



# Examiner's report

## P5 Advanced Performance Management

### June 2017

#### General Comments

The examination 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 exam.

We would strongly advise that candidates use the examiner's reports and approach articles to ensure that they have the right overall attitude to P5, which is intended to lie at a post-graduate level. 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%. Many candidates have clearly been taught that they should define in their answer any 'jargon' terms in the question requirement. However, they are (usually) wrong to assume that this alone will provide them with a passing answer at P5 which is about application and evaluation in a business scenario.

Therefore, the first step to passing P5 is to have a good grasp of the basic knowledge. However, at this diet, a lack of such knowledge was particularly clear in: 1) question 1(i), flexing a budget, 2) question 1(ii), preparing a rolling budget and 3) question 1(iv), 'what gets measured gets done'.

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 - as exemplified by the need throughout the examination to relate or illustrate points by using the information relating to the business in the question scenario. 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 exam. Good answers to question 1(v) on the changing role of the accountant illustrated this well by describing specific illustrations for the business and then discussing how these specific problems could be addressed by a changed use of an accountant/advisor.

This issue leads directly to the well-worn advice to candidates to 'answer the question asked'. There are several detailed examples in the discussion below where candidates answered a different requirement from the one asked or simply ignored a part of the requirement (and thus the marks on offer).

#### Specific Comments

##### Question One

This question required the candidates to consider budgeting issues at a manufacturing business and also, some issues around the role of the finance director and management accountant.

The first three parts of the question asked a set of questions around budgeting within the four divisions of the company.

Part (i) required a revision of a budget based on faults that could be identified from the supporting appendices. Many candidates did not identify that volumes had changed in the data given nor did they understand the

consultant's criticism; both of which flagged the need to flex the budget. This is a cause for serious concern for the examining team. This is a basic task and having an appreciation of how activity levels drive the financial figures should represent straight-forward marks at this level. Candidates who understood this usually scored full marks in this part.

Candidates should not expect at this level to be asked such simple questions as to 'flex a budget'. The expectation is that they should be capable of identifying the need for this themselves from the evidence in the scenario.

Part (ii) required the preparation of a rolling budget for one of the divisions. This is a task that has appeared in more than one previous exam and yet, candidates still have not grasped the need to 'roll' the budget forward by a quarter so that there remains four quarters budgeted into the future. As a result, many candidates missed out on full marks although most performed the remainder of the task creditably.

Part (iii) required an assessment of suitable methods of budgeting at the four divisions of the company. The key to scoring well in this part was the realization of the need to give reasons supported by evidence from the scenario for the recommendation made. Candidates who did this tended to score very highly. Unfortunately, there were a number who erroneously believed that all that was required was either a simple statement of their choice of method without suitable justification or else, who believed, without suitable justification, that what was required was a change of budgeting method.

Candidates need to be aware of the need for critical thinking and to use the evidence in the scenario to inform and justify their choices. They should not just assume that a technique will be the right choice only on the basis that it is new at the P5 level or new to the company.

Part (iv) required a critical evaluation of two viewpoints on the problems around the budgets at the company. This part was mostly poorly done with many candidates clearly not understanding the problem given by the non-executive director that what gets measured gets done. Instead, they speculated, without evidence to justify these comments, about what might cause budget problems at the company.

Part (v) required a description of how the management accountant's role is expected to change with specific reference to the changes occurring at the company. This part was generally well answered with many scoring highly where they illustrated how the changes in new technology, organisational structure and the competitive environment applied at the company.

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.

## **Question Two**

This question dealt with issues of performance measurement at a manufacturer.

Part (a) of the question required a calculation of the current main performance indicator, return on capital employed. Many candidates scored poorly on this part which is disappointing as the bulk of the work was in calculating a suitable profit figure.

Part (b) of the question required candidates to consider how a new measurement system at the company using the balanced scorecard could address problems associated with short-term thinking. This part was reasonably done with those scoring best where they focused on how the old measure could create short-termism and how the new system could reduce it.

Part (c) of the question required a specific assessment of four new performance indicators. This part was reasonably well done but many candidates chose to criticise the new indicators solely on whether they fitted the balanced scorecard perspectives rather than on whether they answered the question requirement which was to measure the long-term performance of the company. This left the marking team feeling that they had often missed out on higher marks as a result.

### **Question Three**

Question 3 examined the impact on performance management at a warehouse from improved information systems and workflow. Candidates who chose this question often scored well.

Part (a) required an assessment of the existing information system and was generally well done with candidates able to identify and discuss the problems from the scenario. The better candidates then tied these problems to the operation of the information system and often made good suggestions for improvements.

Part (b) asked for advice on whether three specific changes to the systems at the warehouse would reduce waste. The candidates were asked to view this as an application of lean principles. Few candidates structured their answers using lean ideas about waste but, by keeping their answers focused on the specifics on the scenario and the proposals, they nevertheless scored well.

Part (c) of the question required an evaluation of whether a set of new performance indicators adequately measured the application of lean ideas in the warehouse reorganization. This part offered a mixed performance by candidates as many candidates did not know the meaning of the lean principles given but could offer some useful evaluation of the indicators from first principles.

### **Question Four**

This question considered issues around reward systems at a property company.

Part (a) required a critical analysis of the consequences of linking rewards to performance measures at the company. This part was usually well done with candidates productively addressing issues at both of the businesses of the company.

Part (b) required an explanation of the usefulness of PEST analysis in designing reward schemes at the business. Candidates scored reasonably well but answers tended to drift into being simply a PEST analysis of the business which wasted time as it did not answer the question asked.

Part (c) required the provision of four new, justified performance measures from certain given elements of McKinsey's 7S model. Few candidates knew what all the elements referred to but most understood enough to offer reasonable answers. As in previous diets, however, many candidates wasted time by simply listing possible new indicators and not offering the commercially useful (and mark scoring) part of the answer which was a justification of this new measure.