

# Examiner's report

## F2/FMA Management Accounting

For CBE and Paper exams covering July to December 2017



### 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 a 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 account for approximately 46% of section A questions, and as usual were answered worse than the narrative based MCQs. 7 out of the 10 worst answered section A questions were calculation based.

In section B approximately one half of the marks are for calculation. There was little difference in performance between section B calculation and narrative questions. As is usually the case for this paper, F2 candidates on average, performed better than FMA candidates.

The following questions from section A of the paper.

### Example 1

**Which of the following would be best suited to represent the relationship between a company's advertising expenditure and its sales revenue?**

- (1) A pie chart
  - (2) A bar chart
  - (3) A scatter graph
- A 1 only  
B 2 only  
C 3 only  
D 2 and 3

This question covers syllabus area A4 b (Presenting information using tables charts and graphs). Previous questions in this area have focussed on the construction of charts and graphs and have been well answered. However, this one was quite poorly done. This suggests that candidates are focussing on the mechanics of constructing tables, charts and graphs and are not considering the best way of presenting information to an audience.

Pie charts are best used to show the relative size of the component elements of a total (eg a company's total sales analysed by geographic markets). Bar charts are used to display and compare the number, frequency or other measure (e.g. mean) for different discrete categories of

data. For example, a company's sales in different years. Scatter diagrams are best used to exhibit data in order to compare how two variables vary with each other.

In this case the relationship between demand and advertising expenditure would be best shown by a scatter diagram. The most popular choice by candidates was alternative A.

### Example 2

The following spreadsheet shows a profit centre's variances against budget for a period. Some figures have been omitted (omitted figures are labelled ???).

	A	B	C	D	E
1		Fixed budget	Flexed budget	Actual	Variance
2	Sales/production units	1,200	1,500	1,500	300
3		\$	\$	\$	\$
4	Sales revenue	60,000	75,000	74,000	-1,000
5	Direct material	21,600	???	24,000	???
6	Direct labour	14,400	18,000	22,000	-4,000
7	Contribution	24,000	???	28,000	???
8	Fixed costs	17,000	17,000	16,500	500
9	Profit	7,000	13,000	11,500	na

What figure should appear in cell E5?

- A -2,400
- B 2,400
- C -3,000
- D 3,000

Spreadsheets are commonly used to present questions in both section A and section B of the paper (spreadsheets are covered in sections C2 (o) and (p) of the syllabus). There is some evidence that candidates do not cope well with questions in spreadsheet format. This question covers syllabus area C6 a (calculate simple variances between flexed budget, fixed budget and actual sales, costs and profits). The correct answer is D.

Direct material is always a variable cost. This is confirmed in this case by its deduction from sales to calculate contribution. The most sensible way to calculate a total variable cost variance is against a flexed budget figure. (It can be seen that the direct labour variance has been calculated against flexed budget cost in the spreadsheet.)

The flexed budget direct material cost (cell C5) has a value of \$27,000 ( $\$21,600/1,200$  units  $\times$  1,500 units). The direct material variance becomes  $\$27,000 - \$24,000 = \$3,000$  favourable.. Majority of candidates selected answer C (suggesting confusion over adverse and favourable), followed by A the variance against the fixed budget.

**Example 3**

A company uses standard marginal costing to monitor performance. The budgeted profit and budgeted fixed overhead for a month were \$25,000 and \$12,000 respectively. In the month, the following variances occurred:

	\$
Sales volume contribution	1,000 adverse
Sales price	2,000 favourable
Total variable costs	4,000 adverse
Fixed production overhead expenditure	500 adverse

**What was the actual profit for the month?**

- A \$9,500
- B \$21,500
- C \$33,500
- D \$40,000

This question covers syllabus area D3 b.

To arrive at the correct answer candidates had to adjust the budgeted profit for all the variances given. ( $\$25,000 - \$1,000 + \$2,000 - \$4,000 - \$500 = \$21,500$ ).

Some candidates went on to deduct budgeted fixed overheads from this figure to get \$9,500. This was incorrect because budgeted fixed overheads would have been already deducted in calculating budgeted profit and hence these candidates were double counting.

Candidates who selected C adjusted budgeted profit for all of the variances, but then went on to add back fixed overhead figure as if calculating actual contribution.

Lastly candidates who selected D attempted to calculate actual contribution, but got the variance signage the wrong way round. ( $\$25,000 + \$1,000 - \$2,000 + \$4,000 + \$12,000 = \$40,000$ )

**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 exams. The balance of MCQ questions in section A reflects this weighting so as to preserve the overall balance of the exam.

Common problems with section B questions include the following

- An inability to calculate payback, NPV and IRR.
- An inability to calculate standard cost variances.
- An inability to calculate residual income and ROCE.
- An apparent difficulty with questions presented in spreadsheet 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 exam will cover the full syllabus.
- Practise as many objective testing questions as possible, number entry questions appear to be a particular weakness.
- 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.
- Try not to spend too much time on apparently “difficult” questions.
- Attempt all questions in the examination (there are no negative marks for incorrect answers).
- Consider the “reasonableness” of their answers in section B (an inventory days figure of 27 million days is unlikely)
- Read previous Examiner’s Reports