

# Performance Management (F5)

This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

## THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

### Relational diagram of paper with other papers

This diagram shows direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers such as Advanced Performance Management by Performance Management. These links are shown as solid line arrows. Other papers only have indirect relationships with each other such as links existing between the accounting and auditing papers. The links between these are shown as dotted line arrows. This diagram indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

### Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper.

### Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

### Relational diagram of the main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

### Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

## Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

## Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

## Study Guide

This is the main document that students, tuition providers and publishers should use as the basis of their studies, instruction and materials. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate, and the broad intellectual level at which these may need to be demonstrated (\*see intellectual levels below).

## Reading lists

ACCA has two approved publishers: BPP Professional Education and Kaplan Publishing Foulks Lynch. Both these publishers base their study texts on the detailed contents of the study guides as published by ACCA. ACCA takes no editorial responsibility for the detailed content of these study texts although ACCA examiners will annually review their content for general appropriateness and relevance in supporting effective study towards ACCA examinations. In addition ACCA examiners will recommend other text books where appropriate, which students may read in order to widen their reading beyond the approved study texts. Relevant articles will also be published in *student accountant*.

## INTELLECTUAL LEVELS

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification.

The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1: Knowledge and comprehension

Level 2: Application and analysis

Level 3: Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Knowledge module, the Skills module and the Professional level are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with the Knowledge module, level 2 equates to the Skills module and level 3 to the Professional level, some lower level skills can continue to be assessed as the student progresses through each module and level. This reflects that at each stage of study there will be a requirement to broaden, as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

## LEARNING HOURS

The ACCA qualification does not prescribe or recommend any particular number of learning hours for examinations because study and learning patterns and styles vary greatly between people and organisations. This also recognises the wide diversity of personal, professional and educational circumstances in which ACCA students find themselves.

Each syllabus contains between 23 and 35 main subject area headings depending on the nature of the subject and how these areas have been broken down.

## GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The Fundamentals level examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

The Knowledge module is assessed by equivalent two-hour paper based and computer based examinations.

The Skills module examinations are all paper based three-hour papers. The structure of papers varies from ten questions in the *Corporate and Business Law* (F4) paper to four 25 mark questions in *Performance Management* (F5) and *Financial Management* (F9). Individual questions within all Skills module papers will attract between 10 and 30 marks.

The Professional level papers are all three-hour paper based examinations, all containing two sections. Section A is compulsory, but there will be some choice offered in Section B.

The Essentials module papers all have a Section A containing a major case study question with all requirements totalling 50 marks relating to this case. Section B gives students a choice of two from three 25 mark questions.

Section A of each of the Options papers contains 50-70 compulsory marks from two questions, each attracting between 25 and 40 marks. Section B will offer a choice of two from three questions totalling 30-50 marks, with each question attracting between 15 and 25 marks

## GUIDE TO EXAMINATION ASSESSMENT

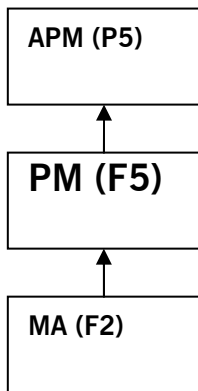
ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and assurance, law and tax papers, ACCA will publish *examinable documents* every six months to indicate exactly what regulations and legislation could potentially be assessed at the following examination session.

Knowledge of new examinable regulations will not be assessed until at least six calendar months after the last day of the month in which documents are issued or legislation is passed. The relevant cut-off date for the June examinations is 30 November of the previous year, and for the December examinations, it is 31 May of the same year.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

# Syllabus



## AIM

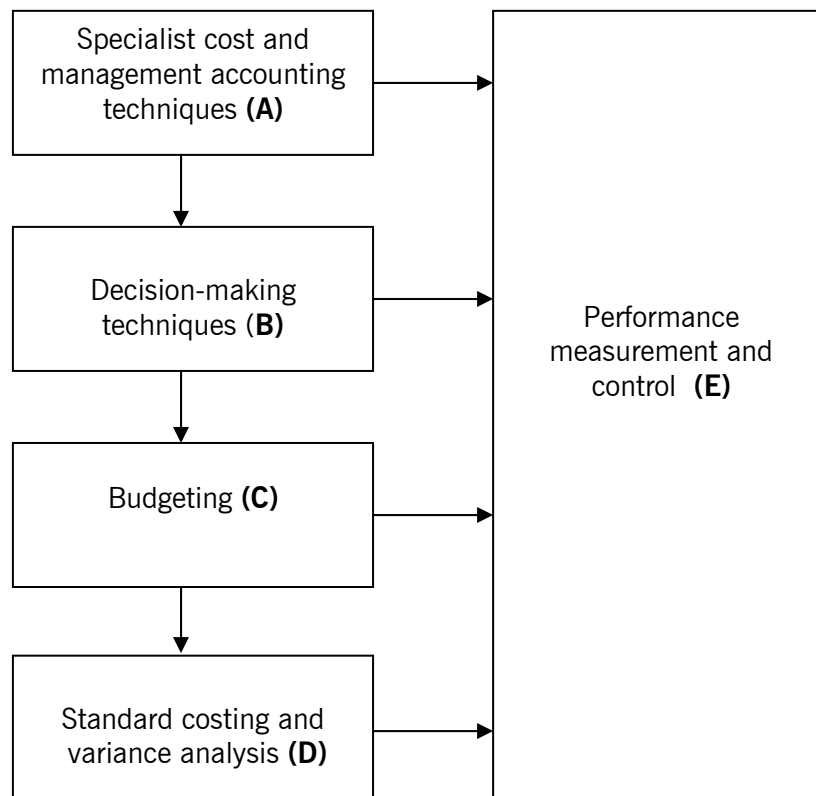
To develop knowledge and skills in the application of management accounting techniques to quantitative and qualitative information for planning, decision-making, performance evaluation, and control

## MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

- A** Explain, apply, and evaluate cost accounting techniques
- B** Select and appropriately apply decision-making techniques to evaluate business choices and promote efficient and effective use of scarce business resources, appreciating the risks and uncertainty inherent in business and controlling those risks
- C** Apply budgeting techniques and evaluate alternative methods of budgeting, planning and control
- D** Use standard costing systems to measure and control business performance and to identify remedial action
- E** Assess the performance of a business from both a financial and non-financial viewpoint, appreciating the problems of controlling divisionalised businesses and the importance of allowing for external aspects.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## RATIONALE

The syllabus for Paper F5, *Performance Management*, builds on the knowledge gained in Paper F2, *Management Accounting*. It also prepares candidates for more specialist capabilities which are covered in P5 *Advanced Performance Management*.

The syllabus begins by introducing more specialised management accounting topics. There is some knowledge assumed from Paper F2 – primarily overhead treatments. The objective here is to ensure candidates have a broader background in management accounting techniques.

The syllabus then considers decision-making. Candidates need to appreciate the problems surrounding scarce resource, pricing and make-or-buy decisions, and how this relates to the assessment of performance. Risk and uncertainty are a factor of real-life decisions and candidates need to understand risk and be able to apply some basic methods to help resolve the risks inherent in decision-making.

Budgeting is an important aspect of many accountants' lives. The syllabus explores different budgeting techniques and the problems inherent in them. The behavioural aspects of budgeting are important for accountants to understand, and the syllabus includes consideration of the way individuals react to a budget.

Standard costing and variances are then built on. All the variances examined in Paper F2 are examinable here. The new topics are mix and yield variances, and planning and operational variances. Again, the link is made to performance management. It is important for accountants to be able to interpret the numbers that they calculate and ask what they mean in the context of performance.

The syllabus concludes with performance measurement and control. This is a major area of the syllabus. Accountants need to understand how a business should be managed and controlled. They should appreciate the importance of both financial and non-financial performance measures in management. Accountants should also appreciate the difficulties in assessing performance in divisionalised businesses and the problems caused

by failing to consider external influences on performance. This section leads directly to Paper P5.

## DETAILED SYLLABUS

### A Specialist cost and management accounting techniques

1. Activity-based costing
2. Target costing
3. Life-cycle costing
4. Back-flush accounting
5. Throughput accounting

### B Decision-making techniques

1. Multi-limiting factors and the use of linear programming and shadow pricing
2. Pricing decisions
3. Make-or-buy and other short-term decisions
4. Dealing with risk and uncertainty in decision-making

### C Budgeting

1. Objectives
2. Budgetary systems
3. Types of budget
4. Quantitative analysis in budgeting
5. Behavioural aspects of budgeting

### D Standard costing and variances analysis

1. Budgeting and standard costing
2. Basic variances and operating statements
3. Material mix and yield variances
4. Planning and operational variances

5. Behavioural aspects of standard costing

## **E Performance measurement and control**

1. The scope of performance measurement
2. Divisional performance and transfer pricing
3. Performance analysis in not-for-profit organisations and the public sector
4. External considerations and behavioural aspects

### **APPROACH TO EXAMINING THE SYLLABUS**

Paper F5, *Performance Management*, seeks to examine candidates' understanding of how to manage the performance of a business.

The paper builds on the knowledge acquired in Paper F2, *Management Accounting*, and prepares those candidates who choose to study Paper P5, *Advanced Performance Management*, at the Professional level

The syllabus is assessed by a three-hour paper-based examination.

The examination will contain four compulsory 25-mark questions. There will be calculation and discursive elements to the paper with the balance being broadly in line with the pilot paper. The pilot paper contains questions from four of the five syllabus sections. Generally, the paper will seek to draw questions from as many of the syllabus sections as possible.

# Study Guide

## A SPECIALIST COST AND MANAGEMENT ACCOUNTING TECHNIQUES

### 1. Activity based costing

- a) Identify appropriate cost drivers under ABC.<sup>[1]</sup>
- b) Calculate costs per driver and per unit using ABC.<sup>[2]</sup>
- c) Compare ABC and traditional methods of overhead absorption based on production units, labour hours or machine hours.<sup>[2]</sup>
- d) Explain the implications of switching to ABC for pricing, sales strategy, performance management and decision-making.<sup>[2]</sup>

### 2. Target costing

- a) Derive a target cost in manufacturing and service industries.<sup>[2]</sup>
- b) Explain the difficulties of using target costing in service industries.<sup>[2]</sup>
- c) Explain the implications of using target costing on pricing, cost control and performance management.<sup>[2]</sup>
- d) Suggest how a target cost gap might be closed.<sup>[2]</sup>

### 3. Life-cycle costing

- a) Identify the costs involved at different stages of the life-cycle.<sup>[2]</sup>
- b) Explain the implications of lifecycle costing on pricing, performance management and decision-making.<sup>[2]</sup>

### 4. Back-flush accounting

- a) Describe the process of back-flush accounting and contrast with traditional process accounting.<sup>[2]</sup>
- b) Explain the implications of back-flush accounting on performance management and the control of a manufacturing process.<sup>[2]</sup>

- c) Identify the benefits of introducing back-flush accounting.<sup>[2]</sup>
- d) Evaluate the decision to switch to back-flush accounting from traditional process control.<sup>[3]</sup>

### 5. Throughput accounting

- a) Calculate and interpret a throughput accounting ratio (TPAR).<sup>[2]</sup>
- b) Suggest how a TPAR could be improved.<sup>[2]</sup>
- c) Apply throughput accounting to a multi-product decision-making problem.<sup>[2]</sup>

## B DECISION-MAKING TECHNIQUES

### 1. Multi-limiting factors and the use of linear programming and shadow pricing

- a) Select an appropriate technique in a scarce resource situation.<sup>[2]</sup>
- b) Formulate and solve a multiple scarce resource problem both graphically and using simultaneous equations as appropriate.<sup>[2]</sup>
- c) Explain and calculate shadow prices (dual prices) and discuss their implications on decision-making and performance management.<sup>[2]</sup>
- d) Calculate slack and explain the implications of the existence of slack for decision-making and performance management.<sup>[2]</sup> (Excluding simplex and sensitivity to changes in objective functions)

### 2. Pricing decisions

- a) Explain the factors that influence the pricing of a product or service.<sup>[2]</sup>
- b) Explain the price elasticity of demand.<sup>[1]</sup>
- c) Derive and manipulate a straight line demand equation. Derive an equation for the total cost function (including volume-based discounts).<sup>[2]</sup>

- d) Evaluate a decision to increase production and sales levels, considering incremental costs, incremental revenues and other factors.<sup>[2]</sup>
- e) Explain different price strategies, including:<sup>[2]</sup>
  - i) All forms of cost-plus
  - ii) Skimming
  - iii) Penetration
  - iv) Complementary product
  - v) Product-line
  - vi) Volume discounting
  - vii) Discrimination
  - viii) Relevant cost
- f) Calculate a price from a given strategy using cost-plus and relevant cost.<sup>[2]</sup>

### 3. Make-or-buy and other short-term decisions

- a) Explain the issues surrounding make vs. buy and outsourcing decisions.<sup>[2]</sup>
- b) Calculate and compare “make” costs with “buy-in” costs.<sup>[2]</sup>
- c) Compare in-house costs and outsource costs of completing tasks and consider other issues surrounding this decision.<sup>[2]</sup>
- d) Apply relevant costing principles in situations involving shut down, one-off contracts and the further processing of joint products.<sup>[2]</sup>

### 4. Dealing with risk and uncertainty in decision-making

- a) Suggest research techniques to reduce uncertainty e.g. Focus groups, market research.<sup>[2]</sup>
- b) Explain the use of simulation, expected values and sensitivity.<sup>[1]</sup>
- c) Apply expected values and sensitivity to decision-making problems.<sup>[2]</sup>
- d) Apply the techniques of maximax, maximin, and minimax regret to decision-making problems including the production of profit tables.<sup>[2]</sup>  
(Excluding decision trees and the value of perfect information)

## C BUDGETING

### 1. Objectives

- a) Outline the objectives of a budgetary control system.<sup>[2]</sup>
- b) Explain how corporate and divisional objectives may differ and can be reconciled.<sup>[2]</sup>
- c) Identify and resolve conflicting objectives and explain implications.<sup>[2]</sup>

### 2. Budgetary systems

- a) Explain how budgetary systems fit within the performance hierarchy.<sup>[2]</sup>
- b) Select and explain appropriate budgetary systems for an organisation, including top-down, bottom-up, rolling, zero-base, activity-base, incremental and feed-forward control.<sup>[2]</sup>
- c) Describe the information used in budget systems and the sources of the information needed.<sup>[2]</sup>
- d) Explain the difficulties of changing a budgetary system.<sup>[2]</sup>
- e) Explain how budget systems can deal with uncertainty in the environment.<sup>[2]</sup>

### 3. Types of Budget

- a) Indicate the usefulness and problems with different budget types (zero-base, activity-based, incremental, master, functional and flexible).<sup>[2]</sup>
- b) Explain the difficulties of changing the type of budget used.<sup>[2]</sup>

### 4. Quantitative analysis in budgeting

- a) Analyse fixed and variable cost elements from total cost data using high/low and regression methods.<sup>[2]</sup>
- b) Explain the use of forecasting techniques, including time series, simple average growth models and estimates based on judgement and experience. Predict a future

value from provided time series analysis data using both additive and proportional data.<sup>[2]</sup>

- c) Estimate the learning effect and apply the learning curve to a budgetary problem, including calculations on steady states<sup>[2]</sup>
- d) Discuss the reservations with the learning curve.<sup>[2]</sup>
- e) Apply expected values and explain the problems and benefits.<sup>[2]</sup>
- f) Explain the benefits and dangers inherent in using spreadsheets in budgeting.<sup>[1]</sup>

## 5. Behavioural aspects of budgeting

- a) Identify the factors which influence behaviour.<sup>[2]</sup>
- b) Discuss the issues surrounding setting the difficulty level for a budget.<sup>[2]</sup>
- c) Explain the benefits and difficulties of the participation of employees in the negotiation of targets.<sup>[2]</sup>

## D STANDARD COSTING AND VARIANCES ANALYSIS

### 1. Budgeting and standard costing

- a) Explain the use of standard costs.<sup>[2]</sup>
- b) Outline the methods used to derive standard costs and discuss the different types of cost possible.<sup>[2]</sup>
- c) Explain the importance of flexing budgets in performance management.<sup>[2]</sup>
- d) Prepare budgets and standards that allow for waste and idle time.<sup>[2]</sup>
- e) Explain and apply the principle of controllability in the performance management system.<sup>[2]</sup>
- f) Prepare a flexed budget and comment on its usefulness.<sup>[2]</sup>

### 2. Basic variances and operating statements

- a) Calculate, identify the cause of and interpret basic variances:<sup>[1]</sup>
  - i) Sales price and volume
  - ii) Materials total, price and usage
  - iii) Labour total, rate and efficiency
  - iv) Variable overhead total, expenditure and efficiency
  - v) Fixed overhead total, expenditure and, where appropriate, volume, capacity and efficiency.
- b) Explain the effect on labour variances where the learning curve has been used in the budget process.<sup>[2]</sup>
- c) Produce full operating statements in both a marginal cost and full absorption costing environment, reconciling actual profit to budgeted profit.<sup>[2]</sup>
- d) Calculate the effect of idle time and waste on variances including where idle time has been budgeted for.<sup>[2]</sup>
- e) Explain the possible causes of idle time and waste and suggest methods of control.<sup>[2]</sup>
- f) Calculate, using a simple situation, ABC-based variances.<sup>[3]</sup>
- g) Explain the different methods available for deciding whether or not to investigate a variance cause.<sup>[2]</sup>

### 3. Material mix and yield variances

- a) Calculate, identify the cause of, and explain mix and yield variances.<sup>[2]</sup>
- b) Explain the wider issues involved in changing mix e.g. cost, quality and performance measurement issues.<sup>[2]</sup>
- c) Identify and explain the interrelationship between price, mix and yield.<sup>[2]</sup>
- d) Suggest and justify alternative methods of controlling production processes.<sup>[2]</sup>

#### **4. Planning and operational variances**

- a) Calculate a revised budget.<sup>[2]</sup>
- b) Identify and explain those factors that could and could not be allowed to revise an original budget.<sup>[2]</sup>
- c) Calculate planning and operational variances for sales, including market size and market share materials and labour.<sup>[2]</sup>
- d) Explain and the manipulation issues in revising budgets.<sup>[2]</sup>

#### **5. Behavioural aspects of standard costing**

- a) Describe the dysfunctional nature of some variances in the modern environment of JIT and TQM.<sup>[2]</sup>
- b) Discuss the behavioural problems resulting from using standard costs in rapidly changing environments.<sup>[2]</sup>
- c) Discuss the effect that variances have on staff motivation and action.<sup>[2]</sup>

### **E PERFORMANCE MEASUREMENT AND CONTROL**

#### **1. The scope of performance measurement**

- a) Describe, calculate and interpret financial performance indicators (FPIs) for profitability, liquidity and risk in both manufacturing and service businesses. Suggest methods to improve these measures.<sup>[2]</sup>
- b) Describe, calculate and interpret non-financial performance indicators (NFPIs) and suggest method to improve the performance indicated.<sup>[2]</sup>
- c) Explain the causes and problems created by short-termism and financial manipulation of results and suggest methods to encourage a long term view.<sup>[2]</sup>
- d) Explain and interpret the Balanced Scorecard, and the Building Block model proposed by Fitzgerald and Moon.<sup>[2]</sup>

- e) Discuss the difficulties of target setting in qualitative areas.<sup>[2]</sup>

#### **2. Divisional performance and transfer pricing**

- a) Explain the basis for setting a transfer price using variable cost, full cost and the principles behind allowing for intermediate markets.<sup>[2]</sup>
- b) Explain how transfer prices can distort the performance assessment of divisions and decisions made.<sup>[2]</sup>
- c) Explain the meaning of, and calculate, Return on Investment (ROI) and Residual Income (RI), and discuss their shortcomings.<sup>[2]</sup>
- d) Compare divisional performance and recognise the problems of doing so.<sup>[2]</sup>

#### **3. Performance analysis in not for profit organisations and the public sector**

- a) Comment on the problems of having non-quantifiable objectives in performance management.<sup>[2]</sup>
- b) Explain how performance could be measured in this sector.<sup>[2]</sup>
- c) Comment on the problems of having multiple objectives in this sector.<sup>[2]</sup>
- d) Outline Value for Money (VFM) as a public sector objective.<sup>[1]</sup>

#### **4. External considerations and behavioural aspects**

- a) Explain the need to allow for external considerations in performance management, including stakeholders, market conditions and allowance for competitors.<sup>[2]</sup>
- b) Suggest ways in which external considerations could be allowed for in performance management.<sup>[2]</sup>
- c) Interpret performance in the light of external considerations.<sup>[2]</sup>
- d) Identify and explain the behaviour aspects of performance management <sup>[2]</sup>

## READING LIST

ACCA's approved publishers:

### **BPP Professional Education**

**Contact number: +44(0)20 8740 2222**

**Website: [www.bpp.com/acca](http://www.bpp.com/acca)**

### **Kaplan Publishing Foulks Lynch**

**Contact number: +44(0)118 989 0629**

**Website: [www.kaplanfoulkslynch.com](http://www.kaplanfoulkslynch.com)**

Additional reading:

Accountancy Tuition Centre (ATC) International

Contact number: +44(0)141 880 6469

Website: [www.ptc-global.com](http://www.ptc-global.com)

C. Drury, 2004. *Management and Cost Accounting* (6<sup>th</sup> edition), Thomson. ISBN 1861525362

C.T. Horngren, A. Bhimani, S.M Datar and G. Foster, 2005. *Management and Cost Accounting* (3<sup>rd</sup> Edition), FT Prentice-Hall. ISBN

C. Emmanuel, D Otley, *Accounting for Management Control*, Chapman and Hall, ISBN 186152218

Wider reading, including relevant articles in ACCA's *Student Accountant*, and other management accounting journals is encouraged.