



## FORMATION 2 - MANAGEMENT ACCOUNTING

### EDUCATORS BRIEFING 2018/2019

#### **Performance in the 2018 Examinations:**

##### **April 2018:**

This year there was again a larger number of candidates sitting the exam compared to 2017 but the performance in 2018 was not as strong as in the previous year. The highest average marks achieved were in question 5 on activity based costing. The lowest average marks achieved were again in question 2, part A, the compulsory theory question dealing with the differences between management and financial accounting and the role of the management accountant. Compared to 2017, there was a slight reduction in the number of candidates this year who did not attempt the required five questions. However those candidates who did not attempt five questions did not pass the examination. It is also important to highlight that similar to last year there were a significant number of excellent scripts this year.

##### **Question 1**

###### *Decision Making - Limiting Factor*

In general this question was not well answered with the average mark being slightly above 50%. Many of the candidates did not seem to know how to answer part (a), to demonstrate that there was insufficient production capacity to meet budgeted demand for the products. For part (b) most candidates were able to calculate contribution per unit but did not calculate contribution per unit of scarce resource, which affected the overall answer to this part of the question. Part (c) required candidates to explain two terms and give examples to support their answer. This was very poorly answered by most of the candidates. The explanations were unclear and incomplete and in many cases examples were not provided.

##### **Question 2**

###### *Part (A) Differences between management accounting and financial accounting; the role of the management accountant; and factors influencing demand for management accounting information. Part (B) Standard costing*

A majority of candidates answered part (A) of the theory question and, while there were a few good answers, it was the worst answered question on the paper with the lowest average mark. In relation to part (a) candidates demonstrated a very limited knowledge of the differences between management accounting and financial accounting. Equally, there was a lack of clarity regarding the role of the management accountant. Candidates also seemed to misunderstand part (c) of the question and did not provide factors that are relevant to a company's demand for management accounting information.

While a much smaller number of candidates attempted part (B) of the theory question, the average mark was much higher and most candidates attained a pass mark or higher.

### **Question 3**

#### *Multiple Choice Questions*

This was the most popular of the optional questions. The question was well answered with over ten percent of candidates obtaining full marks and a further seventeen percent answering seven out of eight parts of the question correctly. This question had the third highest average mark, which was well above 60% Parts (iii), (vii) and (viii) seemed to pose most difficulty for candidates.

### **Question 4**

#### *Variance Analysis*

This was the second most popular of the four optional questions (Q3, Q4, Q5 and Q6) and was poorly answered with less than fifty percent of candidates achieving the pass mark. Part (a) of the question required candidates to flex the original budget to produce a cost statement comparing budget with actual. Some candidates seemed unsure what to do, they did not flex the budget including instead the original budget as a comparison against actual. For part (b) of the question, candidates were generally familiar with the variances but, similar to 2017, some included the original budgeted amount instead of the flexed figures. Again, as was the case 2017, if the candidates had prepared a standard cost card for one unit of product it would have made parts (a) and (b) of the question much easier to attempt. Part (c) required candidates to explain how variances may be inter-related and provide an example. Some candidates were muddled in their explanations while others failed to provide an example.

### **Question 5**

#### *Traditional Absorption Costing and Activity Based Costing*

This question was the second most popular attempted of all four of the optional questions and had the highest average mark of all questions on the paper. Eighty percent of those attempting this question scored the pass mark or higher with sixty percent of those candidates achieving a mark of 80% or higher. Most candidates answering the question seemed very familiar with both traditional absorption costing and activity based costing. A few candidates had difficulty allocating overhead using the traditional method as required by part (a). There also seemed to be some difficulty in part (b) regarding how to calculate the overhead cost per driver and also how to assign the overheads to products once the overhead cost per driver had been calculated. For part (c), some candidates provided advantages rather than disadvantages of ABC and also where disadvantages were listed they were not clear.

### **Question 6**

#### *Process Costing*

This question was the least popular question of all four of the optional questions but it had the second highest average mark of all six questions. Approximately seventy five percent of those attempting the question attained a pass mark or higher. The marks for those attempting this question were generally very high suggesting that candidates were well prepared and very familiar with the topic. A few candidates confused the weighted average method with the first in first out (FIFO) method of valuing inventory. Also, one candidate only prepared the mixing process account even though the requirement specified that both mixing and finishing process accounts should be prepared.

## **August 2018:**

There was a smaller cohort of candidates sitting the August examination compared to the April examination but the number was similar to August 2017. Examination performance was also similar to the August 2017 sitting with less than fifty percent of candidates achieving a pass mark. The highest average marks achieved were in question 6, on traditional overhead costing while the lowest average marks were recorded in relation to question 5, absorption and variable (marginal) costing. One candidate did not attempt the compulsory question, Question 1 and similar to August 2017, low marks in all questions were recorded for some of the scripts suggesting that these candidates were not well prepared for the examination.

### **Question 1**

#### *Functional Budgets*

This question was not particularly well answered by candidates as shown by the average mark, which was well below 50%. It seemed as if candidates had significant difficulty with parts (a) and (b). Most candidates were able to prepare a sales budget but the scripts demonstrated confusion in preparing production, materials, labour and variable overhead cost budgets, and also bringing these together into the budgeted income statement. However, part (c) requiring reasons why budgets should be prepared was very well answered.

### **Question 2**

#### *Part (A) Standard Costing (B) Methods of Inventory Valuation and JIT*

One candidate did not attempt this question but all of those who did attempted part (B). This was the third best answered question of all six on the paper and the average mark for the question was between 50% and 60%. Candidates prepared their answers in the required memorandum format and for part (a) clearly demonstrated their understanding of FIFO, LIFO and average cost methods of valuing inventory. However, candidates seemed unable to explain the effect of these methods on profit and closing inventory. Part (b) was generally well answered, most candidates providing good descriptions of JIT and related advantages and disadvantages.

### **Question 3**

#### *Multiple Choice Questions*

Similar to August 2017, this question was the most popular of the optional questions (Q3, Q4, Q5 and Q6) with all except one candidate attempting it. It was the second best answered question with an average mark in between 50% and 60%. Parts (ii), (ii) and (vii) of the question seemed to cause most difficulty for some candidates.

### **Question 4**

#### *Cost-Volume-Profit Analysis*

This question was the least popular of the optional questions and the second worst answered overall, with the average mark for this question being well below 50%. In relation to part (a) of the question, most candidates showed knowledge of CVP formulas but the biggest difficulty seemed to be establishing which of the costs were fixed and which were variable. Most of the candidates did not provide an answer to part (b). For part (c) many candidates only provided one assumption of CVP analysis.

**Question 5*****Variable and Absorption Costing***

This question was the most poorly answered on the paper as shown by the average mark, which was significantly below pass level. There seemed to be difficulty in calculating the product cost using absorption costing as required by part (a) and also difficulty in how to present an income statement as required by part (b). Reconciling the two profit figures as required by part (c) was also problematic for candidates. In relation to part (d), most candidates were able to provide only one reason why absorption costing may be preferred to variable (marginal) costing.

**Question 6*****Traditional Absorption Overhead Costing***

This was the best answered question on the paper with an average mark of approximately 75% and all candidates attempting the question attaining the pass mark or higher. While there were one or two small issues in parts (a), (b) and (c), the main difficulty for candidates was in calculating the under or over absorbed production overhead.

**Syllabus Changes:**

The syllabus for F2 Management Accounting for the 2019 examinations is published on the Institute's website [www.cpaireland.ie](http://www.cpaireland.ie). There have been no changes since the last exam diet apart from updating the supplementary reading lists and online learning resources.

**Syllabus Learning Outcomes:**

On successful completion of this subject candidates should be able to:

- Explain the relative strengths and weaknesses of alternative cost accumulation methods and discuss the value of management accounting information.
- Calculate unit costs applying overhead using both absorption costing and activity based costing principles.
- Apportion and allocate costs to units of production in job, batch and process costing systems, for the purpose of stock valuation and profit measurement.
- Identify and explain cost behaviour patterns and apply cost-volume-profit analysis.
- Define and use relevant costs in a range of decision-making situations.
- Prepare and present budgets for planning, control and decision-making.
- Compute, interpret and investigate variances.
- Demonstrate communication skills including the ability to present quantitative and qualitative information, together with analysis, argument and commentary, in a form appropriate to the intended audience.

It is the intention to examine as many of these learning outcomes as is practicable in each examination cycle.

**Examination Paper Format for 2019:**

There are no changes in the examination format for F2 Management Accounting for the 2019 examinations.

Please note that only 5 solutions offered by each candidate will be marked. Candidates must clearly indicate on the front of their script booklet precisely which questions they wish their assessment to be based on. In the absence of any clear indication, the mark awarded will be based on the first 5 solutions encountered in strict sequential order. Any other attempts will not be marked. If an attempt is made at a particular question and the candidate wishes to change their mind, they should clearly cross out the attempt that they do not wish to be marked and then proceed with the attempt they do wish to be assessed on. These principles will also be applied to the theory question (question two) where candidates must select either part (a) or part (b) but should not attempt both.

A number of candidates fail to properly complete the front page of the examination booklet indicating their question choice. This is not helpful and educators should advise candidates on the proper completion of all exam documentation. In some cases, the candidate's identification numbers are incorrect or absent. This is clearly a dangerous practice.

The paper is designed to be completed in the time frame allowed and hence it is not in candidates' interest to attempt more than the requisite number of questions. To do so, means that they are effectively reducing their time allocation (and hence expectation of success!) on the other questions. Candidates are advised to focus on correct question choice to optimise their results. Taking the time to make a reasoned well thought out choice is an important attribute of the modern business professional and needs to be nurtured from the earliest phases of professional studies.

Candidates can expect to see a continuing integration between the theoretical and numerical aspects of the syllabus within questions where this is feasible and in line with the Syllabus Objectives.

The inclusion of a multiple choice style question with eight subsections will continue in Section B of the paper. This question style allows adequate scope to ensure the breadth of the syllabus content is tested as well as the depth of coverage from the other question types. However, a word of caution is warranted. Experience has indicated that the majority of candidates find this question style to be a significant challenge and they should take care not to underestimate the question, it is not simply a matter of guessing! When designing the possible solutions to these questions, the intention is to offer three "plausible" options (known as distracters) but only one correct option. This is not a deliberate attempt to trick candidates; rather it is an effort to distinguish those who have a firm understanding and comprehension from those who have used rote learning or merely acquired a superficial knowledge of the syllabus content.

Educators should strive to practice more of these questions with candidates and guide them on how to avoid the distracters set out by the question. This type of question is one where the well prepared candidate can (and usually does) perform very strongly.

#### **Education Focus for 2019 Examinations:**

Candidates can expect the style and range of exam questions to continue in the vein of those set in recent years. Syllabus areas where a poor performance has been evidenced can expect to be revisited again.

The broad target is to provide candidates with the opportunity to evidence their competencies in achieving the stated Learning Outcomes of the syllabus. This will be achieved through a blend of theoretical and numeric questions often set in the context of a simple scenario. The scenario may contain both relevant and irrelevant data and information. The purpose of doing this is **not** to try to trick candidates. Rather, it is an attempt to simulate "real world" conditions where the qualified accountant must often decide which information is pertinent to their work / decision at a given time.

Management accounting, as a discipline, frequently causes problems for candidates due to its sometimes inexact nature. Candidates are often more comfortable with the more “precise science” of financial accounting where answers are perceived as being more formulaic and the outcome of a well-rehearsed process i.e. debits and credits. In management accounting, candidates must learn to appreciate that the answer to some questions may often be “It depends.....”. This concept applies particularly in the interpretation and explanations of calculations that have been performed and is a key aspect in any process of Decision Making within the syllabus. Indeed, candidates must also learn to appreciate that there is an implicit expectation that they can apply common sense to their examination solutions. Hence the Institute and the Profession at large will benefit from successful, commercially aware candidates who can display not only sound technical proficiency, but also strong business acumen!

One of the biggest single challenges to the foregoing paragraph’s aspirations is the persistence of some candidates engaging in rote learning to cover the syllabus. The process of “learning off” previous suggested solutions or sections of a textbook and merely regurgitating them in the answer script is pointless. It is not the Examiner’s function to undertake the role of “editor” i.e. sift through a solution only taking note of salient points and disregarding the remainder as “padding”. Candidates who engage in this practice offer tangible proof that they do not have the appropriate level of understanding of the subject matter being examined. Hence they are failing to evidence their competencies in achieving the stated Learning Outcomes and will be rewarded accordingly! It is important to note that questions will seek to test understanding and application of knowledge and not the regurgitation of vaguely relevant subject matter.

A final point is worthy of mention regarding presentation and language skills. Candidates are studying to become qualified professional members of the Institute. As such, they should present their work in a manner befitting the professionalism and high standards expected of a Certified Public Accountant. There is growing evidence of weakness in this area including a number of instances where hand-writing was largely illegible. Whilst allowance is made for exam pressure (particularly towards the end), if the content cannot be read, it cannot gain any marks.

Where workings are required, they should be shown clearly and properly cross-referenced to the main solution. This can result in gaining valuable method marks even where the final solution turns out to be incorrect. This point **does not** apply to any multiple-choice questions where the answer is either correct or not. Questions may stipulate a solution in Report/Memorandum or Letter format and where this occurs, there will usually be a mark allocation for presentation. Candidates are also expected to demonstrate good communication skills.