



Examiners' report

F5 Performance Management

June 2009

General Comments

The first sitting with a change of rubric setting five questions of 20 marks each. These questions were drawn from a wide range of topics giving the exam good coverage. As usual, the numerical aspects of the paper accounted for roughly half the paper. The candidates continue to be expected to be able to assess performance by discussion and not solely by calculation.

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.

Standards of performance assessment are improving with more candidates having more idea about what is expected when assessing the performance of a business. This is probably reflective of the work that has gone on around the world with regard to train the trainer programs and the continued production of articles to continue to explain the approach to this paper.

Question One

Throughput accounting had not been examined by me to date and such the question spotters would say it was overdue. Candidates were asked to select the bottleneck process in part a) and then calculate the TPAR for three products in part b). In part c) I introduced performance management aspects asking how management could improve a TPAR and to discuss whether a TPAR of less than 1 suggests the cessation of the production of that product. As is my usual style I tried to make the discursive elements of a question independent of the numbers. The idea here is to give all candidates a chance to demonstrate performance management skills regardless of any problems they may have had with the numbers.

It was clear that many candidates had poor knowledge of throughput accounting. Few could properly identify the bottleneck process. Many used total hours per product as their guide to a wrong answer.

In the throughput calculations many included labour in the calculation of contribution, whereas its exclusion is more normal. Labour is properly treated as a fixed cost and yet many did not include it in the overheads part of the calculations.

Most candidates could give some reasonable suggestions on how to improve a TPAR, however not enough scored the four easy marks on offer.

The final part of the question was least well done, as expected. It is an easy mistake to feel that an unprofitable product should cease to be made but the world is a more complicated place. Current profitability is a factor but the future is more relevant. The impact of the withdrawal on customers and staff and the effect on competition are all relevant. No detailed knowledge of future cash flows was expected at this stage of studies.

Question Two

This was a pure performance management question and the core of the paper. As is not uncommon with my papers the candidates were presented with two years of income based financial results. The last part of the question involved the use of non-financial indicators of success.

Astonishingly a significant number of candidates could not calculate the prices for female and male clients in the two years in question. An average price for the two client types was often the fall back. Basic numeracy is not an unreasonable expectation for accountants.

In part b) there was some improvement in candidate's ability to assess performance. There were problems however:

- Mathematical descriptions are not performance assessments. For example Sales are up 19%, but costs are up by 29% and so profits are only up by 3%.
- Simply stating the % increases in numbers is not enough.
- Indicating the absolute change in a cost is rarely that useful
- Too narrow a range of figures considered, virtually all the numbers in the question carry marks
- Surprisingly some were so desperate to calculate ROCE that they made up figures for assets values. Not surprisingly there were no marks for this.

I have written many times on this topic suggesting approaches that could be used. Without wishing to repeat myself too often candidates need to calculate a ratio (0.5 marks), make a qualitative statement (1 mark) and suggest a cause or some other comment (1 mark).

The non-financial indicators candidates were asked to consider were surrounding quality and resource utilisation.

Answers on quality dealt with the complaints issue well, but very few talked about the new members of staff and how their performance might be suspect. The lack of a pay rise can be de-motivating and so quality might suffer, this too was rarely picked up.

On resource utilisation candidates had a mixed result. The male throughput per specialist was very high but this was perhaps due to the fact that male hair tends to be easier (quicker) to cut. The female situation was different, with fewer clients for more staff. Many candidates recognised this. Very few talked about the property utilisation at all.

I did not ask for recommendations for Oliver. This is a higher skill level than required at F5. The marking team were instructed to give some credit for sensible advice but I would not recommend this as strategy to pass F5 in the future. Sticking to the question as set is the best advice.

Question Three

This question should have had a familiar feel to it for many candidates as the pilot paper contained a question on the same topic. In part a) variances were given and the performance of two managers had to be assessed. In part b) I asked for fairly standard variance calculations.

Many candidates completely missed the point in part a). If a business fundamentally changes its business process without altering the standard costs of the process it renders the variances that are produced meaningless.

Some candidates tried to discuss each variance in turn rather than carry out a performance assessment of each manager. This is not as effective a method. Some provided detailed definitions of each variance which I am afraid was not asked for and gained no marks.

Surprisingly a significant number of candidates thought the bonus scheme was fair, despite the fact that the production manager (who had the idea for the organic ingredients resulting in increased sales and margin)) lost all hope of a bonus. Motivation is a complex topic and credit was given for any sensible comments.

Part b) was well done with many of the candidates scoring good marks. There are many methods of calculating these variances and the marking team gave credit for all consistently applied approaches.

Question Four

This was a decision making question involving Sunday opening. In part a) the question asked for annual revenue and cost analysis for the Sunday opening decision. In part b) a manager's pay deal had to be assessed for its motivational qualities and in part c) candidates were asked for an assessment of the suggestion to offer substantial discounts to encourage the new opening day sales.

This question (in the second two parts) required some common business sense. This is sadly lacking in many. The manager's pay deal offered him less money per hour than the staff (on current prediction of incremental sales) and time off on a one to one basis when the staff got time and a half. Most managers would be savvy enough to recognise a poor deal when they saw it. Equally a weekend day is for many a family day and a day off in the week is a poor substitute for that.

The offering of substantial discounts may well encourage sales (a mark earning point). However, surely it is likely that customers could switch from weekday shopping to weekend shopping to save money. Surprisingly few realised this.

Marks gained for part a) were reasonable with incremental sales, staff costs, and lighting being done correctly by most candidates. For some reason the incremental heating cost was incorrectly calculated by many, with candidates electing to heat the stores all year as opposed to just the winter months as stated in the question.

There were two sunk costs to be excluded (rent and supervisor salary). It is always advisable for a candidate to indicate that the cost is to be excluded rather than simply not mention it at all.

Very few realised that the manager's pay deal was not overly generous both in terms of time off and the amount of cash on offer. Many candidates seemed to think that the mere existence of time off and the offer of money was enough to motivate. The amount of time off and cash was ignored. This is again naïve, demonstrating a lack of understanding or experience.

Question Five

This was probably the easiest question on the paper. In part a) and b) candidates had to make simple budget calculations. In part c) I explored the rationale of the calculations in part b), namely expected values and contingencies. In part d) I asked for a brief (text book) description of the ZBB process.

Part a) was very well done as expected. Part b) was a little more mixed with candidates getting into a tangle with the EV calculations. Most candidates scored at least 4 out of 6 here.

Part c) was less well done. I did not ask for the advantages and disadvantages of EVs I asked for the problems in using them in a budgeting context. I got very many text book descriptions of the issues surrounding EV in a decision making context. This was close to my question but that's all. Credit was given where possible here. As expected the practical aspects behind including a contingency in a budget eluded many. Candidates can do the calculations but seem to have little idea as to why!



Part d) was poorly done, which surprised me as I considered it 3 easy marks. An average mark was only 1. There is a process for ZBB (involving decision packages, ranking and resource allocation and so on) but all candidates could remember often was that with ZBB you “start from scratch” each year.