



F5 Examiner's report

March 2017

General comments

The F5 Performance Management exam is offered in both computer-based (CBE) and paper formats. The structure is the same in both formats but our model of delivery for the CBE exam means that candidates do not all receive the same set of questions. In this report, the examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

- Section A objective test questions – we focus on two specific questions that caused difficulty in this sitting of the exam
- Section B objective test case questions – here we look at the key challenge areas for this section in the exam
- Section C constructed response questions - here we provide commentary around some of the main themes that have affected candidates' performance in this section of the exam, identifying common knowledge gaps and offering guidance on where exam technique could be improved, including in the use of the CBE functionality in answering these questions.

Section A

It was very pleasing to see that once again almost all candidates attempted all of the questions. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F5 syllabus, rather than attempting to question spot. The following two questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

Sample Questions for Discussion

Here we take a look at two Section A questions which proved to be particularly difficult for candidates.

Example 1

A company has two divisions. The divisions are identical in terms of the number and type of machines they have and the operations they carry out. However, one division was set up four years ago and the other was set up one year ago. Head office appraises the division using both return on investment (ROI) and residual income (RI).

Which of the following statements is correct in relation to the outcome of the appraisal for each division?

- A Both ROI and RI will favour the older division
- B ROI will favour the older division, but RI will treat each fairly
- C RI will favour the newer division and ROI will favour the older division
- D Both RI and ROI will favour the newer division

What does this test?

- ✓ The use of ROI and RI in divisional performance appraisal, and the advantages and disadvantages of both.

What is the correct answer?

- ✓ The correct answer is **A**

- ROI is calculated as (divisional profit/capital employed) x 100%
- RI is calculated as divisional profit – (capital employed x cost of capital)
- To see how ROI and RI would treat each division, it's a fair assumption to assume they're both generating the same profit (as they're virtually identical).
- Both divisions have the same assets – however the older division will have suffered more depreciation, as it is three years older – reducing its capital employed.
- Looking at both calculations, the smaller capital employed will give the older division an artificially high ROI compared to the newer division.
- Likewise, the 'imputed interest' (capital employed x cost of capital) for the older division will be smaller. Both divisions use the overall company's cost of capital, thus giving the older division a higher RI than the newer division.
- If in doubt with questions like this, make up some numbers. If they both generate profits of \$100k, but the older division's assets have a NBV of \$500k compared to the newer division's \$2,000k (for example), this gives ROI of 20% and 5% respectively. Similarly, if you use a cost of capital of 10% (keeping the numbers simple), this gives RI of \$50k and (\$100k) – both clearly favouring the older division.

Example 2

An education department has a statutory obligation to report on the number of students on site throughout the day. In order to produce this information, a swipe card system has been introduced.

The following table details the costs of the swipe card system in its first year:

	\$	Notes
Purchase price of the swipe system (vendor list price)	100,000	Invoiced and paid
Installation costs of the system (negotiated with vendor)	20,000	Invoiced and paid
Pre-launch testing costs (in-house)	17,000	Salaries time spent on testing
Cost per 100 swipe cards	5,000	1,000 cards purchased in the first year
Apportionment of the technology insurance cost	9,000	Fixed cost
Salary of clerk employed to collate and distribute swipe card system information	36,000	Fixed cost

What is the indirect cost of producing the information required in the first year of the swipe card system?

- A \$62,000
- B \$45,000
- C \$36,000
- D \$9,000

What does this test?

- ✓ Indirect vs direct costs of information

What is the correct answer?

- ✓ The correct answer is **D**

- There are two types of costs of producing information in this case – direct and indirect. A direct cost can be completely attributed to obtaining the information. An indirect cost is required in order to produce the information, but can't be completely attributed to it.
- In this example, only the apportionment of the technology insurance cost is indirect – all of the others are solely related to producing the information.

Section B

Section B tests students' knowledge on a topic in more detail than section A, with three case questions of 5 two-mark objective test questions. The range of topics covered in the March 2017 examination was:

- Costing
- Pricing
- Risk
- Cost-volume-profit (CVP) analysis
- Learning curves
- Budgeting

A few key points that came out of section B were:

- Read the requirement very carefully. This goes for the whole exam, but any objective test question is 'all or nothing' – if you misread the requirement and get the answer incorrect you score zero for that question. Looking at Example 2 from Section A in this report you could misread the word 'indirect' as 'direct' – completely changing the question.
- Graphs are still important! Although you won't be asked to draw graphs any more, you can and will be asked to interpret them. It is therefore essential that you understand what the various graphs/diagrams are showing e.g. CVP graphs, linear programming graphs, decision trees etc.
- Cover the whole syllabus. The list above should highlight this – F5 has a large syllabus which can be daunting, but it is essential to have a broad knowledge. If, for example, a section B case covering Risk comes up and you haven't covered this in your studies, the 10 marks available are left to chance.

Section C

Candidates were presented with questions drawn mainly from the areas of:

- Performance management
- Planning and operational variances
- Relevant costing

Performance management

This area of the syllabus requires candidates to be able to analyse a business' performance from a variety of perspectives (including financial and non-financial factors), and explain the performance over a given timeframe or against budget.

Performance in this area was mixed. The requirements explicitly required candidates to explain the business' performance with respect to given strategies or organisational values. This meant that it was difficult to award marks to points which were not linked into these areas.

As in previous questions of this type, candidates identifying linkages between performance measures, or between the scenario and the calculations scored highly. Jungle Co from the September 2016 exam is a good question to look at for examples of this; especially linking non-financial and financial performance. It is important to make the points specific to the scenario. Looking again at Jungle Co, the gross profit margin has increased from 37.2% in 20X5 to 42.4% in 20X6. A weaker point would be "Gross profit margin has increased from 20X5 to 20X6. This could be due to reduced costs or increased selling price." This is true, but candidates should use the knowledge that increased gross profit margin could be due to these factors to identify the reasons why from the scenario. We are told in the scenario that Jungle Co started using a new supplier who use cheap labour therefore this will reduce costs. We are also told that Jungle Co's prices have remained stable – so the increased gross profit margin must be down to the cheaper supplier. A much stronger point would be – "Gross profit margin has increased from 37.2% to 42.4% which shows a strong performance. As selling prices have remained constant, this must be due to reduced costs; using the cheaper supplier from Slabak has contributed to this."

This is just one example, and all questions are different. However, the extra time spent reading the scenario will pay dividends, as it will help explain the key factors/activities/decisions which have underpinned the performance of the organisation. In these particular questions, it was important to understand what the business' key aims were, and these were explained in the scenario. The numbers could then be used to appraise the business in terms of these goals.

It is worth noting that candidates should take care over what the requirement is asking them to do. Many spend valuable time telling the business what they should or should not do in future periods to improve a situation. If a requirement is to 'assess the performance,' advice is not required.

Due to the way the questions were phrased, the use of clear headings would make it easier for candidates to structure their answers. It was pleasing to see that most realised this and broke their answer up accordingly. This made it easier to award marks for discussion about the relevant area than if the points were made in a less ordered fashion.

Planning and operational variances

Variances are a regular F5 topic, and although there hasn't been a section C question for a few sittings, they have been examined throughout sections A and B. Unfortunately they are not a popular topic amongst candidates, and the variances question for section C was answered poorly.

Variances questions in recent sittings have taken a fairly consistent form; calculate the required variances, then discuss the performance of a manager/the business in terms of these variances. The performance assessment part is much easier if the variances are calculated correctly, as more meaningful discussion can be made, however credit will be given if the wrong conclusion is reached due to an incorrect calculation.

In terms of the variances calculations it is obvious that many candidates do not spend enough time on this area. The variance calculations are not as complicated as, say, a learning curve question. Essentially it boils down to actual compared to expected, yet it is very rare to see a whole variance question performed correctly. From experience, question practice is the best method for tackling this area and there are many online resources

available. The beauty of these questions is that the method doesn't change; it's a case of identifying actual and standard figures, and applying the formulae.

A similar question to look at would be question 5 from the June 2016 published exam questions. This required candidates to calculate labour efficiency variances – including planning and operational. As was the case in the March 2017 examination, the standard cost card is out of date – therefore the variances should be split into planning (uncontrollable) and operational (controllable) components. The March 2017 question was less explicit than this question, but candidates are expected to recognise that an incorrect cost card must be revised in order to allow fair performance appraisal. Unfortunately many candidates were unable to score well on this question as they only calculated traditional variances rather than identifying planning and operational.

In terms of the performance appraisal, most candidates recognised that it was only fair to assess the manager's performance on operational or controllable factors, but then struggled to go into any depth. For each variance, you could identify why it happened, and what this shows about the manager's performance – which may be nothing, but it's worth showing that you understand this. As with any performance appraisal question, linking the measures together to explain why they've happened will score highly. For example a favourable labour efficiency variance (worked faster) may lead to an adverse material usage variance (more waste due to rushing). Each question will be different, but the clues will be in the scenario.

Many candidates also misread or misunderstood the requirement to appraise a manager's performance, and wasted valuable time saying what he should do to fix any problems – this is not relevant to the requirement and therefore hard to give credit to.

Relevant costing

Specifically, the relevant costing question was a 'make vs buy' decision i.e. should a business make component(s) themselves or outsource them to another supplier? In terms of structure it was very similar to 'Robber' – one of the 'Extra Constructed Response Questions' available [here](#) alongside the other specimen resources in ACCA's study resources section. This again highlights the importance of thorough preparation. There are many resources available on the ACCA's website which will help you prepare and these questions, along with past exam questions, are one of the best ways to help you cover the syllabus and get used to the style of the questions.

Candidates were able to score strongly on this question by doing the basics well i.e. identifying relevant and non-relevant costs and basing their decision on this. When a limiting factor (labour hours, as in Robber) was introduced, candidates struggled with the concept of calculating a saving per labour hour to decide which component to make in-house. This could be tested in a longer question or in a multiple choice question, so is worth reviewing.

Finally, it was pleasing to see so many candidates score well on the written aspects of this topic. Practical, sensible points were made about the non-financial considerations of such a decision. Many were able to make points which were specific to the business in question, and showed good understanding.

Exam technique

Good exam technique is vital for success in F5. For the written aspects, it was especially pleasing to see so many candidates structure their answer around headings. Not only does this make it easier to mark point, it makes it

easier for a candidate to review their answer and ensure they have covered all of the relevant areas. Whilst a minority still fill their page with unbroken text, this was less common – I'd strongly recommend using headings and white space to make your answer easier to follow.

For the numeric side of the exam there was less evidence of good technique. This may have been due to the fact that variances are historically an unpopular topic, however it is important to explain to your marker what it is that you're trying to work out; that way if you make a mistake early on in your calculations it's easier for your marker to award follow-through marks (for section C only). There were many examples of random calculations with no explanation. If you write $6 \times 7.2 = 43.2$ with no further narrative, whilst the maths is correct there's no indication of what any of those numbers actually mean. An explanation will help your marker understand what you are trying to do in your answer.

The F5 exam is also quite time-pressured – part of good exam technique is time management. Whilst it may be tempting to spend more time on the written questions, then guess the OTs if you run out of time, I'd advise against this. Some of the OTs will be less time consuming than others and if you don't leave enough time you could miss out on easy marks you would otherwise have scored. An extra 10 minutes on section C might improve your score by 2-3 marks, but could've been spent getting 3 short questions correct for 6 marks.

Word processing and spreadsheet technique

There was a marked improvement in the use of the CBE software from the December 2016 sitting. Hopefully this is a result of candidates using the resources available on the ACCA website. From a word processing point of view, candidates were comfortable using bold/underlined headings to structure their answer and to improve presentation. Answers were also more thorough than in previous sittings.

For the spreadsheet software, there is still evidence of candidates calculating their answers on their calculators and typing them into the spreadsheet cells. The spreadsheet has the functionality to calculate numbers for you, which makes it clearer to your marker what you've done. It also utilises copy and paste functionality alongside simple formulae which can be time saving in the exam. Having said that, candidates coped well with the challenge of performing variance calculations on a spreadsheet, and answers were generally easy to follow.

There are resources on ACCA's website giving more guidance on how to use the spreadsheet software. A video introducing the main functionality and how to make best use of these in F5 can be accessed [here](#).

Guidance and Learning Support resources to help you succeed in your exam

Preparing for the F5 exam may appear daunting but there are many resources available to help you. You should refer to these throughout your studies.

You should make sure you have made use of all of the resources found under [technical articles](#) for F5 – these include technical articles, study support videos and exam technique resources – all developed with you in mind.

It is essential to practise as many exam standard questions as you can in the lead up to your exam. We strongly recommend that you use an up to date question and answer bank from one of our [Approved Content Providers](#) but if this is not possible then work through the most recent past exams on our website. However, please note if you are using the past exams that these are **not** updated for syllabus changes or changes to the exam format and so should be used with caution – so check the latest [syllabus and study guide](#) for changes.

It is essential that you have a good understanding of the verbs typically used in ACCA exam questions. Take a look at the article [What is the examiner asking?](#) which sets out some of the most commonly used verbs, and ensure that you understand how these are used in the F5 questions.

Work through the F5 resource *A guide to using the examiner's report* if you are sitting the exam for the first time or *A guide to reflection* if you are retaking your exam. Both of these interactive tools can be found under the [technical articles page](#) for F5. These have been developed to sit alongside the self-study guide and the retake guide respectively, and provide you with further pointers for using the examiner's reports for previous sittings.