

# Examiner's report

## P5 Advanced Performance Management June 2016

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

### 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 and there was little evidence of poor time management in terms of completing the paper. In section B, question 3 was the least popular option.

Most examinations require a balance of memory work and evaluation/analysis. However, as one goes through the levels (say from F2 to F5 to P5) this balance changes, from pure memory to more analysis. Good candidates distinguish themselves by being aware that if they come to this examination expecting to repeat memorised material, they will probably score only between 20% and 30%.

The base for answering a question is the basic knowledge. However, at this diet, a lack of such knowledge was demonstrated by many candidates and was particularly clear in: 1) question 3 (b), activity-based management and 2) question 4 (c), value-based management.

Building upon that knowledge, candidates need to be aware that performance management is an area which, at an advanced level, is dependent upon situation and environment. 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. 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.

This issue leads directly to the well-worn advice to candidates to 'answer the question asked'. There were often examples where candidates answered a different requirement from the one asked or simply ignored a part of the requirement (and thus the marks on offer). There was also a continuing disregard for the suggestions contained within the scenario.

### Specific Comments

#### Section A: Question One

This 50-mark question was based around a supermarket chain with two divisions, one of smaller, city-centre stores and one of large supermarkets on the edge of cities.

Part (i) required an evaluation of the board's performance report, including how it fit the mission and strategy of the business. This part was generally well done. Candidates performed well when they used the signposts given in the scenario for specific issues to look for within the report.

Part (ii) required an evaluation of two new performance indicators again with regard to specific needs for the CEO. This part was often not done well as many candidates could not identify how the new measures fit with the specific strategy point that they were seeking to address. Also, candidates often did not pick up simple calculation marks by failing to recognise that they were working in \$'000s.

Part (iii) called for an assessment of a change to the divisional performance indicator. This was usually reasonably well done with candidates structuring their comments into criticism of the existing measure and then, analysis of how the proposed new measure would address these issues. Unfortunately, a number of candidates decided to focus their answer on a different new performance indicator of their own choosing and so they missed many marks.

Part (iv) required a calculation of the expected return of capital employed of a new store proposal and comment on this method of appraisal of such a project. This was often well done with many candidates scoring all marks available for the calculations although the commentary on the method was often lacking an appreciation of the circumstances in which 'expected' values are appropriate. Also, many candidates ignored the advice to focus their answer on the concept of an 'expected' value for the indicator rather than offering a general discussion of the indicator.

Part (v) needed an explanation of how a new information system supporting a loyalty card would benefit the business' performance. This part was generally well done with most candidates showing an understanding of the information that such a system could provide and how that information could be used to improve performance.

As has become common, those candidates who had practised writing professional answers prior to the examination performed admirably in the presentation area (4 marks). The markers were looking for suitable report headings, an introduction, a logical structure, signposted by the good use of subheadings in the answer, and a clear, concise style.

## **Section B**

### **Question Two**

This 25-mark question was in the context of the introduction of a business process re-engineering (BPR) project at a clothing manufacturer.

Part (a) required an assessment of the impact of the proposed BPR changes on operational performance. This part was generally well done, with those candidates that broke their answers down into a detailed discussion of the impact of each part of the BPR project scoring most highly.

Part (b) called for an evaluation of the existing reward system at the business and advice on improvements in the light of the BPR changes. This part was reasonably done, with those candidates that addressed the specific issues with each level of employees scoring most highly.

Answers to this question which used the detailed structure of the question (BPR proposals and existing employee hierarchy) generally made points that scored easily since they directly addressed relevant issues for the business that was seeking advice. P5 is about specific application not just generic points that could apply to any business and those candidates that do this often shift their marks materially into the range of a good pass.

### **Question Three**

This 25-mark question was about activity-based costing (ABC) and management (ABM) at a construction component manufacturer. This was the least popular question in section B.

Part (a) (i) required the candidates to advise on how to implement ABC at the business. It was a simple question which surprisingly was not answered very well by those who chose the question.

The jargon of ABC was generally known but was often not correctly used. A lack of understanding of the basics of ABC meant that it was difficult to score well in the next part of the question.

Part (a) (ii) required the candidates to assess the use of ABC against the current costing system used in the business. This part was reasonably done although weakness in basic understanding of ABC shown in part (i) led to vague answers. In particular, it was surprising to see candidates often apparently unaware that ABC is specifically an overhead allocation system.

Part (b) called for advice on the benefits that ABM would bring to the business. This part was not well done with many candidates providing lists of benefits that were not specifically related to the use of an activity based approach and reflected again the lack of a grounding in what an analysis of activities, cost drivers and cost pooling could do.

#### **Question Four**

This 25-mark question was about the use of economic value added and value-based management at two logistics divisions of a large retailer.

Part (a) called for the evaluation of the economic value added of each of the two divisions. This part was generally fairly done with candidates demonstrating a reasonable grasp of the calculations involved. Some candidates still fail to realise that they must provide an interpretation of the numerical results of their work thus relying on the recipient of their work to know what the numbers mean.

Part (b) required an assessment of the suitability of economic value added compared to the existing divisional performance measure. This part was fairly well done with many candidates showing how the different problems at the two divisions were exacerbated by the existing performance measure and whether economic value added would address those issues.

Part (c) required an assessment of the use of value-based management (VBM) in improving performance at the business. This part was often poorly done with many candidates unaware of what 'value' meant in the context of VBM. It was very difficult for such candidates to make relevant points as a result.