

# interpreting financial data

## relevant to ACCA Qualification Paper F5

# analyse this

■ **The transition from Paper F2 (and the previous paper, Paper 1.2) to Paper F5 cannot be underestimated. When preparing for the Paper F5 exam, students need to carefully consider what the examiner is looking for. The purpose of this article is to point students in the right direction when studying the interpretation of financial data – which is a major topic in the Paper F5 syllabus.**

This article has been written following marking of the December 2007 exam papers. Although there were many very good answers to Question 2 ('Ties Only'), it was clear that more guidance is needed for some candidates. Students are advised to look at Question 2 while reading this article, as extracts from the question are used to illustrate points and explain the techniques needed.

### ASSESSING FINANCIAL PERFORMANCE

In the December 2007 exam, candidates were asked to assess the financial performance of the business in its first two quarters, when sales had jumped 61% from Quarter 1 to Quarter 2. This calculation should present no problem ( $(Q2/Q1) - 1$ ) expressed as a % increase). However, an 'assessment' requires a qualitative comment or two. A percentage alone will not gain a pass mark.

In most questions there will be some background information – you should use it. Ties Only operated in a competitive environment – as stated in the question – and so a 61% increase in one quarter sounds pretty good in a competitive situation, and to say so will earn a mark. It was also the *first* two quarters of the business year and so this level of growth is impressive – another mark. If you then go on to say that such high growth rates are often hard to maintain, you will gain another mark. Top-scoring students should be aiming to make these kinds of observations. Hypothesising as to why the growth is

happening is also a source of marks. Revenue growth can be the result of extra volume or increasing prices. In the case of Ties Only, it is much more likely to be increased volume; the price will surely be constrained by competition, and from the information provided in Part (b), you can work out that prices are falling (although that calculation was not required). Suggesting that Ties Only has secured more customers, and hence increased volume of sales, scored a mark.

Candidates must be brave and commit themselves. You must express an opinion. It is not acceptable to suggest that management investigate. Although in the real world this may well happen, in the exam hall you have to demonstrate that you know where to look.

### INTERPRETATION

The principle of interpretation can be applied to other areas of the syllabus. In Question 3 of the December 2007 exam, candidates were required to interpret sales performance. Again, it is recommended that you refer to Question 3. Broadly, in this question, the market was shrinking and the company was struggling a little as a result. It had reduced sales prices and fought off an 11% fall in the market, losing only 2% of its budgeted sales. This is a good performance, taking the falling market into consideration.

I would expect candidates to be able to interpret the variances and reach the above conclusions. So, if you are given the following information:

- sales price variance \$105,600 adv
- sales volume variance \$28,000 adv
- sales market size variance \$140,000 adv
- sales market share variance \$112,000 fav

You should be able to hypothesise as to what has happened, using the information given in the question and your understanding of the

data. Adverse sales price variance must mean that sales prices have fallen. This could be the result of competitive pressure. Adverse sales volume variance means that the business hasn't achieved its budget, which is likely to disappoint management. However, the favourable market share variance is encouraging. This shows that business has been won from the competition, and that the business has also performed well in the areas that it can control.

The adverse market size variance shows a difficult trading environment which is probably outside the control of the business. Performance should be assessed by taking into account the environment in which a business operates and separating the controllable from the uncontrollable. Note the link between adverse market size and adverse sales price. In the shrinking market of paper diaries (the product in the question), it is likely that the sales prices will fall as sellers scramble to retain as much share as possible. ■

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### Key learning points

In summary:

- a ratio alone is not enough
- use the background information given (such as financial data, variances, or narrative)
- hypothesise as to possible causes and be prepared to select the most likely
- be brave and express your opinion
- do not 'opt out' and suggest that management investigate.