

# performance management

■ **The aim of Paper F5, *Performance Management* is to develop knowledge and skills in the application of management accounting techniques to quantitative and qualitative information for planning, decision making, performance evaluation, and control.**

It is important to remember that this paper is more than a management accounting paper. Management accounting is certainly important, but it is the interpretation of the information that it provides that is useful to a manager of a business. The aim is that students should have a knowledge of management accounting techniques and be able to apply this knowledge to a performance management problem.

## **Syllabus structure, rationale, and relational diagram**

The syllabus for Paper F5, *Performance Management* builds on the knowledge gained in Paper F2, *Management Accounting*. It also prepares candidates for the more specialist capabilities which are covered in Paper P5, *Advanced Performance Management*.

As such, this paper sits between two other management accounting-based papers. This is always a challenge for an examiner. This paper must represent a step up from the lower paper, in this case Paper F2, but not get too close to the more advanced paper, Paper P5. This paper intends to cover the

fundamentals of performance management, and will cover those topics essential to a management accountant in business. It will have a much stronger element of interpretation than Paper F2, but will not contain the more complex scenarios that will probably feature in Paper P5. Paper F5 will still contain scenario-based questions, but the choice of scenarios will reflect the fact that students will, in many cases, be relatively new to management accounting techniques.

## **Syllabus area A**

The syllabus begins by introducing more specialised management accounting topics. There is some knowledge assumed from Paper F2 – primarily overhead treatments. The objective here is to ensure candidates have a broader background in management accounting techniques. Again, the emphasis will be on the implications of the calculations, not just the calculations themselves. The ABC question in the *Pilot Paper* is an excellent example of what is being aiming for. Here, candidates are required to perform some ABC-based calculations and then comment on the implications for the pricing and profitability of the product. The calculations themselves would be unlikely to be sufficient.

## **Syllabus area B**

The syllabus then considers decision making. Candidates need to appreciate the

problems surrounding scarce resources, pricing, and make-or-buy decisions, and how these problems relate to the assessment of performance. Risk and uncertainty are a factor of real-life decisions; candidates need to understand risk and must be able to apply some basic methods to help resolve the risks inherent in decision making.

Students should never forget that management accounting provides information partly so that decisions can be made. This area of the syllabus is important and is a rich source of future questions.

## **Syllabus area C**

Budgeting is an important aspect of many accountants' lives. The syllabus explores different budgeting techniques and the problems inherent in them. The behavioural aspects of budgeting are important for accountants to understand, and the syllabus includes consideration of the way individuals might react to a budget.

Abuse of the budgeting environment is common and damages businesses more than is often realised. Students need to appreciate the problems inherent in budgeting and must be able to suggest how these problems can be overcome.

## **Syllabus area D**

Standard costing and variances are then built on – all the variances examined in

Paper F2 are examinable here. New topics are mix and yield variances, and planning and operational variances. Again, the link is made to performance management. It is important for accountants to be able to interpret the numbers that they calculate, and to ask what they mean in the context of performance.

### Syllabus area E

The syllabus concludes with performance measurement and control. This is a major area of the syllabus. Accountants need to understand how a business should be managed and controlled. They should appreciate the importance of both financial and non-financial performance measures in management.

Accountants should also appreciate the difficulty in assessing performance in a divisionalised business, and the problems caused by failing to consider external influences on performance. This section leads directly to Paper P5.

This last section of the syllabus is perhaps the most important. As the relational diagram illustrates, all other aspects of the syllabus lead to this area. The point is that this is a performance management paper and not a pure management accounting paper. Students must understand this and prepare accordingly.

### Format of the paper

The *Pilot Paper* shows the structure of the exam. Four questions will be set, all worth 25 marks. The need for long questions was apparent early in the development process. The implications of calculations as well as the calculations themselves will be examined. There will be computational and discursive elements, broadly in line with the *Pilot Paper*.

Wherever possible, I intend to separate discussion from calculations. In other words, it should be possible for students to comment without the need to do the calculations. The Simply Soup question in the *Pilot Paper* is a good example of this, and students with good examination technique should benefit from this approach. Note – this may not always be possible but I expect to be able to do this in most cases.

### Pilot Paper

The *Pilot Paper* draws questions from four of the five syllabus areas, and I intend this to continue. Each future paper will draw on as many syllabus areas as possible. Two questions are new questions written for the *Pilot Paper* (Questions 2 and 4). The other two are past exam questions that were significantly re-formed to reflect the intended style of future exams.

Question 1 is an ABC question where a comparison between traditional cost per unit and ABC costs was needed. The question asks students to explain why the costs are different, and then to discuss the implications of a switch to ABC on pricing and profitability. The point to emphasise here is that the calculations are not really enough on their own. Why are the numbers different? What does this mean to prices? What effect will all this have on profit? The mark split allows differentiation between good and weak students.

Question 2 is a mix and yield question where students should be able to demonstrate their understanding of the numbers, before having to do any calculations. It also highlights the problem that some favourable variances can indicate a far-from-good performance.

Question 3 is a learning curve question. I feel that the mathematical ability of students needs improving, and the powerful modern spreadsheet certainly demands this. Again, some comment is needed but the correct calculation of results is not required to be able to comment properly.

Question 4 involves non-financial and financial control. Students must understand that a balance is needed between these two forms of control. Too much emphasis on one or the other can result in problems. In this case, a seemingly reasonable financial result belied much deeper problems which, if unchecked, could bring financial disaster.

### Examiner's influences

There are many things that make up an examiner's mind-set, and as I am a new examiner it is only fair that I provide some insight as to the style of exam students

might expect. This is not an inclusive list, but it does give an indication of some of my motivations:

- Ethics and the integrity of an accountant are essential. An accountant must be capable of managing the performance of a business with honesty. Manipulation of performance figures is a short-term strategy and is potentially damaging, and in my view unethical.
- Organisations seem obsessed with financial performance measures, but the future is determined more by non-financial performance. Both are important.
- The ability to perform management accounting calculations is important, but being able to determine the implications of those calculations is essential for an accountant.
- Performance management methods should be fair and reasonable. There are many influences and interested parties, and a balance is needed if the best is to be achieved from the business.

### Summary

Students will need to prepare thoroughly for this examination. They should:

- read the *Syllabus*, *Study Guide*, and *Pilot Paper*. These give a good indication of the style and content of future examinations. In particular, it should be borne in mind that I also wrote the *Study Guide* and that it indicates the way that I think about the syllabus. Any new paper is bound by the *Study Guide*, as it represents what I am allowed to examine
- study thoroughly – this paper will be a significant step up from Paper F2. Application and implication will be examined
- practise questions produced by tutors as well as those contained in the *Pilot Paper*
- read every issue of *student accountant* magazine
- develop business awareness. Many business problems can be solved using common sense. ■

**Geoff Cordwell is examiner for Paper F5**