

EXAMINER'S APPROACH TO PAPER F5, PERFORMANCE MANAGEMENT

RELEVANT TO ACCA QUALIFICATION PAPER F5

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 it provides that is useful to a manager of a business. The aim is that students should have knowledge of management accounting techniques and should 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 students for the more specialist capabilities covered in Paper P5, *Advanced Performance Management*.

As such, Paper F5 sits between two other management accounting-based papers. This is always a challenge for an examiner as such papers 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). Paper F5 covers the fundamentals of performance management, and covers those topics essential to a management accountant in business. It has a much stronger emphasis on interpretation than Paper F2, but does not contain the more complex scenarios that can feature in Paper P5. Paper F5 contains scenario-based questions, but the choice of scenarios

reflects the fact that students will, in many cases, be relatively new to management accounting techniques. A formula sheet is provided with every Paper F5 exam.

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 students have a broader background in management accounting techniques. Again, the emphasis is on the implications of the calculations, not just the calculations themselves. The ABC question in the *Pilot Paper* is an excellent example: 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 are unlikely to be sufficient to gain a pass.

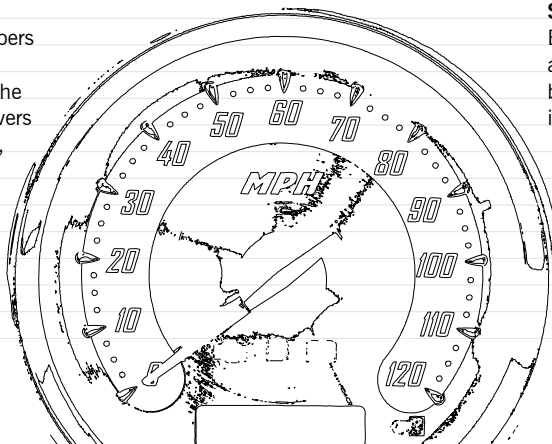
Syllabus area B

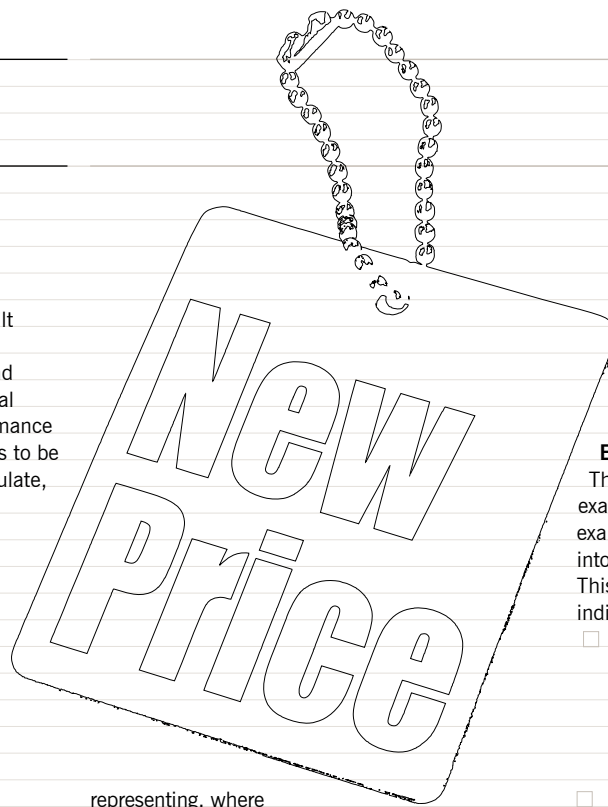
The syllabus then considers decision making. Students need to appreciate the problems surrounding scarce resources, pricing, and make-or-buy decisions, and how these problems relate to the assessment of performance. Risk and uncertainty are a factor of real-life decision making; students need to understand 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 will be 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 the core 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 (see the *Syllabus* on the ACCA website), 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 format of the paper changed after the December 2008 exam. Five questions are now set, all worth 20 marks each. The need for longer questions was apparent early in the development of this exam, and 20 marks is now deemed enough to enable focused performance-orientated questions to be set. The implications of calculations, as well as the calculations themselves, are examined. There are computational and discursive elements, broadly in line with the *Pilot Paper*.

Wherever possible, I try 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 exam technique should benefit from this approach. Note – this may not always be possible (particularly with the new 20-mark questions), and if so, the marking team will be briefed to give credit for candidates' own calculations and figures.

Pilot Paper

The *Pilot Paper* comprises questions from four of the five syllabus areas. Now, Paper F5 will draw on as many syllabus areas as possible. From June 2009 onwards, five questions will be set

representing, where possible, all five syllabus sections. Returning to the *Pilot Paper*, two questions are new questions written specifically for this 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, in the *Pilot Paper*, is an ABC question where a comparison between traditional cost per unit and ABC costs is needed. The question asks candidates 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 candidates.

Question 2 is a mix and yield question, where candidates can 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 candidates needs improving, and the programming of powerful modern spreadsheets certainly demands this. Again, some comment is needed but the correct calculation of results is not required in order to comment properly.

Question 4 involves non-financial and financial control. Candidates 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 have brought financial disaster.

The exams held in December 2007 and June and December 2008 were in line with my previous statements and with the *Pilot Paper*. They are both

excellent indicators of the general style of my future exams (subject to the change of rubric to five 20-mark questions). The examiner's reports for both these papers are essential reading for students and tutors.

EXAMINER'S INFLUENCES

There are many things that make up an examiner's mind set, and as I am still a fairly new examiner it is only fair that I provide some insight into 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 integrity are essential; an accountant must be capable of managing the performance of a business with honesty. Manipulation of performance figures is a short-term and potentially damaging strategy 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

You need to prepare thoroughly for this exam, as follows:

- Read the *Syllabus*, *Study Guide*, and *Pilot Paper*. These give a good indication of the style and content of future exams. In particular, it should be remembered that I also wrote the *Study Guide* and that this indicates the way I think about the syllabus. Any new paper is bound by its *Study Guide*, as it represents what the examiner is allowed to cover.
- Study thoroughly – this paper is a significant step up from Paper F2. Application and implication will be examined.
- Practise questions produced by tutors as well as those included in the *Pilot Paper* and all past papers written by me.
- Read every issue of *student accountant* magazine. I write articles for this magazine regularly and they are useful preparation for this paper.
- Develop business awareness. Many business problems – and my questions – can be solved using common sense. Actively seek out experiences involving the assessment of performance as these will be invaluable in the exam room. ■

Geoff Cordwell is examiner for Paper F5