

RELEVANT TO ACCA QUALIFICATION PAPER P5

## Examiner's approach to Paper P5 – update Relevant to papers from June 2013

As the Paper P5 exam format is changing slightly in 2013, I felt that it would be helpful to try to give candidates a consolidated article on my approach to the exam, the style of questions and the skills that will be tested in Paper P5, *Advanced Performance Management*. The new format will be illustrated with a [new Pilot Paper](#) to give you a feel for what to expect. However, older questions will still be relevant as the syllabus topics are not altering materially.

The article will begin by considering the syllabus and overall aims of the paper, how it relates to previous papers and the format of the exam. It will then summarise advice about my approach to the paper using suitable example questions from recent exams to illustrate points. Past exam papers are available [here](#).

## SYLLABUS

There are six capabilities and most will feature to some extent in every diet:

- use strategic planning and control models to plan and monitor organisational performance
  - These models emphasise the need to take a holistic view of the factors affecting the business and to consider them when giving strategic advice on performance. Good candidates at Paper P5 often distinguish themselves by being able to synthesise disparate detailed points into an overall, strategic approach for an organisation.
- assess and identify relevant macroeconomic, fiscal and market factors and key external influences on organisational performance
  - This signifies an additional area of importance compared to the lower levels where the focus was more on the internal factors associated with traditional management accounting. It emphasises the need to consider the information needs of the strategic level of management rather than merely the operational and tactical levels.
- identify and evaluate the design features of effective performance management information and monitoring systems
  - Candidates will not be required to have detailed technical knowledge of hardware and software but are expected to be conversant with the broad hardware and software trends and issues and how these interact with the provision of performance information throughout the organisation. It is the effect of these technologies on the performance management decision-making processes that is most significant.

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- apply appropriate strategic performance measurement techniques in evaluating and improving organisational performance
  - This capability requires the application of the techniques of Paper P5 and its assumed knowledge in specific scenarios.
- advise clients and senior management on strategic business performance evaluation and on recognising vulnerability to corporate failure
  - This capability takes the performance measurement information and seeks to turn it into commercially valuable advice for strategic decision makers both to improve performance and to improve performance management systems.
- identify and assess the impact of current developments in management accounting and performance management on measuring, evaluating and improving organisational performance.
  - The final capability reflects the requirement that at the Professional level, candidates are expected to show the ability to gather new knowledge from the general technical press and so the articles in *Student Accountant* will be sources of topics for exam. These articles will also be the principal route by which the students will have new techniques and trends communicated outside of the slower cycle of revisions to the syllabus. Candidates should note that unlike in the compliance topics such as financial reporting and tax, changes are not regularly made to the syllabus areas so that older articles may well be as relevant to the upcoming exam as the most recent ones. Any additional reading beyond the ACCA-approved texts and *Student Accountant* articles should be viewed as advisory and not required. However, candidates are advised to broaden their general business knowledge by the regular reading of good quality business newspapers and magazines. This will provide additional background and examples of the techniques and issues of performance management.

The syllabus comes with a *Study Guide* of more detailed guidance about the specific topics to be examined. The syllabus has not changed significantly over the past few years. Except for a few additions and deletions, many of the changes have been attempts to make explicit certain tools and techniques that are applicable at Paper P5. Therefore, most past exam questions will be relevant to the current paper.

**LINKS TO OTHER PAPERS**

Performance management systems are the systems in an organisation by which the performance of an organisation is measured, controlled and improved. The thrust of the paper will move towards the strategic level of considering different performance measurement techniques and management

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systems. Paper P5 builds on knowledge gained at other levels, for example, Paper P3 and especially from Paper F5. Paper F5 tests the candidate's ability in application and analysis of core management accounting techniques.

Paper P5 develops key aspects introduced at the Paper F5 level with a greater focus on the synthesis and evaluation of the key topics and techniques. It will also introduce more specialised techniques and current issues in performance management. Therefore, candidates should not expect to be retested in a Paper F5 style on topics but need to be aware that all of Paper F5 knowledge is assumed to be known and will now be used in a more critical capacity.

### EXAM FORMAT

The paper is a three-hour test with 15 minutes of reading time at the beginning. There will be two sections:

*Section A (a single compulsory question)*

There will be only one question in Section A worth 50 marks – this is a change from previous diets. The purpose of this change is to allow a longer, more detailed scenario to be given so that candidates can have the information and time to develop deeper answers to the question requirements. The Section A question will range across various parts of the syllabus.

*Section B (a choice of two from three questions)*

Section B will now consist of three 25-mark questions from which two must be chosen. The Section B questions will focus a little more on specific issues in the Paper P5 syllabus (though not necessarily exclusively on only one topic).

As mentioned above there is a new *Pilot Paper* to illustrate this format although past paper questions will still be highly relevant and helpful in preparing for the exam.

Professional marks will continue to be a regular feature of the Section A questions (four marks in every paper) and it should be possible for a well-prepared student to score most of these easily. Efficient preparation will involve the identification of appropriate formats and structures to use in answering questions and practising writing answers in order to improve clarity.

### APPROACHING THE P5 EXAM

The best approach to the exam can be summarised as:

1. cover the whole syllabus
2. be prepared to apply all of this knowledge to a business scenario
3. read and answer the question asked
4. add value to the organisation that is being advised.

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**Cover the whole syllabus**

Remember that, broadly, the exam will test the capabilities that are required of a candidate (listed above). The paper will aim to address issues at both the strategic and operational levels and will often require a candidate to understand the connections between these levels. For example, the question of how strategic objectives flow through critical success factors to performance indicators as in Question 1 of the December 2010 paper or applying the performance pyramid in order to suggest additional KPIs (strategic level) and a set of operational performance measures as in Question 2 of December 2011 paper.

Another example of the type of question that arises is how does the choice of operational performance measures impact on the strategic performance of the organisation? A phrase that rings true in many situations is Drucker's dictum 'What gets measured gets done'. This phrase succinctly points to the impact that the choice of performance metrics have on the management activity of the firm, for an example, see Question 1 of June 2012 paper.

Now these points should illustrate why it is a misapprehension that the paper is predominantly about performance *measurement*, it is a performance *management* paper. This error often manifests in a candidate's over-concentration on detailed elements of Section D (strategic performance measurement) of the syllabus. As indicated above, it is important to remember that the ideas contained in the various metrics need to be coherently applied to meet the strategic needs of an organisation and this is where other sections of the syllabus will connect to a question, for example, the choice of performance measures needs to fit with the planning and control structures (Section A) or whether chosen measures relate to external drivers of performance (Section B).

Finally, in thinking about syllabus issues remember that Paper P5 builds on Paper F5 knowledge applying it in more complex scenarios so you should ensure that this Paper F5 knowledge is available in the exam.

**Apply your knowledge to the question scenario**

The paper will test a candidate's ability to assess different approaches to performance management from a variety of perspectives. This will entail the candidate knowing what the approaches are and more importantly being able to compare one with another in the context of a scenario, for example, profit and value approaches, financial and non-financial perspectives, short-term and long-term issues.

A good candidate will be able to tailor the approaches suitable to the organisation described in the scenario and justify this advice using the evidence given in the scenario.

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The scenario will describe the organisation, its objectives and its business environment. A good candidate will show how they have taken in this information and then applied it to the performance management of that organisation. For example, when assessing different performance management approaches, a useful question to ask is 'Does this meet the objectives/needs of the organisation?' so obviously, the candidate must have identified these from the scenario.

Candidates must make sure that they can:

1. assess the current situation of the organisation (for example, its existing performance management systems) and then
2. consider how to apply a new approach to performance management (for example, value-based or based on one of the many models mentioned in the syllabus such as the performance prism or the building block model) and
3. assess whether this new approach will be an improvement (for example, by helping to meet the corporate objectives.

Lists of rote-learned advantages and disadvantages for different approaches will not produce a complete answer as a candidate will be expected to tailor this knowledge to the situation given in the question. Also, simply writing the appropriate jargon words or phrases associated with a model or method will not score heavily. It is essential that candidates demonstrate that they know how to *apply* these *appropriately to the scenario*. So for example, Question 2 of December 2010 asked for an evaluation of two costing systems within a laptop manufacturer. A good answer considered the advantages and disadvantages of the absorption costing and activity-based costing *in a dynamic, competitive, bespoke-manufacturing environment*.

### **ANSWER THE QUESTION ASKED**

The question requirement usually gets a great deal of attention from the examiner who first writes it and the team of reviewers who perform the more than five layers of review before the exam is finalised. My approach to this point is that candidates should be given credit where their answer is technically correct *and* relevant to the question asked. There has been a tendency by candidates to write good answers to questions that they wish had been asked by the examiner rather than the one actually set in the paper. This approach scores little if no credit. I have written a [longer article](#) illustrating the common misinterpretations seen in previous sessions.

### **Create information from data**

As the business environment has been profoundly affected by the increased use of technology, there is less need at a strategic level to manually perform calculations. This is already tested heavily in earlier papers; therefore, there will be a reduction in the volume of computational work required for this paper

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compared to the lower levels. Occasionally, longer computations may appear but these will be used as a way of allowing the student to absorb the data in a question and become comfortable with the scenario. Large repetitive calculations will be avoided but it should be noted that some repetition is inevitable as, for example, a trend can only be identified with at least two or more realistically three data points.

However, computational work will not totally disappear from Paper P5 but it will feature more in the interpretation and further analysis of data provided in the question. Candidates will have to demonstrate the ability to add value to their advice by taking information already produced and identifying the important features. At the Professional level, comments should be helpfully quantified where possible and the commercial implications discussed. Candidates should be constantly on the lookout for ways to make their numbers more understandable, for example, by comparing them to increased activity of the business or to competitor performance.

A valuable management accountant will create information from the detailed data given in a question. It is often best to begin by considering the 'big picture' (what is the overall objective); next, break down the data into smaller but meaningful (and manageable) chunks; finally, discuss the individual lines of the data table and even then, a candidate should focus on the data that *explains* the overall picture of changes.

A good example of this was Question 4 Part (b) of the December 2010 paper.

1. Consider the 'big picture' – whether the overall target for emission reduction is met.
2. Break down the data into smaller but meaningful (and manageable) chunks – road, rail and air transport
3. Discuss the individual lines of the data table focusing on the data that *explains* the overall picture of emission changes – the switch from petrol to diesel powered motor vehicles is complete in commercial vehicles and has led to large reductions in emissions but such a change may be more difficult in company cars as employees may resist such a change.

It is important to realise that at the Paper P5 level, it is not enough to throw down all the ratios and measures that can be imagined. In doing this, the candidate is probably going to overload the report reader with unnecessary data. It is essential that candidates try to be selective in their choice of what to calculate. This is an important testing area in the exam as it shows that the candidate has appreciated the strategic goals or key drivers of performance and can focus on them. (Further examples of applying this skill are in Question 2 of December 2011 and Questions 2 and 4 of June 2012.)

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Note specifically that in handling data heavy questions, the level required for Paper P5 is for answers to go beyond repeating, in sentence form, the data given in (say) a table in that question. In Question 4 of December 2010 for example, many candidates wasted their time by limiting their comments to only writing out statements such as 'Commercial Fleet Diesel use has fallen from 105.4 to 70.1' or even 'Commercial Fleet Diesel use has gone down'. First, this is stating the obvious to anyone who read the table but also importantly, this was far too detailed for most reporting purposes in this scenario.

Candidates will be expected to *analyse* not merely calculate numerical data given from a scenario.

**Overall**

A candidate would be advised to ask him/herself if the answer they have produced would help the organisation to answer the question requirement.

Remember, try to add value with your answers by way of comments relevant to the issue at hand.

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