Examiners' report
F2 Management Accounting
June 2008

This was the second examination under the new syllabus. The two hour paper contained 50 multiple choice questions – 40 carried two marks each and the other 10 carried one mark each. This mix is exactly in line with the pilot paper. The general performance of candidates was not pleasing and was lower than that achieved in December 2007.

The following questions taken from the June 2008 examination are ones where less than one third of the candidates selected the correct answer. These questions carried 2 marks each.

Example 1

A company uses standard marginal costing. Last month, when all sales were at the standard selling price, the standard contribution from actual sales was $50,000 and the following variances arose:

	$
Total variable costs variance	3,500 Adverse
Total fixed costs variance	1,000 Favourable
Salesvolume contribution variance	2,000 Favourable

What was the actual contribution for last month?
A $46,500
B $47,500
C $48,500
D $49,500

The correct answer was A ($46,500). Both C and D were very popular choices made by candidates. The correct answer is obtained as follows:

	$
Standard contribution on actual sales	50,000
Subtract Adverse total variable costs variance	(3,500)
Actual contribution	$46,500

No adjustment is required for the favourable sales volume contribution variance as it will have already have been added to the budgeted contribution to arrive at the standard contribution from actual sales ($50,000) given in the question. The total fixed costs variance, along with the budgeted fixed costs, appears in a reconciliation statement below the actual contribution.

This question tested Section E5(b) in the Study Guide – the reconciliation of budgeted and actual contributions under standard marginal costing. A question on this topic was also poorly answered in the December 2007 examination. This was highlighted in the Examiner's Report for that examination. Future candidates are strongly advised to read these reports.

Example 2

The management of a company is making a decision which could lead to just three possible outcomes – 'high', 'medium' and 'low' levels of demand. Profit and expected value information are as follows:

Outcome	Profit	Profit × probability of outcome
	$	$
High	25,000	10,000
Medium	16,000	8,000
Low	10,000	1,000

What is the most likely level of profit from making the decision?
A $16,000
B £17,000
C $19,000
D $25,000

The correct answer was A ($16,000). The question stated that there were just three possible outcomes for profit in a decision situation. The requirement asked for the **most likely** level of profit, that is the one of the three possibilities with the highest probability of occurring. The probability of a $25,000 profit was 0.40 (10,000 ÷ 25,000) and that of a $16,000 profit was 0.50 (8,000 ÷ 16,000).

Choices B, C and D were all popular with candidates. Choice B ($17,000) was the simple average of the three profit figures [(25,000 + 16,000 + 10,000) ÷ 3] and Choice C was the **expected** profit, which is the long term weighted average (10,000 + 8,000 + 1,000). Choice D was the highest possible level of profit ($25,000). This question tested Section C1(a) and (b) in the Study Guide.

Example 3

A manufacturing company uses 25,000 components at an even rate during a year. Each order placed with the supplier of the components is for 2,000 components, which is the economic order quantity. The company holds a buffer inventory of 500 components. The annual cost of holding one component in inventory is $2.

What is the total annual cost of holding inventory of the component?
A $2,000
B $2,500
C $3,000
D $4,000

The correct answer was C ($3,000). This can be calculated as follows:

{[Buffer inventory + (EOQ ÷ 2)] × Annual holding cost per component}   which gives

{[500 + (2,000 ÷ 2)] × 2} = 3,000.

Answer A was a popular choice with candidates. However, this answer ignores the annual cost of holding the permanent buffer inventory. Answers B or D were chosen by about 40% of the candidates. Answer B is obtained by halving the buffer inventory as well as the economic order quantity (EOQ). Answer D is simply multiplying the EOQ by the annual holding cost per component.

This question tested section D1(d) in the Study Guide.

Future candidates are advised to:

- Study the whole syllabus. The examination will always cover all sections of the Study Guide.

- Use the pilot paper as practice questions. The pilot paper is also a very good guide to the styles of questions that will continue to be set and to the coverage of the topics in the Study Guide. It is also gives a good indication of the approximate split between calculation and non-calculation questions that will continue in future examinations.

- Practise as many multiple choice questions as possible in preparing for the examination.

- Read questions carefully in the examination – including all the alternative choices of answer to each question. Candidates should remember that the examiner puts a lot of careful thought not only into each question and the correct answer but also into the distractors (the wrong answers to a multiple choice question).This point is well illustrated by the examples above from the June 2008 examination.

- Read examiners reports as they highlight areas where common mistakes have been made.