

RELEVANT TO ACCA QUALIFICATION PAPER F5

Examiner's approach to Paper F5 – update

The aim of Paper F5, *Performance Management* is to develop knowledge and particularly skills in the application of management accounting techniques to quantitative and qualitative information for planning, decision making, performance evaluation, and control.

SYLLABUS STRUCTURE, RATIONALE, AND RELATIONAL DIAGRAM

Relationship between Paper F2, F5 and P5

The syllabus for Paper F5, *Performance Management*, builds on the knowledge gained in Paper F2, *Management Accounting*. It also prepares students for the more specialist capabilities covered in Paper P5, *Advanced Performance Management*. This mid position is always a challenge for an examiner because such papers must represent a step up from the lower paper but a step down from the more advanced paper. Stepping up from Paper F2, it is important to note that this is not simply a costing paper. Costing is obviously a key part of the syllabus but it sits amongst many other equally important key areas. When costing is examined, it will be within a performance management context, and therefore questions on the whole will be more challenging than any costing questions that were also examined in Paper F2. A good example of this performance management context for a costing question (albeit it a written one) is the June 2012 'Universal Health System' question on target costing. This demonstrates how a topic may be examined in Paper F5 in order to pitch it at a level that sits fairly between Papers F2 and P5. If you look at this question, you will see that 50% of it was pure knowledge marks – very straightforward. The remaining 50% required target costing to be considered in a service sector context and required some thought and reflection before putting pen to paper. Both the context of these 50% application marks and the requirements themselves are reflective of the step up from Paper F2 to Paper F5. But similarly, the fact that the scenario was not overly complex shows the difference between Paper F5 and Paper P5.

Assumed knowledge

Where an area of the Paper F5 syllabus covers a topic already covered in Paper F2 as well, such as performance measurement, for example, there is twice as much reason to assume that candidates will be able to tackle such a question. You may have read articles written by me where I mention the metaphorical toolbox that you need for Paper F5. This is the set of management accounting techniques that have been learnt and practised for the exam. Many of these were first introduced in Paper F2, *Management Accounting*, so if you were exempt from this exam, you need to make sure that you actually have the assumed knowledge that has gained you the exemption in the first place. You need to go into the exam with these metaphorical tools in your bag. A builder

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wouldn't turn up to a job with only some of the tools he needs. He doesn't empty out his toolbox after one job on the basis that he doesn't need those tools anymore. He knows that he could require a particular tool at any time on a job, depending on what he is doing, and he must be fully prepared at all times. Accountancy is no different, particularly management accounting.

As mentioned at the beginning of this article, Paper F2 topics that arise again in Paper F5 may be examined in a more challenging way in Paper F5 in order to reflect the difference between the two papers. Also, by the time a candidate reaches Paper F5, they may sometimes be expected to work out which tool they need to take out of their toolbox in order to answer a question, rather than always being told which technique they will need to use. This is another step towards the skills required for Paper P5 and for the workplace itself, where accountants must act as advisors in many situations. Please remember that Paper F5 is a *skills* module paper whereas Paper F2 is only a *knowledge* module paper, although the Paper F5 exam would usually be expected to contain a small proportion of pure knowledge marks too.

Format of the paper

Paper F5 contains five questions worth 20 marks each. Sometimes, one of these questions may be a purely written question but this will not be the case in every exam.

The proportion of numbers to words will vary slightly from exam to exam. It is not possible to make it exactly 50:50 in every exam, nor is it deemed necessary to do this. The mix will change depending on the topics being examined, among other things. However, it would be unusual for the mix to be greater than 40:60 of either numbers to words or words to numbers.

Ordinarily, there will be more than 100 marks available on each exam paper, and close inspection of marking guides will reveal that, on some questions, there may be, for example, seven marks available for a five-mark question, but the marker will be restricted to giving a maximum of five marks to a candidate. The reason for this is that discursive questions in the Paper F5 syllabus can often produce a wide variety of answers, many of which raise valid points worthy of marks. The suggested solutions that I produce only demonstrate the way that I would have answered the question. Candidates often produce equally valid answers that score highly without covering all of the points that I have raised. Performance management is often grey rather than black or white and the marking guides allow for this.

A formula sheet is provided with every Paper F5 exam. However, the extent to which you may need to use this will vary from exam to exam depending on what is being examined

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The Syllabus and Study Guide

The *Syllabus* and *Study Guide* will continue to be reviewed, updated and changed periodically. It is worth noting that some changes were made for exams from June 2011 and again for exams from June 2013. Please make sure you are aware of these changes which are summarised at the end of the *Study Guide* document and in articles published in *Student Accountant*.

Syllabus area A

The syllabus begins by introducing more specialised management accounting topics. There is some knowledge assumed from Paper F2, primarily overhead treatments. The objective here is to ensure students have a broader background in management accounting techniques. Again, the emphasis is on the implications of the calculations, not just the calculations themselves. The throughput accounting question in June 2011's paper, 'Thin Co', is a good example of this. Parts (a) and (b) tested the basics of throughput accounting and Part (c) took the question to a higher level, in a performance management context.

Syllabus area B

The syllabus then considers decision making. Students need to appreciate the problems surrounding scarce resources, pricing, and make-or-buy decisions, and how these problems relate to the assessment of performance. Risk and uncertainty are a factor of real-life decision making; students need to understand risk and must be able to apply some basic methods to help resolve the risks inherent in decision making.

Students should never forget that management accounting provides information partly so that decisions can be made. This area of the syllabus is important and will be a rich source of future questions.

Syllabus area C

Budgeting is an important aspect of many accountants' lives. The syllabus explores different budgeting techniques and the problems inherent in them. The behavioural aspects of budgeting are important for accountants to understand, and the syllabus includes consideration of the way individuals might react to a budget. Abuse of the budgeting environment is common and damages businesses more than is often realised. Students need to appreciate the problems inherent in budgeting and must be able to suggest how these problems can be overcome.

Syllabus area D

Standard costing and variances are then built on – all the variances examined in Paper F2 are useful knowledge here. New topics are mix and yield variances, and planning and operational variances. Again, the link is made to performance management. It is important for accountants to be able to

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interpret the numbers that they calculate, and to ask what they mean in the context of performance. It will often be the case here that the requirement asks for some kind of interpretation on the numbers that have been calculated in an earlier part of the question. If a new set of data was to be given every time some kind of interpretation was required, questions in this area would be very lengthy, making it impossible to read the whole paper in the allotted reading time. Candidates should rest assured that full follow on marks are given for discussion that follows a candidates' own numbers. If a candidate has been unable to do the calculations, they will still usually find that they can make some valid observations simply from the data given in the question anyway.

Syllabus area E

The syllabus concludes with management information systems and performance measurement and control (please note that management information systems are additions for exams from June 2013). This is the core of the syllabus. Accountants need to understand how a business should be managed and controlled and how information systems can support this. They should appreciate the importance of both financial and non-financial performance measures in management.

Accountants should also appreciate the difficulty in assessing performance in a divisionalised business, and the problems caused by failing to consider external influences on performance. This section leads directly to Paper P5.

This last section of the syllabus is perhaps the most important. As the relational diagram illustrates (see the [Syllabus](#) on the ACCA website), all other aspects of the syllabus lead to this area. The point is that this is a performance management paper and not a pure management accounting paper. Students must understand this and prepare accordingly.

PREPARING FOR THE EXAMS

This is not an exclusive list, but it gives an indication of some of my motivations:

- Organisations seem obsessed with financial performance measures, but the future is determined equally by non-financial performance. Both are important. Candidates should be prepared to answer questions on financial performance measures and non-financial performance measures, in both divisionalised and non-divisionalised business contexts; in both private sector and public sector/not for profit sector contexts; and in both manufacturing and service sector industries.
- The ability to perform management accounting calculations is important, and being able to determine the implications of those calculations is also essential for an accountant. It deeply concerns me that so many students seem to sit the Paper F5 exam while seemingly having forgotten the basic skills that were tested at Paper F2 (or the

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equivalent paper giving rise to an exemption.) Topics that are in the Paper F5 syllabus as well as the Paper F2 one will continue to be examined, albeit it in a more challenging context.

- The world around us has changed and is changing. Management accounting is unlike some subjects such as tax and financial reporting, which change from year to year. However, because the world around us is changing, the context of management accounting questions must change too and our knowledge has to adapt accordingly. Techniques such as target costing are used in service industries so you should not be surprised to see them examined in this way. The days of management accounting papers containing questions solely about companies manufacturing widgets are gone. My questions will aim to reflect the real world, albeit it in a simpler way than you would expect to see such questions at advanced level papers. Without this, the step up to advanced level exams and the workplace itself is unacceptably great.

SUMMARY

You need to prepare thoroughly for this exam, as follows:

- Read the *Syllabus*, *Study Guide*. These give a good indication of the style and content of future exams. Any new paper is bound by its *Study Guide*, as it represents what the examiner is allowed to cover.
- Study thoroughly – this paper is a significant step up from Paper F2. Application and implication will be examined.
- Practice as many past exam questions as possible, irrespective of whether they are written by my predecessor or me (my first paper was in December 2010).
- Read all the articles that are relevant to Paper F5 in *Student Accountant*. They are a very useful study resource. Never think, however, that just because an article has been published in the run up to the exam, it is indicative of what will be examined in the next paper. It is the ACCA's policy that this is absolutely not the case. However, bear in mind that when I am writing a question about a topic covered in a previous article, I will assume that you have read that article, whether the article is six-months' old or three-years' old and whether it has been written by me or somebody else. It is only a few hours' work to go back through all the articles written in the last few years, print them out and read them.
- Develop business awareness. Many business problems – and my questions – can be solved using common sense. Actively seek out experiences involving the assessment of performance as these will be invaluable in the exam room.

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