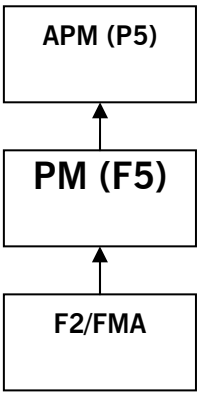
Syllabus



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

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

A Explain and apply cost accounting techniques

B Select and appropriately apply decision-making techniques to facilitate business decisions and promote efficient and effective use of scarce business resources, appreciating the risks and uncertainty inherent in business and controlling those risks

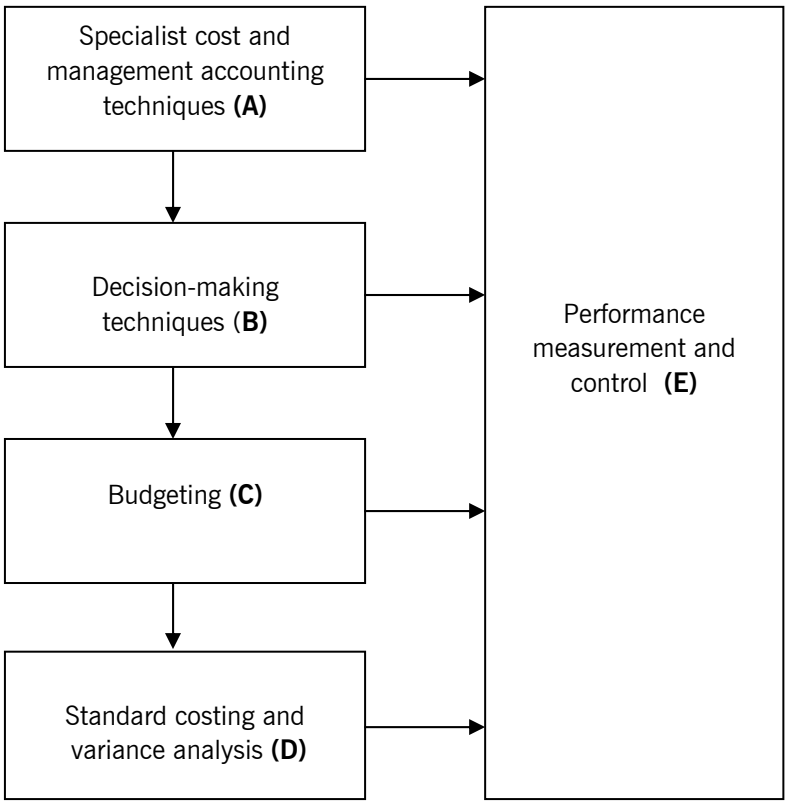
C Identify and apply appropriate budgeting techniques and methods for planning and control

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

MAIN CAPABILITIES

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. Throughput accounting
5. Environmental accounting

B Decision-making techniques

1. Relevant cost analysis
2. Cost volume analysis
3. Limiting factors
4. Pricing decisions
5. Make-or-buy and other short-term decisions
6. 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. 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 five compulsory 20-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.[1]

b) Calculate costs per driver and per unit using ABC.[2]

c) Compare ABC and traditional methods of overhead absorption based on production units, labour hours or machine hours.[2]

2. Target costing

a) Derive a target cost in manufacturing and service industries.[2]

b) Explain the difficulties of using target costing in service industries.[2]

c) Suggest how a target cost gap might be closed.[2]

3. Life-cycle costing

a) Identify the costs involved at different stages of the life-cycle.[2]

b) Derive a life cycle cost in manufacturing and service industries.[2]

c) Identify the benefits of life cycle costing.[2]

4. Throughput accounting

a) Calculate and interpret a throughput accounting ratio (TPAR).[2]

b) Suggest how a TPAR could be improved.[2]

c) Apply throughput accounting to a multi-product decision-making problem.[2]

5. Environmental accounting

a) Discuss the issues business face in the management of environmental costs.[1]

b) Describe the different methods a business may use to account for its environmental costs.[1]

B DECISION-MAKING TECHNIQUES

1 Relevant cost analysis

a) Explain the concept of relevant costing.[2].

b) Identify and calculate relevant costs for a specific decision situations from given data.[2]

c) Explain and apply the concept of opportunity costs .[2]

2. Cost volume profit analysis

a) Explain the nature of CVP analysis.[2]

b) Calculate and interpret break even point and margin of safety.[2]

c) Calculate the contribution to sales ratio, in single and multi-product situations, and demonstrate an understanding of its use.[2].

d) Calculate target profit or revenue in single and multi-product situations, and demonstrate an understanding of its use.[2]

e) Prepare break even charts and profit volume charts and interpret the information contained within each, including multi-product situations.[2]

f) Discuss the limitations of CVP analysis for planning and decision making.[2]

3. Limiting factors

a) Identify limiting factors in a scarce resource situation and select an appropriate technique.[2]

b) Determine the optimal production plan where an organisation is restricted by a single limiting factor, including within the context of “make” or “buy” decisions.[2].

c) Formulate and solve multiple scarce resource problem both graphically and using simultaneous equations as appropriate.[2]

d) Explain and calculate shadow prices (dual prices) and discuss their implications on decision-making and performance management. [2]

e) Calculate slack and explain the implications of the existence of slack for decision-making and performance management.[2]
(Excluding simplex and sensitivity to changes in objective functions)

4. Pricing decisions

a) Explain the factors that influence the pricing of a product or service.[2]

b) Explain the price elasticity of demand.[1]

c) Derive and manipulate a straight line demand equation. Derive an equation for the total cost function(including volume-based discounts).[2]

d) Calculate the optimum selling price and quantity for an organisation, equating marginal cost and marginal revenue[2]

e) Evaluate a decision to increase production and sales levels, considering incremental costs, incremental revenues and other factors.[2]

f) Determine prices and output levels for profit maximisation using the demand based approach to pricing (both tabular and algebraic methods) .[1]

g) Explain different price strategies, including: **[2]**
   i) All forms of cost-plus
   ii) Skimming
   iii) Penetration
   iv) Complementary product
   v) Product-line
   vi) Volume discounting
   vii) Discrimination
   viii) Relevant cost

h) Calculate a price from a given strategy using cost-plus and relevant cost.[2]

5. Make-or-buy and other short-term decisions

a) Explain the issues surrounding make vs. buy and outsourcing decisions.[2]

b) Calculate and compare make" costs with "buy-in" costs.[2]

c) Compare in-house costs and outsource costs of completing tasks and consider other issues surrounding this decision.[2]

d) Apply relevant costing principles in situations involving shut down, one-off contracts and the further processing of joint products.[2]

6. Dealing with risk and uncertainty in decision-making

a) Suggest research techniques to reduce uncertainty e.g. Focus groups, market research.[2]

b) Explain the use of simulation, expected values and sensitivity.[1]

c) Apply expected values and sensitivity to decision-making problems.[2]

d) Apply the techniques of maximax, maximin, and minimax regret to decision-making problems including the production of profit tables.[2]

e) Draw a decision tree and use it to solve a multi-stage decision problem

f) Calculate the value of perfect information.

C BUDGETING

1. Objectives

a) Outline the objectives of a budgetary control system.[2]

b) Explain how corporate and divisional objectives may differ and can be reconciled.[2]

c) Identify and resolve conflicting objectives and explain implications.[2]

2. Budgetary systems

a) Explain how budgetary systems fit within the performance hierarchy.[2]

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.[2]

c) Describe the information used in budget systems and the sources of the information needed.[2]

d) Explain the difficulties of changing a budgetary system.[2]

e) Explain how budget systems can deal with uncertainty in the environment.[2]

3. Types of Budget

a) Indicate the usefulness and problems with different budget types (zero-base, activity-based, incremental, master, functional and flexible).[2]

b) Explain the difficulties of changing the type of budget used.[2]

4. Quantitative analysis in budgeting

a) Analyse fixed and variable cost elements from total cost data using high/low and regression methods.[2]

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.[2]

c) Estimate the learning effect and apply the learning curve to a budgetary problem, including calculations on steady states [2]

d) Discuss the reservations with the learning curve.[2]

e) Apply expected values and explain the problems and benefits.[2]

f) Explain the benefits and dangers inherent in using spreadsheets in budgeting.[1]

5. Behavioural aspects of budgeting

a) Identify the factors which influence behaviour.[2]

b) Discuss the issues surrounding setting the difficulty level for a budget.[2]

c) Explain the benefits and difficulties of the participation of employees in the negotiation of targets.[2]

D STANDARD COSTING AND VARIANCES ANALYSIS

1. Budgeting and standard costing

a) Explain the use of standard costs.[2]

b) Outline the methods used to derive standard costs and discuss the different types of cost possible.[2]

c) Explain the importance of flexing budgets in performance management.[2]

d) Prepare budgets and standards that allow for waste and idle time.[2]

e) Explain and apply the principle of controllability in the performance management system.[2]

f) Prepare a flexed budget and comment on its usefulness.[2]

2. Basic variances and operating statements

a) Calculate, identify the cause of and interpret basic variances: [1]
   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.[2]

c) Produce full operating statements in both a marginal cost and full absorption costing environment, reconciling actual profit to budgeted profit.[2]

d) Calculate the effect of idle time and waste on variances including where idle time has been budgeted for.[2]

e) Explain the possible causes of idle time and waste and suggest methods of control.[2]

f) Calculate, using a simple situation, ABC-based variances.[3]

g) Explain the different methods available for deciding whether or not too investigate a variance cause.[2]

3. Material mix and yield variances

a) Calculate, identify the cause of, and explain material mix and yield variances.[2]

b) Explain the wider issues involved in changing material mix e.g. cost, quality and performance measurement issues.[2]

c) Identify and explain the relationship of the material price variance with the material mix and yield variances.[2]

d) Suggest and justify alternative methods of controlling production processes.[2]

4. Sales mix and quantity variances

a) Calculate, identify the cause of, and explain sales mix and quantity variances.[2]

b) Identify and explain the relationship of the sales volume variances with the sales mix and quantity variances.[2]

5. Planning and operational variances

a) Calculate a revised budget.[2]

b) Identify and explain those factors that could and could not be allowed to revise an original budget.[2]

c) Calculate planning and operational variances for sales, including market size and market share, materials and labour.[2]

d) Explain and discuss the manipulation issues involved in revising budgets.[2]

6. Behavioural aspects of standard costing

a) Describe the dysfunctional nature of some variances in the modern environment of JIT and TQM.[2]

b) Discuss the behavioural problems resulting from using standard costs in rapidly changing environments.[2]

c) Discuss the effect that variances have on staff motivation and action.[2]

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.[2]

b) Describe, calculate and interpret non-financial performance indicators (NFPIs) and suggest method to improve the performance indicated.[2]

c) Explain the causes and problems created by short-termism and financial manipulation of results and suggest methods to encourage a long term view.[2]

d) Explain and interpret the Balanced Scorecard, and the Building Block model proposed by Fitzgerald and Moon.[2]

e) Discuss the difficulties of target setting in qualitative areas.[2]

2. Divisional performance and transfer pricing

a) Explain and illustrate the basis for setting a transfer price using variable cost, full cost and the principles behind allowing for intermediate markets.[2]

b) Explain how transfer prices can distort the performance assessment of divisions and decisions made.[2]

c) Explain the meaning of, and calculate, Return on Investment (ROI) and Residual Income (RI), and discuss their shortcomings.[2]

d) Compare divisional performance and recognise the problems of doing so.[2]

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.[2]

b) Explain how performance could be measured in this sector.[2]

c) Comment on the problems of having multiple objectives in this sector.[2]

d) Outline Value for Money (VFM) as a public sector objective.[1]

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.[2]

b) Suggest ways in which external considerations could be allowed for in performance management.[2]

c) Interpret performance in the light of external considerations.[2]

d) Identify and explain the behaviour aspects of performance management [2]

READING LIST

This section only contains examiner suggested reading which is in addition to the study texts and/or revision materials and/or other reading listed within the learning content provider directory.

Additional examiner suggested reading:

C. Drury, Management and Cost Accounting (7th edition), Thomson, 2008

C.T. Horngren, A. Bhimani, S.M Datar and G. Foster, *Management and Cost Accounting* (4th Edition), FT Prentice-Hall. 2008.

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

Further details on reading lists and Approved Learning Content can be found in the first few sections of this guide and on the following link.

http://www.accaglobal.com/learningproviders/alpc/content_provider_directory/search/

SUMMARY OF CHANGES TO F5

RATIONALE FOR CHANGES TO STUDY GUIDE PAPER F5

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers. As a result of the latest review, ACCA is making changes to the ACCA Qualification effective from June 2011. With each syllabus is included a specific rationale for these changes as far as each examination syllabus and study guide is concerned.

Due to planned changes in the F2 syllabus, the F5 syllabus and study guide has changed to include areas that the new F2 is no longer covering, such as short term decisions.

Additionally, as a result of feedback regarding the intellectual gap between F5 and P5 papers. Some items in the study guide of F5 which were considered to be of higher intellectual level have been removed from F5 and included in either P5 or P3.

Finally the syllabus has been updated to include areas that are considered important but not explicitly covered in the management accounting stream of papers

The main changes to the F5 syllabus are as shown in Tables 1 and 2 below:

Table 1 – Additions to F5

Section and subject area	Syllabus content
A3- Life cycle costing	b) Derive a life cycle cost in manufacturing and service industries.[2] c) Identify the benefits of life cycle costing.[2]
A5- Environmental accounting	a) Discuss the issues business face in the management of environmental costs.[1] b) Describe the different methods a business may use to account for its environmental costs.[1]
B1- Relevant cost analysis	a) Explain the concept of relevant costing.[2]. b) Identify and calculate relevant costs for a specific decision situations from given data.[2] c) Explain and apply the concept of opportunity costs .[2]
B2- cost volume analysis	a) Explain the nature of CVP analysis.[2] b) Calculate and interpret break even point and margin of safety.[2] c) Calculate the contribution to sales ratio, in single and multi-product situations, and demonstrate an understanding of its use.[2]. d) Calculate target profit or revenue in single and multi-product situations, and demonstrate an understanding of its use.[2] e) Prepare break even charts and profit volume charts and interpret the information contained within each, including multi-product situations.[2] f) Discuss the limitations of CVP analysis for planning and decision making.[2]
B3 limiting factors	b) Determine the optimal production plan where an organisation is restricted by a single limiting factor

B4- pricing decisions	(d) Determine prices and output levels for profit maximisation using the demand based approach to pricing (both tabular and algebraic methods).[1]
B6- dealing with risk and uncertainty	e) Draw a decision tree and use it to solve a multi-stage decision problem f) Calculate the value of perfect information
D 4- Sales mix and quantity variances	a) Calculate, identify the cause of, and explain sales mix and quantity variances.[2] b) Identify and explain the relationship of the sales volume variances with the sales mix and quantity variances.[2]

Table 2 – Deletions to F5

Section where deletions arise	Subject areas where deletions are proposed
A1d	Explain the implications of switching to ABC for pricing, sales strategy, performance management and decision-making.[2]
A2c	Explain the implications of using target costing on pricing, cost control and performance management.[2]
A3b	Explain the implications of lifecycle costing on pricing, performance management and decision-making.[2]
A4 Back flush accounting	a) Describe the process of back-flush accounting and contrast with traditional process accounting.[2] b) Explain the implications of back-flush accounting on performance management and the control of a manufacturing process.[2] c) Identify the benefits of introducing back-flush accounting.[2] d) Evaluate the decision to switch to back-flush accounting from traditional process control.

Please note that the learning curve formula on the standard ACCA formula sheet is changed. Currently, it shows the formula as related to costs rather than time which leads to a lot of mistakes by students in the exams. It now reads as follows:

$Y = axb$
Where:
Y = cumulative average time per unit to produce x units.
a = the time taken for the first unit of output
x = the cumulative number of units
b the index of learning (log LR/log 2)
LR = the learning rate as a decimal

There is also a new formula added to the formula sheet and reads as follows:
$MR = a - 2bQ$