

RELEVANT TO ACCA QUALIFICATION PAPER F5

## **The new Paper F5, *Performance Management* syllabus for exams commencing from June 2011**

The purpose of this article is to set out the syllabus changes that will take place from June 2011 for Paper F5. The changes have been made largely due to updates to the occupational standards that have taken place. Paper F5 has been carefully aligned, once again, to sit between Papers F2 and P5. There have been several deletions from the syllabus and a number of additions. These are dealt with separately, in turn, below.

### **Deletions from the Paper F5 syllabus**

Only one subject area has really moved out of Paper F5 altogether and that is the area of backflush accounting:

- A4 Backflush accounting
  - a) Describe the process of backflush accounting and contrast with traditional process accounting.
  - b) Explain the implications of backflush accounting on performance management and the control of a manufacturing process.
  - c) Identify the benefits of introducing backflush accounting.
  - d) Evaluate the decision to switch to backflush accounting from traditional process control.

It was deemed to be a peripheral subject that was not really necessary in the Paper F5 syllabus. There have also been several deletions to some of the higher-level requirements of some of the other specialist cost and management accounting techniques (rather than to the whole area themselves) within Section A. These are as follows:

- A1d Explain the implications to switching to ABC for pricing, sales strategy, performance management and decision making.
- A2c Explain the implications of using target costing on pricing, cost control and performance management.
- A3b Explain the implications of lifecycle costing on pricing, performance management and decision making

There have been no deletions to any other Syllabus Areas (B–E).

### **Additions to the F5 syllabus**

The additions to the syllabus have been dealt with in turn below, under the section of the syllabus (A–E) to which they relate.

#### ***Section A: Specialist cost and management accounting techniques***

There are two additions to this area of the syllabus: two extra requirements in relation to lifecycle costing and the introduction of a whole new area, environmental accounting.

Dealing with lifecycle costing first, the requirements of the *Study Guide* that have been inserted read as follows:

JANUARY 2011

- A3 Lifecycle costing
- b) Derive a lifecycle cost in manufacturing and service industries.
  - c) Identify the benefits of lifecycle costing.

This means that students could now be asked to perform some lifecycle cost calculations that previously weren't examinable. Also, they could be asked to talk about the benefits of this costing method. It should be noted, however, that as stated earlier in the article, there has also been a deletion from this area, so, all in all, lifecycle costing is only slightly broader than before (because of the inclusion of calculations.)

As regards the entirely new area of environmental accounting, the *Study Guide* requirements read as follows:

- A5 Environmental accounting
- a) Discuss the issues businesses face in the management of environmental costs.
  - b) Describe the different methods a business may use to account for its environmental costs.

Students will be required to have a good understanding of what environmental costs actually are and why it is difficult to manage them and account for them. The four main methods of accounting for them, as identified in 2003 by the UNDSO, should be understood so that students could describe them. No calculations will be necessary for this new area of the syllabus. More information about this new part of the syllabus can be found in my article in the July 2010 issue of *Student Accountant*, so it is recommended that students and tutors alike refer to this. I did not go into detail about the four methods of accounting for environmental costs as this had been covered in detail by a previous article in 2004, written by the previous Paper P5 examiner, so this article is also a good reference point for students. Be aware, however, that it goes into more detail on some areas than would be required for Paper F5 students.

### **Section B: Decision-making techniques**

This is the area of the syllabus where most of the additions have taken place. They start off with a new area being introduced into the *Study Guide*, which reads as follows:

- B1 Relevant cost analysis
- a) Explain the concept of relevant costing.
  - b) Identify and calculate relevant costs for specific decision situations from given data.
  - c) Explain and apply the concept of relevant costing.

Students need to be able to both discuss relevant costing, breaking down the definition to see what its three elements are, and also deal with some testing calculations. When it comes to labour and materials costs, in particular, students can find calculations quite challenging in this area. The key is to wholly understand the definition of what a relevant cash flow is, rather than

**EXAMINER'S APPROACH TO PAPER F5, PERFORMANCE MANAGEMENT**

JANUARY 2011

trying to learn flow diagrams to guide you through (although I am not saying that these aren't useful).

The next addition to Section B is the whole area of cost-volume-profit (CVP) analysis. The *Study Guide* reads as follows:

- B2 Cost-volume analysis
- a) Explain the nature of CVP analysis
  - b) Calculate and interpret the breakeven point and margin of safety.
  - c) Calculate the contribution to sales ratio, in single and multi-product situations, and demonstrate an understanding of its use.
  - d) Calculate target profit or revenue in single and multi-product situations, and demonstrate an understanding of its use.
  - e) Prepare breakeven charts and profit-volume charts and interpret the information contained within each, including multi-product situations.
  - f) Discuss the limitations of CVP analysis for decision making.

This is the biggest addition to the new syllabus, covering the whole area of CVP analysis from basic single product situations to more complex multi-product situations. Some of the basic techniques should be revision for many students, although often I find that previous learning seems to be forgotten as soon as students walk out of the exam hall. Students could be asked to write about the area of CVP analysis, as well as perform extensive calculations and draw a number of graphs. I wrote an article on this new area in the July 2010 issue of *Student Accountant*, which students and tutors should make themselves familiar with.

The other additions to Section B of the syllabus are largely just additional requirements to subjects that were already contained in the old syllabus. As regards the area of 'limiting factors', the following insertion has been made:

- B3 Limiting factors
- b) Determine the optimal production plan where an organisation is restricted by a single limiting factor.

This is largely self-explanatory and makes the syllabus more complete now than it perhaps was before. Given that linear programming has always been in there, it makes sense to cover situations where there is only one production constraint as well. Students are not really being asked to learn any new techniques since limiting factor analysis is effectively used in throughput accounting and throughput accounting has always been in the syllabus. Candidates are simply being asked to use that same technique when dealing with contribution per unit of scarce resource rather than throughput per unit of bottleneck resource.

The next addition is to the 'pricing' section:

- B4 Pricing decisions
- a) Determine prices and output levels for profit maximisation using the demand-based approach to pricing (both tabular and algebraic methods).

**EXAMINER'S APPROACH TO PAPER F5, PERFORMANCE MANAGEMENT**

JANUARY 2011

Once again, I think this now makes the pricing area of the syllabus more complete. It seemed necessary to include this requirement in order to properly examine the area of pricing with life-like questions. Students should be clear about when the tabular approach is necessary as opposed to when the algebraic approach can be used, so that they don't go down totally the wrong path in any exam questions. They should also be aware that this could be examined in conjunction with another area of the syllabus, if deemed appropriate. I think a *basic* understanding of *simple* economics is necessary in order to understand pricing properly.

The next area to be expanded slightly is that of 'dealing with risk and uncertainty':

- B6 Dealing with risk and uncertainty
- a) Draw a decision tree and use it to solve a multi-stage decision problem
  - b) Calculate the value of perfect information

In the previous syllabus decision trees were specifically excluded from 'dealing with risk and uncertainty', and they are now specifically included. This means that students could be asked to draw a decision tree, work out the expected value from it, and make decisions on that basis. To this end, students may be required to calculate joint probabilities, although not complex ones. They could also be required to work out the value of perfect information following on from the tree, although perfect information does not have to be examined in conjunction with decision trees alone.

***Section C: Budgeting***

There have been no additions to this part of the syllabus.

***Section D: Standard costing and variance analysis***

The only change here is the addition of sales mix and quantity variances to the syllabus. The study guide reads as follows:

- D4 Sales mix and quantity variances
- a) Calculate, identify the cause of, and explain sales mix and quantity variances.
  - b) Identify and explain the relationship of the sales volume variances with the sales mix and quantity variances.

The requirements here are very similar to requirements 3(a) and 3(c) relating to material mix and yield variances, so you can expect a similar level of knowledge. Calculations can be quite tricky in this area, so students need to be sure that they understand what they are doing, rather than rote learning formula. They also need to be able to discuss what the variances actually mean and how they relate to the sales volume variance.

There are no other changes to the June 2011 syllabus for Paper F5.

**Ann Irons is examiner for Paper F5**