

Examiner's report

F5 Performance Management

March 2016



General Comments

There were two sections to the examination paper and all questions were compulsory. Section A consisted of 20 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had three shorter questions (worth 10 marks each) and two longer questions (worth 15 marks each). These questions covered all of the key syllabus areas.

Generally, candidates scored well on the shorter questions in Section B. These questions were more weighted towards calculations, and most candidates were familiar with the topics being examined. The two longer questions were not well attempted in the main, and are discussed below in more detail.

It is worth reminding candidates that the F5 syllabus is very broad, and 'question spotting' by concentrating revision on a few key areas is likely to result in disappointment. If an unfamiliar topic is examined for 15 marks, a pass mark becomes much harder to achieve from the rest of the paper. It's far better to have a good understanding of the whole syllabus, rather than be an expert on a few areas and hope they come up.

Also, as discussed again later, the library of past papers available on the ACCA website is essential study material for any candidate attempting F5. Attempting as many of these as possible under self-imposed examination conditions is an excellent way of identifying knowledge gaps, and improving important techniques such as time management.

Specific Comment

Question One

The first question was a ten mark question covering pricing. Firstly, candidates were required to use the tabular approach to find the optimum price a company should charge for its product. In previous sittings, pricing questions have focussed on the algebraic method ($MR=MC$), cost-plus and pricing strategies, so there was an element of surprise. However, it was pleasing to note that most candidates scored very well on this question – a significant number picking up full marks for the calculations.

The most common mistake for part (a) was to calculate the profit per unit for each demand level. This is meaningless for comparison, as it's better to sell 2,000 units for a profit of \$1.50 per unit than 1,000 units for a profit of \$2 per unit.

Many candidates did attempt to solve the problem using the algebraic method. This was impossible due to the changing fixed costs. However, it should have been clear that this was not the required method as the second part of the question asks why the company could not use this method. It's important to read the requirements of each question carefully, as they do often help determine the correct approach.

This second part of the question was not as well done as the first, understandably as it requires a more detailed knowledge of the syllabus. It was encouraging to see that many candidates did still pick up at least a couple of marks through reading the scenario carefully and applying their

knowledge. The trick to this question was to think about what is required for the algebraic method to work. Firstly, we need the demand equation: $P=a-bQ$. Do we have the information to get it? If not, then that stops us using this method. MC, the marginal cost is also required. In previous examples, the marginal cost is just the variable cost per unit – in the question given this changed due to import taxes, making the algebraic method much more complicated. The other main variable in the scenario was fixed costs – these changed at different activity levels. This again makes the algebraic method too complicated to be practical.

Those points are all very technical, but in questions of this nature don't be afraid to question all assumptions – are the estimates correct for the revenues/costs? What about other factors such as the competition or the state of the economy? These more general points are still valid reasons not to use the algebraic method.

Question Two

This question again comprised two parts – a calculation followed by a discussion around the ROI (return on investment) of a division.

Part (a) required candidates to calculate a divisional ROI assuming that they invest in new machinery. This question was well answered – the vast majority knowing (as would be expected) the ROI calculation and applying it to the scenario. Figures had to be adjusted for inflation and the depreciation of the new investment calculated. Again, this was well done.

The biggest oversight was that the requirement asked for ROI, based on **average capital employed**. Many candidates missed this and calculated the ROI based on the closing capital employed. Whilst they would still pick up marks for their workings, this does highlight the need to read each requirement carefully, and keep checking back to ensure that you are answering the question that has been asked.

Question Three

Question three was a ten mark calculation question on life cycle costing, requiring candidates to calculate a product's profit for the first two years of its life using life cycle costing principles.

It was pleasing to see a strong majority of candidates comfortably pass this question. Most candidates were aware that items such as development costs must be included as part of the product's life cycle costs. There was also an expected value calculation as part of the requirement which was also very well done.

Life cycle costing is not the same as relevant costing so items such as opportunity costs should not be included – it is easy to mix up areas of the syllabus as questions can often appear similar.

Question Four

The first of the 15 mark questions centered around the balanced scorecard. This is a commonly examined topic, and it is essential that candidates can explain and apply it to a scenario. Most candidates were aware of the four perspectives of the balanced scorecard, although few went into any detail when asked to 'describe' the model in part (a). The verb used in the requirement is a useful indicator of how much detail is required – a description would need more than a list of the perspectives involved.

Part (b) then asked candidates to apply the balanced scorecard to the scenario by choosing a goal and a performance measure for each perspective. This part of the requirement was not done well, many candidates confusing the term 'performance measure' and explaining what measures, i.e. actions, should be taken. The final part of the requirement was to explain why the goal/measures were chosen.

The difficulties encountered in this question could have been avoided at the revision stage – this style of question has been examined before, and practicing past papers is a crucial part of preparing for these examinations. Question 4 of the December 2014 F5 examination will prove this point – the question and suggested answer are available on the ACCA website.

I shall use this question as an example to explain the common mistakes made this sitting. An important technique is to break down the requirement, which starts '**For each perspective of the balanced scorecard, identify one goal together with a corresponding performance measure which could be used by Jamair to measure the company's performance.**'

Quite a lot there – firstly 'For each perspective of...' – we know there's four perspectives, so we need to do this four times. Next, 'identify one goal' – a goal is something we're trying to achieve, such as increase profits or reduce accidents – so we need four goals, one for each perspective. 'Together with a corresponding performance measure...' – a performance measure, as explained above, is how we'd measure whether that goal had been achieved.

It's easy to rush in and start answering the question now, but the requirement continues, and it's essential that you read the whole requirement carefully: '**The goals and requirements should be specifically relevant to Jamair.**' This is important – the textbooks all give examples of suitable goals and performance measures for the Balanced Scorecard, but a key requirement of this type of question is application to the scenario. The requirement finishes '**For each pair of goals and measures, explain why you have chosen them.**' This really reinforces the previous point – we'll choose goals and measures that are important to the business, as this is what any performance manager would do. It was also commonly omitted from answers, making it hard to score a high mark on this question.

So now we know what we need to do, we must read the scenario to find out what is relevant to Jamair. It helps to read the requirement first, as we now know what we're looking for within the text – if you just read the scenario without knowing what the overall aim is you might not pick up on the key details. As you read the scenario, try and match the issues raised to the perspectives of the balanced scorecard and ideas for goals will become apparent.

Poor answers to this type of question are too generic. For example, under the internal perspective of the scorecard, many candidates are aware that process efficiency could be looked at, so might say: 'A goal would be to improve productivity. A performance measure for this would be units produced per hour. I chose this because higher productivity will allow the business to reduce costs and sell more units.' This is where application to the scenario comes into play – productivity is important under this perspective, but this is not specific to Jamair – they're an airline, not a manufacturer. Reading the scenario, we can see that an important activity for them is 'ground turnaround time,' i.e. how long the aeroplanes are on the ground between flights. It would be beneficial to reduce this as the sooner the aeroplanes are ready for takeoff the sooner Jamair can



earn revenue (subject to quality concerns!). So a better answer would be “Goal: Reduce ground turnaround time. Measure: Average ground turnaround time. Reason: Less time on the ground will improve utilization of the planes and means Jamair could lease fewer planes.”

Note how the measure (and explanation to some extent) follow straight on from the goal. The goal came from reading the scenario carefully and choosing something specific to the business in the scenario.

Question Five

The final question on Section B was a variances question. These are so regularly examined on F5 that its appearance should come as no surprise to a well-prepared candidate. However, it was disappointing to see that a large number still seemed unprepared for this topic.

The first part of the question required calculation of basic, planning and operational labour variances, then the second part required discussion of the production manager’s performance based on these variances and the information in the scenario.

As with question four, the style of this question is not new. Similar questions can be found on the December 2013 (this is material variances but the structure is the same) and the December 2012 papers. Although they are ‘old style’ 20 mark questions the technical content is still the same, and they provide excellent practice.

Some candidates clearly did not know the variances calculations. The only advice I can give is to learn them – there may seem like a lot but practice is the best way. When it comes down to it, any variance is the same – actual results compared to expected, so find as many examples as possible and just keep practising.

There were also fundamental mistakes made by those who did know some of the calculations, such as using the labour rate per unit rather than the labour rate per hour. This leads to some very large variances. It’s always a tricky one to say “what’s a reasonable variance,” as it depends on the situation, but if (say) you calculate a variance of \$1,000,000 and the total labour cost is \$500,000 then it is worth checking that you haven’t missed something big. For an example see Q2 of the December 2012 exam – “The standard cost of labour for each batch is \$6.00 and the standard labour time for each batch is half an hour.” We need the hourly rate for the variances, so if half an hour costs \$6, an hour must cost \$12, which is the Standard Rate figure required for the variances. The more practice questions you do the more you see this kind of calculation, so you know to watch out for it.

When it came to discussion of the production manager’s performance, most candidates were aware that we shouldn’t judge on uncontrollable factors, and scored marks for saying so. When it came to what we could judge him on, responses were more mixed. Looking at previous examinations can again help here to see what constitutes a good answer. The way to score marks, as with any performance measurement question, is by identifying WHY things happened, and what they mean. A good understanding of the variances helps here. For example, if we have an adverse operational labour rate variance, what does this mean? It means that our hourly rate was higher



than expected, after adjusting for the uncontrollable factors. Why would this be – look for help in the scenario. An overtime rate is mentioned – this would explain a higher hourly rate.

Explaining reasons for variances or movements will score many more marks than bland comments such as ‘the variance is adverse which is bad.’ This doesn’t assess the performance of the production manager.

Finally, it was good to see many candidates did wrap up their discussion with an overall conclusion – this is especially important when discussing both sides of an argument.