

Examiner's report

F5 Performance Management

December 2013



General Comments

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

Most candidates attempted all five questions, although they did not always attempt every part of each question.

Candidates seemed to be taking advice and tackling the simplest part of each question first. This is a good way to score some of the more straight-forward marks on the paper before getting caught up in detailed calculations. Candidates should be reminded, however, that it is not appropriate to move from question part to question part on the paper, writing a bit on one question, then a bit on another, and mixing it all up. This makes it very difficult to find all of the candidates' marks.

Where issues arose, they were the usual ones:

- Answering the question that candidates hoped was being asked rather than reading what the actual requirements were. This was a particular problem on question 1(b) where candidates wanted to simply talk about how minimum and maximum transfer prices should be calculated, rather than discussing the issues arising in the scenario.
- Writing far too much on a requirement with a low mark allocation. For example, on question 1(c) which covered environmental management accounting, one candidate wrote six pages even though the requirement was only worth six marks.
- Illegible handwriting. This is an issue every exam session but this sitting, it was a particular problem. Markers try as hard as they can to give any marks due on a paper but if they can't read the writing, they simply cannot give the marks.

Specific Comments

Question One

Part a of this question was a further processing decision. Candidates had to calculate and conclude which of the three products should be further processed. This was generally well-answered with a good number of candidates scoring ten out of ten. The only tricky part of the question was working out how to deal with the normal loss. A minority of candidates ignored the normal loss altogether. This led to them adopting a simplistic approach of comparing the incremental revenue per unit to the incremental cost per unit for each product without applying any sales volumes (because, had there been no normal loss, a simple calculation like this would have sufficed.) It is worth noting that, if a requirement is worth ten marks like this one and your answer has only taken you a couple of minutes to do, as it would have done had this approach been used, you are probably doing something wrong.

Another common error was to fail to apply the normal loss to the sales volumes after processing and simply to apply it to the variable costs of further processing. By doing this, the loss had only been partly taken into account.

All in all, however, the responses to this requirement were quite good and demonstrated a decent understanding of relevant costing principles.

Part b was a more challenging requirement that covered the area of transfer pricing. The requirement asked for a discussion of the issues arising from transfer pricing. Many candidates spent valuable time simply repeating the information given in the scenario without actually saying why this was a problem. The question had already stated that the current transfer pricing policy meant that Division A's profit would be lower than if it were to sell



the products externally and Division B's profit would be higher. Answers were meant to focus on a discussion of the motivational issues and performance measurement arising from this. Candidates, on the whole, ignored the requirement and just discussed how the transfer price should be set. This wasn't what the question asked for, please be sure to read requirements carefully.

Part c was a straight-forward knowledge requirement asking candidates to describe two environmental management accounting techniques. Answers were ok but weaker candidates simply talked about ABC and life cycle costing, for example, without mentioning the context of environmental costs at all.

Question Two

This second question was a throughput accounting question. This is very mainstream F5 material so this should have been a popular question. A minority of candidates could not calculate the throughput accounting ratio but many made a reasonable attempt. The main error that arose related to the calculation of total available hours on machine M, the bottleneck resource. There were lots of strange calculations of this figure. However, since follow through marks are given, most marks could still be scored on the question where workings were clearly shown so it was not a big problem.

In part b it was necessary to work out the optimum production plan for the company. The main mistake made was failing to ensure that the company made the minimum 1,000 small panels first before calculating the available surplus hours. Candidates could minimise the chances of missing these important pieces of information in the question by underlining and highlighting key facts and annotating them whilst reading.

Part c was a very common sense requirement asking candidates how the company could increase its production capacity without making any additional investment in machinery. Answers were very poor here. Again, the main issue seemed to be poor reading of the question and requirement. About half of candidates suggested that the company buy new machines. Even more candidates suggested that the company increase the prices of its panels. This was wrong for two reasons: firstly, because price increases would increase revenue not production capacity, these are two different things and secondly, because the scenario clearly stated that the company had agreed not to increase prices for three years.

It was disappointing that the majority of candidates were unable to identify the obvious changes that could be made, for example, reducing lunch breaks, performing maintenance out of hours and training workers to operate more than one machine.

Question Three

Question three examined learning curves and budget setting. Part a asked for a calculation of the total monthly labour costs for EACH of the five months from July to November. Some candidates only calculated the total labour cost for the period rather than calculating it on a month by month basis as the question asked. Since these candidates did not identify the fact that the time for the last eight batches would be based on the incremental time for the 8th batch produced in October, their total cost calculation would have taken them only a couple of minutes to do. Again, it is worth noting that if the answer is really quick to calculate and it is worth eight marks, it is probably because it is wrong.

The most common error, however, was to treat the incremental number of batches for each month given in the question as the cumulative number of batches. This meant that all of the monthly figures were wrong. However, provided that an answer still included a calculation of an incremental hours figure each month, some marks were still available. The tricky part of the question was to realise that the time for November would be based on the incremental time for the final batch (the eight batch) produced in October. Few candidates identified this..

Part b asked for a discussion of the implications of the learning effect *coming to an end*. The main problem: most candidates discussed the implications of the learning effect itself rather than *the end* of the learning effect. This was another example of how important it is to read the question and underline key words.

Part c was a straight-forward discussion of the advantages and disadvantages of involving staff in budget setting. On the whole, this was well-answered. The only recurring error arising under answers that were poor was misinterpreting the requirement and erroneously discussing the advantages and disadvantages of imposed budgeting instead.

Question Four

This was a classic performance measurement question about a division of a company involved in both the manufacture of fire equipment and the provision of fire risk assessment and fire safety courses. The scenario gave quite a lot of information but this meant that there was ample opportunity to earn marks. On the whole, answers were quite good. However, the following common errors arose:

- Failing to read the question and therefore discussing the performance of Division C as well as Division S. Whilst there is no negative marking, the time lost in doing this meant there was less time available to discuss Division S and earn marks.
- Calculating ratios incorrectly, calculating a percentage with current year figures as the denominator rather than previous year's figures.
- Stating what the increase or decrease in a figure was without discussing what this actually indicated about the division's performance.
- Stating that the increase in material costs was due to an increase in fuel costs. The increase in fuel costs would actually have affected the distribution costs not the material costs.
- Writing very little about the division's performance but writing pages and pages on what further information should have been provided. The 'further information' part should only have been a very small part of anyone's answer.
- Generally, the majority of candidates did not notice that this company both makes products and provides a service, therefore any increase in material costs would be expected to be less than any increase in revenue.

Question Five

The last question on variances was probably the weakest question on the paper in terms of the quality of answers given. When it comes to material price and usage operational and planning variances, many candidates simply could not perform the calculations correctly. It was really a cause for concern. Common issues that were identified during the marking, apart from the obvious one of simply performing the calculations incorrectly, included:

- Not calculating the individual variances for bed sheets and pillowcases but simply calculating total variances.
- Answering the question in such a random order that it was very difficult to find the marks.
- Inadequate labelling of the calculations so that it was impossible to see which variances was being calculated.
- Missing signage (note for future candidates: It is not sufficient to simply show an adverse variance in brackets.)

Part b of the question – a discussion of the manager's performance – was also poorly answered although most candidates identified the fact that the production manager could only be held responsible for the operational variances.

On the whole, this exam sitting was marginally weaker than the June sitting and demonstrated the fact that candidates still struggle with many of the key areas in the F5 syllabus.