



Examiner's report

F2/FMA Management Accounting

For CBE and Paper exams covering January to June 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 45% of section A questions, and as usual were answered worse than the narrative based MCQs. Eight 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. However there was some evidence that candidates performed worse on section B MTQ questions than on section A objective test questions.

The following questions from section A of the paper are ones where the performance of candidates was very weak.

Example 1

The following information relates to a company's semi-variable production overheads.

Year	Output Units	Overhead \$	Relevant price index
2012	1,000	12,000	130
2013	1,200	14,000	140

What is the variable overhead cost per unit, expressed in 2013 prices?

- A \$5.00
- B \$5.38
- C \$10.00
- D \$11.67

This question required candidates to use the high low technique (syllabus area A3b) and a knowledge of price indices (syllabus area C2n) to calculate a variable cost per unit.

The correct answer is B, chosen by only a small minority of candidates. To arrive at this answer candidates needed to firstly use the price index data to express the 2012 overhead cost in 2013 prices ($\$12,000 \times 140/130 = \$12,923$). Then they needed to use the high low method to calculate variable cost per unit. ($(\$14,000 - \$12,923)/(1,200 \text{ units} - 1,000 \text{ units}) = \5.38).

Alternative C was the most popular choice by candidates. This answer is the result of using the high low technique with no adjustment for inflation ($(\$14,000 - \$12,000)/(1,200 \text{ units} - 1,000 \text{ units}) = \10.00). Candidates need to be aware that inflation can distort historic cost data, and that data may need to be adjusted before applying techniques such as high low or regression analysis.

Alternative A was the next most popular answer. Candidates who selected this alternative could correctly apply the high low technique, and were aware that the price index needed to be used to remove the effect of inflation.



Unfortunately they expressed the cost data in 2012 prices, effectively providing the correct answer to a different question. Their calculations were as follows. Firstly they expressed the 2013 cost in 2012 prices ($\$14,000 \times 130/140 = \$13,000$). Then they used the high low method ($(\$14,000 - \$13,000)/(1,200 \text{ units} - 1,000 \text{ units}) = \5.00).

Alternative D was selected by a number of candidates. Candidates who chose this alternative simply divided $\$14,000$ by 1,200 units and calculated an average unit cost for 2013 of $\$11.67$. This was the “most incorrect” answer and demonstrates a failure to understand the difference between average cost and variable cost per unit.

Example 2

In a period, a process produced 2,000 kg of a main product and 400 kg of a by-product. The cost of production was $\$5,000$. 1,800 kg of the main product were sold at $\$10$ per kg and all of the by-product produced was sold for $\$1$ per kg. There was no opening inventory.

If the sales income of the by-product is deducted from the cost of production, what is the profit for the period?

- A $\$13,400$
- B $\$13,860$
- C $\$13,900$
- D $\$15,860$

This question covers B3b(xii) of the syllabus.

The correct answer is B, which was the second most popular selection by candidates.

To calculate this candidates need firstly to calculate a unit cost ($\$5,000 - 400 \text{ kg} \times \1)/2000 units = $\$2.30$ per unit). This can then be used to calculate a profit on the 1,800 units sold ($1,800 \text{ units} \times (\$10 - \$2.30) = \$13,860$)

Alternative A was the most popular selection. Candidates who chose this alternative ignored closing inventory and charged all costs to units sold (instead of units produced). Hence their unit cost was ($\$5,000 - 400 \text{ kg} \times \1)/1800 units = $\$2.55$ per unit). Profit under this unit cost becomes ($1,800 \text{ units} \times (\$10 - \$2.55) = \$13,400$). Candidates who selected this answer appear to have a problem in distinguishing between cost of production and cost of sales.

Alternative C was the third most popular selection. This was arrived at by crediting by-product sales income to the sales of the main product. This is an alternative method of dealing with by-product income and represents a correct answer to a different question. Under this approach the unit cost becomes ($\$5,000/2000 \text{ units} = \2.50 per unit). It then follows that profit becomes ($1,800 \text{ units} \times (\$10 - \$2.50) + \$400 = \$13,900$)

Alternative D was chosen by very few candidates. Candidates who selected this alternative correctly calculated the cost of sales figure, but calculated the sales revenue incorrectly. The incorrect sales revenue under this approach was ($2,000 \text{ units} \times \$10 = \$20,000$). They then deducted a correct cost of sales ($\$5,000 - \400) $\times 1800 \text{ units}/2000 \text{ units} = \4140). This gives a profit of $\$15,860$.

Example 3

A firm uses standard marginal costing. Last period the following results were recorded:

Actual sales units	5,000
Standard contribution per unit	$\$60$
Sales price variance	$\$5,000$ Adverse
Sales volume contribution variance	$\$8,000$ Favourable
No other variances arose last period.	

What was the actual contribution for the period?

- A \$295,000
- B \$305,000
- C \$303,000
- D \$297,000

This question covers syllabus area D3b. This is commonly the worst answered section of the paper.

The correct answer is A, and was the second most popular choice amongst candidates.

This could be arrived at by calculating the standard contribution for actual sales (5,000 units x \$60 = \$300,000) and then deducting the adverse sales price variance (\$300,000 - \$5000 = \$295,000)

Alternative C was the most popular selection. Candidates choosing this alternative incorrectly adjusted standard contribution on actual sales for both the sales price variance and the sales volume contribution variance. This is incorrect because the sales volume contribution variance links standard contribution on budgeted sales with that on actual sales. In other words they were double counting the effect of the sales volume contribution variance.

Alternatives B and D were selected by only a small minority of candidates. Candidates who selected B chose the correct variance to apply, but sadly applied it incorrectly, adding instead of deducting the adverse price variance on to standard contribution on actual sales.

Those selecting D made a similar mistake as those selecting alternative C, and adjusted for both variances. Unfortunately they compounded their error by adding the adverse and deducting the favourable variance.

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 payments to suppliers in a cash budget.
- An inability to calculate total cost variances.
- An inability to calculate asset turnover 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 paper 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.
- 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 paper exams present section B answers as tidily as possible and ensure that all parts of the question are answered



- Consider the “reasonableness” of their answers in section B (an inventory days figure of 27 million days is unlikely)
- Read previous Examiner’s Reports