Examiners’ report

F2 Management Accounting
December 2008

This was the third examination under the new syllabus. The two hour paper, as usual, 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 showed a definite improvement in December 2008 compared with the previous two examinations.

The following questions taken from the December 2008 examination are ones where the performance of candidates was particularly weak. Each of these questions carried 2 marks.

Example 1

A manufacturing company operates a standard absorption costing system. Last month 25,000 production hours were budgeted and the budgeted fixed production overhead cost was $125,000. Last month the actual hours worked were 24,000 and the standard hours for actual production were 27,000.

What was the fixed production overhead capacity variance for last month?
A $5,000 Adverse
B $5,000 Favourable
C $10,000 Adverse
D $10,000 Favourable

The correct answer was A ($5,000 Adverse) and was selected by less than 40% of the candidates.

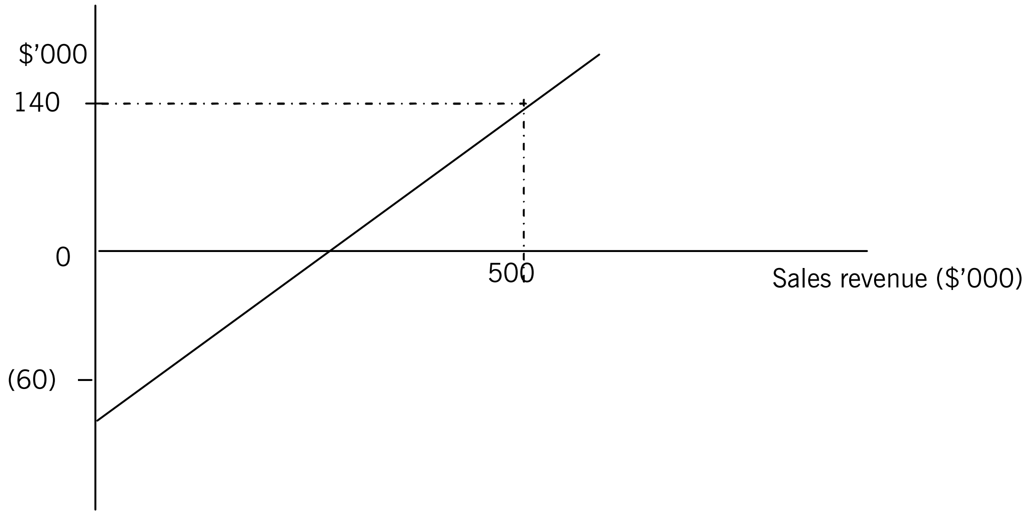
The fixed production overhead capacity variance is the difference between the budgeted hours and the actual hours worked with the difference being evaluated at the hourly standard fixed production overhead cost rate. So the value of the correct answer is calculated as: [(25,000 – 24,000) × $5] = $5,000. There is a second stage in determining the correct answer as both choices A and B contain a value of $5,000. Is the variance Adverse or Favourable? It is adverse because the predetermined standard rate of $5 per hour was based on 25,000 budgeted hours. By only working 24,000 hours this would cause overheads to be under absorbed – an adverse effect.

Almost as many candidates selected choice B as selected the correct choice A. Candidates selecting a variance value of $10,000 had presumably calculated the volume variance rather than the capacity variance, which was $10,000 Favourable.

This question tested Section E4(a) in the Study Guide. A one mark written question on this topic with just two choices (A or B) was also set in the June 2008 examination. A comparable outcome occurred then as the candidates opted for A and B in almost equal proportions.

Example 2

The profit-volume chart for a single product company is as follows:



What is the product's contribution to sales ratio (expressed as a %)?
A 16%
B 28%
C 40%
D 72%

The correct answer was C (40%). Only one third of the candidates selected the correct answer to this question. The diagram shows that at an activity level of $500,000 worth of sales, the profit was $140,000. It also shows that the loss at zero activity is $60,000 which also represents the total fixed costs. Therefore the contribution at $500,000 of sales is $200,000 (140,000 + 60,000) and the contribution to sales ratio is: [200,000 ÷ 500,000 × 100] = 40%.

Choice B was the most popular selection by candidates for this question. This was possibly based on the calculation of $140,000 as a percentage of $500,000 or just a pure guess?

This question tested Section F1(c) in the Study Guide which refers to the identification of elements in profit-volume charts.

Example 3

Last month a manufacturing company's profit was $2,000, calculated using absorption costing principles. If marginal costing principles had been used, a loss of $3,000 would have occurred. The company's fixed production cost is $2 per unit. Sales last month were 10,000 units.

What was last month's production (in units)?
A 7,500
B 9,500
C 10,500
D 12,500

The correct answer was D (12,500 units). Significantly less than 50% of candidates selected this answer.

The difference between the marginal costing loss and the absorption costing profit was $5,000. This equates with the change in inventory (in units) evaluated at $2 (the fixed production cost per unit). Therefore the change in inventory last month was 2,500 units [5,000 ÷ 2]. As the marginal costing 'profit' outcome was lower than the absorption costing profit then production was greater than sales last month – by 2,500 units. Therefore last month's production was [10,000 + 2,500] = 12,500 units.

Choice A (7,500 units) could be obtained by deducting the 2,500 from the 10,000 in the final step. Nearly 15% of candidates selected A. More than 40% of the candidates selected either B or C which probably meant that they had taken the initial difference in 'profits' as $1,000 which gave a inventory change of 500 units.

This question tested section D4(d) in the Study Guide.

The worst answered question in December 2008 has not been reproduced in this report as it again involved the reconciliation of budgeted and actual contributions in a standard marginal costing system [Study Guide E5(c)]. Very similar questions in both the December 2007 and June 2008 examinations were highlighted in the respective Examiner's Reports. Students are advised to look back to these reports as they are still very relevant.

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 examinations in 2009.

- 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 Example 3 from the December 2008 examination (see above).