



FORMATION 2 - MANAGEMENT ACCOUNTING

EDUCATORS BRIEFING 2019/2020

Performance in the 2019 Examinations:

April 2019

This year the number of candidates sitting the exam was slightly higher compared to 2018 and the performance of this year's cohort was much better than last year. The highest average marks achieved were in Question 4 on decision making with limiting factor. Two questions showed the lowest average marks; Question 2, part A, the compulsory theory question dealing with budgeting and Question 5 on variance analysis. One important issue noted was the number of candidates who did not attempt five questions, which more than doubled in this sitting compared to April 2018. Of those not attempting the required number of questions, one did not attempt the compulsory question, half passed and half failed the examination. This is worrying as it suggests a trend whereby candidates try to predict the areas covered by questions on the examination paper and only study these topics. On a more positive note, similar to last year, there were a significant number of excellent scripts.

Question 1

Traditional Overhead Absorption Costing and Activity Based Costing

In general, this question was well answered and showed the second highest average mark, which was 70%. There were a number of issues that candidates struggled with in this question. In relation to part (a), when calculating the traditional overhead absorption rate (OAR) candidates included all costs as overheads even salaries and wages of staff directly involved in the landscape services. It also seemed as if some candidates did not understand the difference between traditional overhead absorption costing and activity based costing as they were unsure of how to calculate the OAR and mixed up the methods. Additionally, some candidates did not attempt to answer parts (b) and (c), losing out on the opportunity to earn up to 7 Marks.

Question 2

Part (A) Budgeting and Part (B) Cost Volume Profit (CVP) Analysis

Although this question is compulsory, candidates must answer part (A) or part (B). Approximately 15% of candidates did not attempt either parts of this question. The question examines the candidate's knowledge and understanding of management accounting topics and his/her ability to demonstrate comprehension in a clear and concise manner. On this basis it is important that candidates attempt this question.

The majority of candidates answered part (A), budgeting, which had been the subject of an article written by the examiner however, as noted above this question recorded the lowest average mark. Looking at the scripts it is clear that some candidates did not have a good knowledge of the topic and scored poorly this question, while others demonstrated much better understanding and achieved good marks. Most candidates presented their answers in memorandum format as required and demonstrated good knowledge of incremental and zero base budgeting (parts (a) and (b)). However, the answers relating to part (c), behavioural issues, were not as well described.

In relation to part (B), this question was not as well answered as the alternative (part (A)). Candidates were asked to prepare a briefing note and some presented their answer in report format. For part (a), some candidates demonstrated limited knowledge and understanding of CVP. While formulae and corresponding explanation was provided candidates did not describe how CVP may be used by, or for the benefit of, an organisation. In relation to part (b) quite a number of candidates had difficulty explaining the assumptions of CVP.

Question 3

Multiple Choice Questions

This was the most popular of the optional questions with all except one candidate attempting it. The question had the third highest average mark at 60%. Over forty percent of candidates answered 6 questions (or more out of 8) correctly and two candidates answered all questions correctly. There were 2 parts of the question that seemed to cause most difficulty, part 2 on period costs and part 7 on process costing.

Question 4

Decision Making – Limiting Factor

This was the second most popular of the four optional questions and scored the highest average mark at 78%. Overall, this question was well answered. For part (a) almost all of the candidates were able to confirm that the company had sufficient production capacity. In relation to part (b), candidates seemed to make a couple of small mistakes. Some did not calculate contribution per limiting factor, basing their answers on contribution per unit. Also, while the question required total profits expected to be shown, some candidates excluded fixed production overhead and selling and administration expenses, showing only total contribution. Regarding part (c) explanation of relevant cost and sunk cost, generally candidates demonstrated good understanding of these terms.

Question 5

Variance Analysis

This question (along with question 2) showed the lowest average mark at 47%. It was the least attempted question of all of the optional questions. There seemed to be a number of difficulties for those candidates attempting this question. In relation to part (a), some candidates seemed to have problems adapting the variance formulas (or methods of computing variances) to calculate missing items for the standard cost card. A number of the answers suggested that candidates did not understand the difference between variable costing and absorption costing as fixed production overhead was included in the standard cost card. Also, some candidates did not seem to know how to prepare a cost statement showing original budget, flexed budget and actual results. In relation to part (b), some candidates either were unsure of the criticisms of standard costing or did not attempt this section of the question, losing out on earning a possible 3 Marks.

Question 6

Absorption and Variable Costing

This question was the third most popular of the four optional questions and recorded the fourth highest average mark at 54%. In general, this question was poorly answered; candidates demonstrating difficulty with all four requirements of the question. In relation to parts (a) and (b), many candidates showed that they did not understand the difference between the costing methods nor how to prepare profit statements in the required formats. Additionally, candidates were unable to reconcile the profit figures as required and many candidates did not attempt this section of the question. Similar difficulties were demonstrated in part (d), with many candidates providing incorrect reasons to use variable costing or not attempting this section of the question.

August 2019

There was a smaller cohort of candidates sitting the August examination compared to the April examination but the number was much larger than in August 2018. Examination performance in this sitting was better than in August 2018 with 57% of candidates achieving a pass mark, compared to 45% last year. The highest average marks achieved were in question 3, which is a multiple choice question while the lowest average marks were recorded in relation to question 5, variance analysis. As was the case last year, one candidate did not attempt the compulsory question. In addition, two candidates did not attempt 5 questions as required; neither of these candidates passed the examination.

Question 1

Traditional Overhead Absorption Costing

This question had the third highest average mark at 62%, which obscures the fact that over fifty percent of candidates presented very good answers and attained marks in excess of 80%. However, the remaining candidates seemed to have difficulty in passing the question. In part (a) candidates had problems in selecting a suitable base to apportion overheads across departments however part (b), reapportionment of service

department costs, was well answered. Some candidates did not seem to understand how to calculate overhead absorption rates (OARs), using unsuitable bases and this resulted in parts (d) and (e) being poorly answered. Having calculated the OARs some candidates seemed unsure of how to apply them to in order to compute under/over absorbed overhead or the cost of a garden bench.

Question 2

Part (A) Variable (Marginal) and Absorption Costing and Part (B) Budgeting

All candidates attempted either part (A) or part (B) of this question.

For part (A), approximately one third of candidates attempted this question (A) and all achieved a pass mark or higher, the average mark being 69%. Overall the question was well answered and the main problem for some candidates was in relation to describing the effect on profit of using variable (marginal) or absorption costing. These candidates did not describe the effect on profit in three possible situations where production is greater than sales, less than sales or equal to sales.

In relation to part (B) this was the most popular theory question but had the lowest average mark of all questions on the examination paper at 41%. Only twenty seven percent of candidates attempting this question achieved a pass mark or higher. Almost all of the candidates prepared their answer in report format even though the question specified that a briefing note was required. Most candidates were unable to describe all six purposes of budgeting as required by part (a) of the question. However, for parts (b) and (c) of the question, most candidates were able to explain the difference between fixed and flexible budgets and outline the main functional budgets. In general, part (d) of the question was not well answered and some candidates were clearly unaware of the behavioural issues of budgeting.

Question 3

Multiple Choice Questions

This question was a popular optional question with all except one candidate attempting it; it was the best answered question with an average mark of 73% and over one quarter of candidates answering all eight questions correctly. While the question was well answered, part 3, on FIFO, and part 7, on relevant cost, seemed to cause difficulty for some candidates.

Question 4

Cost-Volume-Profit Analysis

This question was the second most popular of the optional questions but was not well answered overall, with only fifty percent of candidates passing the question and consequently the average mark for the question being only 47%. In relation to part (a) of the question, candidates showed knowledge of CVP formulas but the biggest difficulty seemed to be in establishing which of the costs were fixed and which were variable. For part (b) some candidates calculated the margin of safety in percentage terms instead of in units and revenue. Candidates showed no difficulty in answering part (c) of the question relating to calculation of target profit. However, part (d) proved difficult, with over one quarter of candidates not attempting it. For those candidates that did attempt part (d), parts (i) and (ii) were generally well answered but part (iii) was poorly answered suggesting that candidates did not seem to understand their calculations or could not support their recommendation with reasons.

Question 5

Variance Analysis

This question was the least popular of the optional questions and the second most poorly answered on the paper as shown by the average mark, which was below pass level at 44%. Less than thirty percent of candidates attempting this question achieved the pass mark. Candidates seemed to have difficulty in developing a standard cost card as required by part (a) and some used actual costs instead of budgeted while others included fixed production overhead even though the question stated that the company was operating a standard variable costing system. For part (b) of the question some candidates tried to calculate sales variances even though there was no information in the question, budgeted or actual, relating to sales. Some candidates did not answer part (c) of the question very well providing reasons for the labour variances instead of the materials variances required or not providing enough reasons to explain the two material variances. However, part (d) of the question, requiring explanation of ideal and attainable standards, was well answered by candidates.

Question 6

Process Costing

This question recorded the second highest average mark at 66% with three quarters of those attempting the question achieving a pass mark and one candidate attaining full marks. Half of the candidates attempting the question did not prepare the cooking process account as required by part (b), the normal loss account as required by part (c) or the abnormal loss account as required by part (c). Some candidates mixed up their calculations dividing units by cost instead of cost by units. Others included opening work in progress separately when allocating costs, which is not necessary under the weighted average method. The treatment of previous process costs also caused difficulty for some candidates. Despite these issues, the question was well answered by the majority of candidates that attempted it.

Syllabus Changes:

The syllabus for F2 Management Accounting for the 2020 examinations is published on the Institute's website 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 inventory 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 2020:

There are no changes in the examination format for F2 Management Accounting for the 2020 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 2020 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.