Examiner's report
F2 Management Accounting
December 2009

General Comments

This was the fifth examination under the current 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 again rather disappointing.

The following questions taken from the December 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.

Specific Comments

Example 1

A machine is no longer used by a company. It could be sold now for net proceeds of $300. Its only other use is on a short-term contract which is under consideration. The variable running costs of the machine during the period of the contract would be $400. On completion of the contract the machine would have no realisable value and would cost $150 to dismantle and remove.

What is the total relevant cost of using the machine on the contract?

A $450
B $550
C $700
D $850

The correct answer was D. This question tested Sections F2(b) and (c) in the Study Guide, which require candidates to be able to calculate relevant costs for overheads and those for non-current assets. By not selling the machine now there is an opportunity cost of $300, the variable running cost ($400) are relevant and at the end of the contract the dismantling and removal cost ($150) is also relevant. This gives a total relevant cost of $850.

Answer B was chosen by more than 50% of the candidates. This wrong answer could have been obtained in two ways. First as $300 + $400 – $150, the mistake here is to treat the dismantling cost as a revenue from the sale of the machine. Second as $400 + $150, the mistake here is to regard the realisable value now as being non-relevant.

Example 2

A company uses absorption costing with a predetermined hourly fixed overhead absorption rate. Last year, the following situations arose:
(i) Actual overhead expenditure was less than the budgeted expenditure.
(ii) Actual hours worked were less than the budgeted hours used to set the predetermined overhead absorption rate.

Which of the following statements is correct?

A Both situations would cause the overheads to be under absorbed
B Both situations would cause the overheads to be over absorbed
C Situation (i) would cause the overheads to be under absorbed and situation (ii) would

cause the overheads to be over absorbed

D Situation (i) would cause the overheads to be over absorbed and situation (ii) would cause the overheads to be under absorbed

The correct answer was D.   This question tested Sections D3 (g) of the Study Guide, which requires candidates to be able to explain, as well as calculate, the under and over absorption of overheads.

Answer B was the most popular of the wrong answers, which suggests that candidates understood that situation (i) leads to over absorption and that it was situation (ii) that caused the problem. If actual hours worked are below budget then by applying the predetermined absorption rate (which is based on budgeted hours) to this lower number of actual hours will lead to *under* absorption.

Answers A and C were chosen by significant numbers of candidates, indicating a general lack of understanding of the topic.   Interestingly when a calculation question is a set on this topic the performance is better.

Example 3

An organisation operates a process that creates two joint products (J and K). Last month, joint costs of $60,000 were incurred and the organisation apportions these to the joint products using the sales value method. Data relating to last month were as follows:

Product	Production litres	Sales litres	Selling price per litre
J	10,000	9,000	$2
K	5,000	6,000	$1

What was the apportionment of joint costs to product K for last month?

A $12,000
B $15,000
C $20,000
D $24,000

The correct answer was A. This question tested section D6 (k) in the Study Guide – the valuation of joint products.

Answer B was a popular wrong answer. It is obtained by apportioning the joint costs on the basis of the value of last month's sales. It is joint *production* costs that are being apportioned and the 'sales value method' uses the sales of the *production* last month. The sales value of J production was $20,000 and K production was $5,000 – the appropriate ratio for J:K is 20:5 or 4:1. Product K would have 20% of the joint costs (that is $12,000) apportioned to it.

Both wrong answers C and D were chosen by significant numbers of candidates. Answer C is based on the physical production units (litres) or on the selling prices as the basis of apportionment. In either case the apportionment of joint costs to product K is one-third. Answer D is based on using the physical sales units (litres) for the apportionment.

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 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). Example 3 above from the December 2009 examination illustrates how the distractors to a question are carefully constructed.
- Read previous F2 Examiner's Reports – they are all still very relevant and helpful. In fact Example 3 above is very similar to a question set in December 2007 and that question was highlighted in the Examiner's Report for that examination.