

Examiner's report

F5 Performance Management

June 2011



General Comments

This was my second paper as the F5 examiner and the first paper after the minor syllabus changes. The structure of the paper remained the same as in previous sittings – five questions worth 20 marks each. Whilst this paper did not include a purely written question, question 4 included a purely narrative requirement worth ten marks. The paper was 57% computational and 43% narrative.

The pass rate on this paper was slightly lower than the previous sitting. It was clear from marking that question 1 seemed to pose a particular problem for candidates, with the majority being unable to construct an accurate payoff table. Similarly, whilst many candidates were able to produce the flexed budget required for question 3, most were not able to tackle the discursive elements of this question. On the whole, question two was the best answered, although few candidates were able to calculate an optimum price and quantity for the product in this question.

While there were notable amount of really high marks (in the 70s and 80s) but there was also a significant amount of really low marks (many less than 20%). It looked like some candidates yet again had not revised some of the key areas. F5, by its nature, is a fairly challenging paper. It is a paper that requires a significant level of work in order to pass it. It relies on learning/revising a substantial number of management accounting techniques and then also being able to explain them and understand the impact of their results on the business. If you want to pass it, put some work in and use all of the resources available to you – past exam papers, Student Accountant articles, past examiner's reports etc, all of which are available on the ACCA's website.

Specific Comments

Question One

This question covered decision making under conditions of uncertainty. Part (a) required the construction of a pay off table. This should have been easy but only about 5% of candidates got this completely correct. A vast number of candidates applied the probabilities to the profit figures before including the amounts in the table. Many tables were not clearly labelled and few candidates grasped the fact that any unsold bag of cement produces a loss of \$4.50 in total (\$4 buy in cost and \$0.50 disposal cost.) Part (b) (i) and (ii) were fairly well attempted (identifying the level of production using maximin and maximax) but even then, most correct answers were not justified as requested and only therefore scored half marks. It didn't matter whether justification had been given by either words or numbers but usually, there was neither. The requirement to calculate the expected value in part (b) (iii) was worth the most marks and it was really surprising to see that 90% of candidates could not do this. They seemed to think that the expected value could be calculated by working out the expected demand level (by applying the probabilities to the three demand levels) and then applying this to an expected profit figure. They were confusing the scenario given, where a decision has to be about how much of a product to supply given three alternative levels of supply, to a scenario where there is only supply level available (e.g. a one off event) but there are two sets of uncertainties (e.g. different demand levels and different profit levels.) In the latter situation, the expected value can be calculated by working out the expected demand and the expected profit, but where there are three potential supply levels, there will be three expected values to calculate, with the highest then being selected. Candidates are clearly confused in this area and need to study it further.

The discursive part of this question was answered well in relation to maximin and poorly in relation to expected value, again because of the fundamental misunderstanding described above.

Question Two

This question covered pricing and learning curves. The requirement to calculate the optimum price and quantity in part (a) was new to the syllabus in June 2011 and about half of candidates seemed not to have revised it and could not attempt it. Many candidates managed to score one or two marks for establishing the demand function. It was really pleasing to see some good attempts at part (a) (ii) which tested the ability to adjust the labour cost for the learning effect. Quite a few answers were perfect. Probably the most common mistake was including the fixed cost in the cost of the air conditioning unit when it was the marginal cost which was being tested. At this level it is expected that candidates will have a good understanding of what 'marginal' means

Part (b) was really well-answered, with most candidates being able to describe both pricing strategies and suggest a suitable one. A good, logical approach was adopted by most: explain market skimming, explain penetration pricing and then explain which one would be most appropriate for Heat Co.

Question Three

Part (a) required the preparation of a fairly simple flexed budget. Many candidates answered this well and easily scored 9 out of the twelve marks available, tripping up only on the staff wages and energy costs calculations. There were some candidates who had no idea what a flexed budget was but these were definitely in the minority. When you prepare a flexed budget, its format should replicate the original budget that it relates to. So, for example, if the original budget totals up variable costs, so should the flexed budget. This makes it easier to compare like with like. Some candidates did not do this but again, they were in the minority and on the whole, the answers were good.

In part (b) candidates were provided with the sales mix contribution variance and the sales quantity contribution variance and asked to describe each of them and identify why they had arisen. Many candidates confused the sales mix with the materials mix and talked about the latter. Also many candidates could not describe the quantity variance or identify why it had arisen. There is clearly a lack of understanding about variances, with candidates perhaps learning formulae in order to churn out calculations but not really understanding what variances mean to a business. This area needs more work by the majority of students.

Part (c) was the higher skills marks on the paper. Only a few candidates were able to show that planning and operational variances needed to be calculated, so that the manager would only be assessed on results that were within his control.

Question Four

Part (a) was a purely written requirement asking candidates to describe the balanced scorecard approach to performance management. Although it was asked in the context of a company, Brace Co, the question was really generic in nature. There were some really good answers to this, although the structure of answers could have been better. It is really hard to mark a question like this where candidates' answers are just a 'sea of words' i.e. one or two sides of tightly written text with no headings and often not even any paragraphs. Given that there are four perspectives contained within the balanced scorecard approach, it was appropriate to give a short introduction and then say a little bit about each perspective under its heading. By this stage, candidates need to start writing more professionally, otherwise they are going to be ill-prepared for the Professional level papers, where marks will be specifically allocated for professional writing and well-formatted answers. Whilst professional marks are not available at this level, candidates should realise that it's far easier to earn more marks where the candidate clearly separates out the points he or she is making.

Part 4(b) asked for calculations of residual income and return on investment and commentary on the results. about half of candidates scored full marks on the calculations but some had no idea had to calculate ROI/RI. As for the commentary, most answers were poor, showing that there is little understanding of what these figures actually mean.

Question Five

Finally, throughput accounting. In this question, throughput was tested in a service centre context rather than the usual traditional manufacturing context. Whilst I accept that this may have unnerved some candidates, we all need to learn to move with the times and be capable of using management accounting techniques in environments other than traditional manufacturing ones. The service sector is of critical importance in many countries and throughput accounting is used in it, hence the question. Candidates were told that 'hospital costs' were comparable to 'factory costs' in a manufacturing environment in order to help them.

Answers to part (a) were very mixed. There were quite a few totally correct ones and most candidates managed to score some of the six marks. More problematic was part (b). Calculating the optimum product mix is simple key factor analysis, regardless of whether the calculations are based on maximising throughput, as in this case, or maximising contribution. It is a technique which all trainee accountants should be familiar with. Clearly, not much revision of this area had taken place because answers were fairly poor.

Part (c) was more about a common sense approach to numbers than anything else and most candidates scored two or three marks. It was necessary to identify the fact that there was enough spare capacity for all staff except the surgeon to perform the additional 696 procedures. Then, a basic calculation showing the extra throughput less the extra costs needed to be performed. No complex calculations were needed and most candidates managed a basic one. It was reassuring to see a degree of common sense in answers, although few identified that the recovery specialist's surplus hours needed to be worked out in order to be sure that enough spare capacity was available for this staff member.