

Examiner's report

F5 Performance Management

June 2008

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

General Comments

The paper, as usual, consisted of 4 compulsory questions of 25 marks each. These questions were drawn from a wide range of syllabus areas and very representative of the Pilot paper and the paper set in December 2007. The balance of the paper was that it had around 55% for calculations (some within not obviously numerical sections) and 45% for discursive content.

There was evidence of some poor time management with some candidates failing to do all 4 questions. The linear programming question (Q2 – see later) could have contributed to that with candidates spurning the theory of iso-contribution and adopting a random walk approach to identifying the optimal point. This random walk approach takes a lot of time and is in my view very much a second best approach (although it was awarded full marks when used). Iso-contribution theory is, in my view, very straightforward, quicker and not one to have to hide from.

Equally some candidates ignored the number of marks allocated to some sections choosing to write copious amounts unnecessarily. Three pages of writing for part a) of question 1 (8 marks) is a lot by any standards. Well constructed, short suggestions for that part of the question would still have scored good marks.

The question that was missed out most often (if one was) was question 3. This is the “performance management” question and the core of the paper. This question was slightly different to previous questions in that the performance of a division was being assessed compared to a defined set of targets as oppose to its own past performance. In the Pilot Paper and in the December 2007 exam a question was set that required the interpretation of simple financial (and non-financial) data. Both required a comparison to past results be made to assess progress. Earlier this year, an article was produced in the student accountant about how students should analyse financial and non-financial data. This is a core topic. It is what separates F2 from F5. In F2 candidates have to perform calculations – and that’s it. No interpretation at all. In F5 some calculation will be required but (and crucially) some interpretation will be expected. This can not be avoided.

Candidates should know that questions of this type will differ from each other. As a result preparation has to revolve around principles and techniques and they will have to be able to have original thoughts on the exam day. The scenarios will always be straightforward (more complex questions will probably follow at P5) but an interpretation will be needed.

Layout of answers was again mixed, with some candidates producing neat answers (and hence better marks) and some producing answers difficult to read.

Poor layout is not acceptable; (including excessive crossing out, unlabelled workings, no tabulation, “essay” style answers for numerical calculations are all typical problems). This makes marking very difficult.

It is clear that candidates continue to struggle in the written (discursive) elements of the paper. Practice in writing skills is needed and an improvement in the techniques of commentary, assessment and the ability to answer the question set as oppose to merely demonstrate knowledge. I do not give marks for factually accurate statements that do not contribute to the answering of my questions.

As was the case in December 2007 I personally moderated all marginal candidates in the world. There were very many much better candidates that produced excellent scripts and whilst it would be enjoyable to talk about these, more lessons can be learned from looking at those that were just below

or around the required standard. In this way pass rates can improve in the long run with more candidates reaching the required standard.

This paper was, in my view, very passable by a reasonably well prepared candidate.

Question One

This question involved, for 9 marks, the assessment of the performance of three individuals given a set of variances along with some narrative explanation what had happened in the business. Part b) asked for the calculation of a fairly standard set of variances with only the concept of “excess idle time” being new from paper F2.

Generally this question was well done, with reasonable attempts at assessing the performance of the three managers and the calculation of the variances in part b).

Some points can be made however:

- Writing out the variance I had given for part a) gained no marks and is pointless
- Reviewing each variance in turn was not what was asked for. Candidates were asked to assess the three individuals and therefore a heading (and an assessment) for each was what was expected.
- Few had understood the concept of budgeted idle time and hence the potential for having less idle time than expected (which makes the variance favourable). It is worth pointing out that this difficulty was expected and viewed by me as a discriminator in the paper. Any poor understanding here cost very few marks.
- Many had clearly studied the potential causes of variances but they must then apply this knowledge in the exam and not ignore the “clues” that I give in the question. If I say in the question the machines were “running well” then this cannot be the cause of any idle time. Giving 5 “potential” causes when 3 of them do not concur with the facts in the questions fails to impress.
- The business was stated as using marginal costing principles; however, some candidates went on to calculate or refer to fixed overhead capacity or efficiency variances for which no marks were awarded.
- Marks were lost by making no attempt to calculate the actual profit figure (candidates were asked to reconcile actual profit to budget profit). This was an easy calculation to do.

Question Two

This was a very straight forward linear programming question, heralded by an article written by me earlier this year. The first 14 marks were for the basic model and its solution. Given this topic appears in F2 I was expecting a good attempt at parts a) and b). Part c) required a calculation of shadow prices and part d) a deeper understanding of what happens when a constraint can be relaxed.

This question was in the main reasonably well done, certainly in parts a) and b). Some common errors were made though in the construction of the basic model including ignoring the demand (external) constraints completely and missing out the non-negativity constraints. As mentioned earlier in this report it was noticeable that many adopted a “random walk” approach to calculating the optimal point. Although this earns full marks, using the theory of iso-contribution is much quicker to do.

Some candidates did not fully understand what a shadow prices was and fewer still how to calculate it. This is surprising as the step up from F2 must surely include the development of a greater appreciation of shadow prices. The article earlier in 2008 clearly suggested that the basic model is almost assumed knowledge and the calculation and use of shadow prices are important at this level. Some (not all by any means) added 1 to both constraints at the same time to calculate the shadow prices. This shows a lack of deeper understanding of what is going on.

Part d) was my discriminator and it did its job. I did not expect many candidates to correctly calculate the number of extra hours that Chaff should buy was less than the 1200 hours offered. I was not disappointed. Sadly however, too few candidates could make common sense suggestions that double time pay is not normal and that overtime is usually paid at the rate of time and a half.

Question Three

This question was set in a practical context. A promotion was available at the end of quarter 2 of the current financial year and one divisional manager would get it provided the performance of their division was adequate. Adequacy of performance here was to be measured against stated targets. Part a) asked for an assessment of the expected performance of a division against the targets and a comment on the resultant promotional prospects of the divisional manager.

Part b) asked the candidates to revise the forecasts taking into consideration 3 new ideas being put forward to improve performance by the divisional manager. Part c) then asked for a comment on the ideas (this means I wanted opinion not simply a re-statement of the proposals).

Part d) asked for two suggestions to encourage a longer term view being taken by managers of businesses.

The assessment of performance is a core element of the paper. This was the cornerstone of the thinking when the current “new” syllabus was constructed. This is not solely a management accounting paper. Candidates must be able to assess performance which means interpret financial and other data and make sensible comments on it.

For half marks in part a) all that was expected was a statement (with simple supporting calculations) of whether or not the manager would meet each of the targets. Those that had a go at this invariably did well. Few, however, realised that the divisions improving performance in quarters 3 and 4 came too late for the promotion at the end of quarter 2. Many only commented on the profits of the division and ignored all the other targets. Many also assessed the performance more generally, calculating amongst other things % margins and ignored the targets altogether. This was very disappointing.

Part b) was also poorly performed. Misreading the question was common. The extra revenue was clearly 80 vouchers x \$125 = \$10,000. It was not \$10,000 per quarter despite many candidates belief. The revenue for the software upgrade should have begun in quarter 3 as stated in the question, but many candidates included extra revenue for all quarters. This, despite the clear indication in the question, that staff training would be needed in the first 2 quarters before course could be offered. Incremental room hire and trainer costs were missed by a large number of candidates. Candidates must learn to read performance management questions more carefully. The third suggestion by the manager to improve performance was to delay payment on trainer invoices. This is unethical and

ineffective (since income statements are drawn up on an accrual basis). Remarkably few of the marginal candidates realised or commented on either of these points.

For Part c) candidates answers primarily consisted of a re-statement of the different steps being proposed with little or no comment at all. A comment requires opinion and anything sensible scored marks. For example stating that offering substantial discounts can upset existing customers is a valid point to make. Not one of all the marginal candidates I looked at made that point and very often any “comment” at all.

Part d) was reasonably attempted by most.

This style of question was in the pilot paper, in the December 2007 paper. It is a core area. I cannot guarantee it will feature in every single exam in the future but candidates should prepare themselves to assess the performance of a business, both financially and non-financially if they want to pass. Assessment of performance can be against past performance (to indicate progress) or against targets (to indicate success). It can also be measured against external statistics (to indicate competitiveness).

Question Four

An activity based costing question. As is common with my questions I facilitated a commentary on some calculations already done (in part a) and then followed that up with a requirement to some calculations themselves parts c) and d). Part b) was a simple requirement to briefly explain the implementation problems involved with ABC.

Part a) produced some good answers, however many completely misread the requirement and gave a text book explanations of the process involved in ABC. This gained very few marks. The old adage of “answer the question” would have served well here. Vague references to “activities” without referring to the specific activities in the question gained only a few marks. I wanted candidates to explain why these products costs had changed following the introduction of ABC.

Part b) also produced many good answers. Part b) asked for implementation problems not merely “issues” and so marks were lost through poor focus again. The fact that ABC might result in a price change is an issue but not necessarily a problem. The fact that subsequent to a price change customers could complain is a problem.

Parts c) and d) were both done extremely well by many.