Examiners' report
F5 Performance Management
December 2008

General comments

The paper, as usual, consisted of 4 compulsory questions of 25 marks each. These questions were drawn from a wide range of syllabus areas and very representative of the Pilot paper and the previous paper set. The balance of the paper was that it had around 45% for calculations (some within not obviously numerical sections) and 55% for discursive content. This is within the tolerance I have set myself for this paper.

There was little evidence of time management issues in this paper.

Layout of answers was again mixed, with some candidates producing neat answers (and hence better marks) and some producing what can only be described as a complete mess.

Poor layout and untidiness is not acceptable; it creates a bad impression and makes the markers job very difficult. I have little sympathy for someone that produces untidy work (excessive crossing out, unlabelled workings, no tabulation, "essay" style answers for numerical calculations are all typical problems). Accountants trade on communication with clients, I, therefore will look unfavourably on candidates that produce "ugly" work. This is a repeat of my comments after June 2008.

Despite the pass rate that has been gained for this paper (yet to be published at the time of writing) I would say that standards of performance assessment have improved slightly. Far more candidates made what I could describe as a reasonable attempt coming within 5 of a pass mark. Too many still fell a little short but at least the signs are encouraging.

Question specific comments

Question 1

Question 1 required an assessment (in part a)) of the performance of a store over a four year period with specific requirements to refer to ROI as a method of assessment. The candidates were also asked to consider how performance could be manipulated before then requiring some calculations on the performance of another store. The discriminator came in part d) where a breakeven calculation was required.

I continue to feel that this type of question is core to the F5 paper. Candidates must be able to comment on the performance of a business. There were signs that candidates had improved in this area with many scoring reasonable marks for part a). Problems were:

- Narrow assessment, concentrating only on one or two measures when three or four were possible.
- Restricting comments to only stating a percentage increase or decrease of a measure. This not an assessment of performance but more a comment on a calculation. Simple comments addressing issues such as cost control, product quality or market dynamics were richly rewarded!
- Candidates ignored the clues in the question (they were given the typical GP% of similar stores). This should have meant that it was possible to say the store was not performing well as its GP was less than the typical. Sadly many candidates cannot seem to master this most basic performance management skill.
- Far too many candidates did not seem to understand that ROI is bound to rise as the book value of the assets falls over time as depreciation is charged. The question stated that capital spend all took place in the first year and the data made it obvious that the net assets value fell dramatically over the four years of life of the asset. I wanted candidates to say that the rising ROI did not reflect the true performance of the store (since sales were falling in a rising market and GP% was below typical (and falling) and net profit was falling too). Not all did. A substantial majority seemed oblivious to this issue. This can only be due to poor preparation.

In part b) few candidates understood how performance can be manipulated with most only suggesting depreciation as a possible method of artificially reducing asset values and hence increasing ROI. In my view F5 candidates need to be aware how unethical managers might attempt to conceal true performance. I think this is not uncommon practice in the real world (sadly) and all ACCA qualified people should understand the performance management issue here. Far too few suggested accruals and tampering with sales timing as a manipulation method. A reasonable number thought that delaying payments to suppliers would affect profit; perhaps learning double entry would be good advice.

Part c) was reasonably attempted by most serious candidates, with the majority scoring above half marks. I thought the GP% in years 3 and 4 was tricky and this proved the case, however this was only worth 1 mark so acted as a sensible discriminator. Layout was not always in columnar format or neatly done. This is not acceptable and is bound to make the marking more difficult.

Part d) was surprisingly well done by many.

ROI can be measured in many ways and although the intention was to use net assets at the beginning of each year to calculate it, average was also acceptable. To be fair the only data that was supplied was opening asset values but candidates look to make life difficult for themselves (by calculating an average and hence estimating year 4 closing book value).

Question 2
Question 2 examined, in part a) the principles behind maximax, maximin and expected values. I then, in part b) asked for some reasonably straightforward calculations of profit in order for the principles outlined in part a) to be applied in part c). Part d) asked how risk in decision making light be analysed or assessed.

Part a) was well done by most. The biggest issue was that some did not mention risk attitudes at all (an optimist would naturally favour maximax for example) this omission meant that 0.5 less marks were scored each time by failing to collect the allocated mark.

Part b) was also reasonably done by many. There were problems here though:

- A surprising number of candidates did not seem to understand that if the capacity of a van is 150 and demand is 190 then sales must be restricted to 150. A large number of candidates still put down sales at the 190 level. This indicates a lack of understanding of the question (I assume that they do not read it properly). All my questions to date have been scenario based, candidates will have to be able to read and understand the scenarios in order to make sensible attempts. The misreading of management type questions is not an uncommon problem.
- Many candidates did not include the goodwill adjustment in the profit calculation. This was not entirely unexpected. More than half marks were still available even if this adjustment were ignored.
- A common mistake was to try and calculate expected sales first and then work out some sort of answer accordingly.

Part c) was more mixed. The question clearly stated that I wanted the candidates to take account of the various possible risk attitudes of the directors. I expected, then, that each potential risk attitude be taken in turn and applied to the figures. Where this was done good marks were earned. A surprising number failed to apply themselves to this. Some clearly knew what maximax, maximin and expected value were but could not then apply this knowledge to the question. The step up from F2 is significant and surely an element of application is part of that step.

Part d) was poorly done by many. Those that had revised the area of risk in decision making did well and scored good marks. Many clearly did not have the knowledge required. Minimax regret was not a valid answer despite what about 50% of candidates thought. Sensitivity, simulation and market research comments all scored good marks.

Question 3

Question 3 concerned a bid for as new contract by a kitchen fitter. Part a) asked for factors that the fitter would need to take account of when calculating his bid. Part b) involved the bid calculation itself (including learning curve calculations) and part c) asked the candidates to prove the learning rate given data for the time for the second kitchen to be fitted.

Part a) was not done well by many. All that was required was sensible ideas about figures that might have to be included in the bid (without calculations). The marking scheme was generously applied and marks were given if candidates included factors relating whether or not to bid instead of factors concerning the amount of the bid. Some marks were also given for a more theoretical approach (opportunity costs should be allowed for…). Despite this the average mark struggled to reach half marks. Perhaps candidates were looking for something more difficult than is there or grasping at the text book hoping for a text book answer to fit. I do not think at F5 it is unreasonable to expect candidates to be able to know what should go in to a budget and be able to apply that to a simple scenario. Unrealistic suggestions did crop up. A few suggested storage charges should be considered and yet the question clearly stated that the budget was for a kitchen fitter who would be very unlikely to have to store anything off site.

There was also far too much emphasis on the labour figure to go into the bid. The question did ask for factors "other then labour…." I decided to allow sensible comments on the labour charge but too many candidates seemed to run out of ideas beyond this.

Part b) was well done by many candidates despite it being a fairly demanding aspect of learning curves (the steady state). Learning curves were in the pilot paper (including steady states) and stated as topic I am interested in at the teacher's conference in 2007. It should have been too great a shock to see the topic in one of my early papers. The following problems were noted:

- Some did not have a scientific calculator with them. Whilst some method marks could be given marks were lost here. This does suggest to me that some candidates had not studied this topic (as they would surely have realised that a scientific calculator would be needed). Given the topic was in my pilot paper this is poor preparation again.
- Excessive rounding of the value y. Y should not be rounded!
- The high low calculations were done well although fewer candidates knew what to do with the total fixed costs of $40,000 once they had calculated them. I was expecting a labour hour based absorption method.

Calculations based on total hours or costs were acceptable.

Part c) was reasonably attempted by most.

Question 4

Question 4 was partly based on lifecycle costing, which is not a topic that has been examined that often in other papers or indeed syllabi. This probably means a lack of good questions in the materials. As a result I did try and keep this question straightforward.

Part a) asked for the principles of lifecycle costing to be explained. Part b) asked for the budget for a game to be produced and its performance assessed.

Part c) took a change of tack (by mixing topics in one question) asking very simple questions on incremental budgeting.

Part d) developed the F2 topic of standard costing and asked to what extent a standard for a game could be *meaningful.*

In part a) a very large number of candidates confused life cycle costing with the product lifecycle. I was treated to large numbers of PLC diagrams and long winded explanations of the different stages of it. Most of which scored no marks at all. I did give credit if the PLC discussion stumbled into mentions of the costs.

The calculations in part b) were quite well done by most. This was expected as it was far from difficult. The high low overhead calculation should have been a gift as this topic is fully examined at F2. A depressing number of candidates could not handle the stepped fixed cost aspect however. Part b) also asked for an assessment of performance and I provided targets for net profit % and contribution %. The number of candidates that simply ignored these targets in the assessment of performance was staggering. Performance can only be assessed when compared against something. Trend can be discussed if I give year on year data. Performance can be better judged if I give some indication of expectation or acceptability. It is clear that these absolute basics are currently escaping many candidates.

Far too many simply provided a description of the figures (sales have gone up in the second year by x%, but then fall again in year 3). This is not an assessment of performance! Candidates must provide a qualitative comment and indicate whether they think the sales levels (or profit levels) are good or not and preferably say why. This is a performance management paper so candidates better get used to that idea and learn how to assess performance.

Too many missed the point completely that the game's performance looked good until the initial development costs were included. This is the whole point behind lifecycle costing.

A significant number of candidates did the calculations and then made no assessment at all. Given there was very little evidence of time pressure in this paper this was odd.

Part c) should have been a gift of 6 marks and certainly for around 30% of candidates it was. This should have been nearer 70% of candidates. Some did not even know what incremental budgeting was, getting it confused with some form of rolling budget. I was amazed at this, as this is pure knowledge that some simply do not have.

Part d) seemed to baffle almost all marginal and below candidates. In F2 is included the setting of a standard and all the standard variances. In F5 therefore I need to develop this a little. I can do that by setting advance variance questions (like market size and share variances) or requiring an interpretation of variances. Both of these things I have done already. This question asked is the standard "meaningful"? You can set standards for everything but not all would have meaning. For example the development time for a game could not really be standardised. Games would, presumably, be very different in their complexity and hence would take significantly different amounts of time to develop. This concept was not understood by the majority. Most also ignored my suggestion in the question to consider each of the cost classifications in turn, which is poor technique.

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