

# multiple-choice questions

relevant to all Diploma in Financial Management exams

# maximise your marks

■ Both Module A and Module B exams in the Diploma in Financial Management include multiple-choice questions (MCQs), which account for 40% of the available marks. Clearly, a candidate's performance in this section of the paper will have a strong influence on their overall mark.

Using the phrase 'taking multiple-choice tests' for a Google search will bring up over five million references. Therefore it's pretty obvious that what is needed is a few key points which are specifically about how to approach MCQs in ACCA exams. This article is intended to provide some practical guidance on how to maximise your marks in this section, by setting out some 'golden rules' and emphasising some points that, while not unique to ACCA exams, are the key to understanding how ACCA has decided to use MCQs.

## Preparation pointers

The first point to note is that, as with any assessment, the key rule for success is to prepare thoroughly. Examiner's reports regularly note that

too many candidates have attempted an exam for which their preparation is inadequate. One constant aspect of inadequate preparation is that many candidates attempt to 'question spot'. A second is to rely on a small number of 'pet' topics. These approaches to preparation are extremely risky and are always strongly discouraged by examiners – for good reason.

By considering why MCQs are used, the risk attached to these approaches becomes clear. Like any other approach to assessment, there are a number of advantages and a number of disadvantages to MCQs. Perhaps the most significant disadvantage is that MCQs do not provide the opportunity to test a candidate's ability to analyse material in depth and apply the knowledge gained from such 'deep learning'. However this is balanced by the overall assessment strategy within the DipFM, which requires candidates to also answer longer exam questions and to complete two substantial projects. It is also balanced by the fact that because each MCQ relates to a specific issue within the syllabus, the exam can achieve broad coverage of the syllabus. This means that

to maximise your chances of success you must have studied across the whole syllabus. You may be lucky enough to find an MCQ on a topic which was part of your most recent studies, but the chances of finding 20 such questions on the paper are nil.

As well as studying topics across the entire syllabus, it is important to attempt exam level questions – and in particular, past exam questions. However, it is essential that such questions are used carefully and thoughtfully. Candidates preparing for exams often make two common mistakes. The first is to fail to follow up on questions which they have answered correctly. The second relates to questions which were answered incorrectly. Let's look at these points in more detail.

Whether a question was answered correctly or incorrectly during exam preparation, there will be an opportunity to enhance your understanding of the topic. By reflecting on why a specific option is the correct answer, you can improve your understanding of the topic. Also, reflecting on why the other options are wrong can help to overcome misunderstanding and eliminate confusion. When attempting questions as part of your preparation, it is useful to remember that a key purpose of the exercise is to enhance your understanding – not just to get the question right.

When reviewing the each option, it important to ensure that you understand exactly what the underlying point is – and to make sure that you reflect on this to enhance your learning.

### Read the question

There are a number of aspects to this advice, but all of them relate to the care which is taken in writing questions. The amount of time, effort, and discussion that is put into each question before it is seen in an exam hall is likely to surprise most candidates. Without going into unnecessary detail, every question is subjected to a number of rigorous reviews as it progresses from an idea in the examiner's mind to the exam paper. These rigorous reviews mean that candidates need to read the question extremely carefully, because the wording of the question has been chosen with care. This care is intended to ensure that the question is unambiguous and does not mislead candidates. (At this point, it is worth noting that there are no 'trick' questions in ACCA exams. Candidates can be assured that all questions can be taken at face value.)

A further aspect is that the question should be answered on the basis of the data included in the question. For example, in order to ensure that questions are not too long, the data may have been simplified. This may mean that to some candidates, it may seem to be unrealistic when compared to a 'real-life' situation.

A particular example of this is the way in which the labour cost is described in many questions. More often than not, direct labour is described as a variable cost, with no reference to the cost of laying staff off. For a candidate who has experience of staff rationalisation, this assumption will be totally unrealistic. While a 20-mark question may provide the opportunity to critically examine the underlying assumptions, this is not possible in an MCQ and the question should be answered on the basis of the data provided in the question.

### Thinking thoroughly

It is a common fallacy that MCQs are easy. This is based on the fact that one of the options must be the correct answer. Therefore (the argument goes) all the candidate has to do is make the correct selection. While it is fair to say that some questions may be easy, this is usually because the candidate already knows the answer – because they have prepared thoroughly. As noted above, this may happen in some questions, but it is more likely that the answer will not be obvious.

It is essential that, having read the question carefully, you think about your response, and that your answer is the result of a considered choice. This is because of the way in which the incorrect options have been constructed. In ACCA exams, MCQs have one correct option and three incorrect options. The incorrect options are referred to as 'distractors'. This term is used because in writing the question, the examiner attempts to identify the most common mistakes made by candidates. Therefore, the incorrect options will be plausible.

This can be illustrated by a Module A question from the June 2007 paper.

### Sample question 1

The financial statements of Evaline Co report an operating profit of \$6.38m, a tax charge of \$1.46m and capital employed of \$23.85m. The finance director estimates that the replacement value of the net assets is \$31.7m and that the company's cost of capital is 15%.

What is the Economic Value Added® of Evaline Co for the period?

- A \$165,000
- B \$1,342,500
- C \$1,625,000
- D \$2,802,500

### Work out your answer

If the incorrect answers are based on common mistakes, it follows that attempting to select the correct answer is not likely to be productive. Rather it is essential that you use your understanding of the topic to work out your answer. This will avoid being distracted by incorrect, but plausible, options.

### Sample question 2

The Northern division of Gemas Co currently earns a return on investment of 15.5%, based on capital employed of \$2,680,000. The divisional management team have decided to implement a project which will require an investment of \$320,000. The project is expected to generate a profit of \$53,000 per annum. The divisional cost of capital is 13%.

What will be the residual income of the division after the project is implemented?

- A \$67,000
- B \$78,400
- C \$120,000
- D \$468,400

The key rule for success is to prepare thoroughly. One constant aspect of inadequate preparation is that many candidates attempt to 'question spot'. A second is to rely on a small number of 'pet' topics. These approaches to preparation are risky and are always strongly discouraged.

The comments on the solution to this question illustrate that, for questions which require calculations to be completed, covering the options while you work out your answer is a productive strategy.

Of course with questions which do not require calculations, the possible answers need to be considered in turn. However, this still requires your answer to be worked out, not selected. These questions might require a decision on which of two or more statements are correct, or which one of a number of statements is correct. In such cases, the best approach is to consider each statement in turn, and decide whether or not it is correct. Once again, the fact that incorrect options are 'distractors' must be borne in mind. This approach is relevant in the below sample question.

#### Sample question 3

Which of the following statements about pricing policies is correct?

- A A policy of market penetration will lead to a high entry price
- B A policy of market skimming will reduce the time taken to complete the introductory phase of the product life cycle
- C A policy of market skimming is appropriate for a product which is expected to have a short life cycle
- D A policy of market penetration is appropriate for a unique product

#### Eliminate incorrect answers

This approach is likely to be most effective in discursive questions which require the correct combination to be selected. Consider a question which offers three statements, and requires the correct combination of correct statements to be selected. The ideal way to answer this is to consider each statement in turn, and decide if it is correct or not. Often candidates will find that they can identify one incorrect statement. On that basis, it is possible to eliminate the options which include that statement. A question from the June 2004 paper – adapted to reflect international accounting terminology – illustrates this point.

#### Sample question 4

Aeon Ltd uses the First In First Out (FIFO) method of inventory valuation, whilst Baco Ltd uses the weighted average method. Over the past year, the unit cost of items purchased has been falling. There are no other factors to consider regarding the inventory turnover ratio derived from the published accounts.

Which of the following statements regarding the inventory turnover ratio is correct?

- A Aeon will have a shorter inventory turnover period than Baco
- B Baco will have a shorter inventory turnover period than Aeon
- C The inventory turnover period for both companies will be the same
- D The method of inventory valuation will not affect inventory turnover

#### Other points

There are some other points on which candidates need to make decisions in order to maximise their marks. For each of these, the exam hall is the wrong place to make the decision, so it is essential that you have prepared thoroughly and have decided on your own approach to each point.

#### In what order should I answer questions?

This is often a matter of personal choice, but it is essential to ensure that your approach to the entire exam is structured. DipFM exams now include 15-minutes' reading and planning time. Some very good advice on how to use this time was provided in an article published in *student accountant* magazine, which can be accessed at [www.accaglobal.com/students/publications/student\\_accountant/archive/2007/78/2989812](http://www.accaglobal.com/students/publications/student_accountant/archive/2007/78/2989812)

Whether you use reading and planning time to decide which questions you will answer from Sections B and C, or to identify the MCQs that you can answer most easily is a personal choice, but remember that you should not allow yourself to become 'bogged down' on a question so that you run out of time. Generally speaking, the time spent on each part of a question should be in proportion to the marks allocated. With MCQs, however, it may be that some questions are more straightforward than others, and can be answered more quickly. This leads to two observations. The first is that it may be better to consider the time allocation for a group of, say, five MCQs, rather than for each question individually. The second is that by getting the 'straightforward' questions out of the way first, you may be able to create some additional time to spend on working through the more involved questions (both MCQs and the 20-mark questions).

On the basis of the comments above, a productive strategy could be to answer the MCQs that you find straightforward first. This means that you will have picked up marks straight away. This will help you to feel more confident, and should have a positive impact on your overall performance.

#### Should I change my answer?

It is possible that having selected an answer, you may look at the question again and wish to change your answer. This is an area of debate. Some studies have shown that this can lead to an improvement in performance, while other studies have shown the opposite. Therefore, it seems that the key to success is taking a structured approach. As you answer each question, make a note on the question paper to remind you of how confident you are that you have got the right answer. This may be a tick to show that you are confident, and a question mark to show that you have some reservation. If you do this, it is recommended that you only change your answer to a question which you had some doubt about.

#### Make sure your CRS is completed

It goes without saying that you must make sure that you do not forget to record your answers to MCQs on your *Candidate Registration Sheet* (CRS), as this is the only way you can obtain the marks you deserve for all your efforts.

#### Answer all questions

Finally, it is worth remembering that there is no penalty for an incorrect answer in ACCA exams. Therefore, while it is not a good idea to guess answers, there is nothing to be gained by leaving an MCQ unanswered. If you have no idea of the correct answer – although only as a last resort – you should select one option at random.

### CONCLUSION

From this discussion, we can see that MCQs are not an easy option. Maximising your marks in this section of a paper requires:

- sound preparation
- studying across the syllabus
- practising as many different types of questions as possible
- developing your own strategy for different types of questions
- thinking clearly in the exam
- working out your answer
- structuring your approach to the paper
- answering all the questions.

Taking this approach does not make the MCQ section of the exam easy, but it should enable you to get the marks you deserve.

#### Solutions to sample questions and comments on approach

##### Sample question 1

EVA® is calculated as:

Net operating profit after tax (NOPAT) less capital charge  
The calculations are:

Net operating profit after tax:			
Operating profit	\$6.380m		
- Tax	<u>\$1.460m</u>	\$4.920m	
Capital charge:			
Economic value of assets	\$31.70m		
x Cost of capital	15%	<u>\$4.755m</u>	

Thus EVA® is \$4.920m less \$4.755m, or \$0.165m.

The incorrect answers arise from the following errors:

- Option B uses the book value of capital employed (\$23.85m) in the calculation of the capital charge.
- Option C deducts the capital charge from the operating profit.
- Option D deducts a capital charge based on the book value of capital employed (\$23.85m) from operating profit.

##### Sample question 2

The correct answer is B, calculated as follows:

Capital employed before project	\$2,680,000	
Current profit (ROI of 15.5%)		\$415,400
Profit from project		\$53,000
Profit including project		\$468,400
Investment in project	\$320,000	
Capital employed after project	\$3,000,000	
Imputed cost of capital at 13%		\$390,000
Thus residual income		\$78,400

Taking the approach in this article does not make the multiple-choice question section of the exam easy, but it should enable you to get the marks you deserve.

- Option A is the existing residual income (ie before the investment in the project).
- Option C omits the investment in the project from the calculation of the cost of capital.
- Option D is the expected (total) profit after the investment in the project. This option arises at an intermediate point in the calculations. It is possible that by looking at the options before working out the answer, a candidate may stop when this value is obtained and select this option. Carrying out the calculation without looking at the options would help to avoid this error.

##### Sample question 3

Option C is correct because if a product is expected to have a short life cycle, it will be important to recover development costs quickly. This will be done by charging higher prices on entry. Options A, B and D are incorrect as:

- A In order to penetrate a market, it is necessary to charge a low price on entry. This will encourage sales volume and thus build market share.
- B By building a high market share quickly, market penetration, not market skimming, will reduce the time taken to complete the introductory phase of the product life cycle.
- D If a product is unique, the correct policy is to maximise profits in the early stage of the life cycle, through market skimming, before competitors or substitutes enter the market.

##### Sample question 4

In this case, option D can be discounted immediately. The inventory turnover period is directly affected by the value of inventory. All other things being equal, a higher inventory value leads to a longer inventory turnover period. It is a fundamental point that, in a period of changing prices, different methods of inventory valuation lead to different valuations of inventory.

A little more thought will now eliminate option C, because as the unit cost has been falling, the two companies will report different values for inventory, which will lead to different turnover periods.

The choice is now between A and B. From the discussion above, it can be noted that the company with the lower inventory value will have the shorter inventory turnover period. As prices are falling, the most recent prices will lead to the lower inventory value. FIFO uses the most recent prices, as older items are assumed to be issued first, leaving more recent items in inventory. Therefore, Aeon will have the lower inventory value and the shorter inventory turnover period making A the correct option. ■

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