



Examiner's report

F2/FMA Management Accounting

For CBE and Paper exams covering January to June 2014

General Comments

The structure of the exam changed from previous sittings due to the introduction of multi task questions (MTQs) to both the CBE and paper based examination. From now onwards section A of the paper will contain 35 multiple choice questions (MCQs) – each worth 2 marks, and section B will have 3 MTQs worth ten marks each. All questions are compulsory. The paper remains a two hour examination. A specimen exam reflecting this new 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 MCQ questions, and as usual were answered worse than the narrative based MCQs.

The best answered questions were of a narrative nature.

In section B two thirds of the marks were 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, but on this occasion the difference was narrower than usual.

The following questions are ones where the performance of candidates was very weak. Each of these questions relate to a mainstream topic in the Study Guide.

Section A Sample questions for discussion

Example 1

A company uses standard absorption costing. Actual profit last period was \$25,000, which was \$5,000 less than budgeted profit. The standard profit on actual sales for the period was \$15,000. Only three variances occurred in the period: a sales volume profit variance, a sales price variance and a direct material price variance.

Which of the following is a valid combination of the three variances?

	Sales volume profit variance	Sales price variance	Direct material price variance
A	\$15,000 A	\$2,000 F	\$8,000 F
B	\$5,000 A	\$2,000 A	\$2,000 F
C	\$15,000 A	\$2,000 A	\$8,000 A
D	\$5,000 A	\$5,000 F	\$5,000 A

The correct answer is A.

The correct answer can be arrived at by looking for a combination of variances that satisfy two criteria

- The total of the variances must add to \$5,000 adverse as actual profit is \$5,000 less than budgeted profit
- As budgeted profit is \$30,000 (\$25,000 actual plus a \$5,000 adverse variance) and standard profit on actual sales is \$15,000 (given) then the sales volume variance must be \$15,000 adverse.



Only alternative A meets both of these criteria. D was the most popular choice by candidates, suggesting that most understood criteria 1, but not criteria 2.

Questions on standard cost operating statements have been mentioned in previous reports and are a commonly amongst the worst answered questions on the paper.

Example 2

A company has prepared flexed budgets at two activity levels. The cost per unit of three costs is given below. All three costs behave in a linear manner with respect to activity.

Cost	Activity level (units)	
	10,000	15,000
X	\$3.0 per unit	\$2.0 per unit
Y	\$1.0 per unit	\$1.0 per unit
Z	\$3.5 per unit	\$3.0 per unit

Is each of the costs variable, semi-variable or fixed?

	X	Y	Z
A	Variable	Fixed	Semi-variable
B	Variable	Fixed	Variable
C	Fixed	Variable	Semi-variable
D	Fixed	Variable	Fixed

The correct answer is C.

The key to the question is to understand that for variable costs the *cost per unit* is constant, whilst for fixed costs the *total cost* is constant. Cost X can quickly be identified as a fixed cost as the total cost between the two output levels is unchanged (10,000 units x \$3 = 15,000 units x \$2). Cost Y is a variable cost because the cost per unit is constant. Cost D meets neither of these criteria because it contains elements of both fixed and variable cost, and therefore is a semi variable cost. Alternatives A and B were selected by majority of candidates, suggesting some confusion between cost per unit and total cost.

Example 3

An accountant wishes to use the following spreadsheet to calculate budgeted production units.

	A	B	C	D
1		Jul	Aug	Sep
2		units	units	units
3	Sales	1,000	2,000	3,000
4	Opening inventory finished goods	100	200	300
5	Production			
6				

Which formula should be entered in cell B5?

A = B3-C4+B4

B = B3-B4

C = B3+C4

D = B3+C4-B4

The correct answer is D

To arrive at this answer candidates had to understand that production units = sales units + closing inventory of finished goods – opening inventory of finished goods, and that the opening inventory for August was the closing inventory for July.

Alternative B was the most popular answer presumably on the basis that it totalled the column. Alternatives A and C were selected by only small percentages of candidates.

Section B

Section B contained 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 was altered to reflect this change and to preserve the overall balance of the paper. The specimen exam reflects the new weightings. This balance of questions will be used in future papers.

Common problems with section B questions included the following

- An apparent lack of knowledge of the net present value (NPV) technique. Many candidates appeared to confuse it with net book value (NBV) and unnecessarily calculated depreciation over the asset's life. Many candidates were unable to suggest one advantage of using net present value.
- An inability to calculate material price and usage variances and fixed overhead volume variances.
- An inability to explain the causes of variances.
- An imprecise knowledge of commonly used accounting ratios. Return on capital employed should not be calculated by any profit figure divided any asset figure. Its formal definition is operating profit divided by ordinary shareholder's funds plus non-current liabilities.
- Weak understanding of a businesses' performance. A significant minority of candidates did not know which ratios measured liquidity and which measured gearing. For the paper exam, many provided weak commentary, such as "the gearing ratio is higher". This alone does not tell whether this a good or bad, and greater clarity is required for full marks. Again for paper exam only, there were often poor layout of calculations, making it very difficult to understand what candidates were trying to do.

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.
- 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).
- For those taking paper exam, present section B answers as tidily as possible
- For those taking CBE exam, read each requirement carefully
- Read previous Examiner's Reports.