate that this part of the Study Guide is generally not well understood.

Future candidates are advised to:

- Study the whole syllabus. The examination will always cover **all** sections of the Study Guide.
- Use the pilot paper questions for practice. The pilot paper is also a very good guide to the styles of questions that will continue to be set and to the coverage of the topics in the Study Guide. It is also gives a good indication of the approximate split between calculation and non-calculation questions that will continue in examinations up to and including the June 2011 sitting.
- Practise as many multiple choice questions as possible in preparing for the examination.
- Read questions carefully in the examination
- Read previous F2 Examiner's Reports – they are all still very relevant and helpful. Each contains three multiple choice questions set.