



## FOUNDATION - MANAGEMENT ACCOUNTING

### EDUCATORS BRIEFING 2020/2021

#### **Performance in the 2020 Examinations:**

Due to Covid-19 there was only one examination sitting conducted online in August 2020.

#### **August 2020**

There was a larger number of candidates sitting the exam in August 2020 (21 candidates) compared to August 2019 (14 candidates). Examination performance in this sitting was lower than last year with 52% of candidates achieving a pass mark, compared to 57% in August 2019. The highest average marks achieved were in question 2(A), which is a theory question, while the lowest average marks were recorded in relation to question 4, cost-volume-profit analysis. All of the candidates attempted the compulsory question, while four candidates did not attempt 5 questions as required; only one of these candidates passed the examination.

#### **Question 1**

##### *Variance Analysis*

This question had the second lowest average mark at 42% and only one third of the candidates obtained a mark of 55% or higher. Each part of the question seemed to cause some difficulty for candidates. In part (a) it seemed as if some candidates did not know what a standard cost card is or how to prepare one. Some candidates did not attempt part (b) while others prepared a cost statement, ignoring sales and profit. More worrying was part (c), where five candidates did not prepare any variance calculations, while for others it seemed as if they did not know how to calculate variances.

#### **Question 2**

##### *Part (A) Cost Classification and Behaviour and Part (B) Remuneration Schemes*

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

For part (A), approximately one third of all candidates attempted this question and all except one candidate achieved a pass mark or higher, the average mark being 61%. Overall, the question was well answered, and the main problems seemed to be in relation to part (ii) where candidates only explained fixed and variable costs, and some did not provide any examples to support their answers.

In relation to part (B) this was the most popular theory question and, similar to last year, also had the highest average mark of all questions on the examination paper at 72%. All except two candidates attempting this question achieved a pass mark or higher. Again, the question was well answered, the main issues in this question were that some candidates only provided one advantage and disadvantage for each remuneration scheme, while others were unclear in their descriptions of the schemes.

### **Question 3**

#### *Multiple Choice Questions*

This question was a popular optional question with all except one candidate attempting it. The average mark for the question was 54% with just over one third of candidates scoring a mark of 50% or more.

### **Question 4**

#### *Cost-Volume-Profit (CVP) Analysis*

This question was the least popular of the optional questions and was the least well answered overall, with an average mark of 33% and only one quarter of candidates passing the question. The question required candidates to prepare a break-even chart and even though an article had been included in the CPA Student Newsletter in December 2019 on this topic, candidates did not seem to know where to start. It also seemed that many of the candidates attempting the question were not familiar with CVP formulas. Additionally, three candidates did not attempt part (d) of the question, which required two assumptions of CVP to be described.

### **Question 5**

#### *Cash Budget*

This question was the third most popular of the four optional questions and the second best answered on the paper with an average mark of 67%. While a few small errors were made in the workings for the cash budget such as including depreciation, the main issue seemed to be with part (b) of the question. Four candidates did not attempt this part of the question and some of the others seemed unclear of incremental budgeting and either did not include advantages and disadvantages or included incorrect items.

### **Question 6**

#### *Activity Based Costing*

This question recorded the third highest average mark of all questions on the paper at 65% with all except two candidates achieving a pass mark. In part (a), when calculating product costs using activity based costing, some candidates had difficulties such as using incorrect drivers and not calculating the cost per driver for all of the overheads. For part (b), the selling price of orders was correctly calculated by all except two candidates who did not attempt this part of the question. Three candidates did not attempt part (c) while others who did failed to provide examples to support their explanation of the cost terms.

### **Syllabus Changes:**

The syllabus for Management Accounting for the 2021 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 module students will be able to:

- Discuss the role of management accounting in providing relevant information for decision-making purposes
- Apply a range of costing techniques and analyse the results
- Prepare and interpret information for decision-making
- Discuss budgeting in the context of planning and control and prepare cash and functional budgets
- Assess and interpret organisational performance using variance analysis
- Present qualitative and quantitative information for decision-making and analysis in a form appropriate to the intended decision maker

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

### **Examination Paper Format for 2021:**

There are no changes in the examination format for Foundation Management Accounting for the 2021 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 Learning Outcomes.

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 2021 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.