



Examiner's report

F2/FMA Management Accounting

For CBE and Paper exams covering July to December 2014

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. Specimen papers for both CBE and paper version reflecting this structure are available on the ACCA website together with a number of practice CBE 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 approximate 40% of section A questions, and as usual were answered worse than the narrative based MCQs. Seven out of the 10 worst answered section A questions were calculation based in the period.

In section B there was little difference in performance between calculation and narrative questions.

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

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

The standard cost card for a company's only product is given below:

	\$ per unit
Selling price	118
Direct labour 4 hours at \$20 per hour	80
Direct material 3 kg at \$7 per hour	21
Fixed production overhead	<u>5</u>
Profit	<u>12</u>

For a period, budgeted production and sales were 8,000 units, whilst actual production and sales were 6,000 units.

What is the flexed budget profit?

- A \$62,000
- B \$72,000
- C \$96,000
- D \$102,000`

The correct answer is A.

Majority of candidates incorrectly selected B (profit per unit \times actual sales). This suggests that these candidates knew that the budget should be flexed to the actual output level of 6,000 units but that they failed to appreciate that total fixed costs (in this case fixed production overhead) do not vary with output. The fixed production overhead cost per unit contained in the standard cost is an average fixed cost per unit based on the budgeted



output level of 8,000 units. This implies a total fixed production overhead of \$40,000 (\$5 per unit × 8,000 units). This total budgeted fixed production overhead will not change with volume.

The correct answer of \$62,000 (alternative A) can be calculated by multiplying the standard contribution per unit by the actual output level and the subtracting the budgeted fixed production overhead. $(\$118 - \$80 - \$21) \times 6,000 \text{ units} - \$40,000 = \$62,000$. Only a minority of candidates selected this alternative.

Candidates who selected alternative D (the flexed budget contribution $(\$118 - \$80 - \$21) \times 6,000 \text{ units} = \$102,000$) realised that the budget should be flexed to 6,000 units, but confused contribution with profit and failed to allow for budgeted fixed production overhead.

Alternative C, the least credible of all the distractors, was the profit at 8,000 units of output. This selection suggests either candidates did not realise that budgets should be flexed to actual output levels, or that they were simply guessing.

Example 2

The following data is available on the production and sales for the first three years of a company's new product.

	Year 1	Year 2	Year 3
Production units	5,000	6,000	4,000
Sales units	4,000	6,000	5,000

Variable costs per unit, selling price and total fixed costs per year were constant over the three-year period. The company is considering the use of either marginal or absorption costing.

Which of the following statements is/are true?

- (1) Absorption costing will show a lower profit than marginal costing in Year 1
- (2) Marginal costing will show a lower closing inventory valuation than absorption costing in Year 2
- (3) Total profit over the three-year period will be the same under both methods

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

The correct answer is D.

The most popular answer was C. This suggests that these candidates correctly understood two things:

(i) over a period of time in which total production levels are equal to total sales levels, the profit calculated under marginal and absorption costing principles will be the same. Over the three years involved total sales are 15,000 units and total production is 15,000 units

And (ii) in a period when production is greater than sales the profits calculated under absorption costing principles would show a *higher* profit than under marginal costing principles, rather than a lower profit as suggested in the question

However these candidates failed to appreciate that marginal costing inventory valuations (marginal production cost) are lower than those under absorption costing (full production cost).

The correct answer is D, selected by very few candidates, suggesting that most candidates have very little understanding of the area.

Example 3

A company's actual profit for a period was \$27,000.

The only variances for the period were.

	\$
Sales price	5,000 adverse
Fixed overhead volume	3,000 favourable



Fixed overhead capacity 4,000 favourable
Fixed overhead efficiency 1,000 adverse

What was the budgeted profit for the period?

- A \$25,000
- B \$26,000
- C \$28,000
- D \$29,000

The correct answer is D.

I have mentioned in previous reports that candidates appear to experience difficulties with questions involving standard costing operating statements and the reconciliation of budgeted and actual performance.

In this question candidates were given an actual profit figure and a list of variances. To get to budgeted profit they needed to

(i) add back adverse variances and to deduct favourable variances to actual profit to arrive at budgeted profit.

And (ii) in doing so they also needed to avoid double counting. The fixed overhead volume variance (\$3,000F is equal to the sum of the fixed overhead capacity variance (\$4,000 F) and the fixed overhead efficiency variance (\$1,000 A), so it is important not to include all three and only to deduct \$3,000 not \$6,000.

Majority of the candidates selected alternative B, suggesting that they appreciated point (i) but not point (ii), $\$27,000 + \$5,000 - \$3,000 - \$4,000 + \$1,000 = \$26,000$.

Some candidates selected alternative C, suggesting they failed to appreciate both of points (i) and (ii) $\$27,000 - \$5,000 + \$3,000 + \$4,000 - \$1,000 = \$28,000$.

This is a common area of difficulty and candidates should review previous examiner's reports where further examples of MCQ questions of this type are available.

Standard costing operating statements were also tested on a narrative basis in section B in this diet and this question was also generally poorly answered.

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 specimen exams reflect the weightings and this balance of questions will be used in all future papers.

Common problems with section B questions included the following

- A poor understanding of the cash effect of depreciation. Many candidates correctly stated that depreciation did not involve a movement of cash, and then went on incorrectly to add it back to total overhead expense in an attempt to calculate cash expenditure on overheads.
- An inability to calculate the sales price variance, the sales volume contribution variance and the total variable cost variance.
- Lack of understanding of the structure of standard cost operating statements.
- An imprecise knowledge of commonly used accounting ratios. Return on capital employed should not be calculated by any profit figure divided by any asset figure. Its formal definition is operating profit divided by ordinary shareholder's funds plus non-current liabilities. ROCE is a very important ratio in performance measurement and candidates must know its definition if they want to pass.
- Careless errors in calculations, for example $\$3,600 \times 40\% = \$1,440$, not \$1140,
for example $\$1,100 - \$300 = \$800$, not \$600 etc



- A general failure to answer the question set. For example, if candidates are asked to suggest a performance measure to cover the balanced scorecard perspective of process efficiency they should suggest a performance measure, not talk about the processes they think the business needs to be good at.
- Answer all parts of all questions. The majority of candidates submitted incomplete section B answers

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.

Carefully do your calculations

- Attempt all questions in the examination (there are no negative marks for incorrect answers)
- For paper version of the exam, present section B answers as tidily as possible
- Read previous Examiner’s Reports.