Examiner's report

F2 Management Accounting
June 2010

General Comments

This was the sixth 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 not pleasing.

The following questions taken from the June 2010 examination are ones where the performance of candidates was weak – in each case between 40% and 45% of the candidates selected the correct answer. Each of these questions carried 2 marks and each related to a mainstream topic in the Study Guide.

Specific Comments

Example 1

This A company manufactures a single product. Budgeted production (in units) for the first three months (M1, M2 and M3) of next year is as follows:

M1	M2	M3
4,000	5,000	3,500

Each unit of production uses 3 kg of raw material costing $4 per kg. The budgeted raw material inventory at the end of each month is to be 10% of the following month's production.

What are the budgeted raw material purchases for month M2 next year?

A $58,200
B $59,400
C $60,600
D $61,800

The correct answer was A. This question tested Section E2(b) in the Study Guide, which requires candidates to be able to prepare a materials purchases budget.

In month M2 the company would purchase 90% of its materials needs for that month and 10% of the requirements for month M3. So its materials purchases would be: [0.9×5,000 + 0.1×3,500] ×3×$4 = $58,200.

The total number of candidates choosing either answer B or C was greater than the number of candidates choosing the correct answer A. Answer B could be obtained by [5,000 ×12] to give $60,000 then subtracting $600 which is obtained from 0.1×[5,000–3,500]×$4. The error here is a failure to reflect the 3kg of material per unit in the adjustment. Answer C was $60,000 + $600 so there were in effect two errors in such a calculation.

Example 2

The equation representing the total weekly cost (TC) in $ for an organisation is as follows:

TC = 525,000 + 35Q

where Q represents the weekly production and sales in units.

The organisation's contribution to sales ratio is 30%.

What is the weekly break-even point (in units)?

A 10,500
B 15,000
C 35,000
D 50,000

The correct answer was C. This question tested Sections B3(d), F1(a) and (b) of the Study Guide. Section B3(d) requires candidates to understand the structure of linear equations and Section F1 (a) and (b) require knowledge of break-even concepts and the contribution to sales ratio.

The correct answer was selected by the highest number of candidates but the other three answers were all quite popular choices by the other candidates. From the total cost equation it can be seen that the variable cost per unit is $35 and total weekly fixed costs are $525,000. A contribution to sales ratio of 30% means contribution is 30% of sales, so variable cost must be 70% of sales. A contribution per unit of $35 gives a selling price of $50 per unit and therefore a contribution per unit of $15. Break-even point occurs when total contribution = total fixed costs. Break-even point [in units] is therefore [525,000÷15] = 35,000 [Answer C].

The wrong answers A and B could be obtained by dividing the total fixed costs by the selling price per unit and the variable cost per unit respectively. Answer D – the most popular of the wrong answers – could be obtained by: [525,000÷(0.3×35)] = 50,000. This showed a complete misunderstanding of the contribution to sales ratio.

Example 3
A process operates with a normal loss of 5% of input. All losses have a realisable value of $38 per litre. Last month 10,000 litres were input to the process and good production was 9,200 litres. Process costs arising last month were $456,000. There was no work-in-progress.

What was the credit entry in the process account for abnormal loss last month?
A $11,400
B $13,440
C $13,800
D $14,400

The correct answer was C. This question tested section D6(e) in the Study Guide – the preparation of process accounts involving normal and abnormal losses.

In the process account, normal losses are valued at realisable value [if any] and abnormal losses at full production cost. Full production cost per litre is determined as 'costs arising' less 'any realisable value for normal losses' divided by the expected output from the given input. Putting this into figures for this question gives: [456.000–(0.05×10,000×38)] ÷ [0.95×10,000] = $46 per litre [cost of production]. The value of the abnormal loss is: [10,000–0.05×10,000–9,200]×46 = $13,800 [Answer C].

Answer A was almost as popular as the correct answer. It was simply the correct abnormal loss of 300 litres evaluated at the realisable value of $38 per litre. This would be a fundamental error in the process account.

Answer B could be obtained by deducting the realisable value of all losses [normal and abnormal] in the calculation of the cost of production. Answer D ignored the realisable value of the normal loss in the same calculation.

Future candidates are advised to:

- Study the whole syllabus. The examination will always cover **all** sections of the Study Guide.
- Use the pilot paper questions for practice. 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 until June 2011.
- Practise as many multiple choice questions as possible in preparing for the examination.
- Read questions carefully in the examination
- Read previous F2 Examiner's Reports – they are all still very relevant and helpful. Each contains three multiple choice questions set.