

Examiner's Approach Interview: F2 - Management Accounting

Interviewer: Welcome to the F2 examiner's approach interview.

The following is an examination approach interview for Paper F2, *Management Accounting*. The content of this interview has been prepared by the examiner, working with the Qualifications team at ACCA, and is presented by actors representing an interviewer and the examiner in discussion.

For more detail on the examiner's approach, please see the article produced by the examiner in the November/December 2006 archive edition of *student accountant*.

The F2 examiner is David Forster.

David is a freelance educational consultant. His previous background was in industry as a management accountant and more recently as a lecturer in the private sector in the UK.

Apart from many years of practical business and management accounting experience David has taught a range of management accounting and related subjects at all levels.

David became an ACCA examiner from the June 2004 sitting.

To begin, can you explain where F2 fits within the overall structure of the ACCA Qualification.

Examiner: Certainly. The Fundamentals level is divided into two modules – Knowledge and Skills.

The Knowledge module introduces students to business in general. This is done through the F1 Accountant in Business module, which sets accounting into a wider business context, but also includes the core areas of management and financial accounting in F2 and F3 respectively. F2 provides the platform for understanding performance management and financial management which supports the study in greater detail which takes place at the higher levels of the syllabus. All Knowledge module exams are two-hours long and are available both as computer-based exams (CBEs) – providing automatic marking and immediate results – and traditional paper-based exams.

Interviewer: From what you have just said, the F2 paper is connected to many parts of the ACCA Qualification. What are the links with other papers, or with other components?

Examiner: Well, F1 introduces the student to what a business is and how the finance function is structured. This means that when students study F2, they already know where management accounting fits, what relevance it has for the business as a whole and what purpose it serves.

When they have completed F2, students have the knowledge and key techniques to broaden and deepen their capabilities in F5, *Performance Management*, which covers areas such as costing and budgeting in far more detail and depth.

F2 also underpins some of the knowledge and skills in F9, *Financial Management*. This paper draws on several techniques and principles introduced in F2, particularly those in Section C such as dealing with uncertainty, linear regression, and spreadsheet applications, and in Section F, which covers relevant costing – including the concept of opportunity cost.

Interviewer: And is the knowledge acquired in F2 useful for any other papers studied later on in the ACCA qualification?

Examiner: Yes, as well as this paper preparing students for F5 and F9, it also underpins the associated Options paper at the Professional level: P5, *Advanced Performance Management*.

Finally, knowledge and skills acquired in F2 will be applied, in context, within the Practical Experience Requirements. The Performance Objectives relevant to this paper are Options Performance Objectives 12, 13 and 14.

Interviewer: So, what is the overall concept or theme for F2 as a paper?

Examiner: F2 is about ensuring the student has a thorough knowledge and understanding of all aspects of costs and costing. While financial accounting categorises income and expenses for external financial reporting, management accounting classifies costs and revenues by their economic relevance and behaviour and consequently is more useful for internal operational decisions, both in the short and long-run, as well as for all aspects of performance management.

In other words, the F2 paper gives the accountant the knowledge and understanding about costs and revenues to assist in the key areas of decision-making, planning and control, and inventory valuation.

The following quote sums up this idea nicely. 'The management accountant looks up and down stream at the same time'

This quote refers to the fact that management accountants not only have a clear view of where costs and revenues have originated, but also where they belong, how relevant they are and how they will behave. They use information to plan future operations and to make and support appropriate operational decisions for the benefit of the business and its stakeholders.

Interviewer: As you explained earlier, there is an overall aim or concept for the paper as a whole. Are there any other broad themes which run through the syllabus?

Examiner: Yes. As previously mentioned, F2 is essentially about examining knowledge and comprehension of how costs are incurred and revenues generated, in both the past and the future in order to be able to improve business performance. There are, however, five main themes within this overall concept.

Theme 1 – the purpose of management accounting and how it differs from financial accounting; why it is important to gain a proper understanding of what costs are incurred and revenues generated, and how this happens.

Theme 2 – breaking down costs into categories and classifying them under meaningful headings based on a sound business and economic rationale. Understanding how costs behave is also part of this theme; for example, the distinction between fixed and variable costs is crucial in management accounting.

Theme 3 is about costing methods and the need for different methods for different types of business organisation.

Theme 4 is business planning and control. Why it is important to plan and prepare detailed budgets and then analyse variances as a way of controlling financial performance.

Finally, theme 5 is around decision-making and how knowledge of the first four themes provides the student with the ability to organise and present information in a meaningful way to support operational short term decision-making.

Interviewer: I note that the syllabus for F2 is structured into six main sections. Can you briefly explain the main content of these syllabus sections please?

Examiner: Yes of course.

Section A is a short section, containing subject areas on what management accounting is and its purpose as an accounting function as compared with financial accounting. This section provides a good link with F1.

Section B is about cost classification, behaviour and purpose. It focuses on the differences between direct or production costs and indirect or non-production costs, and fixed and variable costs.

Section C introduces the student to some of the main tools – mathematics, statistics and spreadsheets – which are used by the management accountant. These can be linked to other topics in F2 – for example in budgeting – as well as to topics in F5 and F9.

Section D is an important section of the syllabus. It deals with cost accounting for the main business costs such as materials, labour and overheads. It also covers costing methods and techniques for different business types and processes.

Section E covers budgeting and standard costing which are two key topics within management accounting. The emphasis here is on planning and control concepts.

Finally, section F deals with the short-run decision-making techniques available to management accountants, focusing on cost-volume-profit analysis, on relevant costs and on how limited resource factors can influence output decisions.

Interviewer: Having explained the main content of the syllabus for us, can you tell us about the exam itself?

Examiner: First of all it is worth noting that, as F2 is a Fundamentals paper, all students must sit this exam unless they claim exemption. As with all papers within the Knowledge module, the completion time for this exam is two hours.

Interviewer: What kind of questions will appear in the exam?

Examiner: As the F2 paper is a wholly objective testing paper, students will be required to answer short questions which each carry either one or two marks. In the current format of the computer-based exam there are multiple choice questions, number entry questions and multiple response matching questions. At present the paper-based exam does not contain number entry or multiple response type questions. It only comprises multiple choice questions. Where there are only two or three answer choices, this question carries

just one mark; where there is a choice of four answers, the question carries two marks.

Although management accounting is often regarded as a fairly numerical subject, the F2 exam will comprise a significant proportion of non-numerical questions which test knowledge and understanding.

Interviewer: Can you tell us how many questions there are in the exam and what choice exists, if any?

Examiner: As I have mentioned, the exam is based on pure objective testing. The paper carries 40 two mark and 10 one mark questions which test knowledge, comprehension and some application. Students can take the exam as a computer-based exam on demand at designated ACCA CBE centres, or as paper based examinations held in both June and December sittings. Whichever type of exam the student sits, they must answer all the questions set – there is no choice of questions - and the pass mark is 45 out of 90 or 50%.

Interviewer: Why is there no choice offered at the Fundamentals level?

Examiner: That's because, as the name of the level implies, all subject areas and capabilities at this level are 'fundamental' to having a sound grasp and technical proficiency in all the subject areas.

For more information about the exam itself and how it is structured, there are past papers available on the website.

Interviewer: Thanks for explaining all that. What else would you identify as core features of the exam itself?

Examiner: As was mentioned earlier, the exam style for all papers in the Fundamentals Knowledge module involves objective testing. The candidate gets awarded the one or two marks for each question correctly answered. It is important to understand the difference between 1 and 2 mark questions.

One mark questions are shorter and should be easier to answer.

One mark multiple choice questions will only have two or three alternatives to choose from. Two mark multiple choice questions will have four alternative answers to choose from. Numerical questions involving calculations will usually carry two marks.

Written questions could carry one or two marks.

Interviewer: Should students think about time allocation per question when doing objective testing exams?

Examiner: Yes, time allocation is important in any exam. A one mark question has an average time allocation of 1.33 minutes and a two mark question 2.66 minutes. It is important to remember, however, that not every question will take the same amount of time to answer. Particularly with the two mark questions, candidates will find that some take a little longer than the average time but equally some will take less.

Interviewer: Should students guess the answers to questions if they don't know the answer?

Examiner: F2 is an objective testing exam and therefore a correct answer is awarded the one or two marks, but a question with no answer will definitely not get a mark. There is no negative marking for a wrong answer. If a candidate does not know an answer or runs out of time, I would recommend a guess rather than leaving a question unanswered.

Interviewer: What advice would you give about revising effectively for, and passing, F2?

Examiner: Well, first there are the main exam strategies, focusing on key areas, and then there are some specific tips for F2 candidates during their revision, and for the examination itself.

I would recommend the best strategy to adopt in the revision phase is to focus on areas of the syllabus that a student may not be too sure of, or confident about. It is also essential to complete lots of practice questions on **all** syllabus areas from an official study text for F2 and from the samples available on the ACCA website.

As far as an approach is concerned, students should ensure that they understand all the aspects of management accounting in the F2 syllabus and study guide thoroughly. If you were to analyse the pilot paper for F2 carefully, you would discover that about 25-30% of the total marks are for questions broadly testing Sections A, B and C. Whereas questions testing Sections D, E and F account for 70 to 75% of the total marks on the paper. This broad split is unlikely to change by very much in exams through the whole of 2008 and 2009. Students should be aware of this split when allocating their revision time to topic areas within the F2 syllabus.

Interviewer: What would your three key revision and exam tips be?

Examiner: My first tip is that you should realise that because there are 50 questions on the F2 exam there is plenty of scope for me, as the examiner, to test all areas of the syllabus on every paper. However as I have already indicated, Sections D, E and F of the syllabus will generate more than twice as many questions on any exam than will Sections A, B and C. Students should allocate their revision time appropriately.

Secondly, students should appreciate that each exam will contain a significant proportion of questions (representing about 30 to 40% of the total marks on the exam) which will not involve using a calculator to answer them. The exam will definitely not be all calculations!

My final tip is practise questions as much as possible. Some of this practice should be under strict exam conditions. There is no substitute for actually attempting exam style questions or for experiencing the computerised exam simulation if taking the computer based version.

Interviewer: So, what do you believe to be the main potential pitfalls when preparing for and taking the F2 exam?

Examiner: The main pitfalls I have seen students fall into are the following:

Students often come into the exam unprepared, without a sufficient knowledge or understanding of all areas of the syllabus. Students, and their tutors, need to ensure that they cover the whole syllabus. It's also very important to ensure that links between different sections of the syllabus are explained and understood.

The second main pitfall is rushing through questions through fear of not completing all 50 in the allocated time. This can be a temptation for nervous students who are fearful of the relatively high number of questions to complete. In practice, most students will have plenty of time to complete the exam, so students should take care to read and fully understand each question – including the question statement where relevant – to give themselves the best chance of answering questions correctly. Where possible, students should double check their workings to numerical questions as no credit is given for workings even if the most minor error is made.

The final pitfall is leaving questions unanswered through lack of time or knowledge. As I have mentioned before, effective time management is important. If, however, lack of time – or knowledge – become a factor, students should always make a reasonable guess and ensure that they have answered all the questions.

Interviewer: It is clearly important to follow the above tips and avoid any common pitfalls in exam revision and in the exam hall itself. What other information can you give about student performance which can help students prepare for exams?

Examiner: Students who are unfortunate enough to fail should try and understand why they think this happened. They should ask themselves whether they were unprepared from a knowledge or understanding perspective. Did they run out of time and/or did they leave any questions unanswered? Usually students will know where their knowledge or understanding was weak and they will need to learn or revise these areas more thoroughly next time and develop a better exam technique, particularly with the more difficult and time consuming questions. This is of course best achieved through practice. Using the past papers, simulations and questions in the official texts are all very good ways to prepare for the exam and to identify any areas where more work needs to be done.

In addition, after each exam session an examiner's report will be produced which will highlight two or three questions which many students answered incorrectly, outlining the common problems.

Interviewer: Do you have any concluding advice about the F2 examination paper?

Examiner: I believe there are some key summary points to mention about the exam questions themselves.

Students must always read the question and, where relevant, the accompanying statement as carefully as possible, and make sure they have understood them.

Where there are statements included in an objective test question, a student is usually expected to think about and apply some knowledge to a specific situation in a particular context.

Students must also remember not to dwell for too long on any question that they are not sure about, don't understand or simply don't know the answer to. As there are 50 questions to get through, think about each question carefully, but briefly, and if the answer isn't sufficiently clear, move on and return to it later. As I mentioned earlier it is important to ensure that by the end of the examination all questions have been answered even if some are just guesses!

Interviewer: Thank you very much for sharing your insight into this exam paper.
I'm sure it has given students and tutors lots of useful information.

Examiner: Thank you.