



# Examiners' report

## F5 Performance Management

### December 2007

#### General comments

The examination consisted, as expected, of four 25 mark questions, with the balance between numeric and discursive marks kept in line with the pilot paper. As opposed paper F2, candidates should be prepared for the interpretation of performance data in this paper. There was no evidence of time pressure with most candidates completing the paper.

There were many very good scripts produced by the well prepared candidates. However, having personally moderated every marginal candidate, I can say that many of those that failed did not have knowledge of target costing, did not understand budget revisions and could not interpret simple financial data. The decision whether to pass marginal candidates or not hinged on the answers to these questions.

The layout of questions was mixed, with the weaker candidates producing messy and poorly laid out work.

In the comments below I refer to weaker candidates.

#### Question 1

At the last ACCA teachers' conference it was made clear that the management accounting aspect of the syllabus is an important aspect. This question sought an understanding of the process and benefits of **target costing**, together with an appreciation of how a cost gap might be closed by an organisation. The last part required candidates to be able to calculate a cost of a unit (in this case a radio).

Most candidates gained at least half marks for describing the target costing process. However, I would have expected any well prepared candidate to pick up full marks for something that is after all simply "knowledge" of a core topic. A substantial number of candidates had very little idea as to *what* target costing is, opting to guess in a large number of different ways. This suggests most candidates were not prepared for this.

The "benefits" of target costing was less well done and this was expected. I am generally interested in why something is done as well as how it is done. This principle will be reflected again in future questions.

Easy marks were gained by most candidates when asked to close the cost gap; however no marks were awarded for suggesting an increased selling price. Increasing the selling price goes against the principles of a market led approach and served to convince me the candidate (being marked) did not understand what they were doing. Equally no marks were given for suggesting a reduction in acceptable margin as this avoids the core problem of uncompetitive cost structure indicated by the existence of a cost gap

Candidates scored good marks in Part (d); however all should revise high-low as I am disposed to use it again to provide overhead data within a question. High-low was poorly done by large numbers of candidates, which was a little disappointing given its simplicity and its existence in the F2 (and 1.2) syllabus. Allowances for waste and idle time were often incorrectly done. Any form of attempt scored something but this is an area that will be revisited and I would advise a look at the model answer and revise the correct method. Adding 10% to a cost (or time taken) is not the same as **correctly** adjusting by a factor of 100/90 (assuming a 10% loss for waste in this case).

#### Question 2

This is a performance management paper and not a pure "costing" paper. If a candidate cannot assess the profit performance of a simple business given straight forward numbers then they will struggle to pass. This was the highest scoring question for many candidates but those that failed very often were very much at sea with it.

I wanted some attempt at a qualitative assessment of the financial in part (a) and non-financial performance in part (c). Calculating a ratio without real comment did not gain full marks. For example in part (a) the sales were up 61% from quarter 1 to quarter 2. This calculation gained a half mark only. Saying that this growth was “impressive” scored a mark! Saying that growth rates such as this are hard to maintain or that market share was probably increasing impressed the markers for more marks. Far too often candidates did little more than calculate a ratio. This is not good enough to pass.

Another example I could give is the administration expense data. A simple calculation would show that the administrative cost is up nearly 50%. I wanted an opinion on this. Many of the weaker candidates seemed unable to do that. Simply saying that this was a big increase in a short period gained some credit, adding that a growing business would need more administration impressed too. Only rarely did candidates suggest that they would have expected some economy of scale, where the fixed costs included in administration would be spread over greater units. Far too many suggested merely that management investigate. I expect in future that candidates be bolder. I would like a qualitative assessment, tell me what has happened by all means but then hypothesise as to why it has happened. Simple suggestions will always get marks here.

Part (b) was done reasonably with most scoring at least 2 marks. Of the failing candidates it was clear that a deeper understanding of what simple financial data tells you was not present. If this business continued to grow, maintained the same gross profit and controlled its administration and other costs then it would make profit. It would also benefit from the inevitable reduction in “launch” marketing and website “development”. These last two short sentences would have scored full marks.

The problem was not as acute in part (c) where candidates seemed more willing to give a qualitative assessment of the non-financial data. Linking the problems of poor delivery times and the rapid growth of the business was not uncommon and gained good credit. However, failing candidates did little more than repeat the data I had given them or calculated a % change in them without any qualitative comment at all.

For the record, increasing sales returns proportion is not a good thing, as a substantial minority thought.

The qualitative comments required were not too difficult. For example I gave data suggesting that the web system was down more often in quarter 2 than in quarter 1. Marks were awarded for comments such as:

- The website was a critical aspect of the business
- The increased amount of time was significant
- Sales could be lost
- That it was disappointing, given the high level of investment

Markers were given flexibility in this area to give credit for any reasonable comments.

It might be worth pointing out here that I did not ask for suggestions as to what should be done by the business to correct the apparent problem (e.g. raise more finance for the rapid growth) and so these type of comments did not earn marks.

I see this type of question (the interpretation type) as central to performance management. It is what separates F2 from F5. Candidates need to be better prepared for future questions of this type. The Pilot paper had a similar question to Ties Only in it, which also gave financial and non financial data for a business. If you look at both these questions you should get a clear idea of how future questions will be set.

### **Question 3**

This question required an understanding of budget revisions. Budgets, once set, can be altered if planning errors have been made. The critical point is that if something happens that is outside the control of the organisation

which renders the budget inappropriate as a means of control then the budget can be changed to reflect the change. In the real world things are rarely as clear as in the classroom and whether or not to allow a budget revision is a subjective choice. The potential for abuse should be clear, where poor operational performance is passed off as a planning error.

Parts (a) and (b) of this question were often very poorly done. It appeared that, where candidates had studied planning and operational variances, they had confined themselves to the mechanics and avoided any understanding of the practical problems involved. I would encourage all to briefly consider the ideas behind calculations before mastering the calculations themselves. In part (b) I was looking for arguments in favour **and** against, few separated their points and all would have scored better had they done so. Marks for any consistent conclusion were given.

The basic variances in part (c) were well done by most candidates. In part (d) I often got a discussion rather than the analysis I asked for. I did give some credit for a general comment on the implications of a falling market and the apparent increase in market share.

In part (e) the better candidates realised that the sales performance was not as bad as it looked. This was, after all, my intention. A business that fails to meet its sales budget by only 2.2% in the face of a market that has shrank by 11% could hardly be totally criticised. However, the weaker candidates seemed totally unaware of the meaning and implications of the data.

Performance management is not only about the calculations. Candidates must understand what the numbers tell them about the businesses performance.

#### **Question 4**

This question required an understanding of the further processing decision. I chose the perfume industry to set a context.

Part (a) was fairly well done with most mentioning incremental costs and health concerns. Rather fewer mentioned incremental revenue, which was rather worrying.

Part (b) was very mixed with poor layout undermining many efforts. The numbers, including blatantly non relevant costs, was disappointing. This was a decision-making question, so existing fixed cost; the existing supervisor cost and the market research were all correctly excluded as sunk cost. I would prefer **in future** that sunk costs that are correctly omitted from calculations be mentioned as sunk rather than simply ignored. The marking team will then be able to tell whether the sunk cost treatment has been understood or merely forgotten.

Part (c) for only 2 marks was the “discriminator” in this question and it did its job with only a few getting close to the right answer.

Part (d) was well done by many, with most scoring at least 3 out 4 marks.