



# Examiner's report

## F2/FMA

For CBE and Paper exams covering January to June 2016

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 specimen exam 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 49% 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 the June diet.

In section B approximately one half of 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 paper, 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

The following variances occurred last period.

Sales volume contribution	\$20,000 favourable
Sales price	\$5,000 adverse
Total variable cost	\$18,000 favourable
Fixed cost expenditure	\$12,000 adverse

**If the flexed budget contribution was \$200,000, what was the actual contribution?**

A \$213,000

B \$218,000

C \$221,000

D \$233,000

This question tests syllabus area D3b , the reconciliation of budgeted and actual contribution under standard marginal costing. It is an area that candidates have found difficult in the past, and once again it generated the worst answered question on the paper.

The safest way to answer this type of question is to layout the relevant section of the standard costing operating statement and to “plug in” the figures provided, as shown below:

	\$
Flexed budget contribution	200,000
(= actual sales units x standard contribution)	
Sales price variance	(5,000)
Total variable cost variance	<u>18,000</u>
Actual contribution is therefore	<u>213,000</u>

This results in the correct answer, A.

The most popular answer was C. To obtain this answer candidates must have erroneously included the following variances in their calculations

(i) the sales volume contribution variance: this suggests that they confused flexed budget contribution with the original budgeted contribution, and

(ii) the fixed cost expenditure variance: this suggests that they thought contribution was calculated after deducting fixed costs. This is a disturbing error.

Answer D made the first of these errors but not the second.

Answer B correctly included the variable cost variance in their calculations , but failed to include the sales price variance.

## Example 2

An accountant is using the repeated distribution method to reappportion service department costs. The following table shows the work she has done so far. Figures that are yet to be calculated are shown as “???”.

	Production department 1	Production department 2	Service department X	Service department Y
	\$	\$	\$	\$
Apportioned and allocated production overheads	60,000	80,000	20,000	10,000
Service department X	8,000	10,000	-20,000	2,000
Service department Y	7,200	4,200	600	-12,000
Service department X	???	???	-600	0
Total production overhead	???	???	0	0

**What is the total production overhead for production department 1 after the remaining reappportionment of the overheads of service department X?**

- A \$74,600
- B \$75,200
- C \$75,440
- D \$75,467

This question covers syllabus area B1c iv, the reappportionment of service cost centre costs to production cost centres.

The correct answer is D.

By examining the second row of figures in the table it is clear that service department X's costs are reappportioned on a 40% , 50% , 10%. On the final reappportionment no overhead is reappportioned to service department Y, so the balance of overhead should be reappportioned 40/90 and 50/90. This results in the following total production overhead for production department 1.

$$(\$60,000 + \$8,000 + \$7,200) + 40/90 \times \$600 = \$75, 467.$$

The most popular answer was C. To obtain this answer candidates must have performed the following calculation

$$(\$60,000 + \$8,000 + \$7,200) + 40\% \times \$600 = \$75, 440.$$

This approach would result in some overhead being reappportioned to service department Y, and if continued would result in the reappportionment process carrying on for ever!

Answer A, candidates incorrectly deducts \$600 from the overheads already allocated , apportioned and reappportioned to department 1 .Answer B, candidates incorrectly adds on \$600.

**Example 3**

Budgeted costs and revenues for an output level of 4,000 units are given below. It is known that after an output level of 5,000 units there is a step up in fixed costs of \$1,000.

	\$ per unit
sales price	30
variable cost	18
fixed cost	<u>4</u>
profit	<u><u>8</u></u>

**What is the flexed budget profit at an output level of 6,000 units?**

- A \$47,000
- B \$48,000
- C \$55,000
- D \$56,000

This question covers syllabus area C4d budget flexing.

The correct answer is C. To arrive at this answer a candidate needs to understand that contribution varies in linear proportion to volume, but that fixed costs do not. Accordingly they need to calculate that the contribution at 6,000 units will be \$72,000 (6,000 x (\$30 - \$18)), and that fixed costs will be made up of the budgeted fixed costs at 4,000 units (4,000 x \$4 = \$16,000) plus the step up fixed costs of \$1,000, making \$17,000 in total. Profit at an output level of 6,000 units is therefore \$72,000 - \$17,000 = \$55,000.

In short  $6,000 \text{ units} \times (\$30 - \$18) - 4,000 \text{ units} \times \$4 - \$1,000 = \$55,000$

Answer D, chosen by a minority of candidates, was nearly correct, candidates simply did not deduct the step in fixed costs. Note that distractors (incorrect answers) in objective testing questions sometimes are based on figures arrived at by incomplete calculations. Candidates should try to avoid choosing answers until they are sure that their calculations are complete.

Answer A was chosen by candidates, who presumably believed that profit per unit remained constant as volume changed. Accordingly they multiplied 6,000 units by \$8 per unit profit and then subtracted the \$1,000 step. Answer B took a similar path, but failed to subtract the step up in fixed costs.

To construct a flexed budget candidates need a firm grasp of cost behaviour. This appeared to be lacking in the majority of candidates who chose alternatives A or B.

**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 exam reflects the weightings and this balance of questions will be used in future exams.

Common problems with section B questions include the following

- An inability to calculate payments to suppliers in a cash budget.
- An inability to calculate direct labour and direct material variances.
- An inability to calculate asset turnover and inventory days ratios.
- 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 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).
- For written paper exam only, 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 (for example, an inventory days figure of 27 million days is unlikely)
- Read previous Examiner’s Reports