

RELEVANT TO ACCA QUALIFICATION PAPER F5

The changes to the Paper F5 syllabus (June 2013 onwards) What they mean to you

Introduction: the need for clarity

A number of areas have been deleted from the Paper F5 syllabus while other areas have been added to it. The purpose of this article is to remind you what the exact changes are by listing them in detail and also to explain how the changes may affect future exams by clarifying the kind of requirements that may be asked and, where appropriate, comparing them to previous question requirements.

Deletions to the syllabus

Four areas have been deleted from the Paper F5 syllabus.

1 C1 Objectives

- (a) Outline the objectives of a budgetary control system.*
- (b) Explain how corporate and divisional objectives may differ and can be reconciled.*
- (c) Identify and resolve conflicting objectives and explain implications.*

This area was removed from the Paper F5 syllabus as it was deemed to be covered adequately in the Paper F2 syllabus and its content is quite basic. All Paper F2 knowledge is assumed knowledge for Paper F5. This does not mean there will never be mention of budgetary objectives in a Paper F5 exam again, but you wouldn't expect to see a whole question on it, like there was in December 2011's paper, for example.

2 C4 quantitative analysis in budgeting

- (b) Explain the use of forecasting techniques, including time series, simple average growth models and estimates based on judgment and experience. Predict a future value from provided time series analysis data using both additive and proportional data.*

This has also been deemed to be adequately covered in the Paper F2 syllabus. Therefore, once again, you would not expect to see a whole question largely dedicated to it, like in June 2012's paper, but that is not to say that candidates would never expect to see it mentioned in Paper F5 again. If it was referred to in a longer question, students would be expected to broadly understand what it is, given that it is assumed knowledge. It is not something to which teaching time should be dedicated to on a Paper F5 course, however.

Please note that cost estimation using the hi-low method is still in the Paper F5 syllabus.

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3 D1 budgeting and standard costing

(d) Prepare budgets and standards that allow for waste and idle time.

Given the large range of topics already included in the Paper F5 syllabus, you would certainly not expect many marks to be given to this area now that it is only assumed knowledge. There is plenty of scope to examine this in Paper F2.

4 D2 basic variances and operating statements

(a) Calculate, identify the cause of and interpret basic variances:

(i) Sales price and volume

(ii) Materials total, price and usage

(iii) Labour total, rate and efficiency

(iv) Variable overhead total, expenditure and efficiency

(v) Fixed overhead total, expenditure and, where appropriate, volume, capacity and efficiency.

(b) Explain the effect on labour variances where the learning curve has been used in the budget process.

(c) Produce full operating statements in both a marginal cost and full absorption costing environment, reconciling actual profit to budgeted profit.

(d) Calculate the effect of idle time and waste on variances including where idle time has been budgeted for.

(e) Explain the possible causes of idle time and waste and suggest methods of control.

(f) Calculate, using a simple situation, ABC-based variances.

(g) Explain the different methods available for deciding whether or not to investigate a variance cause.

This is perhaps the deletion from the Paper F5 syllabus that needs clarification. Variances are still a very key part of the Paper F5 syllabus. However, now you can expect questions to focus more on the variances that are still specifically included in the Paper F5 syllabus. This is not to say that candidates will never again be asked to calculate a sales price variance, for example. It would sometimes be relevant to ask candidates to calculate this so that they can then go on to calculate the advanced variances and discuss why the advanced variances provide an insight that is not available just from looking at the basic variance. Given that the sales price planning and operational variances are just a breakdown of the sales price variance into its controllable and non-controllable elements, it is often relevant to discuss the basic variance too.

However, while you can expect questions to sometimes still have a few marks available for basic variance calculations, the main focus will be mainly on the more complex variances.

Let us consider, for example, the variance question from December 2010's exam paper about Carad Co, an electronics company making two types of

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television. In the December 2010 exam, the requirements for Carad Co read as follows:

(a) Calculate the following for the month of November, showing all workings clearly:

(i) The sales price variance and sales volume contribution variance. (6 marks)

(ii) The material price planning variance and material price operational variance. (2 marks)

(iii) The labour rate variance and the labour efficiency variance. (7 marks)

(b) Explain the reasons why Carad Co would be interested in the material price planning variance and the material price operational variance. (5 marks)

(20 marks)

Following the recent changes to the Paper F5 syllabus, it would hardly seem appropriate to have a question in the exam that contains 13 marks for basic variance calculations. Therefore, the question requirements could be amended to read as follows, for example:

(a) Calculate the following for the month of November, showing all workings clearly:

(i) The sales volume contribution variance, the sales mix variance and the sales quantity variance. (7 marks)

(ii) The material price planning variance and material price operational variance. (2 marks)

(b) Explain the reasons why Carad Co would be interested in the material price planning variance and the material price operational variance. (5 marks)

(c) Discuss the problems that can arise from using standard costs in a rapidly changing environment. (6 marks)

(20 marks)

This is only one example of how the question could be amended to reflect the changes but it gives you a good idea of what you can expect to see in the future.

An extra point to note on learning curves

Please note that learning curves are still covered in the Paper F5 syllabus; they have simply been moved to a different place. Learning curves could be

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examined either on their own or in conjunction with variances. Nothing has changed.

Additions to the syllabus

Four areas have been added to the Paper F5 syllabus.

1 C3(a) Types of budget

Prepare rolling budgets and activity-based budgets

This addition is fairly self-explanatory. Even at Paper P5 level, it is clear that students often don't understand these two types of budget properly, so it seemed appropriate to make sure that the preparation of them could be examined in Paper F5.

2 E1 Performance management information systems

(a) Identify the accounting information requirements and describe the different types of information systems used for strategic planning, management control and operational control and decision making.

(b) Define and identify the main characteristics of transaction processing systems; management information systems; executive information systems; and enterprise resource planning systems.

(c) Define and discuss the merits of, and potential problems with, open and closed systems with regard to the needs of performance management.

Requirements (a) and (c) have been taken directly from the Paper P5 syllabus. They were deemed to be fairly straightforward requirements that Paper F5 candidates should be capable of tackling. Consequently, it is reasonable to expect questions of a similar level to those asked in Paper P5, although one would expect any scenario they are based upon to be more straightforward. Requirement (b) above, however, is simpler than the requirement from Paper P5 that it replaced. The Paper P5 requirement read:

'Discuss the integration of management accounting information within an overall information system, for example, the use of enterprise resource planning systems.'

This led to questions such as that in June 2011's paper, where the relevant extract of the scenario read as follows:

'...Finally, the board are also considering a change to the information systems at JHK. The existing systems are based in the individual functions (production, sales, service, finance and human resources). The board are considering the implementation of a new system based on an integrated, single database that would be accessible at any of the company's five sites. The company network would be upgraded to allow real-time input and update of the database. The database would support a detailed management information system and a high-level executive information system.'

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The question then asked candidates to:

Evaluate the potential impact of the introduction of the new executive information system at JHK on performance management.

In a Paper F5 exam, a question requirement would be more likely to be slightly less challenging and might read, for example, as follows:

Management Information Systems (MIS) allow managers to make timely and effective decisions using data in an appropriate form. List three types of MIS and how they would be used in an organisation. (5 marks)

2 E2 Sources of management information

- (a) Identify the principal internal and external sources of management accounting information.*
- (b) Demonstrate how these principal sources of management information might be used for control purposes.*
- (c) Identify and discuss the direct data capture and process costs of management accounting information.*
- (d) Identify and discuss the indirect costs of producing information.*
- (e) Discuss the limitations of using externally generated information.*

All of these requirements have been lifted directly out of the Paper P5 syllabus without any amendments being made to them. However, when you look at past Paper P5 questions, the syllabus requirements have been tested in quite a demanding context. Question 1 of December 2010's Paper P5 exam included a requirement covering this part of the syllabus and it was more difficult than questions you could expect in Paper F5. It read as follows:

Discuss the implications of your chosen PIs for the design and use of the company's website, its management information system and its executive information system. (9 marks)

The level of application here was high, and Paper F5 questions would require more knowledge and less application, although there would be some degree of application required.

On the whole, then, since Paper F5 is not as challenging as Paper P5, the standard of questions that you would now get in this area would be slightly lower. The scenarios in Paper F5 would be expected to be briefer than those in Paper P5 and also, generally, they would be less complex. The requirements, although involving some degree of application, would usually include some pure knowledge marks too. If a whole 20-mark question was dedicated to this area, the requirements of a question might read like this in Paper F5:

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(a) Discuss the information requirements for a customer profitability reporting system within X Co and where the data for this system might be obtained. (9 marks)

(b) Discuss how the information in a customer profitability reporting system might improve management control within X Co. (6 marks)

(c) Explain what the direct and indirect costs of obtaining data and producing information for this system might be, and how the value of such a system should be assessed. (5 marks)

(20 marks)

Alternatively, you could see a single requirement like this one:

Describe how X Co could structure and implement formal methods and procedures for gathering information to monitor its external environment. (20 marks)

3 E3 Management reports

(a) Discuss the principal controls required in generating and distributing internal information.

(b) Discuss the procedures that may be necessary to ensure security of highly confidential information that is not for external consumption.

As for E2 above, these requirements have been directly lifted from Paper P5. This area does not seem to have been heavily tested in past exams in Paper P5, but if it were to be examined in Paper F5, the requirements could read:

(a) With reference to X Co, assess the possible risks to a company from uncontrolled generation and distribution of internal information. (10 marks)

(b) Recommend suitable measures that should be taken and controls that should be introduced to deal with the risks you have identified in part (a). (10 marks)

(20 marks)

Again, the scenario on which the question would be based would be less complex than the typical Paper P5 scenario.

Summary

It is useful to note that, at the end of every syllabus produced for ACCA exams, there is an appendix that always details changes that have been made to the syllabus. This is a quick reference point for both tutors and students. Hopefully, after reading this article, you have a clearer idea about how the

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Paper F5 changes impact on you. Don't forget to make use of all the resources on the ACCA's website when preparing for exams. These exist to help you.

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