

Examiner's report

P5 Advanced Performance Management

June 2011

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

General Comments

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

In this report, my 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.

The examination paper comprised two sections, A and B. Section A consisted of two compulsory questions for 60 marks in total. Section B consisted of three optional questions for 20 marks each from which candidates were required to answer two questions. (Candidates and tutors should be aware that this is in line with the broad plan for the allocation of marks on this paper but there is not an absolute rule that there will be 60 marks in section A and 40 in section B – see the study guide for the detailed rules on mark splits between sections and questions.)

In general, it was encouraging to see candidates applying good analytic reasoning and making more use of the detail provided in the scenario. Most examinations require a balance of memory work and evaluation/analysis. As one goes through the levels this balance changes, from pure memory to more analysis. More candidates seem to be aware that if they come to this examination expecting to repeat memorised material, they will probably score only between 20% and 30%.

The basis of this examination is analysis and application. The candidate will need a foundation in the techniques of the syllabus but should focus more on evaluation of these techniques and consideration of their usefulness to the given scenario. This is not difficult to revise as it is a mindset that can easily be encouraged by considering past papers as an integral part of the revision process. Candidates need to be aware that performance management is an area which, at an advanced level, is dependent upon situation and environment – as exemplified by the different focus of the balanced scorecards of the two organisations discussed in question 2. A good, professional-level answer will go beyond the mere repetition of how a technique works and focus on relating it to the entity's specific environment.

Some candidates may be having a problem understanding 'evaluate' in a question requirement and I will attempt to throw further light on the use of this verb in P5. To evaluate means to judge or determine the value, worth or quality of some object. Now, if that object is the performance of a company then the answer can be expected to be descriptive but based on numerical measures (such as profit, present value or EVA) but if that object is a performance system or a costing method or a remuneration package then a candidate is expected to weigh up the advantages and disadvantages of that method, say, possibly in comparison to other appropriate ways of doing things. It should also be noted that weighing up the advantages and disadvantages means more than simply listing them – it requires a final application of judgement as to what is appropriate in the given scenario.

There was a surprising split in candidates' performance between the two sections of the examination. While it was pleasing to see candidates performing well in both questions in section A, the general performance in section B was disappointing. A possible explanation of this is that candidates are question spotting and studying mostly those methods that are developed from F5 knowledge in preference to the new methods and techniques that are introduced at P5 (which comprise much of section B at this diet). This is not a prioritisation of work that the syllabus would indicate or that I would recommend. It was clear from the answers that some candidates were attempting the section B questions without an adequate basic knowledge of the topic.

A number of candidates seemed to write answers to the questions that they wished had been asked rather than the question that had actually been set and sadly, these answers were mostly irrelevant. Candidates should remember that in order to score marks, their answers need to be technically correct and relevant to the question asked. Therefore, reading the requirement carefully is vitally important to improving the chances of producing a passing answer. Examples of this appeared in this paper at question 3 (b) where the requirement asked 'Evaluate the existing performance management system at APX by applying the building block model' which was wrongly interpreted to mean 'Evaluate the existing performance of APX' – responses to this imagined question were often quite good but sadly, irrelevant and so scored poorly. Also, on question 2 (c), answers were given to the question as if it was regarding 'four different stakeholders' rather than 'four different external stakeholders' – responses regarding internal stakeholders such as the trustees were, therefore, ignored in marking.

Some candidates continue to display their answers unprofessionally, with a lack of clear labelling to indicate which questions or question parts are being attempted. Also, many candidates would benefit by giving more thought to the presentation of their answers e.g. with the use of subheadings and numbered points. This would not only improve the organisation of their answers but would also assist the marker.

Specific Comments

Section A

Question One

The question considered a coffee machine manufacturing business (JHK) which wanted advice on divisional performance measurement and its transfer pricing policy. Additionally, JHK was considering the impact of the introduction of a new executive information system (EIS).

Requirement (a) concerned the divisional performance of JHK. This part was generally well done with candidates displaying a good knowledge of the strengths and weaknesses of the different performance measures proposed. One disappointment was the lack of recognition of the different profit figures that could be used in calculations of these measures, in particular, candidates' failure to comment on the choice between controllable and uncontrollable costs in these *divisional* performance measures.

Requirement (b) asked about the transfer pricing policy between the two divisions of JHK. Generally, this part was fairly done although candidates were unwilling to back up their commentary with adequate supporting calculations.

Requirement (c) concerned the introduction of a new EIS at JHK. This part was generally well done. It was looking for comments about the impact of the new system on performance management not the specific difficulties in initial implementation of the system although some credit was given to such points.

There were 4 professional marks on offer in this question and happily, candidates are showing greater ability in this area with each diet. Some candidates however only wrote the report on part (a) of the requirement when it was intended that the report covered all three parts of the question.

Question Two

The question asked about the implementation of the balanced scorecard (BS) at a pharmaceutical company (PT) and also, its regulator (BDR).

Requirement (a) concerned the way in which BS generally helps an organisation to align its performance metrics with its corporate strategy. Most candidates adequately attempted it although answers often strayed into unnecessarily lengthy descriptions of the four perspectives of the balanced scorecard. The key to this question was showing how the use of the BS could assist in strategic alignment.

Requirement (b) asked for an evaluation of the specific performance measures at PT proposed in the question. One straight-forward approach that was often overlooked in answering this part was to consider how each measure fitted with the corporate strategy of PT. The question had given considerable detail on the objectives and measures and this was very rarely used to its full extent. Nevertheless, candidates generally performed well on this part.

Requirement (c) concerned the analysis of four different external stakeholders at the public regulator, BDR. The question sought a description of the power and level of interest that each of the chosen stakeholders would have on the regulator. A model such as Mendelow's matrix was often used in the better answers, although it was not necessary for a good answer. Some candidates failed to show good critical thinking and concluded that every stakeholder that they had identified was powerful and highly influential with no sense of differentiation among them. This part also illustrated how inaccurate reading of the requirement wastes examination time, as discussions of the internal stakeholders of BDR and the stakeholders of PT were not relevant to this question.

Requirement (d) asked how the application of the balanced scorecard differed at PT and BDR (broadly, these represented the private and public sectors). Answers to this part could have been improved by using the analysis at part (c) to realise that there were fundamental differences in the types and influence of stakeholders at the two organisations. The question required a response about how the approach differs at BDR from PT and some weaker candidates did not attempt a comparison of the two organisations often only presenting an application of BS at BDR (this gained a few marks).

Section B

As noted above, the answers to the optional questions in section B were often poor and unfortunately, the following discussion of them focuses mainly on the weaknesses that were demonstrated by candidates.

Question Three

This question applied Fitzgerald and Moon's building block model to an accountancy practice (APX). The structure of the question was straight-forward with firstly, a description of the model then an application of the model in evaluating APX's performance management system and finally, detailed improvements that would arise from that evaluation.

It was sad to note how many of the candidates, who attempted this question, did not even know the names of the three building blocks. This demonstrated inadequate preparation for the examination. It

had a knock-on impact to the remaining parts of the question as often only the dimensions aspect of the model was discussed.

Requirement (a) asked for a brief description of the model and often only the dimensions aspect was correctly identified. Within each of the building blocks, weak knowledge of the aspects emphasised by the model were demonstrated. For example, very few candidates appreciated the distinction between the upstream determinants of performance and the downstream results of performance within the dimensions block.

Requirement (b) requested an evaluation of APX's performance management system using the model. Many candidates offered an irrelevant assessment of APX's performance. To illustrate why this is irrelevant consider the analogous question 'evaluate the accounting system at company X' and then consider the response, 'Company X is performing well with profit increasing by 10% to \$100m in the last year.' The response does not address the question which is about the system and not the performance. Many candidates only evaluated the performance measures with little comment given to the standards applied to these or the reward system at APX.

Requirement (c) sought suggestions for improvements for APX from the analysis in the previous parts. Better candidates had read the full requirement and so held back from offering improvements to the faults recognised in part (b) until the answer to this part. Again, answers were limited due to the poor quality of responses to the earlier parts although some candidates offered valuable practical ideas to the management at APX.

Question Four

The question concerned an entertainment company (ENT) that had four divisions: restaurants, cafes, bars and dance clubs. The candidates were requested to use the BCG matrix to analyse the business then to evaluate this analysis as a management system and finally, to consider the reward packages described at ENT.

Requirement (a) concerned a BCG analysis of ENT and its use to evaluate ENT's performance. Many candidates did not know that the growth element of the analysis referred to the growth of the market sector and either ignored this element or calculated the growth of the division instead. This led to poor marks as half of the analysis was therefore missing and the conclusions compromised as a result. Also, some candidates chose to ignore most of the forecast numerical data and only calculate the current position of the company. This wasted an opportunity to score marks on the historical trends and also, the expected future position which is relevant if giving strategic advice.

Requirement (b) was also affected by this lack of knowledge of the method. However, there were a number of excellent answers in which, better candidates demonstrated good confidence in exposing the weaknesses of the BCG model and suggesting possible alternative solutions to performance management at ENT.

Requirement (c) requested an evaluation of the divisional managers' remuneration package. The candidates were asked to consider the link with the current divisional performance system and also the BCG analysis. The answers to this part often represented the candidate's best work on this question although few candidates displayed a clear grasp of the scenario. Better candidates noted the problem of applying a uniform package based on cost performance where they noted from the BCG analysis

that some divisions showed growth or growth prospects that required a different style of management. They also commented on the lack of alignment of the divisional performance measure with the cost-based bonus element of the package.

Question Five

The question tested the candidates' knowledge of environmental accounting techniques and their application to environmental performance management in the context of an oil refinery (PLX).

Requirement (a) asked about the different cost categories that would aid transparency of environmental reporting. The article in the students' accountant written by the previous examiner provided widely accepted categories but reasonable suggestions by the candidates were accepted. Long lists (without discussion) of possible specific cost lines were given some limited credit.

Requirement (b) concerned the three techniques mentioned in the scenario. Most candidates gave an answer on activity-based costing (ABC) though a number fell short of gaining full marks as they did not relate ABC to environmental reporting or the situation at PLX. Answers were generally poor on input/output analysis with few candidates emphasising that it was based on the physical (rather than financial) quantities moving through the refining process. It was disappointing to see many candidates unable to explain how the lifecycle view might be relevant especially as the next part of the question deals with this aspect.

Requirement (c) provided an opportunity to apply lifecycle costing to a product where the environment was significant. Many students scored the calculation marks on offer but then faltered when discussing the results. Little credit was gained by discussing the stage of the product lifecycle as the question asked about lifecycle costing.