

# Examiner's report

## F5 Performance Management

### June 2012

The ACCA logo consists of the letters 'ACCA' in a white, bold, sans-serif font, centered within a solid black square.

#### General Comments

The structure of the paper remained the same as in previous sittings – five questions each taken from the five main syllabus areas worth 20 marks each. The proportion of narrative to computational requirements was 52% to 48%. This does vary slightly from sitting to sitting. The pass rate on this paper was slightly higher than in recent sittings. This may be due to the fact that, some requirements had plenty of straightforward marks that well-prepared candidates could earn. It was really good to see that many candidates followed my previous advice about answering the questions in the order of their best questions first, and then also made sure to get the easy marks available on each question first too.

#### Specific Comments

##### Question One

This question tested relevant costing within a 'make or buy' context. Part (a) asked candidates to advise whether the company in question should manufacture its own components for its burglar alarms or whether it should outsource their supply to Burgistan. It was quite pleasing to see many candidates making a decent attempt at it. In the suggested solution, the \$4k and \$6k machine costs are treated as **specific** fixed costs and are therefore included in the relevant cost of manufacturing in-house, together with the depreciation. However, it is acceptable to assume these costs to be **general** fixed costs and therefore excluded them for their manufacture cost together with the depreciation. Part (b) was more challenging and required candidates to work out the incremental saving per unit from making the two components and then, using key factor analysis, calculate how many of which product should be bought in rather than made in order to increase production. It produced weaker answers but many candidates were at least able to work out the shortage of hours and the number of units that needed to be bought in (without going through the process of ranking the two components), for which they could earn nearly half of the total marks available.

Part (c) was a straightforward knowledge requirement about the non-financial factors to be considered when outsourcing. The majority of candidates answered very well scoring full marks here although a significant number of candidates brought in financial factors into their answers despite the requirement asking for **non**-financial factors.

Good points that were raised included consideration of the following:

- Reliability and skills of the suppliers - can they sustain quality standards?
- What if there are any future changes / models, would the suppliers be able to cope?
- Ability of the suppliers to deliver on time; if late, how will this affect customer relations and goodwill?
- Will the suppliers maintain confidentiality? The designs are IPR - Intellectual Property Rights, which, if copied, will affect Robber Company's market share.
- What about government pressure / power / policies? The decision to outsource could result in a number of redundancies which might make the government bring sanctions against Robber Company.
- Loss of the rationale of Robber's existence - if they outsource is this the start of the decline of the manufacturing business?
- Exchange rate risks and losses for Robber Co.

##### Question Two

This question covered target costing in a service sector context and was purely written. Most candidates appear not well prepared for this type of problem. Target costing is equally as important as any of the other four costing areas in the F5 syllabus and can be tested in either manufacturing or service industry context. Both requirements (a) and (b), which were worth ten marks in total, were pure knowledge marks. Part (a) asked for the steps involved in developing a target costing a manufacturing company and part (b) asked for four key characteristics that distinguish services from manufacturing. Both these requirements were generally well-answered, with many candidates scoring full marks.

Where there were weaker answers for part (b), it was where candidates had simply said that ‘manufacturing companies make things and service companies provide services.’ This wasn’t enough to gain credit. Similarly, a number of candidates were mistaken in thinking that all service companies are non-profit seeking organisations. This is simply not the case. Candidates should be aware that the service industry is huge these days and includes lots of profit making companies. . Part (c) was more demanding as it required to derive target costs for different services. A number of candidates made the mistake of discussing how the trust could try to ‘achieve’ the target cost rather than ‘derive’ it. It was difficult to find marks in such answers. Good answers addressed the requirement and reflected the fact that, in part (i), the target cost might simply be the pre-set tariff and in part (ii), it could simply be the price that has historically been charged. There were numerous suggestions that could be made for potential transfer prices and all reasonable ones were awarded marks.

Part (d), on the difficulties the trust might find in using target costing, attracted some really good, common sense answers and many candidates scored full marks. Answers included:

- What about the effect of government control on wage rates or medicines? The UK have standard prescription charges for example.
- If following target costing and attempting to cut costs, how to cease medical procedures without adverse effects on patient care, especially when there are medical regulations dictating how such procedures should take place.
- Cutting back on costs can hinder the aims and objectives in addition to the preservation of life!
- It is not possible to change the minimum number of nurses and doctors required so attempting to cut costs will be difficult;
- Difficulty in trying to cut costs as there is a limited market from where to source medical equipment given the specialist nature of heart transplants for example.
- How to reduce the length of patient stay - this is something that is difficult to control.
- Level of income is subject to variability given their dependency on the government. What will happen if they change the income % levels after an operation has already taken place?

### Question Three

Part (a) tested time series and asked candidates to forecast sales of Sauce Co for the last two quarters of 2012. This was poorly answered by many candidates, who presumably assumed that this would not be examined in an F5 exam. The syllabus clearly reads ‘predict a value from time series data using both additive and proportional data.’ It’s in the syllabus and it is therefore examinable.

Part (b) seemed to compensate for part (a), asking for a discussion of the impact of the top-down budgeting style being used. Many candidates scored full marks and some really good points were made, such as:

- Using inaccurate sales budgets means that the company could miss out on other lucrative opportunities as they fail to respond and act on them.
- Inaccurate financial information being presented / reported and investors making incorrect financial decisions.

### Question Four

Part (a) covered variances and was generally well-answered. Not all candidates were able to calculate the market share and market size variances, however, so some work needs to be done on this. Part (b) asked for a discussion of whether standard costing would still be appropriate if TQM was introduced. Most candidates failed to realise the changes that TQM will bring and how it will affect standard costing. . Others just put down everything they knew about standard costing and TQM and didn’t really answer the question.

### Question Five

This was a straightforward performance measurement question in a divisional context. This type of question is just as core as, for example, the traditional performance measurement question (A T Co) in December 2010’s paper, or the transfer pricing question (Bath Co) in December 2011’s paper. ROI and RI came up in June 2011’s paper too and so this should not have posed problems.

The question required candidates to calculate 'annualised' return on investment and residual income for two divisions. The annualisation caused a problem for many candidates. All candidates had to do in order to annualise the ROI and RI was multiply the monthly net profit figure by 12, to reflect the fact that there are twelve months in a year. Many candidates didn't do this they still managed to score the majority of marks available, since a candidate is only ever penalised once for an error.

In part (c), stronger candidates realised that, in order to discuss the performance of the divisions well, they needed to recalculate the ROI and/or RI using controllable profit. Where candidates did this, they generally accompanied it with some good discussion and scored full marks. Weaker answers performed other calculations on the two divisions and gave some general commentary, even though the question asked for a discussion 'using both ROI and RI'.

In part (e) candidates were supposed to identify the fact that changing the basis for calculating ROI and using this for performance measurement without changing the target ROI would cause managers to be demotivated. Many candidates answered this well, although some simply discussed the general problems encountered when using ROI, which were relevant to a degree but shouldn't have been the sole answer.

### **Conclusion**

F5 is a challenging paper for several reasons. Firstly, it is a 'skills' rather than a 'knowledge' paper, which means that it is going to be necessary to think a bit rather than just regurgitate information. Secondly, there is a misconception that this is a costing paper and it's not. As the title suggests, performance management covers a lot more than just costing; costing is only one of the five key areas examined. Thirdly, the syllabus for F5 is quite wide. There is quite a bit of assumed knowledge from F2 and, in order to test that assumed knowledge without a question simply being a repetition of F2, the level of difficulty must be higher. However, it is worth noting that everything that was tested in this June's paper was explicitly included in the F5 syllabus. There was actually nothing in the exam that came under the umbrella heading of 'assumed knowledge' at all.

I remember also that it is dangerous to question spot. With a syllabus as wide as F5, there is no way that it is possible to predict the exam questions each time and it wouldn't be right if this was the case. Please don't leave out areas of the syllabus in your studies.