



# Examiner's report

## MA/FMA Management Accounting

### Based on exams from January to June 2019

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

#### General Comments

The examination consists of two sections. Section A of the exam contains 35 objective test questions – each worth 2 marks and Section B contains 3 MTQs worth ten marks each. All questions are compulsory. FMA Management Accounting is a two hour examination. A specimen exam reflecting this structure is available on the ACCA website, together with a number of practice MTQs.

Calculation questions account for approximately one half of questions in both Section A and Section B. Candidates tend to perform more poorly on calculation questions than on narrative questions.

#### Comments about Section A

The following questions are taken from Section A of the exam.

##### Example 1

Division A reported sales of \$400,000 and a contribution of \$160,000 for the most recent period. Fixed costs for the period were \$80,000, of which 20% were controllable by the division's manager.

**What is the amount of profit which is controllable by the division's manager for the most recent period?**

Controllable profit is calculated by deducting controllable expenses from controllable revenues. Revenues and variable costs are usually controllable by the divisional manager. The controllability of fixed costs depends upon the responsibilities given to the divisional manager. In this case we are told that only 20% of the fixed costs ( $20\% \times \$80,000 = \$16,000$ ) are controllable by the divisional manager.

**Controllable profit is therefore  $\$160,000 - \$16,000 = \$144,000$**

##### Example 2

A machine has a net book value of \$60,000. It is to be used to manufacture a new product. It has no alternative use. Depreciation of the machine will continue at \$15,000 per annum. Incremental net cash inflows of \$40,000 are expected from the new product in the first year. The cost of capital is 10% per annum. All cash flows are assumed to occur at the end of the year.

**What is the discounted cash flow in the first year for the new product (to the nearest \$100)?**

The incremental net cash flow in the first year is given as \$40,000. The depreciation charge is not a cash flow and does not need to be considered in a discounted cash flow calculation. No further cash flows are mentioned.

**The discounted cash flow is = \$40,000 x present value factor for Year 1 at 10% per annum**  
**= \$40,000 x 0.909 = \$36,360**

**To the nearest \$100, this would be = \$36,400**

Note: Candidates who used a calculator rather than present value tables would calculate the discounted cash flow as  $\$40,000/1.10 = \$36,364$  which would still round to \$36,400.

### Example 3

The results for a division are as follows:

	<b>\$</b>
Sales	24,000
Direct costs	<u>(10,000)</u>
Contribution	14,000
Allocated costs (directly relating to the division)	(2,000)
Apportioned head office costs	<u>(1,000)</u>
Divisional profits	<u>11,000</u>

\$80,000 capital employed is controllable by the division.

**What is the controllable return on investment for the division for the period (to the nearest %)?**

1. 15%
2. 18%
3. 14%
4. 16%

Controllable return on investment (ROI) is calculated as (controllable profit/controllable investment) x 100.

Sales and direct costs are normally controllable at divisional level. Allocated costs refer to costs that are charged directly to the division and are usually controllable at divisional level. Apportioned costs refer to indirect costs that are charged to cost centres on a logical but arbitrary basis. Head office costs are not controllable at divisional level.

Controllable profit is therefore  $\$14,000 - \$2,000 = \$12,000$

**Controllable ROI =  $\$12,000/\$80,000 = 15\%$**

Alternative 2 represents contribution/controllable investment

Alternative 3 represents divisional profit/controllable investment  
 Alternative 4 represents (contribution – apportioned head office costs)/controllable investment.

#### Example 4

The sales trend of a product is represented by the equation  $y = a + bx$  where:

y is the sales units in a quarter

a is 40,000

b is 1,000

x is the quarter number (for example year 1 quarter 1 is 1, year 1 quarter 2 is 2)

Seasonal variations are applied as a proportion of the trend and the actual sales in year 1 quarter 1 were 47,560 units. It has been decided that this year 1 data is to be used to forecast sales in year 2.

#### Using the multiplicative times series model, what are the forecast sales for year 2 quarter 1?

The multiplicative time series model summarises a time series as (trend x seasonal variation x cyclical variation x random variation).

In this case there are no cyclical or random variations.

The trend for quarter 1 year 1 =  $40,000 + (1,000 \times 1) = 41,000$

The trend for quarter 1 year 2 =  $40,000 + (1,000 \times 5) = 45,000$

The seasonal variation factor for quarter 1 is  $47,560/41,000 = 1.16$

**Forecast sales for year 2 quarter 1 are  $45,000 \times 1.16 = 52,200$**

#### Example 5

A firm uses standard absorption costing. The following variances occurred last period:

	\$	
Sales volume profit	10,100	Adverse
Sales price	4,200	Favourable
Material price	2,300	Favourable
Labour efficiency	500	Adverse
Fixed overhead expenditure	1,800	Adverse
Fixed overhead volume	2,000	Adverse
Fixed overhead capacity	1,500	Favourable
Fixed overhead efficiency	3,500	Adverse

The standard profit from actual sales for the period was \$240,000.

#### What was the actual profit for the period?

1. \$232,100
2. \$240,200

3. \$230,100
4. \$242,200

Previous examiner reports have mentioned candidate's poor performance in this area of the syllabus.

Standard profit from actual sales is calculated by subtracting the adverse sales volume variance from the budgeted profit (standard profit for budgeted sales). Therefore the sales volume variance is not needed in this calculation, as it has already been accounted for in calculating the standard profit for actual sales (\$240,000). Using it again would be double counting.

Actual profit can be calculated by adjusting standard profit for actual sales for the sales price and production cost variances.

Note that in this case there are four fixed overhead variances given. As the fixed overhead volume variance is the summation of the capacity and efficiency variances, care must be taken not to double count.

**Actual profit is therefore = \$240,000 + \$4,200 + \$2,300 - \$500 - \$1,800 - \$2,000 = \$242,200**

Alternative 1 includes the sales volume profit variance and hence double counts it

Alternative 2 double counts the fixed overhead volume variance

Alternative 3 double counts both the sales volume profit variance and the fixed overhead volume variance

### Example 6

A firm sets its fixed budget at 100% capacity. The budgeted sales are \$300,000 and budgeted net profit is \$50,000. Budgeted costs are 70% fixed costs and 30% variable costs.

**What is the flexed budget for net profit at 80% capacity?**

1. \$5,000
2. \$40,000
3. \$25,000
4. \$65,000

To determine the flexed budget, the sales and costs need to be adjusted to 80% capacity, noting that 70% of the costs are fixed and therefore will not be flexed but will remain the same as in the fixed budget.

	<b>Flexed budget</b>
	<b>\$</b>
Sales (\$300,000 x 80%)	240,000
Variable costs (((\$300,000 - \$50,000) x 30% x 80%)	(60,000)
Fixed costs (((\$300,000 - \$50,000) x 70%	<u>(175,000)</u>
Net profit	<u><b>5,000</b></u>

Alternative 2 is arrived at by adjusting both the sales and total cost figures for 80% and forgetting that the fixed cost element should not be flexed

Alternative 3 is the adjusted total cost figure less the fixed cost element

Alternative 4 is the adjusted sales figure less the fixed cost element only

### **Comments about Section B**

Section B contains 3 questions, one from each of the areas of Budgeting, Standard Costing and 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. The pilot 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 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.

### **Conclusion**

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 weakness.
- Read questions very carefully in the exam.
- Ensure that calculations are complete before selecting the 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