

# Examiner's report

P5 Advanced Performance Management  
June 2018

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 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 examination.

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(iii), where the value chain was being utilised to simplify the supply chain and, 2) question 4b) where a brief calculation on planning/operational variances was required.

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 examination.

This issue leads directly to the previous advice to candidates to 'answer the question asked'. There are several examples in the discussion below where candidates answered a slightly different requirement from the one asked or simply ignored a part of the requirement (and thus the marks on offer). Whereas every attempt is always made to award meaningful, commercially aware and insightful analysis, such analysis has to be within the specific context of the question asked to score well.

Finally, and critically, in order to pass P5, candidates need to be capable of analysing and evaluating the situation in the scenario using their technical knowledge. This is fundamental to the marker's judgement of whether they are competent at this level. Thus, it is essential that they provide justification for opinions expressed and go beyond mere calculation by explaining the implications of their results. See comments on question 1 (i), 1 (ii), and 2c), in particular, for illustration here.

## Specific Comments

### Question One

This question required the candidates to consider issues of performance measurement, the supply chain and the use of Big Data at a clothing retailer.

Part (i) required an evaluation of the current performance report and was worth 20 marks. This part was disappointing and candidates could have scored much better had they related their response to the aims and critical success factors of the company. Several candidates did indicate that the company had two aims and evaluated whether the report addressed these aims. However, there were four subsidiary critical success factors and very few candidates addressed whether the report measured these factors. This is the fundamental skill that is being tested in the evaluation of any performance report and it is something that candidates should realise is one of the main learning outcomes of the P5 examination – put simply, are the measures in this Report appropriate and fitting for the company to help it achieve its critical success factors and its overall aims?

Any analysis should be related back to these aims and critical success factors to make a proper response. For example, many candidates highlighted that – “X is a good thing to measure” or “it is good to have a balance of financial and non-financial measures” without specifying why measuring X would help the company achieve its aim/critical success factors or why a balance of financial/non-financial measures may have been useful for the company. This is a very clear and specific area where candidates should be aware that justification of comments made and application to the company’s situation are what is being examined, not memorised generic comments.

Some candidates also offered quite lengthy description on what a report should contain. Whereas this may gain a mark for recognizing the purpose of the report, the ideals of what a report might contain must be discussed in light of the company in the scenario. Candidates have to offer analysis and justification as to whether the report they are looking at in this question has the content, presentation and construction of a high quality report. If so, candidates should be able to justify why the content, presentation etc. are appropriate and of high quality. If not, then, in the same manner, they should be able to justify why the report, in its current format, is not helping the company achieve its aims and critical success factors.

As mentioned above, candidates also have to ensure that they address and answer the question asked. Several candidates did not offer an evaluation of the performance report but instead an analysis of performance. Such answers were often further developed by offering suggestions for business improvement. Candidates have to be aware of the question requirement and ensure that they are fully aware of how to evaluate a performance report. As indicated above, the fundamental question that candidates should ask in this kind of scenario is - will the measures in this report be appropriate and fitting for the company to help it achieve its critical success factors and its overall aims?

Candidates should also avoid making the same point repetitively. For example, many candidates highlighted on several occasions that there was a lack of external data for comparison purposes. The point itself is valid as a limitation of comparison in the report but it is detrimental to the candidate’s performance overall to mention it continuously as it takes up time that they could have

been spending on more productive analysis.

Part (ii) required a recommendation – with justification and calculation and using the data in the Appendix 1 – for three new performance measures. This question was generally poorly done. Candidates often ignored the requirement to consider the data in Appendix 1 and offered other measures based on a broader consideration of the business. Justified suggestions are rewarded wherever possible but such an approach made calculation impossible as answers like this were offered without calculation. Candidates should also be aware that it is the justification that is being tested in a question such as this, much more than the mere calculation. The skill that candidates should demonstrate is an understanding of the company, its situation, and a justified suggestion as to where a different measure would improve upon those already being utilised in the report. Any improvement has to be justified in terms of helping the company better achieve its aims/critical success factors. Candidates often did not suggest measures, only improvements to performance, or measures which clearly had not been logically or rationally thought through. Again, candidates can improve their performance in this area if they assess the measures' usefulness from the perspective of helping the company achieve its aims/critical success factors.

Candidates should also try to avoid giving examples of aspects such as customer satisfaction which are unjustified in terms of how they improve already existing measures. The reasoning of making such a suggestion is in the force of the justification – how would it help the company better achieve its aims and critical success factors? There does appear to be a perception that candidates can cite measures that appear to have been rote learned such as “customer satisfaction” without explanation or justification and such responses will always score very little (if anything) at P5 level as it is the justification that is being tested.

Several candidates also gave an often lengthy list of measures, unjustified and in bullet point format. This is a technique that was not unique to this part of question 1 and was used in 1(iii) also. Candidates should avoid this practice if at all possible as the essence of P5 is justification and the examining team are looking for reasons as to why candidates feel that the measures they suggest are appropriate for this company in its current situation. Such responses receive very little, if any, credit at P5 level.

Part (iii) required the candidates to advise on appropriate performance measures and systems for the company when using the value chain approach to simplify the supply chain. The value chain diagram was given as an Appendix. Many candidates, however, spent time explaining the value chain and offered detailed definitions of each part of the nine components. Such responses clearly did not address the question asked.

Few candidates appreciated that the focus of this question was on the supply chain and that a question such as this is testing candidates' ability to evaluate the effect of one thing upon another. Therefore, the value chain was only relevant insofar as it might help simplify the supply chain which ensured that the focus was on the specific parts of the value chain that related to supply. Most candidates failed to appreciate this and offered generic, bland and unspecified measures for different components of the value chain that did not relate to the scenario. A useful self-check for candidates undertaking P5 is to continually ask themselves – have I related this to the scenario? Have I used the company's situation in my response? If not, then it is likely that they have not addressed the demands of the question as the essence of this examination is about the application of theory to practice.

Another concerning aspect with regard to how this question was answered was the number of candidates who had, perhaps due to having rote learned the value chain, discussed how the company might use it to help its production process. It is very clear in the scenario that the company is in the retail sector and therefore do not manufacture any of the goods they sell. This further emphasises the importance of reading the question and being aware of the specifics of the company's situation. Mistaking retail for production, for example, shows a misreading of the question which suggests that candidates have come prepared to repeat what they have learned. Such an approach is never likely to succeed at P5 and candidates would be better advised to focus on application, analysis and evaluation of the technique under discussion in the light of the scenario presented. Using past examination questions as part of exam revision technique can be a significant help here.

Part (iv) required a discussion of the development of Big Data and its impact upon the company's information systems, including the risks and challenges it presented. Candidates tended to score well here, particularly in the risks and challenges part where they outlined with some justification the difficulties that might be involved in the company using Big Data. There was evidence of a lack of technical knowledge with regard to Big Data in some responses as several candidates outlined the challenges that collecting data generally might present. This is something that can easily be overcome by candidates understanding the techniques/systems in the syllabus. Likewise, explanation of terms such as the "3Vs" of velocity, variety and volume were not always done in the context of how they related to Big Data.

As is now common at P5, 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. Performance in this area was generally very good with most candidates scoring 3 or 4 marks.

## **Question Two**

This question required a consideration of assessing performance and the use of Return on Investment (ROI) and Residual Income (RI) as appropriate performance measures for a manufacturer of high technology products. This was the most popular question chosen in section B and most candidates attempted this question and one other.

Part (a) of the question asked why the company should use separate measures for assessing the performance of divisional managers and of divisions themselves. Many candidates saw this question as one which was asking them about measuring performance in two different divisions of the company whereas the question asked sought a justification as to why managers and divisions should be measured differently. As with parts of question 1), the best advice to be offered to candidates is to read the question thoroughly and to respond, with analysis and justification, to the question asked. Candidates that did this tended to score well and highlighted the difference between traceable and controllable profit well.

Part (b) of the question required candidates to recommend as to whether divisional managers should receive their bonus and to advise on the problems of using the target ROI to measure divisional performance. Candidates should be aware that they are expected to understand syllabus content of both F2 and F5 and that, for example, they should be fully aware of how to calculate

both ROI and RI. This was not always evident and several candidates used the cost of capital in the ROI calculation. Several candidates also demonstrated an inability to calculate a basic weighted average cost of capital for the RI calculation. Candidates who were able to relate the problems of using ROI, in particular, to the company scored highly as they demonstrated application of the theory to the scenario in the question. As stated above, this is the best possible way to prepare for P5 – understand the techniques and/or the technical aspects of the calculation and be able to assess its applicability to a given company in a given situation. It is the demonstration of competent, justifiable contingent decision-making upon which management accounting rests that scored well in this question and, indeed, throughout the examination.

Another part where candidates can ensure they do themselves justice is to be fully aware of the number of marks available for each question. In this case, 14 marks were available and it can be reasonably assumed that candidates should spend about 25 minutes on this part of the question. Several candidates attempted a (straightforward) calculation and offered little more by way of analysis or evaluation. With no clear evidence of time pressure, it is assumed that these candidates felt that there was little analysis or evaluation of the result necessary. In P5, when techniques that are assumed prior knowledge such as ROI/RI/ROCE are part of the question, it is most likely to be analysis and evaluation of the result where the balance of marks lies. Candidates should make sure that they are aware, for example, of the behavioural effects of these measures and to analyse the scenario to see if such effects are present. They should be prepared to offer justifications for what they say here and to offer relevant conclusions.

Part c) asked for an evaluation of the usefulness of residual income to measure divisional performance. This part of question 3 was generally well done but where candidates let themselves down was in offering bland statements without support. For example, “RI encourages short term behaviour” or “RI is complicated to calculate”. Such comments have to be explained further to demonstrate understanding. Examiners and markers need assurance that candidates understand the comments they have made and the only way to do this is by application, justification and explanation.

### **Question Three**

Question 3 considered the potential corporate failure of an architectural consultancy firm and asked candidates to apply the Argenti A Score model to the company’s situation.

Part (a) asked candidates to use the Argenti A Score model and evaluate whether the company was at risk of corporate failure. Most candidates that attempted this question did well and showed a good understanding of both the model and how the three key facets of the model – Defects, Mistakes, Symptoms - related to the specifics of the company’s situation. Some candidates could have improved their performance by being more aware of the differences between the three facets in the model and, by doing so, might have categorized them correctly. Some candidates did not use the model and instead highlighted the main problem areas within the company. Such responses can never score well in a question such as this as it is the application of the model itself that is being tested. A demonstration of how the model actually works is therefore essential and candidates should be aware of and understand the models/techniques in the syllabus and how they might work in a practical scenario. Not every scenario can be anticipated but imagined scenarios (or past examination examples) are a very good way of getting into the right mindset of what P5 is looking for in this kind of question.

Part (b) required advice on what performance management systems might be needed in order to improve performance in terms of the mistakes and symptoms identified in part a). This part of the question proved challenging for several candidates. This seemed to be due to a misreading of the question and some candidates focused their answer on what the company might do now to get out of the situation they found themselves in. Such responses gained some credit but did not address the main focus of the question.

Part (c) of the question required an evaluation of the usefulness of using qualitative models such as Argenti's A Score in predicting corporate failure. Candidates tended to recognise the requirement behind the command verb of "evaluation" and offer a discussion of the advantages and disadvantages of such models. Several candidates also brought in the use of quantitative models, which was a good point to introduce in the light of the question asked. Candidates should be aware that the use of a verb such as "evaluate" involves an informed discussion in which they are expected to present different points of view. This also has the potential to bring in other aspects should they be relevant in the light of the overall evaluation.

#### **Question Four**

This question considered issues of budget setting and variance analysis in a manufacturer of moulded hulls for small boats.

Part (a) required an evaluation of the suitability of the approach to budget setting currently used. Generally, this part of the question was well done and where candidates scored well was in identifying the good and bad aspects of the current systems and in making an overall recommendation as to whether the current system should continue. As with part 3c) above, an evaluation here often involved suggesting a different budgeting system and offering a brief justification for its adoption in the company. Such an approach was well rewarded as it demonstrated both an understanding of theory and clear evidence – with justification – of application.

Part (b) required that candidates complete some variance analysis and offer recommendations as to why the variances occurred and on how to manage them in the future. As with question 2b) above, planning and operational variance analysis is assumed knowledge and therefore the main emphasis in the question was on the management of those variances. However, the majority of candidates demonstrated a lack of basic technical knowledge with regard to undertaking planning and operational variance analysis calculations. As with question 2b), this was a concern for the marking team and again the only advice that can be offered for P5 candidates is that they go into the P5 examination fully aware of the syllabus requirements of the underlying two examinations - F2 and F5.

However, most candidates that attempted this question highlighted the causes of the variances and were able to offer practical and commercially sensible justifications as to how such variances could be managed in the future. Such responses demonstrated practical analysis and justification for the suggestions made.