

Examiner's analysis interview: F5 – Performance Management

Interviewer: Hello. Welcome to the examiner's interview for F5, *Performance Management*. The examiner has provided the answers and her words are spoken by an actor.

The interview covers a range of issues, focusing on candidates' performance over the last four exam sessions and how to improve it.

Interviewer: Is there anything you would like to say about candidate performance from June 2011 to December 2012?

Examiner: Yes. Firstly, I would like to look at the areas where candidates performed well.

Interviewer: Would you like to start with June 2011?

Examiner: Yes. Firstly, the flexed budget from the June 2011 paper was well answered by candidates. The question required the preparation of a flexed budget for a restaurant for one month. This is brought forward knowledge from F2 and whilst there are often seen to be knowledge gaps in places, candidates clearly didn't have knowledge gaps with regards to this.

Secondly, one of the questions asked for a discussion of price skimming versus penetration pricing. A good, logical approach was adopted by most candidates who explained market skimming, explained penetration pricing and then discussed which one would be more appropriate for the company in question. Candidates don't always set out their written answers well and they don't always answer each part of the requirement, so it was good to see that they did here.

Interviewer: What about December 2011?

Examiner: In the December 2011 paper, some really good answers were produced by candidates when they were asked to calculate a revised lifecycle cost taking into account the learning effect. As in previous exams, candidates demonstrated a good understanding of learning curve calculations here.

Even those candidates who only got as far as working out the incremental time for the 100th unit managed to score half marks on this question. On the whole, calculations were clearly set out and it was therefore easy to give follow on marks.

Strong answers were produced again in this exam on the question which tested variances, specifically material usage, quantity, and mix variances. The question also required some associated discussion. It was great to see candidates using proformas that they had been taught and had learnt for the material usage, mix and yield variances. On the whole, candidates seem able to make some useful observations about the figures that they are calculating and recognise the interdependence of variances.

They should be reminded that, where their calculations contain errors, they will still gain marks for their discussion provided that it follows their numbers. Similarly, if there is a discussion aspect to the question, and candidates have not been able to do the calculations, there is often ample information in the scenario to help them make some valid observations anyway.

Discussion tends to be based around both the variance calculations and the salient information in the scenario.

Interviewer: Is there anything you would like to say about candidate's good performance in June 2012?

Yes. The target costing discussion question from the June 2012 exam was done very well. This question was a purely discursive one about target costing in the service sector, a hospital. The answers were quite good. Part (c) required candidates to describe how the Trust might try and derive a target cost for the two main types of services it provided. Numerous good points were made by candidates, and all reasonable suggestions were awarded marks.

Part (d) asked for a discussion of three difficulties that the Trust might find when trying to use target costing in its service provision. Again, answers were quite good. The points didn't need to be particularly high level to earn the marks. Points such as the fact it would take time and effort to implement it were equally as valid as points such as the fact that regional differences might make it difficult to achieve the target costs set.

Interviewer: Can you finally say what went well in December 2012?

Examiner: Two questions from the December 2012 exam were tackled particularly well on this paper. The first of these was Question 3, which was a classic performance management question. The company in the question had made certain changes and introduced some incentives in order to boost sales and the requirement asked for a discussion of whether these changes

and incentives had been effective. As usual, it was necessary to do some preliminary calculations in order to assess performance and candidates should be reminded that absolute figures are rarely useful and percentage changes are far more informative. As far as these calculations go, it is useful to produce a small schedule either at the beginning or end of the answer with all workings on. This makes it easy to mark and see where the calculations have come from, so that credit can still be given even where minor errors have been made. Good candidates identified that, although sales had increased by 25%, net profit had decreased by 33%, but this was due to the mass of expenses that had been incurred in bringing about the changes. Consequently, the benefits of these changes would be expected to continue for some time, and it would certainly be useful to see quarter 3's results when these are available.

The other question on the December 2012 paper was on activity-based costing within a divisional context. Part (a) was a simple calculation of transfer prices using traditional absorption costing and there were plenty of correct answers here. Part (b) asked for a recalculation of the transfer prices using activity based costing to allocate the overheads. Many candidates scored full marks, although when errors were made, the main ones were to use machine hours as the driver for machine set up costs and the number of set ups as the driver for machine maintenance costs.

This error always seems to occur with these two categories of costs and I don't really understand why. I can only put it down to poor reading of the question.

Interviewer: I notice that, whereas previously, candidates tended to perform well on calculation questions but not on written questions, now, you are suggesting that performance on written questions is also improving?

Examiner: Yes, I think this is a fair observation. Candidates are naturally more wary of written questions but, over recent exam sittings, their ability to answer such requirements seems to be improving. Having said this, however, the discursive part of the activity-based costing question wasn't done well. Candidates failed to miss the key point, which was the fact that simply changing the basis of apportionment to machine hours rather than labour hours, using traditional absorption costing, would help the company achieve its aim.

Interviewer: Were there many things that weren't done so well by candidates?

Examiner: There are several areas that I have identified as not having been attempted very well over recent sittings.

Firstly, the preparation of an optimum production plan in a throughput accounting context, which was examined in June 2011. Candidates do not seem to be grasping the fact that, when calculating an optimum production plan in a throughput accounting context, you are simply applying the technique of key factor analysis. However, instead of basing the calculations on maximising contribution, you have to base them on maximising throughput instead. Candidates that scored well here set their answers out in six columns: procedure name (A, B and C); number of each to be made; the hours each one takes to make; total hours; throughput per hour and total throughput. Such candidates scored well even where minor errors were made.

Secondly, I was disappointed with the structure of answers to the balanced scorecard question in the June 2011 exam. Question 4 of this paper was a purely written question and part (a) asked for a description of the balanced scorecard approach to performance management. Some candidates' questions were extremely difficult to mark because they were simply one or two sides of solid words. There was no structure to them. Candidates that scored well on this question structured their answers carefully. They started with a general introduction on what the balanced scorecard approach was and they went on to describe each of the four perspectives. They made use of headings, were easy to mark and scored highly. This

structured approach to answers is critical on written questions and is a skill that will be carried forward to the Professional level papers.

Interviewer: Was there anything particularly bad in December 2011?

Examiner: Answers were not so good on relevant costing examined in the December 2011 exam. This question was about a company that installed and maintained telephone systems. Candidates had to prepare a cost statement using relevant costing principles, showing the minimum cost that the company could charge for a contract. Detailed notes were also required to explain the numbers being used. There was generally a problem with the structure being used to answer the question, in that there was no structure, just a list of workings with a few comments next to them. This often made it impossible to see which costs candidates actually intended to include in their cost statement, as there was no cost statement as such. The overriding problem, however, was a total lack of understanding of the principles of relevant costing, such that many answers were just full of incorrect calculations.

Also, optimising profit through transfer pricing was examined. Candidates had to calculate the maximum profit that could have been earned if transfer pricing was optimised at Bath Co. Some students immediately saw

that provided that the transfer price was set somewhere between \$20 and \$65, the actual transfer price wouldn't make any difference to the profit calculation. Any price between this range would make sure that Division A bought the fittings from Division B, provided that Division A was told that they could only buy the fittings from outside the group if the price was lower than the price being charged by Division B. The answer simply required common sense. Transfer pricing is a tricky area, and it is important to remind students that they must understand the basic principles of minimum and maximum transfer prices and use their common sense in questions.

Interviewer: Would you like to move on to June 2012?

Examiner: Yes. I'd like to mention the time series calculations that came up in the June 2012 exam. This question went down very badly with students. Whilst it is no longer in the syllabus as from June 2013, it serves as a useful reminder that F2 topics, which are specifically included in the F5 syllabus too, are still examinable. This wasn't so much a test of assumed knowledge but a test of repeat knowledge.

Also, annualised return on investment and annualised residual income calculations were examined in June 2012. In Question 5 candidates were

asked to calculate expected annualised return on investment and residual income figures. This led to confusion amongst many, who did not seem to understand what 'annualise' meant. Students should be reminded that, if asked to annualise a monthly figure (such as profits here), they simply need to multiply it by 12. In any event, provided that the rest of the basis of these calculations was correct, students were only penalised half a mark for failing to multiply by 12.

Interviewer: Finally, what would you say about December 2012?

Examiner: Firstly, there was the question on cost-volume-profit analysis. Answers to this were not good. Part (a) of this question required candidates to calculate the weighted average contribution to sales ratio for Hair Co. Using the most simple approach for this, firstly then, it was necessary to calculate the individual contribution for each of the products. From this, the total contribution could be calculated by applying the sales volumes to the unit contributions. Then, the total sales figure could be calculated, finishing with the calculation of the ratio by dividing the first figure by the second.

The majority of candidates were able to calculate the unit contributions, which is obviously a very basic F2 skill. However, many students seemed

unclear where to go from here. The most common error was that candidates then simply added together the three unit contributions, added together the three unit selling prices, and divided the former by the latter, giving a contribution to sales ratio of 36.9%. The problem with this calculation is that it does not take into account the relative sales volume of each product and it is not therefore a *weighted average* contribution to sales ratio but rather just an *average* contribution to sales ratio.

Part (c) examined break-even charts. This was poorly answered by the majority of candidates. There seemed to be two main problems. Firstly, despite the article, which described all the different charts that could be examined, there seemed to be a lack of knowledge about what a break-even chart looked like. Many candidates drew profit-volume charts, which are different. Secondly, in order to plot the lines, candidates needed to do some preliminary calculations for cumulative profit and revenue. Many missed this point and were therefore unable to plot the lines.

Interviewer: Weren't rolling budgets also examined in that paper?

Examiner: Yes, that was the second area I wanted to discuss, they were also answered badly. Part (a) asked candidates to explain what a monthly rolling budget was and how it would operate at Designit. The question was

looking for a few key points – the budget covers a 12 month period; it is updated monthly; one month is added whilst another is removed; the first month is prepared in a lot of detail compared to the other months. The most common problem with answers was that they talked about quarterly budgets and how they would operate, rather than monthly budgets. Again, I think this must be due to inadequate reading of the question.

In part (b) candidates were asked to discuss the problems that might occur if rolling budgets and the new bonus scheme outlined in the scenario was to be introduced. Answers here were not bad, on the whole, with most candidates identifying that time pressure, increased costs and demotivation would all be a problem.

Part (c) asked for a discussion of the problems with the current bonus scheme and a suggestion of an alternative more effective one. Many candidates identified the fact that, in the current scheme, the first target was too easy and the second target was too hard, meaning that the managers were not motivated to work hard. However, only a minority of candidates were able to discuss a feasible alternative scheme. The question simply required common sense answers suggesting perhaps a scheme with a number of different bonus rates over narrower bands of sales.

Interviewer: Now I would like to ask you some questions about future exams. Will the syllabus be changing at all?

Examiner: There have been some additions to and some deletions from the F5 syllabus. With regard to the additions, some areas previously in P5 have now been moved to F5. The deletions, on the other hand, relate to a few areas that have now been removed from the F5 syllabus as they are assumed knowledge from F2. Let's deal with the additions to the syllabus first then.

There has been one new addition to section C of the syllabus. Section C3 (a) now reads:

“Prepare rolling budgets and activity based budgets”

Numerous additions have been made to Section E of the syllabus. These are the areas that have moved down from P5. There are three new sections, E1 on performance management information systems, E2 on sources of management information and E3 on management reports.

Students should read the syllabus carefully in order to familiarise themselves with which topics are included in these areas.

Interviewer: So, which areas have been deleted from the syllabus?

Examiner: There have been deletions from four main areas, C1, C4, D1 and D2. C1 covers objectives of budgets, C4 covers quantitative analysis in budgeting, D1 covers budgeting and standard costing and D2 covers basic variances and operating statements. All of these are already examined in F2 and now cover part of F5's assumed knowledge. Rather than trying to list each of the areas here, you should refer to the section at the end of 2013 F5 syllabus, which clearly sets all of these deletions together with the additions that I have discussed above.

Interviewer: Are there any other changes about the exam for the future?

Examiner: Yes. ACCA's exam year is changing to run from 1 September to 31 August.

There is a proposal to change the structure of the exam from December 2014.

The proposal is to have three sections for the F exam. The first section would contain objective test questions to give wide syllabus coverage, then a section of short form questions and finally a section with long form

questions. We are consulting on all proposed changes, after which we will produce a specimen paper. This will be available on our website when we finish the consultations. Keep watching the website for more information.

Interviewer: Are there any other points you'd like to make about F5 exam?

Examiner: Yes, I'd like to discuss the importance of remembering that F2 is an underpinning paper for F5 and remind students that F5 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 F2.

Secondly, I want to stress the importance of assumed knowledge.

It's worth noting that F2 topics that arise again in F5 may be examined in a more challenging way in F5 in order to reflect the difference between the two papers. Please also remember that F5 is a *skills* module paper whereas F2 is only a *knowledge* module paper, although the F5 exam would usually be expected to contain a small proportion of pure knowledge marks too.

Interviewer: Do you have any parting words of advice for students?

Examiner: Yes, four main points. Answer questions in order of best ones first; don't try to question spot; read articles but don't take them as being indicative of what's in the upcoming exam; make sure you have the necessary F2 underpinning knowledge.

Interviewer: Thanks very much for all that useful information.