

Examiner's report

F2 Management Accounting

June 2009

General Comments

This was the fourth 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 continues to be exactly in line with the pilot paper. The general performance of candidates was disappointing in the June 2009 examination especially after the improvement reported six months ago.

The following questions taken from the June 2009 examination are ones where the performance of candidates was particularly weak – in each case less than 30% of the candidates selected the correct answer. Each of these questions carried 2 marks.

Example 1

A company manufactures and sells toys and incurs the following three costs:

- (i) Rental of the finished goods warehouse.
- (ii) Depreciation of its own fleet of delivery vehicles
- (iii) Commission paid to sales staff.

Which of these are classified as distribution costs?

- A (i) and (ii) only
- B (i) and (iii) only
- C (ii) and (iii) only
- D (i), (ii) and (iii)

The correct answer was A. This question tested Sections B1(a) and (c) in the Study Guide, which require candidates to be able to distinguish between distribution and selling costs.

Distribution costs are those costs incurred in making completed products ready for despatch and their delivery to customers. Thus the warehouse rental and depreciation of delivery vehicles are distribution costs but the sales commission is clearly a selling cost.

It was a little surprising to discover the poor performance to a question on this topic; perhaps it is one that students tend to skip over in their studies?

Example 2

A company manufactures a single product. In a computer spreadsheet the sells F1 to F12 contain the budgeted monthly sales units for the twelve months of next year in sequence with January sales in cell F1 and finishing with December sales in F12. The company policy is for the closing inventory of finished goods each month to be 10% of the budgeted sales units for the following month.

Which of the following formulae will generate the budgeted production (in units) for March next year?

- A = $[F3 + (0.1 \times F4)]$
- B = $[F3 - (0.1 \times F4)]$
- C = $[(1.1 \times F3) - (0.1 \times F4)]$
- D = $[(0.9 \times F3) + (0.1 \times F4)]$

The correct answer was D. This question tested Sections C3(b) and E2(b) of the Study Guide.

Basic budget preparation indicates that budgeted production for a period = budgeted sales for the period + closing inventory of finished goods for the period – opening inventory of finished goods for the period. For this question, this translates into a budgeted production for March of: $F3 + 10\% \text{ of } F4 - 10\% \text{ of } F3$. This can be simply rearranged into the spreadsheet formula shown in D.

The most popular answer was A – selected by over 30% of candidates. Answers B or C were selected by almost 40% of the candidates, which was surprising, as in both the 10% element of April's sales were being **deducted** in arriving at the March production – a fundamental error.

The poor performance on this question may relate more to the spreadsheet element in it rather than the budgeting element. This would be a suitable point in this report to emphasise that the whole syllabus will be tested in **every** examination.

Example 3

Budgeted production in a factory for next period is 4,800 units. Each unit requires five labour hours to make. Labour is paid \$10 per hour. Idle time represents 20% of the total labour time.

What is the budgeted total labour cost for the next period?

- A** \$192,000
- B** \$240,000
- C** \$288,000
- D** \$300,000

The correct answer was D. This question also tested section E2(b) in the Study Guide.

The manufacturing time to produce 4,800 units is 24,000 hours [$4,800 \times 5$] which at \$10 per hour gives option B [\$240,000]. This was chosen by more than 20% of the candidates. However the question asks for the budgeted **total** labour cost, therefore the \$240,000 needs to be adjusted for the idle time. The \$240,000 represents payment for 80% of the total time and therefore the total cost is \$300,000 [$\$240,000 \div 0.80$ or $\$240,000 \times 100 \div 80$]. The most popular choice by candidates was option C which is obtained by multiplying \$240,000 by 1.20 – an incorrect adjustment of adding 20% for the idle time. Option A [$\$240,000 \times 0.80$] was chosen by more than 25% of the candidates.

Conclusion

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 also gives a good indication of the approximate split between calculation and non-calculation questions that will continue in examinations in 2009 and 2010.
- 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 June 2009 examination (see above).
- Read previous F2 Examiner's Reports – they are all still very relevant and helpful.