Examiners' report

F2 Management Accounting
December 2007

The following questions are ones where less than 30% of the candidates selected the correct answer. These questions carried 2 marks each.

Example 1

A company uses standard marginal costing. Last month the standard contribution on actual sales was $10,000 and the following variances arose:

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Total variable costs variance	2,000 Adverse
Sales price variance	500 Favourable
Sales volume contribution variance	1,000 Adverse

What was the actual contribution for last month?

A $7,000
B $7,500
C $8,000
D $8,500

The correct answer was D ($8,500). The most popular choice made by candidates was B. More than twice as many candidates chose B than chose D. Those choosing B had overlooked the fact that the 'standard contribution on actual sales' (given in the question) would have been obtained by adjusting the budgeted contribution by the sales volume contribution variance. Therefore this variance should have been ignored in answering the specific question set. The correct answer is obtained as follows:

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Standard contribution on actual sales	10,000
Add Favourable sales price variance	500
Subtract Adverse total variable costs variance	(2,000)
Actual contribution	$ 8,500

This question tested Section E5(b) in the Study Guide – the reconciliation of budgeted and actual contributions under standard marginal costing.

Example 2

The probability of an organisation making a profit of $180,000 next month is half the probability of it making a profit of $75,000.

What is the expected profit for next month?

A $110,000
B $127,500
C $145,000
D $165,000

This short calculation question caused many candidates a lot of problems. Both choices B and D were very popular – many more candidates chose either B or D than chose the correct answer A ($110,000).

The correct calculation is:
[(180,000 × 1) + (75,000 × 2)] ÷ [1 + 2] = $110,000

Answer B could be calculated incorrectly as follows:
[(180,000 × 2) + (75,000 × 2)] ÷ [2 + 2] = $127,500
This approach has weighted the two profits equally and not in the ratio described in the question.

Answer D could be calculated incorrectly as follows:
[(180,000 ÷ 2) + 75,000] = $165,000
This approach indicates a poor understanding of what an expected value is, namely a **weighted** average.

This question tested Section C1(a) in the Study Guide – the calculation of an expected value.

Example 3

Two products (W and X) are created from a joint process. Both products can be sold immediately after split-off. There are no opening inventories or work in progress. The following information is available for last period:

Total joint production costs $776,160

Product	Production units	Sales units	Selling price per unit
W	12,000	10,000	$10
X	10,000	8,000	$12

Using the sales value method of apportioning joint production costs, what was the value of the closing inventory of product X for last period?

A $68,992
B $70,560
C $76,032
D $77,616

The correct answer was D ($77,616). Both answers B and C were more popular choices by candidates and A was selected by more than 12 % of the candidates.

The correct approach is as follows:

Sales values of **production**:
Product W : (12,000 × 10) = $120,000
Product X : (10,000 × 12) = $120,000

Therefore joint production costs are apportioned W : X in the ratio 1 : 1.
Amount apportioned to product X is (776,160 ÷ 2) = $388,080.
20% of X's production is in closing inventory: (0.2 × 388,080) = $77,616.

Answer B has split the joint production costs on the basis of sales **prices** and Answer C has used the sales value **of sales** to apportion joint **production** costs.

This question tested Section D6(k) in the Study Guide – the valuation of joint products .