

Examiner's report

F2/FMA Management Accounting

June 2012



General Comments

This was the second examination under the new syllabus. This syllabus amalgamates the old CAT T7 Planning control and performance management paper (now the FIA FMA paper) and the old ACCA F2 Management accounting paper, into one common syllabus and examination. The two-hour paper contained 50 multiple choice questions – each worth 2 marks. The mix of questions across syllabus heads was exactly in line with both the pilot paper and the December 2011 paper. The general performance of candidates was an improvement on December 2011, but none the less a little disappointing. The majority of poorly attempted questions were calculation based, but a significant minority were narrative. Questions that were poorly attempted were evenly spread across old and new syllabus areas. In general the FIA FMA candidates performed worse than their F2 counterparts.

The following questions taken from the June 2012 examination are ones where the performance of candidates was weak. Each of these questions carried 2 marks and each related to a mainstream topic in the Study Guide.

Sample Questions for Discussion

Example 1

An investment centre earns a return on investment of 18% and a residual income of \$300,000. The cost of capital is 15%. A new project offers a return on capital employed of 17%.

If the new project were adopted, what would happen to the investment centre's return on investment and residual income?

	Return on investment	Residual income
A	increase	decrease
B	increase	increase
C	decrease	decrease
D	decrease	increase

The question relates to study guide reference E2f.

The correct answer is D. The new project's return on investment is less than that of the investment centre and this will result in a reduction in its return on investment. However because the project offers a return higher than the cost of capital it will increase the investment centre's residual income. The most popular answer was C, with 29% of candidates mistakenly believing that the new project would result in a decrease in both return on investment and residual income. This mistake suggests a lack of understanding of residual income.

Example 2.

An investor has the choice between two investments. Investment Exe offers interest of 4% per year compounded semi-annually for a period of three years. Investment Wye offers one interest payment of 20% at the end of its four-year life.

What is the annual effective interest rate offered by the two investments?

	Investment Exe	Investment Wye
A	4.00%	4.66%
B	4.00%	5.00%
C	4.04%	4.66%
D	4.04%	5.00%

The question relates to study guide reference C5d

The correct answer is C. The answer can be arrived at by calculation (Investment Exe annual effective return = $1.02^2 - 1 = 0.0404$ or 4.04% and investment Wye annual effective return = $1.20^{0.25} - 1 = 0.0466$ or 4.66%). Alternatively the answer can be “reasoned” out: investment Exe’s semi annual compounding must result in a higher effective annual rate than 4% ($2 \times 2\%$) and a 20% return over a 4 year period must have an effective annual rate of less than 5% ($20\% \div 4$ years) when the compounding effect is allowed for. Just over 32% of candidates incorrectly selected option D. This suggests that although most candidates can convert a sub annual interest rate into an effective annual rate, many find it difficult to convert a multi year rate into an effective annual rate.

Example 3

A company uses standard absorption costing to value inventory. Its fixed overhead absorption rate is \$12 per labour hour and each unit of production should take four labour hours. In a recent period when there was no opening inventory of finished goods, 20,000 units were produced using 100,000 labour hours. 18,000 units were sold. The actual profit was \$464,000.

What profit would have been earned under a standard marginal costing system?

- A \$368,000**
- B \$440,000**
- C \$344,000**
- D \$560,000**

The question relates to study guide reference B2d.

The correct answer is A.

Standard absorption costing will include \$96,000 of the period’s overhead ($2,000 \text{ units} \times 4 \text{ labour hours} \times \12 per hour) in the valuation of closing inventory. Under standard marginal costing the \$96,000 would be charged against the period’s profit resulting in a profit \$96,000 lower than \$464,000. This type of question is included in virtually every costing textbook and it is disappointing that only a minority of candidates selected the correct alternative. The most common answer was B, ($\$464,000 - 2,000 \text{ units} \times \$12 \text{ per labour hour}$) suggesting some misunderstanding of overhead absorption rates or careless reading of the question. C was also a popular answer ($\$464,000 - 2,000 \text{ units} \div 20,000 \text{ units} \times 100,000 \text{ hours} \times \$12 \text{ per labour hour}$) indicating that many candidates believed that inventories should be valued on the basis of actual labour hours in a standard absorption costing system. On the bright side, only a small proportion of candidates selected alternative D, which indicates that most candidates understand that in periods of rising finished goods inventories, absorption costing will show higher profits than marginal costing.

Inevitably examiners’ reports focus on the more difficult questions that were badly attempted. The exam also contained a number of questions that were very well answered. In the examination candidates should ensure that they attempt the easier questions first to ensure they gain the “easy marks”. They can then go on to attempt the more difficult or time consuming questions last.

Future candidates are advised to:

- Study the whole syllabus.
- Practise as many multiple choice questions as possible.



- Read questions very carefully in the examination.
- Attempt all questions in the examination (there are no negative marks for incorrect answers).
- Try to attempt the “easy” examination questions first.
- Not to spend too much time on apparently “difficult” questions.
- Read previous Examiner’s Reports.
- Read Student Accountant