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EDITOR'S CHOICE

Welcome to the latest issue of *Student Accountant* Essential Guide

This issue is focused on exam-related information that you need to support your studies towards any of the Foundation level exams and Papers F1, F2 and F3.

We include examiner feedback from Papers F1, F2, and F3 and the Foundation level papers. This advice looks at overall performance and outlines areas where candidates obtained both high and low marks. Reading the examiner feedback together with the past exam questions and answers from the latest exam session can help you identify where students have gone wrong in the past, and how to develop your answers to achieve the best marks possible – it is one of the key resources to use in exam preparation.





As well as examiner feedback, this issue contains the examinable standards and information relevant to the financial reporting, audit and tax papers. Use this information to guide your exam preparation and take note of the areas that you could be examined on.

We include essential information on the key elements of the Foundation level qualifications and important advice on entering at the correct level to give you the best chance of success and exam progression.

Our Exam Toolkit section contains a range of useful advice to perfect your exam technique and help you prepare for your next exams. We've included detailed advice on taking exams with multiple-choice questions and also how to attempt a computer-based exam.

In Noticeboard, you can view the exam timetable for June 2013, and access details on the exam rules and regulations that you need to be aware of, as well as information on entering for exams.

We've produced this magazine to be as helpful to you as possible in the lead up to the June 2013 exams. We have also produced two other tailored magazines for students taking Papers F4–F9 and the Professional level exams. These can be accessed at www.accaglobal.com/studentaccountant.

I hope that you find this magazine useful in your exam preparation. Email me at studentaccountant@accaglobal.com with your feedback on this issue.

Victoria Morgan Editor, *Student Accountant* magazine

WELCOME I CONTENTS









ESSENTIAL GUIDE

STUDENT

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- 06 EXAMINERS' FEEDBACK
 - 08 Paper FA1
 - 10 Paper FA2
 - 12 Paper MA1
 - 13 Paper MA2
 - 16 Paper FAU
 - 18 Paper FFM
 - 20 Paper FTX
 - 23 Paper F1/FAB
 - 25 Paper F2/FMA
 - 26 Paper F3/FFA
- **29 UPDATES TO THE ACCA QUALIFICATION IN 2013**
- **30 THE FOUNDATION LEVEL:** ALL YOU NEED TO KNOW
- 34 THE FOUNDATION LEVEL: STARTING AT THE RIGHT LEVEL
- **37 APPROVED LEARNING** PARTNERS FAQs
- **40 COMPUTER-BASED EXAMS**

STUDY SUPPORT VIDEOS

Access a range of study support videos at www.accaglobal.com/studentaccountant





STUDENT ACCOUNTANT TECHNICAL **ARTICLE ARCHIVE**

All technical content from Student Accountant is on ACCA's website at www.accaglobal.com/en/ student/publications/sa-archive.html

- **44 EXAM TOOLKIT**
 - 44 How to answer multiple-choice questions
 - 49 Improve your exam performance
 - 52 Exam day FAQs
 - 54 Exam day preparation
- **54 EXAMINABLE DOCUMENTS:** WHAT YOU NEED TO KNOW
- **59** ACCA CAREERS
- **60 FOUNDATIONS IN** PROFESSIONALISM
- **61 PERFORMANCE OBJECTIVES**



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65

ACCA CAREERS

Upload your CV, access global career opportunities and find advice on careers in accountancy and finance at www.accacareers.com

RESOURCES

NOTICEBOARD

ESSENTIAL INFORMATION TO HELP WITH YOUR EXAM ADMINISTRATION

- 62 ACCA Connect contact details and the latest subscription and exam fees
- 62 Achieving ACCA membership
- 63 June 2013 exam timetable
- 63 Keeping you informed
- 64 Exam rules relevant to June 2013
- 65 Exam entry key dates
- 65 Study options
- 66 Practical experience requirement
- 67 Exam exemptions
- 67 Exam resources





PRACTICAL EXPERIENCE

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STUDENT ACCOUNTANT

In addition to this printed issue, we also email an alert to a new issue of *Student Accountant* each month. To make sure we can continue to send you alerts and emagazines, update your consent levels in your *myACCA* account.



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FEEDBACK

FROM THE DECEMBER 2012 EXAM SESSION

Examiners' feedback provides guidance on past ACCA exam performance and suggests ways in which students can achieve higher exam results

08	PAPER FA1	18	PAPER FFM
10	PAPER FA2	20	PAPER FTX
12	PAPER MA1	23	PAPER F1/FAB
13	PAPER MA2	25	PAPER F2/FMA
16	PAPER FAU	26	PAPER F3/FFA

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Average

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EXAM FEEDBACK

PAPER FA1 RECORDING FINANCIAL TRANSACTIONS

Of the 50 multiple-choice questions on the December 2012 paper, 29 questions were correctly answered by more than 50% of candidates. This is consistent with June 2012 but still represents a fall of 11% on the December 2011 paper.

As mentioned in previous reports, not all questions are attempted. In fact, only eight out of the 50 questions were answered by all candidates. This is much worse than for the June 2012 paper and is extremely disappointing in a multiple-choice paper. If a candidate does not know the correct answer a guess will give a 25% chance of a correct answer – this advice has been pointed out in previous comments.

Candidates performed exceptionally well in the questions regarding the construction of a trial balance and dealing with a suspense account. Given suspense accounts require candidates to apply their knowledge of double entry in detail, this was promising.

As highlighted in previous comments, candidates perform very well in the questions about the use of documentation, but the questions regarding the content of documents, such as the petty cash voucher, was disappointing.

It was very pleasing to see that some improvements had been made in dealing with discounts and sales tax, with questions in these areas generally done well. However, the questions dealing with the day books, and posting the entries from the day books into the ledgers yet again caused problems, although these are fundamental parts of the syllabus. Difficulties were also encountered in other practical bookkeeping topics, such as questions that required ledger accounts to be balanced off.

These issues also spread to dealing with control accounts and, as usual, questions on control account reconciliations and bank reconciliations produced the worst results. The issues with these have been highlighted below.

SAMPLE QUESTIONS FOR DISCUSSION QUESTION 7

Question 7 was a bank reconciliation question. Just as in both the June 2012 and December 2011 papers, this was not well attempted.

Colin's bank statement showed a credit balance of \$24,120. When performing his bank reconciliation, Colin discovered unpresented cheques of \$3,690 and outstanding lodgements of \$5,120.

What should be the balance on Colin's bank account in the general ledger?

- **A** \$25,550 debit
- **B** \$25,550 credit
- **C** \$22,690 debit
- **D** \$22,690 credit

Correct answer is A.

When the question asks for 'what should be the balance of the cash account in the general ledger' it wants the correct amount after the reconciliation has been done. This was found by taking the balance of \$24,120 which was positive (credit) with the bank, adding the outstanding lodgements of \$870 and deducting the unpresented cheques \$1,230:

\$24,120 + \$5,120 - \$3,690 = \$25,550

Candidates yet again struggled with whether the balance was a debit or credit balance, with 31% of candidates getting the answer numerically correct but going for a credit rather than a debit balance. When it says a credit balance at the bank, this means that the bank owes cash to its customers, so from the business' point of view a credit balance at the bank means it has a positive cash balance, which would appear as a debit in the ledger of the business.

The unpresented cheques are cheques written by the business and recorded in the cash book but not yet showing on the bank statement, so they need to be deducted from the bank statement balance.

Outstanding lodgements are receipts paid into the bank that have not yet cleared, and so are not yet showing on the bank statement and need to be added on.

Many candidates incorrectly deducted outstanding lodgements and added on unpresented cheques.

QUESTION 9

Question 9 dealt with the payables ledger control account.

Maureen owed her suppliers \$16,420 at the start of April. During April she bought goods costing \$39,610, she returned goods costing \$2,110 and made payments of \$24,620.

What is the total of the credit side of Maureen's payables ledger control account for the month of April?

A \$56,030 **B** \$43,150

C \$29,300 **D** \$26,730

Correct answer is A.

Payables are a liability and therefore will have a credit balance of \$16,420 brought forward. With the transactions: the purchase of goods would have a double entry of DR Purchases \$39,610 and CR Payables ledger control account \$39,610, the purchase return would have a double entry of DR Payables ledger control account \$2,110 and CR Purchases \$2,110, and the payment would be DR Payables ledger control account \$24,620 and CR Cash \$24,620.

So the credits were just the brought forward balance and the purchases. \$16,420 + \$39,610 = \$56,030. The majority of candidates chose answer C, which was the balance carried forward on the account, not the total of the credit side. Candidates need to ensure they are reading the requirement very carefully and not just assuming they know what is being asked.

QUESTION 20

Question 20 was a control account reconciliation question.

Pauline's list of payables ledger balances totalled \$13,120. Pauline later discovered that:

- a debit balance of \$100 had been included in the payables ledger list as a credit balance
- the total of the purchase day book was understated by \$1,200.

The payables ledger balances and the control account reconciled after adjusting for these errors.

What is the correct total for the list of balances on Pauline's payables ledger?

A \$12,920 **B** \$13,020 **C** \$14,320

D \$14,120

The correct answer is A.

\$13,120 - \$200 = \$12,920

The question wants the total on the list of balances of the payables ledger – this is the total of all of the individual suppliers' accounts.

The suppliers are liabilities and therefore the total will be a credit balance.

If there is debit balance it means, for some reason, the supplier owes money to the entity – for example, if an entity has overpaid a supplier, or has paid a supplier and then subsequently returned

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10 EXAMS

the goods. These debit balances should be deducted from the total, but here they have been added on – candidates needed to deduct the debit balances by double the amount.

The total of the purchase day book is posted to the payables ledger control account only and therefore doesn't affect the list of balances

Paper FA1 covers both knowledge of the syllabus and the application of that knowledge. The knowledge questions were done significantly better than the application questions. As with previous papers, the questions that required candidates to perform calculations were not done as well as those that were pure narrative, although this differential has narrowed. Candidates still seem to be spending more time reading and digesting the material rather than practising questions. A well-prepared candidate will make sure they have practised all types of question.

PAPER FA2 MAINTAINING FINANCIAL RECORDS

The purpose of this report is to assist candidates at future exam sittings so that they can avoid the mistakes that are most often made by candidates. The means of doing this is to focus on three questions that were correctly answered by the lowest number of candidates at the December 2012 sitting. Observations on how to select the correct answer, and why the other choices are incorrect, are made on each of these questions.

SAMPLE QUESTIONS FOR DISCUSSION EXAMPLE 1

lona's cash takings of \$2,468 for 30 November were not banked until 4 December.

At 30 November, her bank balance was an overdraft of \$1,573 and she had a balance of \$44 in her petty cash box.

What amount should be included in current assets in Iona's statement of financial position at 30 November?

- **A** \$939
- **B** \$44
- **C** \$2,512
- **D** \$895

This question tested candidates' ability to correctly classify assets and liabilities. The question also required careful reading in order to avoid selecting the wrong option.

The key to obtaining the correct answer was to note that, at the date of the statement of financial position (30 November), the trader had three separate items that needed to be classified – cash takings, an overdraft and a petty cash balance. Once this is clarified, it can be seen that the cash takings (\pounds 2,468) and the petty cash balance (\$44) are current assets and that the total value is \$2,512 (\$2,468 + \$44). The bank overdraft is a liability and, therefore, it is not part of current assets.

Option A was chosen by candidates who did not pay sufficient attention to the date on which the takings were banked. If the takings had been banked on 30 November, the overdraft would have become a balance of cash at bank of \$895. When the petty cash balance of \$44 is added, the result is \$939. However, as the takings were not banked by 30 November, the overdraft at that date remains and the takings were in the form of cash.

Option D was chosen by candidates who made the error discussed in the paragraph above and also omitted the petty cash balance.

Option B was chosen by candidates who assumed that only the petty cash balance should be reported as a current asset.

EXAMPLE 2

Luka and Eden have been in partnership, sharing profits and losses equally.

Greg was admitted to the partnership on 1 December 2012. At that date Luka and Eden each had a credit balance of \$22,000 on their capital accounts.

- It was agreed that:
- 1 Goodwill, which would not be carried in the books of the new partnership, had a value of \$42,000
- 2 Profits and losses in the new partnership would be shared between Luka, Eden and Greg in the ratio 2:2:1
- 3 Greg would introduce cash so that, immediately following his admission, the capital account balances of all three partners were equal.

How much cash was Greg required to introduce?

A \$34,600 **B** \$26,200 **C** \$30,400 **D** \$17,800

Those candidates with a good understanding of the principles of accounting for a change to a partnership were able to successfully answer this question. The key knowledge that was required was that, on the admission of a new partner, the asset of goodwill is created through a debit entry in the goodwill account. The double entry is completed through credit entries in the capital accounts of the original partners. The value credited to each partner's capital account is calculated by dividing the goodwill in the old profit and loss sharing ratio. In this case, the old ratio was an equal share (\$21,000) to each partner.

If goodwill is not to be carried in the books of the new partnership, it follows that a credit entry is required in the goodwill account to bring the balance on that account to nil. The double entry is completed through debit entries in the capital accounts of the new partners, with the value of each entry being calculated by sharing the goodwill in the new profit and loss sharing ratio. In this question the new profit and loss sharing ratio meant that the following debit entries were required:

Luka	2/5	\$16,800
Eden	2/5	\$16,800
Greg	1/5	\$8,400

These entries lead to capital balances as follows:

Luka	\$22,000 (Cr) + \$21,000 (Cr)
	- \$16,800 (Dr) = \$26,200 (Cr)
Eden	\$22,000 (Cr) + \$21,000 (Cr)
	- \$16,800 (Dr) = \$26,200 (Cr)

Greg \$8,400 (Dr) = \$8,400 (Dr)

Thus, Greg must introduce \$34,600 (\$26,200 + \$8,400) to bring his capital balance to a credit of \$26,200.

Option B was selected by candidates who correctly calculated the closing balances on the capital accounts of Luka and Eden, but omitted the debit entry for goodwill in Greg's account. This can often arise when a candidate calculates a value that is included in the options, but fails to realise that their calculation is incomplete.

A few candidates calculated the adjustments on the original partners' accounts correctly, but swapped the debit and credit entries leading to revised balances of \$17,800. Once again, the inclusion of this value in the choices meant that they stopped their calculation at that point.

One way of avoiding this is to ignore (or even cover up) the choices until the calculation has been completed.

Many candidates simply calculated the value of the debit entry required in Greg's account (\$8,400) and used this in conjunction with the starting balance on each of Luka and Eden's accounts to obtain a value of \$30,400.

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EXAMPLE 3

According to IAS 2, *Inventories*, which of the following is an acceptable basis for calculating the value of inventory?

- A Always use the realisable value of each individual item
- **B** Value all items at the most recent purchase price
- **C** Value all items at the earliest purchase price
- **D** Use the average cost of items purchased in the period

To successfully answer this question, candidates needed to have a good knowledge of the key principles used when valuing inventory.

IAS 2 recognises two methods of valuation – first in, first out and weighted average. In the case of weighted average, the two acceptable approaches are continuous weighted average and periodic weighted average. Choice D describes periodic weighted average, and is thus the correct answer.

The inclusion of 'realisable value' in choice A caused a problem for candidates whose knowledge of the principles was not sufficiently detailed. They did not appreciate that there is a difference between 'net realisable value' and 'realisable value'. Moreover, net realisable value should only be used if this is lower than the cost value.

For those candidates who did not read the question carefully, choices B and C caused some problems. In this case, B appeared to describe first in, first out and C appeared to describe last in, first out. Given that last in, first out is specifically prohibited by IAS 2, choice C could be ruled out as incorrect.

However, the fact that these choices suggested that all items would have the same unit value meant that both were incorrect. If the items in inventory had been bought at different dates and at different prices, then only the most recently purchased items would be valued at the most recent purchase price.

CONCLUSION

The report on the June 2012 session noted that same observations have been made over a number of sittings. These observations were that the two main reasons why candidates are not successful are:

- a lack of clarity about the key points of the topic, and
- not reading the question with sufficient care.

These observations remain valid following this session.

PAPER MA1 MANAGEMENT INFORMATION The exam consisted of 50

multiple-choice questions, each worth two marks.

The four questions below, covering different aspects of the syllabus, are examples of questions that candidates found difficult. This report explains, for each sample question, the basis for the correct answer and for each of the incorrect options selected by candidates.

SAMPLE QUESTIONS FOR DISCUSSION EXAMPLE 1

Employee H works a basic 37-hour week and is employed on product manufacture. He is paid at a rate of \$11 per hour for the basic hours with a premium of 30% for any overtime hours. Employee H worked five overtime hours in Week 7 to satisfy sales demand.

What amount, out of the total gross wages for Employee H in Week 7, should be charged as direct labour cost?

Α	\$407.00
В	\$462.00
С	\$478.50
D	\$423.50

This question tested item D2a in the *Study Guide*.

Total hours worked productively by direct workers – ie on product manufacture – are always charged as direct labour cost. The only question regarding the direct labour cost is whether any overtime hours worked are charged at basic rate only or at a higher rate to also include the overtime premium.

If the overtime hours are specifically worked to satisfy the urgent requirement of a particular customer, then the direct labour cost includes the overtime premium as well as the basic rate. Otherwise, the overtime premium is charged as indirect labour cost (production overhead) and spread over all of the output manufactured in a period.

In the situation in this question, the overtime hours are worked to satisfy sales demand generally and, therefore, the overtime premium is charged as an indirect (not direct) labour cost.

The correct answer is Option B (42 hours \times \$11 per hour = \$462.00).

Option C charges the overtime premium as a direct labour cost {[(37 hours × \$11 per hour) + (5 hours ×

 $11 \text{ per hour} \times 1.3) = 478.50$

Option A ignores the cost of the overtime hours completely in the direct

labour cost (37 hours \times \$11 per hour = \$407.00).

Option D includes the overtime premium, instead of the overtime hours at basic rate, in the direct labour cost {[(37 hours × \$11 per hour) + (5 hours × \$11 per hour × 0.3)] = \$423.50}.

EXAMPLE 2

Each finished unit of Product X contains 1.4 litres of Material Y. 10% of material Y used is lost in processing. Sales and production of Product X in a period were 21,000 and 20,200 units respectively.

What was the usage of Material Y in the period?

Α	\$340,000
В	\$308,000
С	\$56,000

D \$24.000

D \$24,00

This question tested item D1c in the *Study Guide*.

The amount of material input that is required in the period is dependent upon how much of the product is produced rather than how much is sold. Also, if each finished unit of the product requires 1.4 litres of material, and there is a 10% loss of material in processing, then the 1.4 litres is 90% of the input of material required.

The correct answer to this question is option B (20,200 units \times 1.4 litres/unit \div 0.9 = 31,422 litres).

Option C was based on the sales, rather than the production quantity (21,000 units \times 1.4 litres/unit \div 0.9 = 32,667 litres). While Option A multiplied the 1.4 litres by a factor of 1.1 – ie added 10% to the amount required per finished unit – rather than divided by 0.9 (20,200 units \times 1.4 litres/unit \times 1.1 = 31,108 litres).

Option D made no allowance for wastage – thus assuming that the 1.4 litres was the required material input per unit rather than the amount required in each unit of output (20,200 units \times 1.4 litres/unit = 28,280 litres.

EXAMPLE 3

What is the double entry, in an interlocking accounting system, for the purchase of raw materials on credit?

	Debit	Credit
	A Raw materials	Trade
	inventory	payables
	B Trade	Raw materials
	payables	inventory
(C Raw materials	Cost ledger
	inventory	control
	D Cost ledger	Raw materials
	control	inventory

This question tested item A1f in the *Study Guide.*

Two decisions were faced by candidates in this question.

The first decision was whether the entry in the raw materials inventory account is a debit or a credit. As the entry in the inventory account is a purchase of materials, the account will be debited (options A and C).

The second decision was whether the other entry is in the trade payables account or in the cost ledger control account. A key issue is the difference between an interlocking accounting system and an integrated accounting system. An interlocking system is an accounting system where separate ledger accounts are kept for cost accounts and for financial accounts. The cost accounts will include the detailed inventory accounts (as opposed to a purchases account in the financial accounts) along with details of sales and expenses, but will exclude financial accounting items such as trade payables and trade receivables. These financial accounting aspects of transactions are posted to a cost ledger control account in order for the cost accounts to balance (options C and D)

The majority of candidates had the entries the right way round but confused interlocking accounts with integrated accounts (option A). Some candidates confused interlocking with integrated and also had the double entry the wrong way round (option B).

EXAMPLE 4

The inventory record for Component C2 for a month shows:

Day	Movement	kg	\$ per kg
1	Balance	86	11.20
12	Receipt	200	11.90
14	Issue	174	XXXX
18	Receipt	200	12.00

The periodic weighted average method is used to price the issue of materials. Each average price is rounded to the nearest \$0.01.

What is the cost of the issue in the month?

- **A** \$2,070.60
- **B** \$2,034.06
- **C** \$2,056.68
- **D** \$2,079.30

This question tested item D1d in the *Study Guide*.

Candidates need to distinguish between the cumulative weighted

average pricing method and the periodic weighted average pricing method. This question clearly demonstrates that there is confusion between the two weighted average methods.

The cumulative weighted average method recalculates the weighted average price after each receipt of inventory. This price is then used for all subsequent issues until there is a further receipt of inventory when the weighted average price is recalculated again. The periodic weighted average method, on the other hand, only calculates a single weighted average price for each period, regardless of how many separate receipts of inventory there have been.

This question required application of the periodic weighted average pricing method. The correct option is C. The periodic weighted average price is calculated by dividing the total value of the receipts plus opening inventory for the period by the corresponding total kg. Thus {[($86kg \times $11.2/kg$) + ($200kg \times $11.9/kg$) + ($200kg \times $12kg$)] ÷ (86 + 200 + 200kg} = \$11.82/kg (to the nearest \$0.01). The cost of the issue is \$2,056.68 (174kg × \$11.82/kg).

A greater proportion of candidates applied cumulative average pricing (option B). The cumulative average price is calculated after the receipt of inventory on Day 12. Thus {[(86kg × \$11.2/kg) + (200kg × \$11.9/kg)] ÷ (86 + 200kg)} = \$11.69/kg (to the nearest \$0.01). The cost of the issue is \$2,034.06 (174kg × \$11.69/kg).

Of the remaining candidates some applied the LIFO method (option A) – ie (174kg × 11.9/kg = 2,070.60) – and others attempted to apply a periodic weighted average but excluded the opening inventory (option D) – ie {[(200kg × 11.9/kg) + (200kg × 12/kg] ÷ (200 + 200kg)} = 11.95/kg. The cost of the issue is 2,079.30(174kg × 11.95/kg).

PAPER MA2 MANAGING COSTS AND FINANCE

The exam paper consisted of 50 multiple-choice questions, each worth two marks.

The four questions below, covering different aspects of the syllabus, are examples of questions that candidates found difficult. This report explains, for each sample question, the basis for the correct answer and for each of the incorrect options selected by candidates.

SAMPLE QUESTIONS FOR DISCUSSION EXAMPLE 1

The fixed production overhead absorption rate for Product X is \$16.00 per machine hour. Each unit of the product requires 1.2 machine hours. Inventory of Product X was 800 units at the beginning of a period and 850 units at the end.

What is the difference in profit in the period if marginal costing is used instead of absorption costing?

- A \$800 higher
- B \$960 higher
- **C** \$800 lower
- **D** \$960 lower

This question tested item C2e in the *Study Guide*.

The difference between absorption and marginal costing is that product costs include fixed production overheads using absorption costing, whereas they are treated as period costs using marginal costing. Thus, if inventory increases in a period, the fixed production overheads included in inventory will increase using absorption costing. The resulting profit for the period will be correspondingly higher compared with using marginal costing – ie the marginal costing profit will be lower.

During the period in this question the units of product in inventory increased by 50 units (850 units in closing inventory – 800 units in opening inventory), and so the marginal costing profit will be lower (options C and D).

The fixed production overhead absorption rate is \$16 per machine hour and each unit requires 1.2 machine hours. The fixed production overheads per unit of product are, therefore, \$19.20 (\$16/machine hour × 1.2 machine hours/unit).

Option D is the correct answer. This is calculated as 500 units × \$19.20/unit = \$960.

Option C incorrectly assumed that the fixed production overheads per unit of product are \$16 (50 units × \$16/unit = \$800).

Option B included the correct unit cost but incorrectly stated the marginal costing profit to be higher.

Option A included both an incorrect unit cost and wrongly stated that the profit would be higher.

EXAMPLE 2

Which of the following performance measures are relevant for both profit centres and investment centres?

FXAMS

- 1 Return on capital employed
- 2 Residual income
- **3** Net profit margin
- 4 Labour efficiency
- A 2 and 3
- B 1 and 4 only
- **C** 1, 2 and 4
- **D** 3 and 4

This question tested item A1d in the *Study Guide*.

Managers of cost centres are responsible for costs only. Performance measurement in cost centres will, therefore, be related to cost management only. Managers of profit centres are responsible for revenues as well as costs. Performance measures in profit centres will, therefore, include measures related to revenue and profit performance as well as costs.

Measures used to assess performance in investment centres will be the same as those used in profit centres with, in addition, measures of the success of capital investment decisions for which investment centre managers are responsible.

Such measures, especially return on capital employed, residual income (which is profit less an interest charge on capital employed) and asset turnover are thus unique to investment centres. They cannot be used in cost centres or profit centres because the managers of those centres do not have responsibility for investment performance.

It follows from the above that options A, B or C cannot be a correct answer to the question because they include performance measures unique to investment centres. However, these three options were selected by the majority of candidates. Option D was the correct answer because net profit margin and labour efficiency are measures that can be used both in profit centres and in investment centres.

EXAMPLE 3

Production overheads are absorbed using a predetermined rate per machine hour. The actual machine hours in a period were less than budget while overhead expenditure was above budget.

- 1 The over absorption will be debited to the income statement
- 2 The over absorption will be credited to the income statement
- **3** The under absorption will be debited to the income statement
- 4 The under absorption will be credited to the income statement

- A 1 only
- **B** 1 and 2
- **C** 2 and 3
- **D** 1 and 3

This question tested item C1h in the *Study Guide*.

The predetermined overhead absorption rate in this question is calculated by dividing the total budgeted overhead costs by the total budgeted machine hours. This rate is then used to absorb overheads during a period according to the actual number of machine hours worked.

Over/under absorption is the difference between the actual overhead expenditure incurred during the period and the amount of overhead absorbed. It follows that if actual overhead expenditure is above budget and the machine hours worked are below budget (the scenario in this question) then the overhead will be under absorbed – ie more spent than absorbed will leave an amount of overhead to be charged (debited) against profit in the income statement.

Option C is, therefore, the correct answer.

More candidates selected option B thinking, incorrectly, that it was an over absorption that would then have led to a credit to the income statement.

Some candidates selected option D thinking, incorrectly, that the under absorption would be credited to the income statement.

Other candidates selected option A thinking, incorrectly, both that it was an over absorption and that it would lead to a debit to the income statement.

EXAMPLE 4

A capital investment project has the following NPV profile over a range of discount rates. The cost of capital is 11%.

Which statement(s) is/are true in relation to the above diagram?

- 1 The IRR is greater than 15%
- **2** Based on DCF analysis, the project is worthwhile
- **3** The NPV is positive when discounted at 16%
- 4 The investment amount is \$40,000
- A 1 and 2
- **B** 2 only
- **C** 3 and 4 only
- **D** 2, 3 and 4

This question tested item D3g in the *Study Guide.*



Taking each of the statements in the question in turn:

STATEMENT 1:

When the NPV of a capital investment project is plotted against a range of discount rates on a chart, the IRR of the project is the point where the NPV curve cuts the horizontal (x) axis – ie it is the point at which the NPV is zero.

Reading from the chart, the IRR is approximately 14% and, therefore, the statement that the IRR is greater than 15% is not true.

STATEMENT 2:

Based on DCF analysis, any project that has a positive NPV when discounted at the cost of capital is worthwhile.

The project in question can be seen to have a positive NPV at 11% (the cost of capital) as the point on the NPV curve, in line with 11%, lies above, rather than below, the horizontal axis of the chart. The statement that the project is worthwhile is, therefore, true.

STATEMENT 3:

The NPV of the project is in fact negative, not positive, when discounted at 16% as the NPV curve at that point is below, rather than above, the horizontal access. The statement is, therefore, not true.

STATEMENT 4:

The NPV curve cuts the vertical (y) axis at a value of \$40,000. This is in fact the undiscounted – ie 0% discount rate – net cash flow of the investment project (investment amount less total net cash inflows). It is a positive value indicating net cash flows greater than the investment amount. It cannot represent the investment amount and whether or nor the investment amount is \$40,000 cannot be established from the diagram. The statement is not true.

It follows from the above that option B (statement 2 only) is the correct answer. This was selected by 32% of candidates.

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YOUR AMBITION REALISED

*The 85% is based on students taking Taught, Revision and Question Day for papers F4-F9 and P1-P7 in June 2012

To book a course or register for our FREE Exam Surgery visit **bpp.com/acca** or call **020 3131 5921** Some candidates selected option A, incorrectly believing that statement 1 was also true. This indicated a lack of understanding about the IRR.

Others selected option D, incorrectly believing that statements 3 and 4 were true, as well as statement 2. This indicates a more widespread misunderstanding of the diagram.

Some candidates selected option C, incorrectly believing that statements 3 and 4 only were true. Both statements are in fact not true. These candidates also failed to recognise that statement 2 is true – ie the project is worthwhile using DCF.

PAPER FAU FOUNDATIONS IN AUDIT

This exam paper comprised two sections. Section A, worth 20 marks, contained 10 multiple-choice questions, each worth two marks, on topical areas from across the syllabus. Section B, worth 80 marks, contained nine compulsory questions, of which two were worth 15 marks, two were worth 10 marks each and the other five were worth six marks each.

A reasonably good proportion of candidates answered Section A to a satisfactory standard and a number answered at least seven of the 10 questions correctly. However, a significant minority of candidates appeared to have great difficulty with these questions and secured relatively few of the 20 marks available. There was a positive correlation between most candidates' marks in Section A and Section B of the paper. Consequently, while some candidates answered to a satisfactory standard in both sections, for others the paper served only to emphasise (at best) an inadequate understanding of the theoretical and practical aspects of auditing across the various areas of the syllabus examined.

Most candidates scored unsatisfactorily on the 80 marks available in Section B than of the 20 marks available in Section A. However, there were some exceptionally high marks achieved in Section B by a significant number of seemingly very well-prepared candidates. Contrary to this, in a higher number of instances, the marks achieved in Section B were very low. For many unsuccessful candidates, when answering Section B questions, a relatively common trait was to provide answers that, in substance, relied on phrases used in the question. As an example, in Question 3 - in the context of sample selection - many answers simply 'explained' that when making

a haphazard selection, the auditor's selection 'was made on a haphazard basis'. Similarly, in Question 4 where there was a requirement to explain the term 'an unmodified audit opinion', a relatively high number of candidates answered along the lines of it being an audit opinion that 'is not modified'. It was clear that a significant proportion of candidates were not properly prepared to sit the exam.

The following deficiencies were again noted as being common among this cohort of candidates:

- Not answering all of the questions. Simply put, if a candidate omits to answer just one of the six-mark questions, then they have given up the chance of obtaining 12% of the required pass mark for the paper (50%). The principle of answering all the required questions is particularly important for all candidates if they wish to increase their chances of passing this paper. Good learning preparation, combined with good time management when sitting the exam, are key to achieving this.
- Not following the requirements of questions – for example, not 'explaining' matters or issues when requested to do so, or by describing irrelevant or incorrect matters or issues.
- Writing answers that are either far too brief and therefore lacking insufficient detail to justify any more than a small fraction of the available marks or, alternatively, writing very long rambling answers containing totally incorrect or irrelevant material – and obtaining none of the marks available.
- Incorrectly asserting that it is the auditor's responsibility to ensure that the financial statements show a 'true and fair view' or to issue a 'true and fair report' (or similar).
- Presenting illegible answers (perhaps by rushing).

In summary, although a fair number of candidates performed satisfactorily in this exam, there were some who should now take the opportunity to review their whole approach to studying for this paper, and there are others who need to work hard to improve their subject knowledge and exam technique.

SECTION A

Most candidates answered this section to a satisfactory standard. However, a significant proportion did not – with some obtaining a very small fraction of the 20 marks available. The questions continue to test candidates' knowledge across the range of topics included in the syllabus and good all-round knowledge of these is required for candidates to ensure a satisfactory mark for the section. Candidates are reminded that the best technique to adopt when answering Section A questions is to work through them methodically in order, leaving any questions about which they are unsure and returning to them after attempting the later questions in the section. Candidates are also reminded that there is always a random pattern to the correct answer letters and frequency.

SECTION B

For a total of 15 marks over three parts, this question tested knowledge about internal control.

In Part (a), for three marks, candidates were required to explain the meaning of the term 'a deficiency in internal control' and, in the main, the quality of answers was inadequate, with only relatively few making the connection with the explanation provided in ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management (and comprehensively covered in recommended texts). The requirement in Part (b), offered 12 marks and tested knowledge on specific (i) authorisation, (ii) segregation of duties and (iii) physical controls, and candidates were asked to identify two policies or procedures that should exist for each in the subject company. A relatively large proportion of candidates listed only one policy or procedure for each and these were often incorrect or not precise enough for the full two marks. Others submitted two policies or procedures but, again, due to incorrect knowledge or the provision of imprecise details, only a proportion of the marks were obtained. It was evident that in (ii) many candidates did not appreciate the difference between 'supervisory control' procedures and procedures that ensure the segregation of duties in a system.

QUESTION 2

There were 15 marks available over four parts, testing aspects of audit risk and the audit risk model.

For Part (a) a number of candidates were able to score 1.5 marks of the two available, by defining audit risk as the risk that the auditor 'expresses an inappropriate opinion on the financial statements' (or similar) – but only a minority of these obtained the extra half mark for clarification of the link with material misstatement. Most candidates scored at least a half mark on this part but, given the fundamental importance of 'audit risk' and the way it drives audit engagements, it was unsatisfactory to note the number of candidates that struggled with the concept.

Part (b) offered two marks for a definition of 'detection risk', and while it was encouraging to see that a relatively high number could provide a sound definition (although some others incorrectly submitted that it was the risk of the auditor's procedures not 'preventing' a misstatement), it was particularly unsatisfactory to note the significant minority of candidates that appeared to be totally confused by the term.

Almost inevitably, Part (c) of the question made reference to the two categories of risk that combine to determine the risk of material misstatement and three marks were available for identifying and explaining the concept of inherent risk, plus a further three marks for identifying and explaining the concept of control risk. In fairness, most candidates identified each category (each worth one mark), but the range of definitions provided for inherent risk and control risk were mixed. Candidates are again reminded that, given the fundamental importance of 'audit risk' generally and the relevance of the audit risk approach to audit engagements, the topic is likely to feature regularly in future Paper FAU exams, so it is imperative to have a very good understanding of the topic.

Part (d) required candidates to explain how the audit risk model should be applied in practice to achieve a prescribed level of audit risk. Relatively few candidates answered to a satisfactory standard with many scoring only one mark or less (of the five marks available). Candidates clearly need to address this issue and ensure that they fully comprehend the application of the audit risk model.

QUESTION 3

Over three parts, this question tested knowledge of specific methods of sample selection. It was answered to a relatively inadequate standard by a very significant number of candidates.

Part (a) offered three marks for an explanation of the random selection method. The important points to include in the answer were the fact that this method treats the subject population as a homogenous mass and that it relies on random number tables or computer generated random numbers to select a sample. A high proportion of candidates presented very brief answers - along the lines of 'it's where the auditor selects items randomly' - for which no marks were awarded as this type of answer does not demonstrate any level of real understanding. In Part (b), for three marks, again many candidates explained haphazard sampling as 'the auditor selecting items haphazardly' (or similar), which proved little in terms of genuine understanding of the term. Answers to Part (c), about systematic sampling, showed some improvement with a number of candidates appreciating the concept of selecting at pre-determined intervals based on population and sample size. Notwithstanding this, a significant number of candidates misunderstood that systematic sampling simply relied on a computer 'system' to select a random sample.

QUESTION 4

For a total of 10 marks over two parts, this question tested knowledge of the auditor's report. The generally low level of marks awarded indicates that the majority of candidates have inadequate knowledge in this area.

Of all the requirements included in the paper, the requirement in Part (a) was the most unsatisfactorily answered. For one mark each, candidates were required to (i) identify to whom the auditor's report on the financial statements of a limited liability company should be addressed, and (ii) by whom it should be signed. There were a number of candidates who could not answer these questions correctly. In Part (b), while some candidates were able to obtain at least one of the two marks available for explaining the meaning of an unmodified audit report, others submitted answers for which no marks were awarded due to being incorrect or too brief. Part (c) offered six marks for identifying and explaining any two of the four forms of modified audit opinions. The standard of the answers to this requirement was mixed.

QUESTION 5

For a total of six marks, the question tested knowledge of an auditor's liability to third parties.

Candidates were required to identify and explain the three conditions (each for two marks) that must have existed for a third party to be successful in a negligence claim against an auditor. They are (i) a duty of care – enforceable by law, (ii) negligence – by the auditor in the performance of that duty, and (iii) monetary loss by the third party as a direct consequence of the auditor's negligence. In general, candidates' answers fell into two distinct categories – those that clearly displayed an adequate level of knowledge on the topic and those that displayed an inadequate level of knowledge. On the whole, the general standard of answers was unsatisfactory indicating that candidates had paid little attention to this area of the syllabus.

QUESTION 6

For a total of six marks, the question tested knowledge of the audit of irrecoverable trade receivables, with a requirement to state just two procedures used to audit irrecoverable trade receivables (three marks for each).

The question was answered to an unsatisfactory standard by the majority of candidates, with a large number displaying a lack of understanding of the most basic of substantive procedures, as well as the objective of specified tests. A high volume of answers submitted made reference to analytical procedures without explaining how they could be applied to this audit situation. Many answers also comprised very brief comments such as 'check for existence and ownership' (how?) and 'check after - date receipts' (why?) or 'check documents' (which?, why?). Candidates should appreciate that such comments need explanation.

QUESTION 7

For a total of six marks, the question tested knowledge of the auditor's responsibility with regard to the disclosure of confidential information to a third party.

Answers to the requirement, to state three circumstances in which auditors may be required to disclose information to a third party or when such disclosures may be appropriate, were mixed. The general standard of answers submitted was unsatisfactory, with relatively few candidates providing three sound examples of relevant circumstances (two marks available for each), and a large core providing unrealistic examples.

QUESTION 8

For a total of six marks, the question tested knowledge in the area of audit working papers.

The requirement was state three advantages of using automated working papers. A majority of candidates scored at least two marks by stating at least one advantage. A significant minority of candidates confused the term 'automated' with 'standardised' (in the context of working papers).

QUESTION 9

For a total of six marks over three parts, the question tested knowledge of external confirmations.

In Part (a), two marks were available for explaining the term 'external confirmation'. Most candidates correctly stated that it was confirmation from a 'third party' and obtained one mark for this, but only a minority went on to explain that it should be received directly by the auditor in written form. Again, in Part (b) a number of candidates scored at least one of the two marks available for explaining why external confirmations are deemed to be a reliable form of audit evidence. However, in Part (c), a number of candidates could not obtain the full marks available for providing two examples of external confirmations. This was because a relatively high proportion of candidates provided incorrect examples in the form of bank statements and supplier statements.

PAPER FFM FOUNDATIONS IN FINANCIAL MANAGEMENT

The exam consisted of 10 objective testing questions in Section A, worth 20 marks overall, and six questions in Section B, one worth 20 marks, three 10-mark questions and two 15-mark questions. All questions were compulsory.

The majority of candidates attempted all of the questions, showing little evidence of time pressure. Where questions were not answered, this appeared to be through lack of knowledge. As I commented in my last examiner report, it is imperative that candidates study the entire syllabus, and do not try and question spot.

There were instances where the requirement was read incorrectly by candidates. It is imperative that candidates read the requirement carefully and answer the question set.

Presentation varied from script to script but, generally, layout and legibility was acceptable. Workings were generally clearly laid out, which is imperative if method marks are going to be awarded to answers where the final answer is incorrect.

SECTION A

I reiterate here what I have said in past examiner reports – that it is imperative that candidates practise the MCQ style questions, as a good mark here provides a solid base from which to attempt Section B.

SECTION B QUESTION 1

Candidates scored well on Questions 1, 3 and 4. The questions candidates found most challenging were Questions 2, 5 and 6

Question 1 required candidates to calculate the working capital requirement for Frame Co, and then tested candidates' knowledge of the just-in-time (JIT) inventory management system. This was the best answered question in Section B.

Part (a) has been examined before and candidates showed that they had studied this area of the syllabus. There was a slight twist in that candidates had to calculate the variable cost per unit but, on the whole, candidates coped well with this, or made an assumption, and carried on with the rest of the calculation. Common errors that were made included:

- Not including lenses in the raw material calculation.
- Correctly calculating the variable overheads as \$12.50 per unit, multiplying by the expected output of 25,000, but then incorrectly adding back in the fixed overheads of \$50,000.

Clear presentation was key to gaining method marks in this question and, in the vast majority of scripts, workings were clear and referenced into the main calculation.

Part (b) was a test of candidates' knowledge of (JIT). Where most candidates could explain the JIT system, fewer gained marks on the second part of the requirement; the conditions required for a JIT approach to work. Many candidates wrote about the advantages and disadvantages of JIT, or the possible effects on the business using JIT, and so did not answer the question set. As I have said previously, it is important to read the requirement and answer the question that is set.

QUESTION 2

This 10-mark question covered investment appraisal and financing for SMEs.

Part (a) required candidates to calculate some simple cash flows for a project and then to calculate the internal rate of return. Many candidates calculated the cash flows correctly, but the internal rate of return calculation was not attempted very well at all. Candidates either did not attempt it, calculated the accounting rate of return, or having discounted their cash flows at two different discount rates, got the internal rate of return formula incorrect. Only a small minority of candidates had a good attempt at the proper calculation.

Part (b) asked candidates to define the term 'business angel' and state one disadvantage of this type of financing. The majority of candidates could define the term, but fewer could state the disadvantage, showing a lack of knowledge here.

QUESTION 3

This 10-mark question was discursive, looking at the functions of a treasury department. It was purely a test of knowledge and, if candidates knew this part of the syllabus, it should have represented 10 easy marks.

A common problem with this question was that candidates misread the requirement and wrote about the advantages of a centralised treasury function. Those that answered the question set often gained half, or just over half, marks for discussing a couple of valid functions such as foreign exchange management, and liquidity management. However, few showed enough breadth or depth of knowledge to score really highly on a question that should have provided easy marks.

QUESTION 4

Question 4 was, again, a 10-mark discursive question – this time looking at receivables.

Part (a) asked for definitions. A substantial minority confused invoice discounting with early settlement discount, but answers to the factoring part of the requirement were much better. Some candidates confused with and without recourse factoring but, on the whole, they had a good attempt at the question.

Part (b) looked at terms required in a contract for a cash customer who is going to be allowed credit for the first time. A substantial number of students latched on to the word 'contract' in the requirement and wrote about the elements of a contract, form, offer, acceptance, etc. This gained no marks, and again shows the importance of reading the requirement carefully.

QUESTION 5

This was the least well-answered question on the paper. The requirement asked candidates to prepare a schedule



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of relevant costs for a project. Relevant costing is commonly examined as part of a larger investment appraisal question, where candidates would have to pick out the relevant costs from a scenario before using them – for example, to calculate the net present value. Being asked to complete the relevant cost schedule seemed to throw candidates and they made mistakes such as including depreciation, basic errors that candidates rarely make in full net present value calculations.

The requirement also asked for an explanation of the treatment of each item in the question, including those that were considered irrelevant. Irrelevant costs were often just omitted from answers, and no explanation given as to why. This again shows the importance of reading the requirement carefully.

The approach candidates should have taken was to work through the scenario item by item, calculate the relevant cost for each item (showing workings and stating why any costs were irrelevant), put the relevant cost into a schedule, and then total up the relevant costs, as the requirement asked candidates to state the minimum price – ie the total.

The common errors were:

- Including fixed overheads, cost of preparation and profit margin as relevant costs.
- Incorrectly calculating the relevant cost of the fabric and wood.
- Only including labour at \$5 per hour, being the contribution lost, and not including the labour cost of \$10 per hour.
- Including two weekly hiring fees totalling \$400 in the relevant cost, and ignoring the minimum hiring fee of \$450.

QUESTION 6

This question covered capital gearing and interest cover, looking mainly at the use of the ratios when raising finance, but also how the gearing ratio can be used to help set the credit limit for a new customer. Performance on this question was mixed.

Most candidates could explain what capital gearing was in Part (a) and perform the gearing calculation in Part (c). Quite a high percentage of candidates could not apply the theory of gearing to explain why a finance provider or a credit controller might find the gearing information useful (Part (b)). In Part (bii), candidates picked up on the words 'information to set a credit limit' and based their answers around what a credit controller would do in general terms before granting credit – ie obtain credit references, etc, rather than answering the question set.

Part (d) provided mixed answers. Some candidates knew what interest cover was and provided comprehensive answers. A sizeable minority thought that interest cover was the profit margin to a finance provider on a loan.

CONCLUSION

This was a paper that a candidate who had studied the whole syllabus – and who had carefully read the requirements – could have passed. Those who did not pass showed a lack of knowledge, or did not read the requirement carefully enough.

PAPER FTX FOUNDATIONS IN TAXATION (UK)

This exam consisted of 10 multiple-choice questions in Section A and nine questions in Section B. There were no optional questions – all questions were compulsory and all of them should have been attempted.

This report is usually based on Section B only. However, given the results of Section A, a comment on this is merited.

Section A was very poorly answered. This section tests the understanding of a candidate's technical knowledge. Questions range from basic facts, such as tax payment dates, to the calculation of benefits and rules of the use of losses. The answers are either right or wrong – there are no part marks and, therefore, candidates must be aware of basic rules to score any marks. Several candidates were unsuccessful at this sitting because they scored poorly on this section. Future candidates are warned that they must be properly prepared for this section and revise sample questions.

Section B produced answers that were a mix of very good and extremely poor. Previous reports have mentioned that the new syllabus and new exam format allows for more of the syllabus to be tested and have advised candidates that they need to study the entire syllabus and not just the basic principles that are examined at every sitting.

Several questions were not attempted by candidates indicating limited study of the syllabus. This approach makes it very difficult to pass the exam. Many areas, which candidates previously gambled on as being fringe topics and thus not often examined, will now be examined more frequently and, therefore, the entire syllabus should be considered as possibly being examined at every sitting.

SPECIFIC COMMENTS

This was a 15-mark question requiring the calculation of income tax. It covered the basic principles of different types of income, the personal allowance and pension contributions.

In general, this question was well attempted with several candidates scoring full marks. However, there are still a few candidates making the same types of mistakes as those mentioned in previous reports.

The most common mistakes in this question were:

- Including both bonuses in the calculation – employment income is normally taxed on a receipts basis and, therefore, only the bonus received during the tax year 2011–12 should have been included. The bonus received in May 2012 would be taxed in the tax year 2012–13.
- Including the personal allowance. Where adjusted net income is above £114,950 no personal allowance is due – candidates needed to state this to score the full mark.
- Pension contributions. Once again many candidates were not aware of how to use the contributions. Contributions by an employer are tax free benefits. Net contributions by an employee to a personal pension plan must be grossed up by 100/80 and then used to extend both the basic and upper bands.

A few candidates taxed savings income at 40% and dividend income at 32.5% despite correctly extending the bands. Once income exceeds the higher threshold, income is taxed at 50% unless it is dividend income, when it is taxed at 42.5%.

Finally, candidates are reminded that if any item given in the question is left out of the tax calculation or allowances are not given (or restricted), then comments to this effect must be made in the answer to score full marks.

QUESTION 2

This 15-mark question required candidates to calculate the corporation tax payable by a UK company. It covered the common areas of profit adjustment, business property income and non-trade income.

This question was well answered but a few made some basic errors. The common mistakes were:

- Not adjusting the trading profit correctly. Items that have been incorrectly included as income – ie the profit on the sale of the car – should be deducted and items that have been included as expenses and should not have been – ie the depreciation and legal fees – should be added. Some candidates did the reverse actions
- Not calculating the business property income on an accruals basis. Only rent that should have been received in the year ended 31 March 2012 should have been included.
- Not netting the non-trade income received and paid together – this problem has been noted in several previous reports.
- Using the incorrect rate of tax. Some candidates surprisingly used the marginal rate of tax despite correctly showing the upper threshold as being exceeded by the augmented profit.
- Incorrectly stating the payment date. Very few candidates knew that if a company did not pay tax at the full rate in the previous period, then quarterly payments are not normally due in the current period. Those who did know this incorrectly stated the payment date as 31 January. The due date is nine months and one day after the period end – ie 1 January 2013.

QUESTION 3

This was a 10-mark question requiring candidates to calculate the maximum capital allowances available to a company for its nine-month period ending on 31 March 2012.

Candidates had to deal with purchases that were either classed as special rate items or main pool items and those that qualified for the annual investment allowance (AIA).

In general, this question was very well answered. The common mistakes were:

- Restricting allowances for private use. If an item is used privately by an employee, then the allowance is not restricted (the employee will have a taxable benefit). This restriction applies to sole traders only.

Asset disposal. When an asset is sold the lower of the original cost or the sale proceeds is deducted from the relevant pool. Several candidates calculated a 'loss' on the sale and gave a balancing charge for this amount.

On the positive side most candidates knew to restrict writing down allowance to 9/12ths.

QUESTION 4

This was a 10-mark question requiring the calculation of the chargeable capital gain on a disposal of shares by a UK resident individual.

This question was poorly answered, with very few candidates knowing the identification rules for an individual. Many either tried to use the rules that apply to companies and others simply added all the purchases together and calculated one gain.

When an individual sells shares, then purchases must be identified and disposed of in the following order: same day

- next 30 days
- 1985 pool.
- 1000 pool.

Disposal proceeds are prorated to each of the above purchases, and separate gains for each are calculated before being added together to give a final total.

Candidates are reminded that they must read the question carefully and answer what is required – in this case the chargeable gain was required, not the taxable gain – ie after the annual exempt amount, and not the capital gains tax payable.

QUESTION 5

This was a six-mark question on furnished holiday lettings (FHL) in two parts – the first asking for the three conditions based on rental periods that must be met for a letting to qualify as a FHL, and the second part asking for the tax advantages.

This was either not attempted or very poorly answered. Very few candidates knew anything about FHL and, consequently, few marks were awarded. Guess work very rarely pays off – statements such as 'the building must have nice furniture' or 'must be in a sunny location' not only have no tax connection, but do not relate to rental periods as required by the question.

The conditions that must be met are: the property must be available for letting for at least 140 days a year

- the property must actually be let for at least 70 days a year
- the property must not normally be occupied for long-term occupation.

Marks were still awarded if these periods were quoted as weeks or months, which is generous as they should be quoted in days.

The advantages are:

- income counts as relevant income for pension contributions
- capital allowances are available (instead of wear and tear allowance)
- capital gains reliefs are available on the disposal of the property.

Some candidates stated that any loss can be used as if it was a trade loss – this rule no longer applies.

QUESTION 6

This was a six-mark question on sharing partnership profits. This was answered reasonably well by the majority of candidates.

The main problem in this question was the retirement of a partner part way through an accounting period. This requires the accounting period to be split into the periods before and after the retirement and the calculation of separate apportionment of profits for each of the two periods. Most candidates were able to do this with the only common mistake being the allocation of the full amount of the salaries for the nine months prior to retirement. These should have been limited to nine months only. Once the salaries have been allocated the remainder of the nine-month profit is then apportioned in accordance with the question ie 40:40:20. Some candidates did not deduct the salaries and apportioned the full nine-month profit.

Finally, several candidates lost a simple half mark by not adding the two separate periods together to give final totals for each partner.

QUESTION 7

This was a six-mark question that required candidates to identify exempt and non-exempt periods for principal private residence (PPR) relief.

This was either extremely poorly answered or not attempted. The biggest issue was the meaning of 'exempt' and 'non-exempt'. If the question asks for an exempt period for PPR, it is asking for a period that is covered by PPR and is therefore not subject to tax, whereas the reverse is true for a non-exempt

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To search for an ALP-st visit www.accaglobal.com/tuition and click the ALP box before you search period where the period is not exempted from tax. For instance, Kasper lived in the house from 1 October 2000 until 30 September 2001 – this period is exempt (ie not subject to tax) because of owner occupation. Many stated this as non-exempt.

The final four years when Kasper is living with his mother is not totally exempt. The last three years of ownership of a PPR is always exempt, but the other year cannot be covered by 'three years for any reason' because, in order to qualify under this rule, the owner must reoccupy the property after the period of absence. Kasper did not do so in this question.

QUESTION 8

This was a two-part question asking for a comparison of the amount of value added tax (VAT) due from an individual when she had either joined the flat rate scheme or not.

The first part was well answered; most candidates were able to correctly deduct the input tax paid from the output tax collected to give the amount payable to HM Revenue & Customs. A few incorrectly used 20% despite the question clearly stating that the figures were inclusive of VAT.

The second part of the question, involving the flat rate scheme, was not well answered at all. Most candidates appeared to have not heard of this scheme. The scheme is available to small businesses and is aimed at saving administration. It requires the total (not just the taxable) VAT inclusive sales to be multiplied by the flat rate percentage relevant to the trade - this was given as 9%. The technical point here is that traders are allowed a one percent deduction in the percentage for the first year; therefore, 8% should have been used. No account is taken of purchases. Therefore, the calculation for Part (b) should simply have been £90,000 x 8% $= \pounds 7,200.$

QUESTION 9

The final question was a six-mark question on tax payment dates. This again was either omitted or very poorly answered.

For a sole trader the due dates of payment for income tax and Class 4 National Insurance contributions (NIC) are the same. They are based on the previous year's totals and the amounts payable are due on three dates: 31 January in the relevant tax year, the 31 July and 31 January following the tax year. The total for the tax year 2010–11 was $\pounds 15,000$ – therefore, $\pounds 7,500$ (50%) is payable on 31 January 2012 and 31 July 2012. The final amount for the tax year 2011–12 was $\pounds 17,300$; therefore the balancing figure after the two payments of $\pounds 7,500$ is $\pounds 2,300$ and is due on 31 January 2013.

Many candidates were unaware of the correct dates, many included class 2 contributions and several candidates took the figures in the question and calculated their own NIC figures based on the annual thresholds. It was clear that these candidates were not reading the question properly.

CONCLUSION

This performance was extremely disappointing. Many candidates were simply not prepared sufficiently. It is disappointing that some candidates are not successful simply because they have not attempted, in some cases, half of the questions. This does not appear to be through lack of time but almost certainly due to lack of knowledge. The new format of the exam allows more parts of the syllabus to be tested, and if candidates continue to restrict their studies to the common areas of personal income tax calculations and corporation tax calculations only, then their chances of success are very limited.

Finally, candidates must remember to practise multiple-choice questions as poor performance in this section was the downfall of many candidates.

PAPER F1/FAB ACCOUNTANT IN BUSINESS

The paper was made up of 50 objective test questions, each worth two marks. Each question presented four choices, of which one was correct. Candidates were required to answer all of the questions on the paper in two hours. The questions were evenly spread across the syllabus, with either eight or nine questions from each of the six syllabus areas.

Candidates performed strongly on most questions relating to management theories, and there were high pass rates for questions on McGregor's theory X and Y, Adair's functional leadership model, communications models, Mintzberg's theory and Hofstede's theory on culture. This was impressive, as candidates have to remember many facts in relation to a considerable number of theories, and it would not be possible to answer any of these questions without formal study.

Questions on economics, marketing and ethics caused few difficulties. The

pass rates for questions relating to accounting subjects were satisfactory, and candidates seemed well prepared in dealing with questions on budgetary control, fraud, money laundering and audit.

The subjects that posed greatest difficulty were diversity (in the context of employment practices), the types of questions that can be used in interview situations, corporate governance, sustainability, international accounting standards, Kolb's learning theory and Porter's five forces model. A question that asked candidates to identify a type of report that would help the organisation assess the effectiveness of an increase in expenditure on after-sales service caused considerable problems, and this is discussed in greater detail later in this report.

The paper included 15 scenario-based questions, which would have required more reading time than shorter questions and probably greater deliberation. However, only four of these questions had lower than average pass rates.

There was no evidence to suggest that any of the six syllabus areas present greater difficulty than others, though questions drawn from syllabus areas A (organisations), C (accounting) and E (personal effectiveness) had higher average pass rates than those relating to syllabus areas B, D, and F.

SAMPLE QUESTIONS FOR DISCUSSION QUESTION 2

Question 2 required knowledge of policies in relation to diversity and many candidates could not identify the correct answer.

Which of the following actions would be permissible for an organisation, assuming it has adopted a diversity policy?

- A Allowing only male staff to take large amounts of cash to the bank
- **B** Advertising for staff over 60 years of age to work in a residential care home
- **C** Preventing female armed service personnel from participating in hazardous missions
- **D** Recruiting male actors only to play specific roles in a production of a play

The correct answer is D

Gender is an essential determinant of many parts that are played in theatrical productions. This is an example of a 'genuine occupational qualification', which is one of the

24 EXAMS

generally accepted criteria under which it is permissible to advertise specifically for males or females.

Option B is clearly inappropriate, as the age of the potential recruit is irrelevant to carrying out the job. Physical strength could be a criterion, but it cannot be assumed that all older people are physically weaker than younger people.

Implicit in option A may be the suggestion that male staff may be more capable of resisting attack or threat. Similar logic could be applied to option C, given the fact that most operational personnel in the armed forces are males. These generalisations are based on physique and should be avoided. Organisations usually have a policy that requires members of staff not to resist if threatened, and this should be equally applicable to both men and women. Likewise, those responsible for hazardous missions in the armed forces are likely to consider suitability on factors other than gender.

A disappointing number of candidates selected the correct answer. The most popular distractor was option B, which was selected by over 40% of candidates.

QUESTION 43

Question 43 asked candidates to identify a report that would be most useful in enabling the organisation to assess the effectiveness of an increase in expenditure on after-sales service. It tested the candidate's understanding of how accounting information contributes to organisational effectiveness.

Which of the following reports prepared by the finance department would enable the organisation to assess the effectiveness of an increase in expenditure on after-sales service?

- **A** Costs of defects reworked or written off due to failures in quality control
- **B** Revenues from cross-selling activities focused on existing customers
- **C** Costs of servicing, repairing and running vehicles driven by customer-facing engineers
- **D** Revenues from sales of imperfect inventory and returned goods

The correct answer is B.

After-sales service activities focus on delivering added value to existing customers. An increase in expenditure on after-sales service should increase customer satisfaction and reduce complaints. It should also reinforce marketing efforts by conveying a positive image of the organisation as being customer orientated.

The majority of candidates chose option C. A report on the costs of servicing, repairing and running vehicles driven by customer-facing engineers will help the organisation to increase efficiency by identifying areas in which cost containment or reduction may be possible, but has little to do with the effectiveness of the service delivered to customers.

A report on the costs of defects that have been reworked or written off is more concerned with operational efficiency than the effectiveness of after-sales service. Likewise, a report on revenues from sales of defective inventory or returned goods may indicate the effectiveness of those who sell goods, and perhaps marketing generally, rather than those responsible for after-sales service.

QUESTION 46

Question 46 tested the candidates' knowledge of Michael Porter's five forces model.

LJP Company operates train and bus services throughout its home country, as well as some overseas services. LJP Company dominates the market, but has one major competitor.

In the context of Porter's five forces model, which of the following is an example of the threat of substitutes to LJP Company?

- A A decision by GVS Company, an airline, to diversify into land transport systems, with bus and train services targeted at business users
- **B** A large increase in the costs of inventory for the bus division, imposed by a company that manufactured all of LJP Company's fleet of buses
- **C** The launch of new, high speed train services on all major domestic and overseas routes by JVM Company, LJP's main competitor
- **D** The launch of a free, user-friendly and easily downloadable video conferencing package by ITX Company, a multinational software producer

The correct answer is D.

According to Michael Porter, the competitive environment is shaped by five forces: competitive rivalry, the bargaining power of customers, the bargaining power of suppliers, barriers to entry and substitute products. The key to understanding the aspects of the theory tested by this question is that substitute products are described by Porter as goods or services provided by another industry that satisfy the same underlying customer needs. Therefore, the decision by GVS Company to diversify into land transport, and the launch of new, high speed train services by JVM Company, are not a substitutes as they are offered by companies that provide passenger transport services. As they operate in the same industry as LJP Company, they are not offering substitutes.

As many transport companies have discovered in recent times, the emergence of low cost video conferencing facilities has provided an alternative to travelling long distances to attend physical, face-to-face meetings. The underlying need is for users to communicate with one another, and the video conference provides a different way of achieving the same objective.

Most candidates knew that the increase in the costs of inventory described in option B was not an example of the threat of substitutes.

Surprisingly, few candidates selected the correct answer, and this question had the lowest pass rate out of the 50 questions on the paper.

CONCLUSION

It would be unrealistic to expect even the best prepared candidates to have a comprehensive knowledge of every subject area on this paper. The syllabus is both diverse and broad. However, the paper is intended to introduce business concepts, and candidates are not expected to explore the subjects they encounter in great depth. As demonstrated by the ACCA schematic diagram in the syllabus document, papers that are positioned at a higher level in the professional qualification expect candidates to build on the foundations they create by studying Paper F1/FAB, Accountant in Business. The best approach to this paper, therefore, is for candidates to ensure that they have some knowledge of as many topics contained in the learning objectives as possible.

Empirical evidence suggests that most candidates are not time pressured in this exam. However, some candidates do not answer all of the questions on the paper. This can be a wasted opportunity, especially for those who achieve very marginal fails. Even if a candidate does not know the correct answer, it is often possible to arrive at a choice between two or three alternatives by a process of elimination, and there is nothing lost by relying on instinct.

Some of the more demanding theories can be better understood by considering them in a practical context. Recommended study materials include practical examples to help students see how the theories are applied, and reading through these, even briefly, can make theories less obscure or esoteric.

Unlike written papers, in which candidates can use alternative ways of expressing their thoughts, the objective test nature of this paper requires candidates to understand some of the jargon used to explain concepts. This jargon does not necessarily have to be technical language to be misleading. An example of this is the word 'substitute', which created difficulty for some candidates in Question 46 as described above. This word is used by Porter in a completely different way to micro-economists writing about substitute and complementary goods in the context of supply and demand.

Another example, not relevant to questions in this paper but included in the syllabus, is 'investment'. A treasurer working in the finance department would regard the purchase of equities and bonds as investment, while Keynesian macro-economic theory defines investment as expenditure on capital equipment.

Being able to define business terms in the context in which they are used can greatly enhance understanding.

PAPER F2/FMA MANAGEMENT ACCOUNTING

The two-hour paper contained 50 multiple-choice questions – each worth two 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, Paper FMA candidates performed worse than their Paper F2 counterparts.

The following questions taken from the December 2012 exam are ones where the performance of candidates was weak. Each of these questions carried two 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	Output	Overhead	Price	A \$101,000
(units)		cost (\$)	index	B \$107,000
2 years ago	1,000	3,700	121	C \$109,000
current year	3,000	13,000	155	D \$115,000

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

Α	\$3.	22
В	\$4.	13
С	\$4.	65

D \$5.06

The question relates to *Study Guide* references A3h and C2n.

The correct answer is B. This is calculated by first adjusting the overhead cost from two 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 units - 1,000 units) = \$4.13).

The most popular choice was option C, which was selected by the 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 option 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?

The question relates to *Study Guide* reference D3a.

The correct answer is C, but was chosen by only 21% 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.

¢

	-P
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	2,000 adverse
Actual profit	108,000

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 three options, suggesting a large amount of guessing by candidates. Option D, \$115,000, represents the correct calculation of budgeted profit - ie the standard profit figure for budgeted volume. This was not the question asked. Option B represents the answer obtained if candidates added back favourable variances and subtracted adverse variances. Finally, option 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	Distance covered
	(kg)	(km)
Х	500	200
Y	<u>180</u>	1,200
	<u>680</u>	1,400

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 kg/km of sand delivered is the cost of carrying 1kg of sand for 1km. Kg/km can be calculated by multiplying the weight of goods delivered to each customer by the distance covered (500kg \times 200km + 180 kg \times 1,200km = 316,000kg/km). If truck costs are divided by this figure a cost of \$0.010 is obtained

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

Inevitably, examiner 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 exam 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 exam.

- attempt all questions in the exam (there are no negative marks for incorrect answers)
- try to attempt the 'easy' exam questions first
- not to spend too much time on apparently 'difficult' questions
- read previous examiner's reports
- read Student Accountant.

PAPER F3/FFA FINANCIAL ACCOUNTING

Candidates continue to perform well in those syllabus areas that are brought forward from Papers FA1 and FA2 and built on at this level. The questions with the highest pass rates on this paper included:

- Books of prime entry
- Processing of ledger accounts
- Correction journals
- Inventory valuation
- Statements of cash flows

However, review of candidates' performance in December 2012 continues to show that there is little improvement from the previous two sittings on questions testing preparation of simple consolidated financial statements.

Questions with the lowest pass rates included:

- ates included:
- calculation of consolidated income statement extracts
- identification of associates and describing the principle of equity accounting
- accounting effects of a revaluation of a non-current asset.

The following examples were three of the questions with the lowest pass rates on the paper. The aim of reviewing these questions is to give future candidates an indication of the types of questions asked and guidance on dealing with exam questions, as well as a technical debrief on the topics covered by the specific questions selected.

SAMPLE QUESTIONS FOR DISCUSSION EXAMPLE 1

The following information is available for the year ended 31 October 2012:

	5
Property	102,000
Cost as at	
1 November 2011	(20,400)
Accumulated depreciation	
as at 1 November 2011	81,600

On 1 November 2011, the company revalued the property to \$150,000.

The company's policy is to charge depreciation on a straight-line basis over 50 years. On revaluation there was no change to the overall useful economic life. It has also chosen not to make an annual transfer of the excess depreciation on revaluation between the revaluation reserve and retained earnings.

What should be the balance on the revaluation reserve and the depreciation charge as shown in the financial statements for the year ended 31 October 2012?

	Depreciation charge	Revaluation reserve
	\$	\$
Α	3,750	68,400
В	3,750	48,000
С	3,000	68,400
D	3,000	48,000

The correct answer is A. The most popular incorrect answer was C.

The volume of data given in this question can appear overwhelming, but with the good exam technique of reading the question stem first, one part of this question can be answered quickly and efficiently.

From the question stem, the revaluation reserve balance as at 31 October 2012 is being asked for. When revaluing an asset, it is the carrying value of the asset that is revalued, rather than the cost, and as the question states there is no annual transfer of the excess depreciation, the balance on the revaluation reserve can be found as:

\$150,000 - \$81,600 = \$68,400

It is good to see that candidates had spotted this, as the most popular incorrect answer option of C also uses \$68,400.

REVIEW OF CANDIDATES' PERFORMANCE IN DECEMBER 2012 CONTINUES TO SHOW THAT THERE IS LITTLE IMPROVEMENT FROM THE PREVIOUS TWO SITTINGS ON QUESTIONS TESTING PREPARATION OF SIMPLE CONSOLIDATED FINANCIAL STATEMENTS The tricky bit of this question, which is commonly tested at this level, is what the new depreciation charge will be. As the revaluation takes place on 1 November 2011, a whole year's depreciation is calculated on the revalued amount. The new charge will take the revalued amount of \$150,000 and depreciate the asset over its remaining useful economic life.

The question does not tell us how long we have had the asset for but, by looking at the accumulated depreciation brought forward, we can tell how old the original asset is:

Original depreciation charge: 102,000/50 years = 2,040 per annum and as 20,400 is accumulated depreciation brought forward, then the asset must have already been held for 10 years. Therefore, the remaining useful economic life is 50 years – 10 years = 40 years

The new depreciation charge should be calculated as: \$150,000/40 years = \$3,750.

The incorrect answer option of C calculates the new depreciation charge as 150,000/50 years = 3,000.

EXAMPLE 2

According to IAS 28, *Investments in Associates*, which, if any, of the following statements are correct?

- **1** Equity accounting will always be used when an investing company holds between 20%–50% of the equity shares in another company.
- 2 Dividends received from an investment in associate will be presented as investment income in the consolidated accounts.

	Statement 1	Statement 2
Α	Correct	Correct
В	Correct	Incorrect
С	Incorrect	Correct
D	Incorrect	Incorrect

The correct answer is D. The most popular incorrect answer was C.

Taking each of the statements in turn:

 The key word to pick out of the first sentence is *always*. This is incorrect. First, if an investing company holds 30% in another company and has no other investments, consolidated accounts would not be produced and, therefore, equity accounting would not be used. Second, despite an investing

IN THIS EXAM, SOME OF THE WORST ANSWERED QUESTIONS CONTINUE TO INVOLVE CORE SYLLABUS AREAS, INCLUDING CONSOLIDATION MCQS

company having a 20% holding in another company, significant influence may not exist – ie another company may hold the remaining 80% of the shares and, hence, equity accounting would not be used in the investing company books.

Statement 1 is incorrect

2 In the consolidated accounts, the basic principle of equity accounting is that the group's share of the associate's profit after tax is included, not the dividend income which would be shown in the investing company's own income statement.

Statement 2 is incorrect

EXAMPLE 3

Tulip Co acquired 70% of the voting share capital of Daffodil Co on 1 March 2012.

The following extracts are from the individual income statements of the two companies for the year ended 31 August 2012.

	Tulip Co \$	Daffodil Co \$
Revenue	61,000	23,000
Cost of sales	(42,700)	(13,800)
Gross Profit	18,300	9,200

What should be the consolidated gross profit for the year ended 31 August 2012?

Α	\$21,520
В	\$22,900
С	\$27,500
D	\$24,740

The correct answer is **B**. A significant number of candidates selected the incorrect answers of C and D. These include common errors, which are discussed below.

When answering questions on the preparation of consolidated financial statements, there are two important facts to establish quickly:

- **1** What is the size of the holding acquired?
- 2 What is the date of acquisition?

First, it is identified from the first sentence in the scenario that control has been established – ie Tulip Co had acquired a 70% holding. This means that Daffodil Co will be consolidated as a subsidiary, on a 100% line-byline basis to reflect control. Answer option D is incorrect as it consolidates Tulip Co's gross profit with only 70% of Daffodil Co's gross profit. Answer option C, which adds all of Tulip Co's consolidated gross profit and 100% of Daffodils Co's gross profit, would also be incorrect, as you must consider the second issue.

In this question, as important as the size of the holding acquired, is the date on which it is acquired. The 70% holding was acquired on 1 March 2012, which means that, during the year ended 31 August 2012, Daffodil Co had only been a subsidiary for six months of the year. Only post acquisition results of the subsidiary should be consolidated.

This means the consolidated gross profit would be reported as:

Tulip Co	\$18,300
Daffodil Co (\$9,200 x 6/12)	\$4,600
Consolidated gross profit	\$22,900

The correct answer is B.

It is interesting to note that the two most popular incorrect answer options of C and D did not take into account the date of acquisition and shows that candidates had, therefore, missed the six months mid-year acquisition of Daffodil Co.

CONCLUSION

In this exam, some of the worst answered questions continue to involve core syllabus areas, including consolidation MCQs. This suggests that more work is still needed. Careful reading of the question stem, all the answer options and applying a methodical approach should help candidates improve their attempts.

In preparing for this exam, it is essential that candidates do not try and rote learn syllabus/subject areas and that they practise questions that will help them understand the topics and enable them to apply their knowledge to any question put to them.

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UPDATES TO THE ACCA QUALIFICATION IN 2013

GARETH OWEN, ACCA QUALIFICATIONS MANAGER, EXPLAINS THE PLANNED UPDATES TO THE ACCA QUALIFICATION SYLLABUSES TAKING PLACE IN 2013 AS PART OF THE PROCESS OF CONTINUOUS SYLLABUS MAINTENANCE AND IMPROVEMENT. THE ARTICLE HIGHLIGHTS THE LATEST SYLLABUS CHANGES, INCLUDING ANY MINOR STRUCTURAL CHANGES TO EXAMS

There are a number of syllabus changes to the ACCA Qualification in 2013. These are mainly minor additions and updates, rather than major structural changes, ensuring that the qualification continues to evolve and adapt to the latest business and accounting sector needs. These latest changes are being introduced to update the syllabus content, to ensure that the ACCA Qualification continues to comply with the appropriate regulatory standards, to improve the articulation between related syllabuses and to reflect the views of our key stakeholders.

In all cases, please refer to the 2013 *Study Guides* for full details. The summary of changes is also included at the back of each *Study Guide*.

TERMINOLOGY CHANGES

The IASB has changed the names of the performance statements. ACCA will implement this terminology in 2013 for ACCA *Study Guides* and exams from Papers F4 to P7.

The following table shows the changes:

OLD TERM	NEW TERM
Income statement	Statement of profit or loss
Statement of comprehensive income	Statement of profit or loss and other comprehensive income

As in the previous version of IAS 1, there is still the option to present performance in either a single statement or in two statements. No other wordings in accounting standards have been changed, as these generally referred to items being charged/credited to profit or loss rather than mentioning the term income statement.

Please note that terminology changes will not apply to Papers F1, F2 and F3 until 2014 when terminology changes are made to all Foundation level exam papers too. All the detailed changes to the syllabuses are summarised below.

DETAILED CHANGES OUTLINED FOR JUNE AND DECEMBER 2013 Papers F1–F3

The ACCA Knowledge module exams will remain with the current structure of 50 two-mark questions throughout 2013 and in January 2014, and Papers F1 to F3 will operate with the same examinable documents until January 2014. There are no syllabus changes planned for any of the three syllabuses for Paper F1, Accountant in Business, Paper F2, Management Accounting, or Paper F3, Financial Accounting, except for a minor terminology change regarding the IFAC Code of Ethics now known as the IFAC (IESBA) Code of Ethics. Exam questions will, however, still refer to the IFAC Code of Ethics. This only affects Section F of Paper F1, Accountant in Business. For clarity, the term IFAC will still be retained throughout this year.

There is no change to examinable documents for these papers. As explained above, the next update to the examinable documents for these papers will be for exams in 2014.

There is also a very minor clarification to a study outcome in Paper F2, *Management Accounting*, as follows:

SECTION AND SUBJECT AREA	SYLLABUS CONTENT
Income statement	Statement of profit or loss
B1 Accounting for material, labour and overheads	(c) (iv) Re-apportion service cost centre costs to production cost centres (<i>including</i> the use of the reciprocal method where service cost centres work for each other)

KEY GUIDANCE ON SUITABLE ENTRY POINTS

Planned changes for 2014 and examinable document updates

In order to make changes to the cut-off dates for examinable documents, in response to feedback from stakeholders, the examinable document update for the following papers will be delayed for a session:

 Papers F4 to F9 (except Paper F6) For these papers only, the examinable documents and *Study Guide* published for 2013 will also apply to the June 2014 session. ACCA Approved Learning Partners – content are aware of this and this has been reflected in their materials.

Paper F6 examinable documents will be updated for 2014 as normal in line with tax legislation.

It would normally be the case that the Papers F1-F3 exams in 2013 would be based on regulation and legislation issued/passed on or before 30 September 2012. ACCA made an exception when these papers were relaunched in December 2011 and extended the period for the examinable documents with a cut-off date of 30 September 2010 (including the version of the Framework prior to the changes to two chapters in September 2010) being effective for exams right through to the end of exam year 2012. This has now been extended to cover exam year 2013 too. As such, the new IAS 1 terminology will be examined from 2014 in these three exams.

TERMINOLOGY CHANGES WILL NOT APPLY TO PAPERS F1, F2 AND F3 UNTIL 2014 WHEN TERMINOLOGY CHANGES ARE MADE TO ALL FOUNDATION LEVEL EXAM PAPERS TOO

THE FOUNDATION ALL YOU NEED TO KNOW

The Foundations level leads towards a range of qualifications at a range of levels – from GCSE equivalent to first-year undergraduate degree level.

Figure 1 shows a diagram including the Foundation level qualifications that can lead to full ACCA membership.

There are a number of awards available but there are four key qualifications within the Foundation level, each of which need to be combined with the Foundations in Professionalism module:

- Introductory Certificate in Financial and Management Accounting consisting of Paper FA1, *Recording Financial Transactions* and Paper MA1, *Management Information*.
- Intermediate Certificate in Financial and Management Accounting consisting of Paper FA2, Maintaining Financial Records and Paper MA2, Managing Costs and Finance.
- Diploma in Accounting and Business which consists of Paper FAB, Accountant in Business, Paper FMA, Management Accounting and Paper FFA, Financial Accounting.

Certified Accounting Technician (CAT) candidates must complete the Diploma in Accounting and Business papers described above and also pass two from three specialist options papers: Paper FAU, *Foundations in Audit*; Paper FTX, *Foundations in Taxation*; and Paper FFM, *Foundations in Financial Management*. (The individual option papers are also available as single awards for which an ACCA certificate is available to successful candidates.) CAT candidates must also complete the Foundations in Practical Experience Requirement (FPER).

Students registered on the Foundation level can decide to sit exams leading towards any of the qualifications listed above, subject to timetabling restraints for paper-based exam papers. There is open access to the certificates and the Diploma in Accounting and Business. The qualifications available within the Foundation level cover three levels. As a benchmark, the Introductory Certificate is set against GCSE or equivalent level, the Intermediate Certificate is set at A-level or equivalent and the Diploma level is set at first-year undergraduate degree level or its equivalent, such as the first year of a full time Higher National Diploma.

FIGURE 1: HOW THE FOUNDATION LEVEL QUALIFICATIONS ARTICULATE WITH THE ACCA QUALIFICATION



SELF-CHECK MODULES

ACCA has developed self-check modules in mathematics and English, which are available free of charge for students. These modules are optional and can assess a student's readiness to take accounting exams set in the English language. Results of the tests are anonymously recorded, meaning that ACCA does not know the individual results obtained by students. Results and feedback are given to students individually so that they can either decide that they are ready to register or whether they need to do more work on their maths or English skills before doing so, by using the tutorial material within each module or accessing further material through several links available within the modules. The self-check modules are available at www. accaglobal.com/en/student/Essentials/ Self-check-modules.html.

FOUNDATIONS IN PROFESSIONALISM

To obtain any or a combination of the above awards, students must also complete the Foundations in Professionalism module. This is an online interactive module that develops knowledge and understanding of how an accounting technician should behave professionally at work. It is available via your *myACCA* account. The module includes a coverage of the law, fundamental principles of professional behaviour and how to apply personal values at work. It concludes with a case study about potential fraud and an end of module test. This assesses the student's knowledge and understanding of the module content and there is a minimum pass mark of 50%. Students who pass will have their student record automatically updated to recognise this. Those who fail will be pinpointed to their areas of weaknesses and can retry the test as many times as necessary at no cost.

FOUNDATIONS IN PRACTICAL EXPERIENCE REQUIREMENT

To gain CAT status, students must also have 12 months' work experience and have demonstrated at least 10 work-based competence areas, four of which can be used for work experience exemptions from the practical experience requirement of the ACCA Qualification. This means that any CAT holder who decides to transfer to the ACCA Qualification after completing CAT would only have five Essentials performance objectives left to complete within the ACCA practical experience requirement and two more years of experience to obtain.

LEVEL

SYLLABUS CONTENT

The qualifications within the Foundation level are aligned to technician-related occupational standards. This ensures that the syllabus of each paper reflects the current needs of employers. The syllabuses concentrate on the core areas of transactional accounting and on the knowledge and skills most relevant to the technician accountant's roles and responsibilities. Some new areas have been added to the previous CAT Qualification syllabuses and some areas removed. The syllabuses have also been re-aligned to provide more effective progression through the levels and to articulate more closely with the ACCA Qualification. Apart from the three specialist options papers, all seven exams for the Introductory and Intermediate Certificates and the Diploma are available by computer-based examination.

INTRODUCTORY CERTIFICATE SYLLABUS Paper FA1, *Recording Financial Transactions*

To introduce the student to the basic accounting systems and documentation that will be encountered in the workplace. To develop knowledge and understanding of the operational aspects of maintaining accounting records and procedures and to learn how to record these transactions in the books of prime entry, including accounting for cash, including petty cash transactions. The syllabus also includes an introduction to the principles of double entry and understanding how a computerised and a manual accounting system work.

Paper MA1, Management Information

To introduce the student to the knowledge of basic cost information required for management accounting. To develop the knowledge and ability to recognise, collect and record basic cost and revenue information for planning and control, including introduction to full absorption cost and marginal cost, including the use and application of spreadsheets in costing.

INTERMEDIATE CERTIFICATE SYLLABUS

Paper FA2, Maintaining Financial Records To introduce the student to fundamental principles of accounting and to develop the knowledge and understanding of the techniques used to maintain accounting records. To account for fixed assets to produce control accounts and reconciliations, and be able to extract and correct an initial trial balance, making the adjustments necessary to produce an extended trial balance and to account for sole traders and partnerships.

Paper MA2, Management Costs and Finance

To develop the knowledge and understanding of the principles and techniques used in recording, analysing and reporting costs and revenues for internal management purposes. To demonstrate and develop applicable cost concepts in making short-term decisions and to explain and use performance measurement and how spreadsheets can be applied in these areas.

DIPLOMA LEVEL SYLLABUS

Paper FAB, Accountant in Business To understand business in the context of its environment, including economic, legal, and regulatory influences on such aspects as governance, employment, health and safety, data protection and security. The syllabus also covers certain aspects of the regulatory framework as they affect accounting, auditing and corporate governance, examining the roles of internal and external auditors and introducing the importance of sound accounting and information systems and of internal controls. The syllabus also introduces key management and people issues such as individual and team behaviour, leadership, motivation and personal effectiveness. Finally, the syllabus covers ethics and professionalism in business and accountancy, including corporate codes of ethics and conflict resolution.

Paper FMA, Management Accounting

To develop the knowledge and ability to apply appropriate management accounting concepts and techniques for decision making; planning, control and decision making, including forecasting techniques and the preparation of budgets and standard costs.

Paper FFA, Financial Accounting

To develop knowledge and understanding of the underlying principles and concepts relating to financial accounting and to demonstrate technical proficiency in the use of double-entry techniques, including the preparation and interpretation of basic financial statements for sole traders, partnerships, companies and simple groups of companies.

SPECIALIST OPTION AWARD SYLLABUSES

Paper FTX (UK), *Foundations in Taxation* There is an emphasis on preparing computations of tax liability for individuals and businesses, for income tax, corporation tax, capital gains tax and value added tax (VAT), and this includes new transactional aspects of preparing returns.

Access *Study Guides* (available on the ACCA website) for the tax variants available in Ireland, Lesotho, Malaysia and Singapore for further information.

Paper FFM, Foundations in Financial Management

To examine all aspects of cash and working capital management, and to develop an understanding of the sources of short-term and long-term finance. To develop the knowledge and understanding of the way organisations finance their operations and make financing and investment decisions.

Paper FAU, Foundations in Audit

To develop knowledge and understanding of the external audit functions, including audit planning and risk, internal control and audit evidence and procedures.

THE QUALIFICATIONS WITHIN THE FOUNDATION LEVEL ARE ALIGNED TO TECHNICIAN-RELATED OCCUPATIONAL STANDARDS. THIS ENSURES THAT THE SYLLABUS OF EACH PAPER REFLECTS THE CURRENT NEEDS OF EMPLOYERS



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Wednesday 5 June	F7 Financial Reporting
Thursday 6 June	F8 Audit and Assurance
Friday 7 June	F1 Accountant in Business F9 Financial Management
Monday 10 June	F4 Corporate and Business L
Tuesday 11 June	F3 Financial Accounting
Wednesday 12 June	F2 Management Accounting

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ITY, EMPLOYABILITY

TIME TABLE*

	P7 Advanced Audit and Assurance
	P4 Advanced Financial Management
	P5 Advanced Performance Management
	P6 Advanced Taxation
aw	P3 Business Analysis
	P2 Corporate Reporting
	P1 Governance, Risk and Ethics

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A bears no responsibility for any changes made by ACCA in the exam timetable subsequently.