



Examiner's report

F2/FMA Management Accounting

For CBE and Paper exams covering July to December 2016

General Comments

The examination consists of two sections. Section A of the paper contains 35 objective test questions – each worth 2 marks, and section B contains 3 MTQs worth ten marks each. All questions are compulsory. The paper is two hour examination. A pilot paper reflecting this structure is available on the ACCA website together with a number of practice MTQs

As always, excellent scores were achieved by some candidates. I congratulate both them and their teachers. I offer my commiserations to those who were not successful.

In section A the worst answered MCQ questions were calculation based. Calculation questions accounted for approximately 40% of section A questions, and as usual were answered worse than the narrative based MCQs. In section B approximately two thirds the marks were for calculation. There was little difference in performance between section B calculation and narrative questions. However there was some evidence that candidates performed worse on section B MTQ questions than on section A objective test questions.

As is usually the case for this exam, F2 candidates on average, performed better than FMA candidates.

The following questions are ones where the performance of candidates was very weak.

Section A Sample questions for discussion

Example 1

Which of the following is NOT an acceptable method of accounting for by-products?

- A Net realisable value of the by-product is deducted from the cost of the main product
- B Pre-separation costs are apportioned to the by-product to calculate its profit
- C Sales value of the by-product is deducted from the cost of the main product
- D By-product income less post-separation costs is added to the sales of the main product

This question covers syllabus area B3b (xii) prepare process accounts in situations where by-products and/or joint products occur.

The correct answer is B

Joint products and by-products arise where the manufacture of one product makes inevitable the manufacture of other products. Whilst joint products have significant sales value, by –product sales value is relatively insignificant.

There are two basic approaches to accounting for by products. Either their net realisable value can be netted off against pre-separation point costs (effectively the same as the treatment of a normal loss). Alternatives A and B are examples of this approach, and were chosen majority of candidates

Alternatively their income can be added to the revenue of the main product. Alternative D is an example of this approach.

Alternative B involves apportioning pre separation costs to the by-product. This treats the by-product in the same way as a joint product and is clearly inappropriate. No knowledge of the other approaches is required to appreciate that this approach is incorrect.

Example 2

The following spread sheet shows the calculation of a company's profit.

	A	B
1		\$
2	Sales Revenue	20,000
3	Variable production costs	5,000
4	Fixed production costs	3,000
5	Gross Profit	12,000
6	Variable selling costs	1,000
7	Fixed selling costs	500
8	Profit	10,500

Which formula would calculate contribution?

- A B2 – B3
- B B5 – B6
- C B8 + B7
- D B8 + B7 + B4

This question covers syllabus area co B2a explain the importance of, and apply, the concept of depreciation.

The correct answer is D.

Contribution is equal to sales revenue less variable cost.

Alternative A was the most popular choice by candidates. It represents sales revenue less variable production costs, but crucially not variable selling costs, and is therefore not correct. Possibly candidates were confusing this question with the issues of stock valuation, where selling costs are excluded.

Alternative B represents sales revenue less variable production costs, fixed production costs and variable selling costs. The inclusion of fixed production costs invalidates this alternative.

Alternative C again represents sales revenue less variable production costs, fixed production costs and variable selling costs. It is incorrect for the same reason as alternative B.

Alternative D represents sales revenue less variable production costs and variable selling costs and is correct. It is worrying that only a minority of candidates can correctly define contribution.

Example 3

A retailer has two divisions, North and South. Both sell similar products and all prices are set centrally. All shop premises are rented. Shop rental costs in the South division are lower than in the North division due to a government subsidy given to landlords.

Which of the following measures would NOT provide a fair comparison of the performance of the management of the two divisions?

- A Gross profit
- B Return on capital employed
- C Turnover per square metre of shop floor space
- D Asset turnover

This question covers syllabus area E1 (d) Explain the impact of government regulation on performance measurement.

The correct answer is B.

Government actions have a huge potential effect on the performance of companies. Government subsidies, such as the rent subsidy in this question, need to be excluded from managerial performance indicators to allow fair comparisons. This is because they are not controllable by shop managers.

B would not provide a fair comparison of managerial performance because the operating profit used to calculate return on capital employed, is calculated after deducting rental charges. Managers in the South division would have an in built advantage over those in the North division because of this.

None of the other measures include rental cost so would not suffer from this disadvantage. Alternative D, turnover per m² was the most popular choice.

This was possibly because it was the least familiar of the measures suggested.

Section B

Section B contains 3 questions, one from each of syllabus areas C Budgeting, D Standard Costing and E Performance Measurement. This approach will continue in future papers. The balance of MCQ questions in section A reflects this weighting so as to preserve the overall balance of the paper. The pilot paper reflects the weightings and this balance of questions will be used in future papers.

Common problems with section B questions include the following

- An inability to calculate cash flows in NPV questions.
- An inability to calculate direct labour and direct material variances.
- An apparent difficulty with questions presented in spread sheet format

- A difficulty with questions involving the reconciliation of actual and budgeted figures via standard costing variances.

Future candidates are advised to:

- Study the whole syllabus, because the paper will cover the full syllabus.
- Practise as many multiple choice questions as possible.
- Read questions very carefully in the examination
- Ensure that their calculations are complete before selecting their answer to multiple choice questions
- Try to attempt the “easy” examination questions first.
- Not to spend too much time on apparently “difficult” questions.
- Attempt all questions in the examination (there are no negative marks for incorrect answers).
- Present section B answers as tidily as possible and ensure that all parts of the question are answered (written paper candidates only)
- Read previous Examiner’s Reports