

Examiner's report

P5 Advanced Performance Management

September 2016

The ACCA logo is a black square with the letters 'ACCA' in white, bold, sans-serif font.

Introduction

Firstly, we would like to offer our congratulations to all of those candidates who achieved a pass at this diet and our commiserations to those who did not.

In this report, our aim is to indicate areas of good and poor performance with the specific additional purpose of helping future candidates assess what is required of them. We have added comments about potential improvements to examination approach that could be made after the commentary on each specific question.

We will begin with general comments about the approach and then provide a commentary on the specific questions in the examination paper.

General Comments

The examination paper comprised two sections, A and B. Section A consisted of one compulsory question for 50 marks in total. Section B consisted of three optional questions for 25 marks each from which candidates were required to answer two questions.

The majority of candidates attempted their allocation of three questions although there was some evidence of poor time management overall. Often the final question was not fully attempted, or parts of the question were not fully attempted. The marks awarded to a question and to specific parts of the question are always a useful guide as to the time that should be spent on it. This is a skill which can easily be developed by sitting past papers in examination conditions as part of candidates' overall revision preparation. Such a preparation strategy would also focus candidates' minds on producing responses to the questions that were specifically asked and not offering too much information by way of definitions and descriptions of techniques. The paper is one that has analysis, evaluation and above all application at its core and it is a good mantra with which to approach every question in a P5 examination: am I relating the technique to the scenario? Am I evaluating its usefulness in this specific situation? Rote learning is not at the core of a paper of this nature and the essence of application is best experienced by undertaking a past paper in examination conditions. To be specific about this point re analysis/assess/evaluation/application, candidates who come to this examination expecting to repeat memorised material will probably score only between 20% and 30%. The other 70-80% of the marks are awarded through successful, relevant and justified application which is at the very core of what advanced performance management should be about. As in previous diets, it was very clear to the marking team that those candidates that had grasped the need for this went on to pass the paper.

Of course the paper contains elements that are of a technical nature and many of those elements will have been learned in the F level papers – it is always beneficial, therefore, to be aware of the papers that underpin P5 and have a full appreciation of the “taken for granted” knowledge of the content of those papers.

Particularly disappointing was the poor performance of many candidates in the Professional marks section of question 1. It is very easy to score full marks on this part of the question by ensuring that the Report addresses its reader with a concise indication of the subject matter and the date of the Report, an introductory paragraph which highlights the material that the Report will address, sub-

headings for each section and a discussion in professional, clear language. Of these aspects, the lack of professionalism in highlighting where one section of the Report ends and the other begins is something candidates should make sure they always address as this can make the practicality of marking the paper very challenging.

Question One

This 50-mark compulsory question was based around performance management and the potential introduction of new techniques and systems in a manufacturing company.

1 (i) asked for an assessment of the problems of using a particular management accounting technique. In questions of this nature, candidates should focus on the theoretical areas where they believe the problems lie and then try to exemplify or illustrate these problems by reference to the entity. What many candidates do – and unfortunately this is poor examination practice – is to address the question by discussing another technique that they have spent more of their time revising. Making a suggestion as to an alternative may be worth merit but nevertheless does not address the fundamental question asked, which is for an overall assessment of a specific technique. It is a fundamental requirement of any P5 paper that candidates should know about performance management and control techniques and the challenges that may arise from their implementation.

1(ii) asked for an evaluation of both the current measurements that the company was using and other measures suggested by consultants. This is an area where most candidates addressed the question asked though it is worthwhile emphasising as part of good examination practice in this paper that assessment of current measures in the light of their suitability as KPIs of the company's strategic direction is very different to asking for an assessment of performance. This is why it is always beneficial to spend time reading the question to ensure that the requirements are fully understood. It is also good practice to ensure that suggestions are justified and supported: it is very common for candidates to highlight, for example, that "more non-financial indicators are needed" or "they should measure liquidity" in a question of this type. Such comments are not worth merit unless supported by reference to such aspects as achievement of some of the company's specific objectives. A key focus of any analysis is the justification behind the points that are being made and it would be good examination practice for candidates to consider this in their revision and ask questions such as: why is that relevant?; how/why would it benefit the company? Candidates should also be aware of some of the language used in their analysis of techniques: of course financial figures are the result of accounting standards which can be interpreted in different ways but this does not mean that results are being deliberately "manipulated." Candidates should reserve their use of this word to instances where they feel there is intentioned malpractice.

1(iii) asked for an evaluation of the usefulness of specific financial metrics. This question was poorly done as candidates did not demonstrate the technical knowledge that is expected at this level with regard to the composition of the measures of performance. As such, this is a very clear example of the difference between P5 and F5 and candidates have to be able to interpret the results that measures are producing. Too many candidates gave descriptions of measurements rather than an evaluation of usefulness. For future diets, candidates would be best suited to consider and reflect upon what the metrics and ratios they have learned might mean and consider how they might differ from each other. When might it be more appropriate to use one than the other? Which costs, for example, might some include and why might that be significant in terms of

measurement and management? It is also, as with question (i) above, always best as a matter of good examination practice to respond about the metrics that the question asked candidates to consider. Justified alternatives, as with (i), may be of some merit but answers should always be directed to the question that was asked.

1(iv) asked for an analysis of cost and the potential implementation of a new technique. Some basic technical knowledge was lacking in the analysis of costs and the marks awarded here were ones that should have been gained by most candidates. The implementation of a new technique was a part of the question that was generally well done as most candidates focused on specific areas around implementation and tried to relate these to the entity.

1(v) asked for a consideration of the effect on a new information system on a method of production. This question was generally badly done as, again, most candidates did not apply the operation of the system to the production method. Most answers mentioned and explained only either the production method or the system when the requirement of the question was clear in that the two had to be considered in the light of the effect of one on the other. This is another example of application that candidates should consider in future diets and reinforces the fact that rote learned definitions, etc, do not address the demands of the learning outcomes of P5.

Section B

Question Two

This 25-mark question covered the linking of measures to strategic objectives, an assessment of performance in the public sector and a consideration of the benefits of benchmarking.

Part a) was generally done well and candidates were very clear in their consideration as to how individual metrics specifically measured the stated objectives. As with other questions, it is always good examination practice to consider the metrics that were presented in the scenario: there is some merit in suggesting alternative metrics as, if relevant and justified, they do show an awareness and assessment of how the entity might achieve an alignment between measures and objectives but the best advice with regard to best examination practice is to focus on the details of the question asked.

Part b) was poorly done though most candidates did pick up some marks based on definitions and explanations. These marks amounted to no more than 20% of the total available and it is also worthwhile for candidates to be aware that full marks can be awarded on most questions without definitions or explanations being given at all (unless specifically asked for as part of the question requirement). Candidates were unclear about the specific areas that each measure might relate to in terms of assessing performance in the public sector and this highlighted a fundamental lack of technical competence in the application of a technique. Also of significance to candidates in future diets is that the question related to an assessment of the entity's existing objectives. Many candidates responded to this question on the basis of other areas that correlated more with what they felt the entity's objectives should be. It is further evidence that candidates should ensure they recognise what the question is asking and draft their responses accordingly.

Part c) was generally well done and most candidates that attempted this question scored at least half marks on this part. Again, some candidates gave lengthy definitions which were unhelpful and effectively acted as a detriment to their own performance as it took up time which could have been

more productively deployed elsewhere on the paper. Most candidates did focus on the nature of the differences between the objectives of the firms used in the benchmarking exercise which were presented in the scenario and this is always a good area to use as a basis for analysis in a paper on performance management.

Question Three

This 25-mark question was based on the consideration of environmental management accounting and the use of appropriate costing techniques. In general, this was the least popular question.

Part a) (i) was generally poorly done as candidates did not address the demands of the question. Most candidates gave a developed definition of the costing technique which, whilst technically correct on almost every occasion, did not address the specific question demands as to how it may help the entity determine the specifics of product profitability. This relates to the point made previously with regard to definitions and rote learning: a maximum of 25% of the marks can be gained in this way and candidates should also be aware that full marks could be obtained for this part of the question without any definitions being given and purely application being undertaken.

Part a) (ii) was a brief question on a specific calculation and was well done by those who undertook it.

Part b) was generally passed by those who undertook it but most candidates showed a fundamental lack of technical competence by being unable to distinguish between costs that occurred on an annual basis and those that related to the product's overall life. It is also worth highlighting to candidates that when a question asks for comment on the results that what is being sought is more than "this figure is larger than another." In the context of this type of question, the commentary being sought is with regard to the implications of the figures: would they change a decision, has the use of one technique as opposed to another fundamentally changed the product cost and what significance should be attached to that? Commentary on the figures here should add more than can be seen from the figures themselves.

Part c) asked for candidates to relate environmental management accounting to the entity. Several answers gave a brief response which only defined and/or explained EMA. The question is assuming that some technical competence in the area of EMA exists and asked for how the principles of it would potentially benefit the entity. Once more, and consistent with the demands of the paper and its level, it is the application of the technique to the entity's practices that is being assessed. Would practices change? How? What might be involved? These are useful trigger questions for a candidate to consider when faced with a question of this nature.

Question Four

This 25-mark question asked about how stated CSFs and KPIs might help the entity achieve its stated objectives followed by a consideration of the need for a transfer pricing system then a recommendation as to whether market value transfer pricing was appropriate.

Part a) was done quite badly with many candidates focusing on the areas they felt the entity should specialise in or on actions that the company would need to undertake in order to be successful. This is an analysis of business performance, not on whether the CSFs and KPIs are appropriate measures that help the entity in their overall management of performance.

Part b) tended to see candidates scoring better: the scenario was rich with data as to how the transfer of goods between different divisions was causing many problems in terms of performance management, autonomy and the achievement of overall entity objectives and most candidates were adept at highlighting where those areas specifically were and relating it to the theory of transfer pricing.

Part c) asked for a specific focus on one area of transfer pricing and in this area it was clear that candidates were lacking in technical knowledge. Many could explain the basic technique but did not advise as to whether it should be used or not: such a suggestion involves an in-depth analysis of the advantages and disadvantages of this technique relative to the scenario and very few candidates engaged in this level of analysis. Also common was an explanation/definition of all types of transfer pricing. This is irrelevant to the question in two ways: a) what was presented were mere definitions that contained neither discussion nor recommendation and b) it did not address what the question was looking for, which was a specific analysis of the relevance of one technique to the scenario depicted. Future candidates are advised again to focus on the specific requirement of the question.