

Advanced Performance Management (P5) December 2014 & June 2015

This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

Relational diagram of paper with other papers

This diagram shows direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers such as Advanced Performance Management by Performance Management. These links are shown as solid line arrows. Other papers only have indirect relationships with each other such as links existing between the accounting and auditing papers. The links between these are shown as dotted line arrows. This diagram indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper.

Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

Relational diagram of the main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

Study Guide

This is the main document that students, learning and content providers should use as the basis of their studies, instruction and materials. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate, and the broad intellectual level at which these may need to be demonstrated (*see intellectual levels below).

INTELLECTUAL LEVELS

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification.

The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1: Knowledge and comprehension

Level 2: Application and analysis
Level 3: Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Knowledge module, the Skills module and the Professional level are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with the Knowledge module, level 2 equates to the Skills module and level 3 to the Professional level, some lower level skills can continue to be assessed as the student progresses through each module and level. This reflects that at each stage of study there will be a requirement to broaden, as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

LEARNING HOURS AND EDUCATION RECOGNITION

The ACCA qualification does not prescribe or recommend any particular number of learning hours for examinations because study and learning patterns and styles vary greatly between people and organisations. This also recognises the wide diversity of personal, professional and educational circumstances in which ACCA students find themselves.

As a member of the International Federation of Accountants, ACCA seeks to enhance the education recognition of its qualification on both national and international education frameworks, and with educational authorities and partners globally. In doing so, ACCA aims to ensure that its qualifications are recognized and valued by governments, regulatory authorities and employers across all sectors. To this end, ACCA qualifications are currently recognized on the education frameworks in several countries. Please refer to your national education framework regulator for further information.

Each syllabus contains between 23 and 35 main subject area headings depending on the nature of

the subject and how these areas have been broken down.

GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The Fundamentals level examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

The Knowledge module is assessed by equivalent two-hour paper based and computer based examinations.

The Skills module examinations F5-F9 are all paper based three-hour papers containing a mix of objective and longer type questions. The *Corporate and Business Law* (F4) paper is a two-hour computer based objective test examination which is also available as a paper based version from the December 2014 examination session.

The Professional level papers are all three-hour paper based examinations, all containing two sections. Section A is compulsory, but there will be some choice offered in Section B.

For all three hour examination papers, ACCA has introduced 15 minutes reading and planning time.

This additional time is allowed at the beginning of each three-hour examination to allow candidates to read the questions and to begin planning their answers before they start writing in their answer books. This time should be used to ensure that all the information and exam requirements are properly read and understood.

During reading and planning time candidates may only annotate their question paper. They may not write anything in their answer booklets until told to do so by the invigilator.

The Essentials module papers all have a Section A containing a major case study question with all requirements totalling 50 marks relating to this case. Section B gives students a choice of two from three 25 mark questions.

Section A of both the P4 and P5 Options papers contain one 50 mark compulsory question, and Section B will offer a choice of two from three questions each worth 25 marks each.

Section A of each of the P6 and P7 Options papers contains 60 compulsory marks from two questions; question 1 attracting 35 marks, and question 2 attracting 25 marks. Section B of both these Options papers will offer a choice of two from three questions, with each question attracting 20 marks.

All Professional level exams contain four professional marks.

The pass mark for all ACCA Qualification examination papers is 50%.

GUIDE TO EXAMINATION ASSESSMENT

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and assurance, law and tax papers except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions..

For paper based examinations regulation *issued* or legislation *passed* on or before 31st August annually, will be examinable from 1st September of the following year to 31st August^t of the year after that. Please refer to the examinable documents for the paper (where relevant) for further information.

Regulation issued or legislation passed in accordance with the above dates may be examinable even if the *effective* date is in the future.

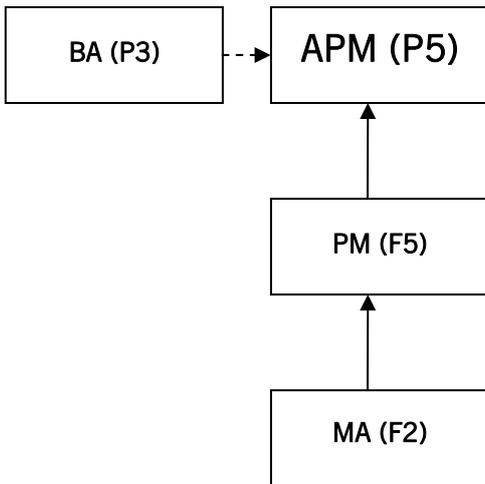
The term issued or passed relates to when regulation or legislation has been formally approved.

The term effective relates to when regulation or legislation must be applied to an entity transactions and business practices.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide

should therefore be read in conjunction with the examinable documents list.

Syllabus



AIM

To apply relevant knowledge, skills and exercise professional judgement in selecting and applying strategic management accounting techniques in different business contexts and to contribute to the evaluation of the performance of an organisation and its strategic development.

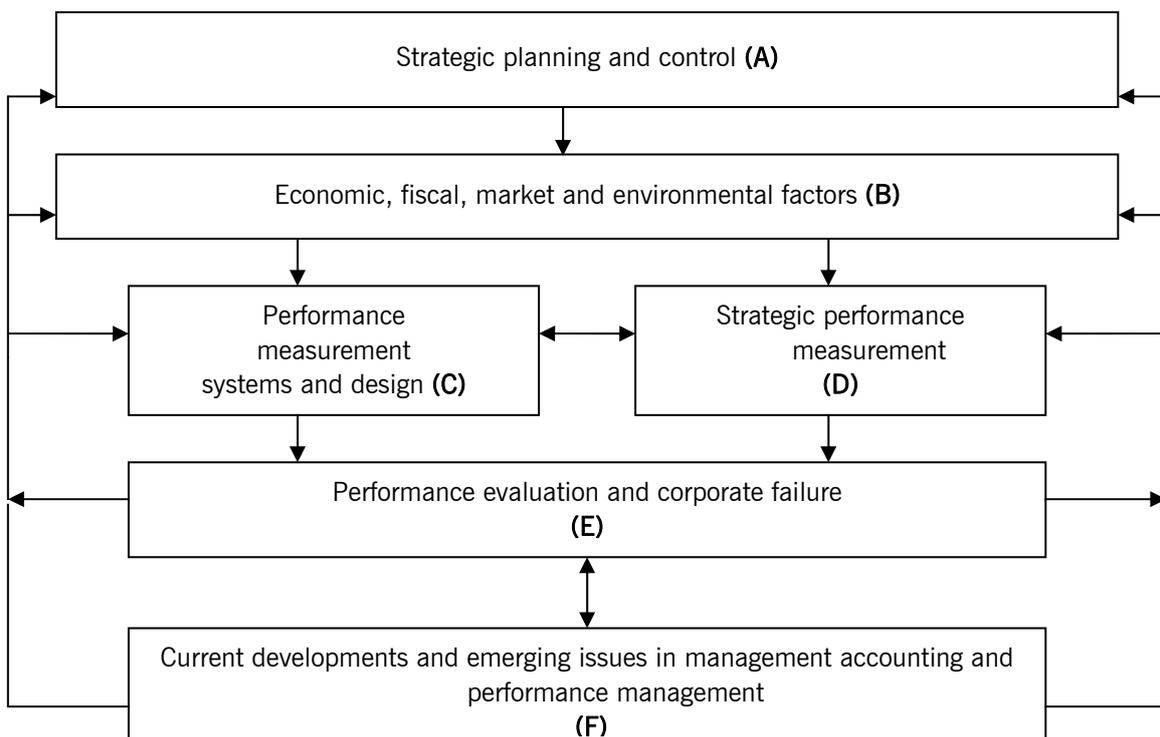
MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

On successful completion of this paper, candidates should be able to:

- A** Use strategic planning and control models to plan and monitor organisational performance
- B** Assess and identify relevant macro economic, fiscal and market factors and key external influences on organisational performance
- C** Identify and evaluate the design features of effective performance management information and monitoring systems
- D** Apply appropriate strategic performance measurement techniques in evaluating and improving organisational performance
- E** Advise clients and senior management on strategic business performance evaluation and on recognising vulnerability to corporate failure
- F** Identify and assess the impact of current developments in management accounting and performance management on measuring, evaluating and improving organisational performance

RELATIONAL DIAGRAM OF MAIN CAPABILITIES



RATIONALE

The Advanced Performance Management syllabus further develops key aspects introduced in Paper F5, *Performance Management*, at the skills level and draws on aspects of the material covered from a more strategic and operational planning perspective in Paper P3, *Business Analysis*.

The syllabus introduces candidates to the strategic role of management accounting as a discipline for planning and controlling performance so that strategic objectives can be set, monitored and controlled. It also covers the impact of external factors on strategic management issues, such as macro economic, fiscal, market and environmental impacts on performance. From appreciating the strategic context of performance management and the impact of wider factors, the syllabus examines, at an operational level, the issues relating to performance measurement systems and their design.

The syllabus then moves from performance management systems and their design to the scope and application of high-level performance measurement techniques in a variety of contexts, including not-for-profit organisations and multi-national businesses. Having covered the strategic aspects of performance management and operational systems for the measurement and control of performance in a variety of contexts, candidates are then expected to synthesise this knowledge in the role of an advisor to senior management or independent clients on how to assess and control the performance of an entity, including the recognition of whether a business is facing difficulties or possibly failure.

Finally, the syllabus deals with current developments in performance management and with emerging issues as they might affect or influence the management of performance within organisations.

DETAILED SYLLABUS

A. Strategic planning and control

1. Introduction to strategic management accounting
2. Performance management and control of the organisation
3. Changes in business structure and management accounting
4. Effect of Information Technology (IT) on strategic management accounting
5. Other environmental and ethical issues

B. External influences on organisational performance

1. Changing business environment
2. Impact of external factors on strategy and performance

C. Performance measurement systems and design

1. Performance management information systems
2. Sources of management information
3. Recording and processing methods
4. Management reports

D. Strategic performance measurement

1. Performance hierarchy
2. Strategic performance measures in private sector
3. Divisional performance and transfer pricing issues
4. Strategic performance measures in not-for-profit organisations
5. Non- financial performance indicators

6. The role of quality in management information and performance measurement systems

7. Performance measurement and strategic human resource management issues

8. Performance measurement and the reward systems

9. Other behavioural aspects of performance measurement

E. Performance evaluation and corporate failure

1. Alternative views of performance measurement and management

2. Strategic performance issues in complex business structures

3. Predicting and preventing corporate failure

F. Current developments and emerging issues performance management

1. Current developments in management accounting techniques

2. Current issues and trends in performance management

APPROACH TO EXAMINING THE SYLLABUS

Paper P5 builds on paper F5, *Performance Management*, and candidates are expected to have a thorough understanding of the paper F5 syllabus. In addition, candidates will also be required to apply the principles and techniques covered in paper F2, *Management Accounting*.

Paper P5 has a link with Paper P3, *Business Analysis*, in the areas of strategic planning and control and performance measurement

EXAMINATION STRUCTURE

The examination will be a three hour paper in two sections:

Section A

Section A will contain one compulsory question comprising of 50 marks

Section B

In section B candidates will be asked to answer two from three questions comprising of 25 marks each

Total 100 marks

Study Guide

A STRATEGIC PLANNING AND CONTROL

1. Introduction to strategic management accounting

- a) Explain the role of strategic performance management in strategic planning and control. ^[2]
- b) Discuss the role of corporate planning in clarifying corporate objectives, making strategic decisions and checking progress towards the objectives. ^[2]
- c) Compare planning and control between the strategic and operational levels within a business entity. ^[2]
- d) Assess the use of strategic management accounting in the context of multinational companies. ^[3]
- e) Discuss the scope for potential conflict between strategic business plans and short-term localised decisions. ^[2]
- f) Evaluate how SWOT analysis may assist in the performance management process. ^[2]
- g) Evaluate the methods of benchmarking performance. ^[3]

2. Performance management and control of the organisation

- a) Evaluate the strengths and weaknesses of alternative budgeting models and compare such techniques as fixed and flexible, rolling, activity based, zero based and incremental. ^[3]
- b) Assess how budgeting may differ in not-for-profit organisations from profit-seeking organisations. ^[3]
- c) Evaluate the impact to an organisation of a move beyond budgeting ^[3]

3. Changes in business structure and management accounting

- a) Identify and discuss the particular information needs of organisations adopting a functional, divisional or network form and the implications for performance management. ^[2]
- b) Assess the influence of Business Process Re-engineering on systems development and improvements in organisational performance. ^[3]
- c) Discuss the concept of business integration and the linkage between people, operations, strategy and technology. ^[2]
- d) Analyse the role that performance management systems play in business integration using models such as the value chain and McKinsey's 7S's ^[3]
- e) Identify and discuss the required changes in management accounting systems as a consequence of empowering staff to manage sectors of a business. ^[3]

4. Effect of Information Technology (IT) on strategic management accounting

- a) Assess the changing accounting needs of modern service orientated businesses compared with the needs of traditional manufacturing industry. ^[3]
- b) Discuss how IT systems provide the opportunity for instant access to management accounting data throughout the organisation and their potential impact on business performance. ^[2]
- c) Assess how IT systems facilitate the remote input of management accounting data in an acceptable format by non-finance specialists. ^[2]
- d) Explain how information systems provide instant access to previously unavailable data that can be used for benchmarking and control purposes and help improve business performance (for example, through the use of enterprise resource planning systems and data warehouses). ^[2]

- e) Assess the need for businesses to continually refine and develop their management accounting and information systems if they are to maintain or improve their performance in an increasingly competitive and global market.^[3]

5. Other environmental and ethical issues

- a) Discuss the ways in which stakeholder groups operate and how they effect an organisation and its strategy formulation and implementation (e.g. using Mendelow's matrix).^[2]
- b) Discuss the ethical issues that may impact on strategy formulation and business performance.^[3]
- c) Discuss the ways in which stakeholder groups may influence business performance.^[2]

B EXTERNAL INFLUENCES ON ORGANISATIONAL PERFORMANCE

1. Changing business environment

- a) Assess the continuing effectiveness of traditional management accounting techniques within a rapidly changing business environment.^[3]
- b) Assess the impact of the different risk appetites of stakeholders on performance management^[3]
- c) Evaluate how risk and uncertainty play an important role in long term strategic planning and decision-making that relies upon forecasts of exogenous variables.^[3]
- d) Apply different risk analysis techniques in assessing business performance such as maximin, maximax, minimax regret and expected values.^[3]

2. Impact of external factors on strategy and performance

- a) Discuss the need to consider the environment in which an organisation is operating when assessing its performance using models such as PEST and Porter's 5 forces, including areas:^[2]
 - i) Political climate
 - ii) Market conditions
 - iii) Funding

- b) Assess the impact of governmental regulations and policies on performance measurement techniques used and the performance levels achieved (for example, in the case of utility services and former state monopolies).^[3]

C PERFORMANCE MEASUREMENT SYSTEMS AND DESIGN

1. Performance management information systems

- a) Discuss, with reference to performance management, ways in which the information requirements of a management structure are affected by the features of the structure.^[2]
 - b) Evaluate the compatibility of the objectives of management accounting and management accounting information.^[3]
 - c) Discuss the integration of management accounting information within an overall information system, for example the use of enterprise resource planning systems.^[2]
 - d) Evaluate whether the management information systems are lean and value of the information that they provide.^[3]
 - e) Highlight the ways in which contingent (internal and external) factors influence management accounting and its design and use.^[3]
 - f) Evaluate how anticipated human behaviour will influence the design of a management accounting system.^[3]
 - g) Assess the impact of responsibility accounting on information requirements.^[3]
- ### **2. Sources of management information**
- a) Discuss the principal internal and external sources of management accounting information, their costs and limitations.^[2]
 - b) Demonstrate how the information might be used in planning and controlling activities e.g. benchmarking against similar activities.^[2]

- c) Discuss those factors that need to be considered when determining the capacity and development potential of a system. ^[2]

3. Recording and processing methods

- a) Demonstrate how the type of business entity will influence the recording and processing methods. ^[2]
- b) Discuss how IT developments e.g. unified corporate databases, RFIDs and network technology may influence management accounting systems. ^[2]
- c) Discuss the difficulties associated with recording and processing data of a qualitative nature. ^[2]

4. Management reports

- a) Evaluate the output reports of an information system in the light of ^[3]
 - i) best practice in presentation;
 - ii) the objectives of the report/organisation;
 - iii) the needs of the readers of the report; and
 - iv) avoiding the problem of information overload

D STRATEGIC PERFORMANCE MEASUREMENT

1. Performance hierarchy

- a) Discuss how the purpose, structure and content of a mission statement impacts on business performance. ^[2]
- b) Discuss the ways in which high-level corporate performance objectives are developed. ^[2]
- c) Identify strategic objectives and discuss how they may be incorporated into the business plan. ^[2]
- d) Discuss how strategic objectives are cascaded down the organisation via the formulation of subsidiary performance objectives. ^[2]
- e) Discuss social and ethical obligations that should be considered in the pursuit of corporate performance objectives. ^[2]

- f) Explain the performance 'planning gap' and evaluate alternative strategies to fill that gap. ^[3]

- g) Apply critical success factor analysis in developing performance metrics from business objectives. ^[3]

- h) Identify and discuss the characteristics of operational performance. ^[2]

- i) Discuss the relative significance of planning as against controlling activities at different levels in the performance hierarchy. ^[3]

2. Strategic performance measures in private sector

- a) Demonstrate why the primary objective of financial performance should be primarily concerned with the benefits to shareholders. ^[2]

- b) Justify the crucial objectives of survival and business growth.

- c) Discuss the appropriateness of, and apply different measures of performance, including: ^[3]

- i) Return on Capital Employed (ROCE)
- ii) Return on Investment (ROI)
- iii) Earnings Per Share (EPS)
- iv) Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)
- v) Residual Income (RI)
- vi) Net Present value (NPV)
- vii) Internal rate of return and modified internal Rate of Return (IRR, MIRR)
- viii) Economic Value Added (EVA TM)

- d) Discuss why indicators of liquidity and gearing need to be considered in conjunction with profitability. ^[3]

- e) Compare and contrast short and long run financial performance and the resulting management issues. ^[3]

- f) Explore the traditional relationship between profits and share value with the long-term profit expectations of the stock market and recent financial performance of new technology companies. ^[3]

- g) Assess the relative financial performance of the organisation compared to appropriate benchmarks.^[3]

3. Divisional performance and transfer pricing issues

- a) Describe, compute and evaluate performance measures relevant in a divisionalised organisation structure including ROI, RI and Economic value added (EVA).^[3]
- b) Discuss the need for separate measures in respect of managerial and divisional performance.^[2]
- c) Discuss the circumstances in which a transfer pricing policy may be needed and discuss the necessary criteria for its design.^[2]
- d) Demonstrate and evaluate the use of alternative bases for transfer pricing.^[3]
- e) Explain and demonstrate issues that require consideration when setting transfer prices in multinational companies.^[2]

4. Strategic performance measures in not-for-profit organisations

- a) Highlight and discuss the potential for diversity in objectives depending on organisation type.^[3]
- b) Discuss the need to achieve objectives with limited funds that may not be controllable.^[2]
- c) Identify and discuss ways in which performance may be judged in not-for profit organisations.^[2]
- d) Discuss the difficulties in measuring outputs when performance is not judged in terms of money or an easily quantifiable objective.^[2]
- e) Discuss how the combination of politics and the desire to measure public sector performance may result in undesirable service outcomes.^[3]
- f) Assess 'value for money' service provision as a measure of performance in not-for-profit organisations and the public sector.^[3]

5. Non-financial performance indicators

- a) Discuss the interaction of non-financial performance indicators with financial performance indicators.^[2]
- b) Discuss the implications of the growing emphasis on non-financial performance indicators.^[3]
- c) Discuss the significance of non-financial performance indicators in relation to employees.^[2]
- d) Identify and discuss the significance of non-financial performance indicators in relation to product/service quality e.g. customer satisfaction reports, repeat business ratings, customer loyalty, access and availability.^[3]
- e) Discuss the difficulties in interpreting data on qualitative issues.^[2]
- f) Discuss the significance of brand awareness and company profile and their potential impact on business performance.^[3]

6. The role of quality in management information and performance measurement systems

- a) Discuss and evaluate the application of Japanese business practices and management accounting techniques, including:^[3]
 - i) Kaizen costing,
 - ii) Target costing,
 - iii) Just-in-time, and
 - iv) Total Quality Management.
- b) Discriminate between quality, quality assurance, quality control and quality management.^[2]
- c) Assess the relationship of quality management to the performance management strategy of an organisation.^[3]
- d) Advise on the structure and benefits of quality management systems and quality certification.^[3]
- e) Justify the need and assess the characteristics of quality in management information systems^[3]

- f) Discuss and apply Six Sigma as a quality improvement method using tools such as DMAIC for implementation. ^[2]

7. Performance measurement and strategic Human Resource Management issues

- a) Explain how the effective recruitment, management and motivation of people are necessary for enabling strategic and operational success. ^[3]
- b) Discuss the judgemental and developmental roles of assessment and appraisal and their role in improving business performance. ^[3]
- c) Advise on the relationship of performance management to performance measurement (performance rating) and determine the implications of performance measurement to quality initiatives and process redesign. ^[3]

8. Performance measurement and the reward systems

- a) Explore the meaning and scope of reward systems. ^[2]
- b) Discuss and evaluate different methods of reward practices. ^[2]
- c) Explore the principles and difficulty of aligning reward practices with strategy. ^[2]
- d) Advise on the relationship of reward management to quality initiatives, process redesign and harnessing of e-business opportunities. ^[3]
- e) Assess the potential beneficial and adverse consequences of linking reward schemes to performance measurement, for example, how it can affect the risk appetite of employees. ^[3]

9 Other behaviour aspects of performance measurement

- a) Discuss the accountability issues that might arise from performance measurement systems. ^[3]
- b) Evaluate the ways in which performance measurements systems may send the wrong

signals and result in undesirable business consequences. ^[3]

- c) Demonstrate how management style needs to be considered when designing an effective performance measurement system. ^[3]

E PERFORMANCE EVALUATION AND CORPORATE FAILURE

1. Alternative views of performance measurement and management

- a) Evaluate the 'balanced scorecard' approach as a way in which to improve the range and linkage between performance measures. ^[3]
- b) Evaluate the 'performance pyramid' as a way in which to link strategy, operations and performance. ^[3]
- c) Evaluate the work of Fitzgerald and Moon that considers performance measurement in business services using building blocks for dimensions, standards and rewards. ^[3]
- d) Discuss and apply the Performance Prism. ^[2]
- e) Discuss and evaluate the application of activity-based management. ^[3]
- f) Evaluate and apply the value-based management approaches to performance management. ^[3]

2. Strategic performance issues in complex business structures

- a) Evaluate the use and the application of strategic models in assessing the business performance of an entity, such as Ansoff, Boston Consulting Group and Porter. ^[3]
- b) Discuss the problems encountered in planning, controlling and measuring performance levels, e.g. productivity, profitability, quality and service levels, in complex business structures. ^[3]
- c) Discuss the impact on performance management of the use of business models involving strategic alliances, joint ventures and complex supply chain structures. ^[3]

3. Predicting and preventing corporate failure

- a) Assess the potential likelihood of corporate failure, utilising quantitative and qualitative performance measures and models (such as Z-scores and Argenti).^[3]
- b) Assess and critique quantitative and qualitative corporate failure prediction models.^[3]
- c) Identify and discuss performance improvement strategies that may be adopted in order to prevent corporate failure.^[3]
- d) Discuss how long-term survival necessitates consideration of life-cycle issues.^[3]
- e) Identify and discuss operational changes to performance management systems required to implement the performance improvement strategies.^[3]

- c) Discuss how changing organisation's structure, culture and strategy will influence the adoption of new performance measurement methods and techniques.^[3]
- d) Explore the role of the management accountant in providing key performance information for integrated reporting to stakeholders.^[2]

F. CURRENT DEVELOPMENTS AND EMERGING ISSUES IN PERFORMANCE MANAGEMENT

1. Current developments in management accounting techniques

- a) Discuss the ways through which management accounting practitioners are made aware of new techniques and how they evaluate them.^[3]
- b) Discuss, evaluate and apply environmental management accounting using for example lifecycle costing, input/output analysis and activity-based costing.^[3]
- c) Discuss the use of benchmarking in public sector performance (league tables) and its effects on operational and strategic management and client behaviour.^[3]
- d) Discuss the issues surrounding the use of targets in public sector organisations.^[3]

2. Current issues and trends in performance management

- a) Assess the changing role of the management accountant in today's business environment as outlined by Burns and Scapens.^[3]
- b) Discuss contemporary issues in performance management.^[2]

SUMMARY OF CHANGES TO P5

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

There are changes to the syllabus to reflect the latest business and educational developments affecting this paper. These are summarised in the table below.

Section and subject area	Syllabus content
New F2d) added	Explore the role of the management accountant in providing key performance information for integrated reporting to stakeholders..