

Examiner's report

F5 Performance Management

December 2011

The ACCA logo is a black square with the letters 'ACCA' in white, bold, sans-serif font.

General Comments

The structure of the paper remained the same as in previous sittings – five questions worth 20 marks each. The paper included a purely narrative question -question three – and overall, the proportion of narrative to computational requirements was 46% to 54%.

The pass rate on this paper was very similar to the previous sitting. There didn't seem to be any one particular question that caused a problem to the majority of candidates. The biggest single reason for failure in the F5 exam in December 2011 was definitely the big knowledge gaps that many candidates seem to have. This was obvious from the fact that a significant number of candidates made really good attempts at one or two questions but then, after that, it was obvious that they didn't know any of the other areas being examined. To their credit, many candidates seemed to have taken on board my advice to start with their best question first and then continue to answer the questions in the order of their best questions. This did mean that it always came as a bit of a shock during marking when a candidate did two near perfect first questions, scoring maybe 36 out of 40, but then failed to secure the remaining 14 marks over the next three questions. As I've always said before, don't try and question spot in this exam. It's a dangerous approach and unlikely to work

On the positive side, candidates also seem to be taking advice about getting the easy marks first on a question. This often meant that, for example, candidates answered the written requirement in 4 (c) before tackling the numbers in 4(a) and (b), which they may not have been quite so sure about.

Specific Comments

Question One

This was a nice, straightforward relevant costing question, which should have been well-answered by most people. This was definitely not the case, however, and it proved to be one of the most poorly answered questions on the paper.

Part (a) asked candidates to prepare a cost statement using relevant costing principles, showing the minimum cost that a company should charge for a contract. The requirement also asked for detailed notes to explain the numbers being used. It is very easy in this type of question to focus purely on the numbers, without giving adequate weight to the words. This would have been a mistake, because the words were actually worth 8 marks compared to the 6 marks for the numbers. Some candidates definitely fell into this trap. However, the biggest problem with this question was that many candidates clearly don't understand relevant costing, so they simply couldn't get either the numbers or the words right anyway. Out of all the scripts that I personally looked at, and this was a lot, I only saw two candidates score full marks on part (a).

Common errors included:

- Erroneously including the lost contribution from Contract X when calculating the three engineers' costs. The only relevant cost here was the \$500 fine for delayed completion of contract X. The contribution from this contract was never going to be lost as the contract was only delayed and not lost altogether.
- Including the 120 telephone handsets that were held in inventory at their historical cost of \$16.80 each, rather than the replacement cost of \$18.20. Historical costs are never relevant because they are sunk. This was a really basic error.
- Erroneously including the site inspector's costs of \$400. The note stated that the site inspector charged the client directly for the work rather than invoicing the company in question. This error was down to poor reading.
- Few candidates managed to work out the cost of the computerised control system. It was simply a question of comparing the total lost sale proceeds and modification cost of Swipe 1 to the cost of buying the new Swipe 2, and selecting the cheapest option for the company.

Apart from these common errors, another problem was that the notes given by candidates didn't explain the figures being used well enough. Many candidates just wrote down that a cost was included because it was 'relevant' but didn't say why. This is not an explanation and didn't score marks.

Part (b) asked for an explanation of the costing principles used in (a) and of the implications of the minimum price that had been calculated. Answers to both parts of this requirement were poor. All that candidates had to do for the first part was explain that a relevant cost is a 'future incremental cash flow', saying what each one of those three words meant. Then, as regards the implications of the minimum price, the question just required the candidate to identify that this price didn't include a profit element and a mark-up needed potentially to be added. Also, it could have been stated that the customer might expect this low price in the future etc. Again, out of all the scripts I saw, few candidates scored full marks here.

Question Two

This question covered transfer pricing and really separated out the strong candidates from the weak ones. Part (a) contained the easy marks, with a simple requirement to prepare a profit statement under the current transfer pricing system. There were many perfect answers here, because the requirement was not difficult. However, weaker candidates simply didn't know what the words 'profit statement' meant, and just produced some workings showing total profit for the company. These candidates scored very few marks.

Part (b) asked for a calculation of the maximum profit that could be earned if transfer pricing was optimised. 'Optimised' meant set at a level that would make the total company profit as high as possible. In order for this to be the case, the transfer price needed to be set somewhere between Division B's marginal cost of \$20 and the current market price of the fittings of \$65 per set. Any price between this range would make sure that Division A bought the fittings from Division B, provided that Division A was told that it could only buy the fittings from outside the group if the price was lower than the price being charged by Division B. If Division B was allowed to sell to the external market too, then the profit could be maximised at \$11,060.

This logic was totally lost on the majority of candidates. However, many of them managed to get to the maximum profit by having Division B selling 180,000 sets of fittings outside the group and then selling the remaining 20,000 sets of fittings to B at \$75. This was a half decent attempt at the question but the reality would be, of course, that, in the real world, Division A would not want to pay \$75 for the fittings if it could buy them from an external supplier for only \$65. This is not, therefore, optimisation of transfer pricing, because this would require the company to have a policy of making Division A buy from B, EVEN if fittings were cheaper elsewhere and this would cause behavioural issues, with Division A's manager becoming de-motivated.

Part (c) was a narrative requirement and was generally poorly answered. There was a certain element of follow on from (b), although not entirely, so problems of lack of understanding in (b) fed through to (c). It was surprising how many candidates attempted part (c) before parts (a) and (b). Whilst it's always advisable to get the easy marks first where possible, and these are often the discussion marks, this is not possible where the narrative fully or partly follows on from the numbers.

Question Three

Part (a) was where the bulk of the easy marks were on this paper: a requirement to identify and explain six objectives of a budgetary control system. A good number of answers scored full marks. On the whole, candidates either knew the answer or didn't; there wasn't much in between.

Part (b) was a little more challenging: a requirement to discuss the concept of participative budgeting in terms of the objectives identified in part (a). Answers to this were mixed, with some good attempts but some poor ones too. A small number of candidates didn't know what participative budgeting was (the clue is in the title) so they scored nothing. Others managed to score marks by making some valid observations about it, even if they didn't necessarily tackle it in the best way, which was by using the objectives in part (a) as headings in order to give the answer some structure.

Question Four

This question covered life cycle costing. Part (a) read: 'calculate the life cycle cost per unit.' This was hardly a challenging calculation, as candidates largely had to just add up three columns of numbers. Candidates tended to score either full marks or no marks here. Anyone who calculated a cost per unit for each of the three years totally missed the point of life cycle costing.

Part (b) was trickier. The question required candidates to calculate a revised life cycle cost per unit, taking into account the effect of the learning curve. There were some decent attempts at this, with lots of answers scoring 8 or 9 out of 10. Many candidates were easily able to score five marks for getting to the correct time per hour, after the first 100 units, of 0.33. It was after this that mistakes tended to be made because some people didn't really know how to progress from here.

Part (c) was where the easy marks were, the wordy part on life cycle costing, and many candidates scored full marks for this, with a good number of candidates tackling this part first to get the easy marks. This was good to see.

Question Five

Finally, the variance question. This was probably the best answered question on the paper. A significant number of candidates scored full marks for the materials usage, mix and quantity variance. However, some candidates seemed to think it was acceptable merely to calculate the variances in kg and not convert them into a monetary value using the standard costs for each ingredient. Variances need to be given a value in order to be used properly within a business. It's not sufficient to simply stop at a quantity.

The most common mistake when values were calculated was to use the costs of \$0.40 for honey, \$0.45 for sugar and \$0.25 for syrup given in the question. This was probably down to poor reading, since these costs were the total cost for 20 grams of honey, 15 grams of sugar and 10 grams of syrup. They needed to be converted into costs per kg.

The activity variances in part (b) caused some problems. The most common error was to calculate the expenditure variance as the difference between the budgeted set up costs of \$52,800 and the actual set up costs of \$60,000. For an activity based variance to be calculated, a new activity based budgeted set up cost of \$57,600 needed to be calculated, so that this could then be compared to the actual set up cost of \$60,000.

Part (c) contained a couple of easy marks on the steps involved in allocating overheads using activity based costing. People who didn't know the steps decided to just tell me everything they knew about activity based costing instead although, to be fair, this often wasn't a lot.

Whilst pass rates have not improved significantly since last sitting, small improvements are being seen in the way candidates are setting out their answers, showing their workings and tackling written requirements. However, for a significant improvement to be seen, candidates need to learn all areas of the syllabus rather than just assuming that a topic will come up, because they have just read an article on it, or won't come up because it's just been examined. There is no easy way to pass F5; hard work is the only answer.