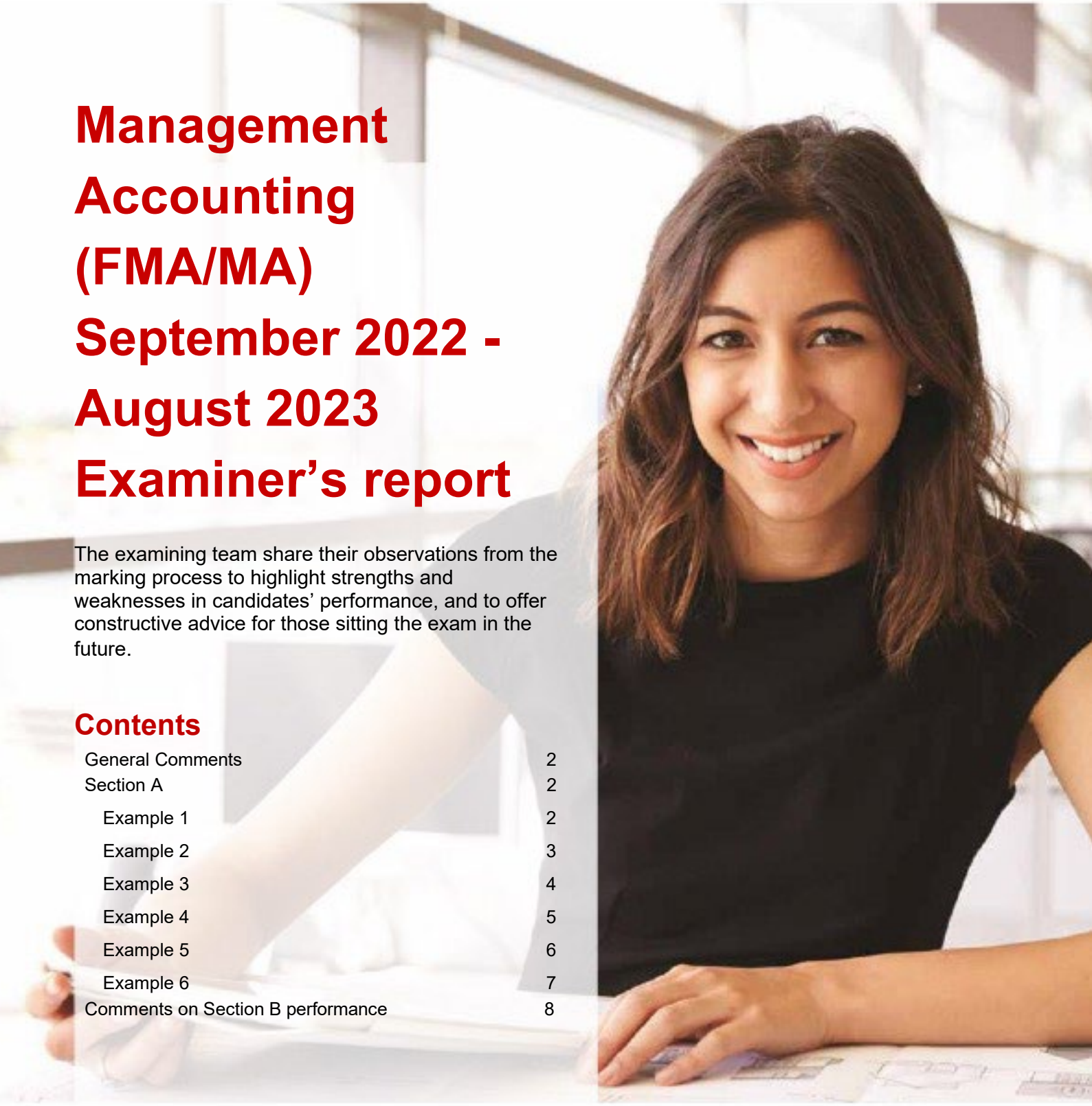


Management Accounting (FMA/MA) September 2022 - August 2023 Examiner's report

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

Contents

General Comments

The intention of this report is that, when considered in conjunction with previous reports, candidates at future sittings will have a resource which maximises their chance of success. The most effective way to use these reports is to consider both the technical content of each question, and the approach to answering the question – noting that different question types will require slightly different approaches.

The FMA/MA examination is a two-hour examination and consists of two sections. Section A contains 35 objective test questions – each worth 2 marks, and section B contains 3 MTQs worth ten marks each. A specimen exam reflecting this structure is available on the ACCA website together with several additional MTQs. All questions are compulsory, and the exam is evenly balanced between calculation and narrative questions. Candidates tend to perform slightly better on the narrative questions than on the calculation questions.

Section A

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

Example 1

A survey is being carried out with regard to computer usage within a population. A total of 100 people from each of six different age groups will be selected to make up the sample.

What type of sampling is this known as?

Choices:

1. Systematic
2. Random
3. Cluster
4. Quota

What is the correct answer?

✓ The correct answer is **4. Quota**

Quota sampling is a non-random sampling technique. It is commonly used for market research surveys such as the one in the question when it is important to get responses from a range of age groups. A quota is agreed, in this case 100 people from six different age groups. The only criteria here is that people belong to a particular age group. The researchers will interview people from each age group until the total of 100 is reached.

Cluster sampling is also a non-random sampling technique whereby a subsection of a population is selected. The subsection is deemed to be representative of the overall population.

Random sampling is where every member of a population has the same chance of being selected. Members are selected randomly from an overall population, maybe using a computer programme or random numbers.

Systematic sampling is a quasi-random sampling method where a random starting position is selected, thereafter every n^{th} item is selected.

Example 2

The management accountant of a desk manufacturer is in the process of preparing a value analysis.

Two features of one desk sold by the manufacturer are:

(1) Sales price of $149

(2) Can be attached to other units to increase desk size

What is the correct value analysis classification for each feature?

Choices:

1. (1) Exchange value (2) Esteem value
2. (1) Cost value (2) Esteem value
3. (1) Exchange rate (2) Exchange value
4. (1) Exchange value (2) Use value

What is the correct answer?

✓ The correct answer is **4. (1) Exchange value/(2) Use value**

Value analysis is a technique which looks to improve the profit of a product or service without increasing the price, by considering the various aspects of value embedded within the product or service.

The exchange value is the amount of money that someone would be willing to exchange to own the product or enjoy the service. This is essentially the price or market value of the product or service.

The esteem value is the intrinsic value the consumer places on owning the product. It is related to status or prestige and is often associated with branded or designer products.

The cost value is the actual cost of producing the product or providing the service.

The exchange rate is how much the currencies of different countries can be bought and sold for and does not relate to value analysis.

The use value relates to the functionality of the product and what need it fulfils for the customer.

In this example, the sales price of $149 is the exchange value. The functionality of the desks, allowing them to be reconfigured to suit each customer is the use value.

Example 3

Monthly maintenance charges in a manufacturing organisation have been identified as follows:

Production volume	**Total costs**
1,500 units	$4,000
2,500 units	$7,000

One maintenance supervisor is required for every 2,000 units of production volume. Maintenance supervisors are paid $1,000 per month.

The budgeted production volume for month 3 is 3,250 units.

What is the budgeted maintenance cost for month 3?

$_____

What is the correct answer?

✓ The correct answer is **$8,500**

In any budgeting question such as this, the first step is to identify the cost behaviour which is being exhibited. The costs given are clearly not fixed costs as they are different at the two different volume levels. To establish if they are variable costs, calculate the unit cost at each level of volume.

The complication here is that there is a supervisor cost of $1,000 included at a volume of 1,500 units and $2,000 included at a volume of 2,500 units. This should be taken out before calculating the unit cost:

Unit cost at a volume of 1,500 = ($4,000 - $1,000)/1,500 = $2

Unit cost at a volume of 2,500 = ($7,000 - $2,000)/2,500 = $2

As the unit costs are the same at each level, the maintenance cost is a variable cost.

Total variable cost for 3,250 units = 3,250 x $2 = $6,500

Supervisor cost for 3,250 units = 2 x $1,000 = $2,000

Total maintenance cost for month 3 = $6,500 + $2,000 = $8,500

Example 4
A food retailer operates 200 shops, all in the domestic market. The range of products and the pricing of products is required to be the same in all shops. Individual shops are however responsible for inventory and staffing levels.

How should each of the following decisions, faced by the food retailer, be categorised?

Choices:

		Strategic	Tactical	Operational
1.	To open shops in a foreign market			
2.	To reduce inventory levels in a particular shop			
3.	To introduce a new loyalty card scheme			
4.	To review the budgets at regional level in the market			

What is the correct answer?

✓ The correct answer is**:**

		Strategic	Tactical	Operational
1.	To open shops in a foreign market	✓		
2.	To reduce inventory levels in a particular shop			✓
3.	To introduce a new loyalty card scheme	✓		
4.	To review the budgets at regional level in the market		✓	

Strategic decisions will be decisions which affect the whole organisation for the long term and these decisions are made by the senior managers of the organisation. Opening shops outside of the domestic market would come under this heading as this is a fundamental shift in the operation of the organisation and a decision which could only be made by the senior management team. Likewise, the decision to introduce a loyalty card scheme would affect all 200 shops and is also a decision which would be made at the highest level of the organisation.

Tactical decision making is generally carried out by middle management levels of the organisation, may only affect part of the organisation, and these decisions tend to be short term. The review of budgets would come under this heading as they are

normally prepared for the duration of one year and this review is looking at regional levels of the organisation.

Operational decisions will be made at store level and involve day to day decisions relating to the running of that store. A decision to reduce inventory at a particular store would come under the operational heading.

Example 5

Output from a process are two joint products, A and B. Joint costs are apportioned between joint products on the basis of units produced. Details for a period are tabulated below:

Joint products	**A**	**B**
Units produced	500	400
Units sold	450	350
Selling price per unit	$10	$8

Joint costs were $6,300 for the period.

What is the total profit for the period from the sale of the joint products?

Choices:

1. $1,700
2. $1,000
3. $1,900
4. $2,600

What is the correct answer?

✓ The correct answer is **1. $1,700**

When reading through this question, it is important to notice that the units produced and the units sold of each product are different, so the calculation of total profit will have to take account of the value of closing inventory.

A total of 900 units were produced in the period, but only 800 units were sold, therefore there is a closing inventory of 100 units.

Joint costs were $6,300 for the production of 900 units therefore the unit cost was ($6,300 / 900) = $7, so the value of closing inventory is (100 x $7) = $700.

Total sales = (450 x $10) + (350 x $8) = $7,300.

Joint costs (less closing inventory) = $6,300 - $700 = $5,600.

Therefore, the total profit is $7,300 - $5,600 = $1,700.

Distractors:

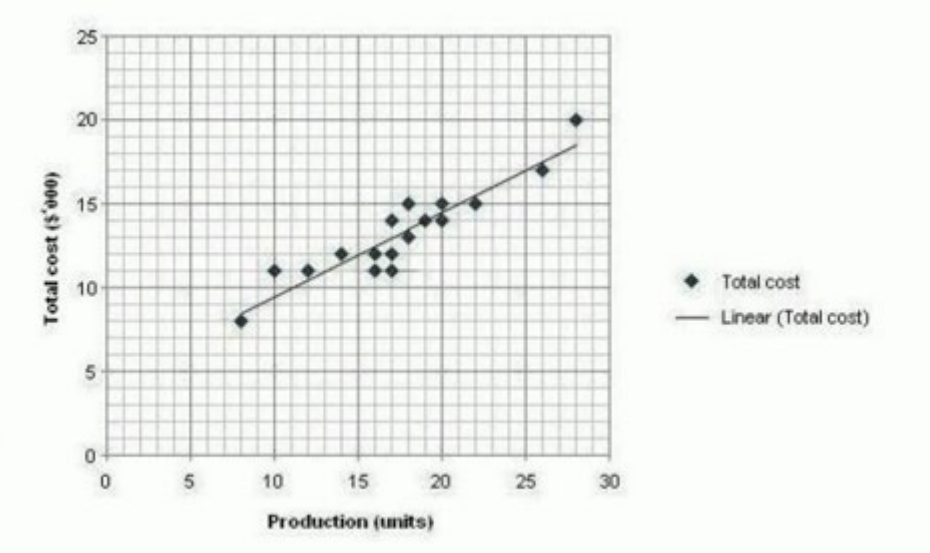
Option 2. $1,000 – did not take account of the closing inventory

Option 3. $1,900 –sales revenue is based on the production volume

Option 4. $2,600 –sales revenue is based on the production volume and the value of closing inventory has been added back

Example 6

A spreadsheet has produced the following scatter diagram based on actual observations in a car factory:



Using the diagram, what is the best estimate of total cost per unit if 15 units are produced?

Choices:

1. $4,000
2. $12,000
3. $21,000
4. $800

What is the correct answer?

✓ The correct answer is **4. $800**

The x-axis of the graph shows the number of units produced, and the y-axis shows total costs in $000. Using the graph, go along the x-axis to 15 units and read the corresponding value on the y-axis. The total costs for 15 units are $12,000.

It could be tempting at this point to select option 2, but read the requirement carefully, it is the total cost **per unit** that is required. The total cost per unit = $12,000/15 = $800.

Distractors:

Option 1. $4,000 – This is the point at which the line intersects with the y-axis which is the total fixed costs.

Option 2. $12,000 – This is the total cost and not the total cost per unit.

Option 3. $21,000 – This has treated the x-axis and the y-axis the wrong way round and has read from 15 on the y-axis to the corresponding 21 on the x-axis. This is effectively saying that a total cost of $15,000 relates to 21 units of production.

Comments on Section B performance

Section B contains 3 questions, one from each of syllabus areas C Budgeting, D Standard Costing and E Performance Measurement. The balance of MCQ questions in section A reflects this weighting so as to preserve the overall balance of the exam. 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 payback, net present value (NPV) and internal rate of return (IRR)
- An inability to calculate standard cost variances
- An inability to calculate residual income (RI) and return on capital employed (ROCE)
- A 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 objective test questions as possible to ensure that they are comfortable with all questions styles; number entry questions in particular appear to be a weakness
- Read questions very carefully in the examination and ensure that they answer the question
- Ensure that their calculations are complete before selecting their 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 holding period figure of 27 million days is unlikely)
- Read previous Examiners’ Reports