



# Examiners' report

## P5 Advanced Performance Management

### June 2008

The examination paper comprised two sections, A and B. Section A consisted of two compulsory questions for 36 and 24 marks respectively. Section B consisted of three optional questions for 20 marks each from which candidates were required to answer two questions.

The overall results for this paper suggest that fewer candidates than usual performed well for this examination with the spread of marks indicating that a smaller percentage of candidates achieved over 60 marks.

Many candidates did not answer all of the question subsections and in not doing so imposed limitations on the marks available to them.

The consensus of opinion from the marking team was that the paper provided the opportunity to obtain relatively high marks. However, the examination revealed a large number of candidates who performed poorly. The overall results for this diet were not pleasing.

#### **Question 1**

There were very few good answers to question 1. The vast majority of candidates were unable to provide answers to all of the question's subsections. 4 professional marks were allocated to this question in respect of the appropriateness of format, style and structure of their report but a large number of candidates were unable to gain these marks.

The requirement of part (a)(i) revealed a very large number of candidates who could not provide a commentary on, and/or a detailed calculation of economic value added (EVA), which together were potentially worth 7 marks. Moreover, few candidates were able to calculate correctly the sensitivity analysis calculations required by part (a) (ii) of the question. In dealing with requirement (a) (iii) many candidates simply summarised the key arguments of writers such as Fitzgerald and Moon but failed to apply these to the scenario thereby producing answers that would be of little value to readers of this part of the report.

In part (b) most candidates were able to identify problems that the directors of HFG might experience in their wish to benchmark the performance of HFC with SFC. However, in general, candidates had problems in suggesting appropriate recommendations as to how those problems might be successfully addressed.

#### **Question 2**

There were some very good answers to parts (a), (b) and (c) of this question and it was pleasing to see the majority of candidates producing satisfactory answers. Weaker answers tended to ignore the scenario contained within the question or simply did not address the requirements of each part of the question.

Some answers were very long though most were satisfactory. However candidates should be mindful that it is the 'quality' of an answer and not the 'quantity' of an answer which is awarded credit.

#### **Question 3**

This was the most popular of the option questions with many candidates producing good answers to both parts of the question. Part (a) was generally well answered. Poorer answers to part (a) were often reduced to bullet points with little or no development. Whilst Part (a) was generally well answered, there was a significant variation in the quality of answers to part (b). Poorer answers invariably ignored the scenario contained in the question.

#### **Question 4**

The majority of candidates provided a satisfactory answer to parts (a) (i) and (ii) of this question. Whilst many candidates also provided a good answer to part (b) (i), a large number of candidates made no attempt whatsoever to provide an answer to part (b) (ii) which was potentially worth 4 marks. Many candidates who did

attempt part (b) (ii) did not undertake a DCF analysis regarding the introduction of 'Nellie the Elephant' even though the need for one was clearly signalled by the inclusion of multiple years, end of year cash flows and the provision of the cost of capital.

There was a significant variation in the quality of answers to part (b) (iii). Again, poorer answers tended to ignore the scenario contained in the question.

#### **Question 5**

This was the least popular choice from among the option questions. However, when attempted, the question produced some excellent answers which earned very high marks. In general answers to part (a) were satisfactory. Poorer answers demonstrated confusion regarding the different categories of quality costs. There was a significant variation in the quality of answers to part (b) with a number of candidates achieving maximum marks for a correct solution. However, there was also a number of unsatisfactory answers which invariably comprised poorly laid out, incorrect calculations.