

Examiner's report

F5 Performance Management

June 2013



General Comments

The examination consisted of five compulsory questions worth 20 marks each.

The vast majority of candidates attempted all five questions, even if they didn't complete every part of each one. Where whole questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure, although occasionally a candidate would state that they had run out of time.

It was good to see that, once again, many candidates started by answering their strongest question first and continued in the order of the questions with which they felt most comfortable. It was really good to see, as the paper covered key areas, well prepared answers from a good number of candidates. Question 3 was the best answered question on the paper, followed by questions 4 and 5. Question 2 was the weakest.

Where issues arose, they were the usual ones:

- Failing to read the question requirement clearly and therefore providing irrelevant answers which scored few if any marks. This was particularly an issue on question 2, which was about the balanced scorecard.
- Poor time management between questions; some candidates wrote far too much for some questions and this put them under time pressure to finish remaining questions.
- Not learning lessons from earlier examiner's reports and hence making the same mistakes. For example, answering the requirement that candidates wanted the paper to ask rather than what was actually being asked.
- Illegible handwriting. Some candidates may fail simply because it is impossible to read their handwriting. This is a real shame.
- Failing to focus on what the requirement was actually asking and instead just giving some kind of a brain dump on everything a candidate knew about a particular topic.

Specific Comments

Question One

Part a of this question required candidates to prepare and fully label a decision tree and use the criterion of expected value to assess whether a possible expansion for a health club should go ahead. A decision tree always starts with a decision. In F5, it is fairly standard to use squares to represent decision points and circles to represent outcome points. If a candidate had used anything apart from these, they should have shown their key.

The term 'fully label' means that, after each outcome for example, candidates should have labelled each branch of the tree with the probabilities and a description of the outcome. So, for example, on the branch showing that there was a 0.4 probability that the club would attract 6,500 members the labels should have been '6,500 members' and '0.4'. Ideally, each outcome point should have been labelled with a letter so that the expected value could be calculated by moving from right to left across the tree (starting with 'A' on the right hand side and moving across the page to B, C etc.) The decision point would then have had the last letter on it since it is at this final point that the decision must be made. It would also have been acceptable to use another type of label for the outcome points e.g. the expected value at each point, rather than a letter but preferably each point should be labelled with a letter (and possibly the EV too, if there is room.)

Despite some labelling issues, a good number of candidates scored nearly full marks on part (a), maybe just losing half a mark for failing to multiply their values up by three to reflect the three-year period, or for failing to deduct the expansion cost of \$360,000.

Part (b) was a very different story. This asked candidates to calculate the maximum price that the company should pay for perfect information about the expansion's exact effect on membership numbers. very few candidates answered part (b) correctly. Candidates must revise this area well

Part (c) asked for a brief discussion of using expected values for a decision of this nature. It was only worth 2 marks, which is why the requirement asked for only a 'BRIEF' discussion. Many candidates spotted the most obvious point, which is that the expected value criterion is useful for decisions that are repeated but is less relevant to one off decisions of this nature since it merely gives a long run average of what the outcome would be if a decision were repeated many times. However, marks could still be earned for making points such as the fact that probabilities are difficult to ascertain etc. Please note that the marks available for a requirement are indicative of the length of answer expected. Writing a whole page of answer for this requirement is simply wasting valuable time that could have been spent elsewhere.

Question Two

The scenario was about a company which sold broadband, telephone and pay-tv services. It had made the decision to stop selling its three products together in a bundle and instead to start selling them separately. In part (a) of the requirements, candidates were asked to identify two goals and two performance measures for each perspective of the balanced scorecard that would help the company assess whether the changes had been successful. The requirement also read 'justify the use of each performance measure that you choose.' The reason that this last bit of the requirement was put in was so that candidates would not simply write generic performance measures such as 'compare net profit margin' without actually thinking about what was relevant for this company.

There were three main problems with answers. Firstly, by far the biggest issue was that candidates simply made no attempt to answer the requirement given. They didn't write any objectives or performance measures at all, they simply wrote pages and pages of words about the company, discussing how it was performing and the issues it faced. This was really disappointing. When candidates did answer the requirement, they often did a really good job of it. Many of them laid out their answers using each perspective as a heading and then in columns, showing a goal in the left hand column and a performance measure in the right. Then, underneath each pair they would state their reason for choosing the performance measure. This was a great format as it made sure that answers were focussed and covered each part of the requirement. This question gave candidates an opportunity to use the techniques referred to an article on how to answer written questions in F5 which you can find on the ACCA website: always break down a requirement and underline the instruction and the content. Here, there were three pieces of content required: goal, measure and reason. If this approach had been used, answers could have been better.

This brings me on to the second issue. Many candidates who had made a proper attempt at answering the actual requirement simply did not read the requirement carefully enough and therefore did not bother to give their reasons for selecting their performance measure. This meant that they could only score about two thirds of the marks available for this requirement.

The third issue was that a number of candidates simply wrote everything that they knew about the balanced scorecard. Since this was an application not a knowledge requirement, such candidates scored very low marks.

Part (b) asked for a discussion of how the company could reduce the problem of customers terminating the pay-tv service after only three months. The question was really looking for candidates to identify the fact that firstly, the length of the contract period should be increased and secondly, the equipment should be rented to customers like the broadband and telephone equipment, rather than sold outright to them. Some candidates identified these points straight away whilst others seemed to miss them altogether.

Question Three

This was the candidates' favourite question. In part (a), the requirement read 'recalculate the estimated lifetime cost per unit for the webcam....' Candidates had to make numerous adjustments to the costings provided in the question to reflect the learning curve effect and other factors that would result in cost savings. It was good to see that most candidates were able to handle the fact that the company in the scenario was using life cycle costing to work out the target costs for its products. Most answers reflected the fact that the total labour cost therefore had to be worked out in two parts: one cost for the first 100 units and then another cost for the remaining 49,900 units, the latter being based on the incremental time it had taken to produce the 100th unit. It was good to see that candidates identified this and gave the question a good attempt.

Part (b) was also well answered. It asked for an explanation of market skimming and a discussion as to whether this strategy was suitable for the company in question. Where answers were poor, this was often because candidates had confused market skimming with penetration pricing. Alternatively, weaker answers simply discussed price skimming without applying it to the company itself. Thus, they had only part answered the question. Again, underlining the instruction and the content in the requirement would avoid this propensity to only answer part of the requirement.

Overall, however, answers were of a high quality, demonstrating a sound knowledge of these topic areas.

Question Four

This was a variance question which included some of the trickier variances for sales quantity and sales mix.

Part (a) asked for calculations of the sales price operational and sales price planning variances. This was really well answered with the majority of candidates scoring the full four marks.

Part (b) tested the sales mix and sales quantity variances. This was well answered by some candidates, with about one third of them scoring full or nearly full marks. The main error that did arise, however, was the failure to realise that the company was using absorption costing, which meant that the variances should have been based on the profit margins of each product rather than the contribution margins. Where candidates made this error, however, they only stood to lose two marks so they could still gain high marks on the question.

In the model answers, profit margins are based on the standard selling prices of each product. However, it was equally acceptable to have based calculations on revised profit margins using the revised selling prices, so full credit was given for using this latter approach.

Apart from using contribution rather than profit to work out the variances, quite a few candidates had calculated their variances using selling prices rather than profit margins.

Finally, another common error was to calculate the sales volume variance rather than the sales quantity variance. This is an error in understanding, since the sales volume variance is the total variance which breaks down into its two component parts of sales mix and sales quantity.

Question Five

The last question on the paper covered budgeting. It was a mix of calculations and discussion but with the majority of the marks being available for the latter. On the whole, it was well answered

In part (a) candidates had to recalculate the budget deficit for the year making several adjustments to the figures provided. The calculations were quite straightforward and most candidates scored decent marks on this part of the question. The main error that arose was in relation to the salaries' cost. Many candidates were unable to split the year into two halves, deduct one staff member's cost and then apply the pay rise to only half of the year. But, even if they had managed to do that, many candidates then went on to erroneously inflate the resultant cost



of \$599,940 by the rate given in the question, even though the pay rise was the relevant increment not the inflation. .

Part (b) was a simple knowledge requirement asking for the advantages and disadvantages of using incremental budgeting. This resulted in a lot of answers scoring full marks. Part (c) was again simple knowledge asking for the main steps involved in preparing zero-based budgets. This was again really well answered with lots of answers worth full or nearly full marks.

Finally, part (d) was where the higher level marks were in this question. Candidates had to discuss the extent to which zero-based budgeting could be used by Newtown School to improve the budgeting process. Answers here were weaker but there were still some decent attempts. The main issues arose because candidates didn't answer the question and instead just wrote about the advantages of the school using ZBB.

Overall then, a good exam sitting showing some improvement from the previous session, which is always great to see.