

# Examiner's report

## P5 Advanced Performance Management June 2010



### General Comments

Firstly, I would like to offer my congratulations to all of those candidates who achieved a pass at this diet and my commiserations to those who did not.

The examination paper comprised two sections, A and B. Section A consisted of two compulsory questions for 60 marks in total. Section B consisted of three optional questions for 20 marks each from which candidates were required to answer two questions.

It was pleasing to see a large number of candidates providing good answers to every question they attempted and consequently achieving high marks.

Sadly, the examination revealed a large number of candidates who were either inadequately prepared for the examination or failed to read the question requirements carefully. Nevertheless it was pleasing to observe that the improved overall performance of previous diets has been maintained, where there have been few candidates scoring very low marks.

In general, candidates are demonstrating good skill at description but are weaker on analysis. This is a lesson that has gone unlearned from previous diets. Many answers often limited themselves to basic comments on trends (e.g. in Q1 (iii) and Q5 and tended to limit their analysis to 'this has gone up', 'this has gone down' etc. At the professional level, comments should be helpfully quantified where possible and the commercial implications discussed. So 'prevention costs have increased' would be improved to 'the prevention costs have risen by (e.g.) 12% and this should yield benefits by improving production quality and so lowering future rectification costs and improving customer satisfaction.' This shows the ability to create information and interpret it for the business being analysed.

As a further general suggestion to improve candidates' technique, those who use the scenario to provide illustrations of their general knowledge of a topic score more efficiently and effectively than book-learned definitions supported by vague business examples.

### Specific Comments

#### Question One

The question requested a report on the use of broader performance management systems at a consultancy business (SBC).

In general, answers to requirement (i) were good with a number of candidates gaining maximum marks by ensuring that their example metrics were relevant to SBC. Weaker responses often lacked focus on the *importance* of non-financial performance indicators and a surprisingly large minority of candidates lacked basic knowledge of the balanced scorecard, which should be considered a core topic in P5. Requirement (ii) received answers of variable quality with many candidates not appreciating the importance of calculating the chargeable days which would exclude the business development work. A surprising number of candidates did not appreciate that the main purpose of business development was as a marketing activity.

Requirement (iii) was reasonably answered but the answers could have been improved by candidates offering more in terms of commercial reasoning, for example, the key trend in the appendix was the drop in forecast activity and this was the likely driver of the changes in the company – it was less commercially realistic to be suggesting that the drop in numbers of consultants in a previously growing business was driving the drop in demand.



Requirement (iv) was generally well answered although some candidates could have improved their answers by avoiding bullet points and demonstrating their understanding by giving fuller answers.

There were 4 professional marks available for this question and these were given under the headings: format, introduction, conclusion, use of subheadings, professional language and clarity. A conclusion was not required as it is difficult to formulate for this diverse report but credit was given where it was reasonably attempted. Candidates should note however that a polite offer to discuss any question that the reader of the report might have at a later date does not constitute a conclusion to the report. Most fairly prepared candidates scored half of the marks available and those who had practised their professional presentation often scored all of the available marks.

### **Question Two**

This question presented data on an academy (EMA) that provided teaching on the care and riding of horses.

There were significant variations in the overall quality of candidates' answers to this question. Most candidates offered excellent answers to part (a) on preparing a budgeted profit figure for the academy and many scored full marks. However, when this basic understanding was tested in part (b) (i) (finding an expected value) candidates struggled. Stronger candidates scored full marks on this part but many others would have benefited from a structured approach. The issue of risk and its treatment are an important feature of business decision-making and are in the syllabus and have been mentioned in technical articles. Additionally, much of (b) (i) is assumed knowledge from F5. This lack of knowledge was then reflected in answers to (b) (ii) where few candidates discussed the implication of the use of expected value in the risk appetite at EMA.

Requirement (b)(iii) for three reasons for the national government opening a competitor academy was generally well answered although some candidates did not read the question and offered six reasons briefly discussed rather than three reasons each more comprehensively discussed.

### **Question Three**

This question requested analysis of concepts surrounding the upgrading of housing stock by a local authority. Many candidates who attempted this question would have improved their answers by using the scenario of a local authority working for the benefit of the community as a base for their explanations.

Requirement (i) regarding a value for money audit was reasonably answered although many candidates did not appreciate there are multiple principal/agent relationships in the scenario (home occupants/ LGHD; LGHD/contractors). A number of candidates did not read the requirement and offered general comment about VFM in the scenario when the relevance of a VFM *audit* was requested.

Requirement (ii) was typically well done with most candidates displaying knowledge of the meaning of the 3 E's and their application to the scenario.

Requirement (iii) was generally poorly done with few candidates indicating clearly that the four terms relate more to services than tangible products. Some candidates understood the meaning of the four terms but did not clearly relate them to the situation at LGHD. Candidates would score high marks by giving examples of how each term affects LGHD's situation and then providing any problems to which this would give rise.

### **Question Four**

Question Four is set in a marine engineering company which is considering a change from traditional costing to activity-based costing (ABC).

Overall, answers to this question were mixed. The comparison of different methods of costing and performance measurement is a basic element of this paper and surprisingly, many candidates seem unprepared for part (a) (i).



Better answers to this part focussed on how the two methods can produce different answers by comparing their underlying approaches. Again, candidates scored more heavily if their answer used the information in the scenario as illustrative example of the general points made about the different costing methods. Most candidates realised that there were price implications arising from the two costs but few realised the internal process implications for example in designing products.

Requirement (a) (ii) requested two problems associated with implementation of an activity-based costing system using 'state of the art' IT systems. Candidates who focussed on the implementation stage and considered how it might be affected by such an IT system scored well. A few candidates cleverly took two subheadings and then discussed issues within these in order to ensure that they scored the two marks available for each problem.

Requirement (b) related the ABC system used earlier in the question to the broader use of activity analysis in management of the company. There were effectively four parts to this question the three topics itemised plus the risks of using ABM. There was a wide spread of marks to this part with a few knowledgeable candidates scoring close to full marks but a number of weaker answers which failed to relate the general definitions of operational and strategic ABM to SFS. Many candidates did not realise that implicit value was the value which does not immediately appear in traditional performance measurement systems but nevertheless, is important in a long-term management of a successful business.

#### **Question Five**

The question was based around an electrical appliance manufacturer which is applying for a quality certification. The candidates were supplied with three years of forecast data to analyse.

Part (a) required an explanation of cost targets and their relevance to the application for platinum status (the quality certification) and an analysis of forecasts of those costs for the next three years. There was some evidence of misreading the question as being about target costing rather than the more basic use of target costs in achieving this quality standard. However, candidates who took this track made relevant points and were given some credit. Those candidates who scored well did so by appreciating that these were forecast numbers and so gave an indication of the company's plans not its history. Therefore, a good answer commented on how the increased quality costs of 2011 fed through to improved quality in the later years yielding lower costs. Many candidates would have benefited from considering the cost categories within each year rather than across each category. There was frequently little evidence of understanding how spending in one category affects the others – especially, the effect of conformance activity on non-conformance activity.

Part (b) required an analysis of general forecast performance under three headings. The successful candidates made clear how their points linked to the specific headings demonstrating their appreciation of the meaning of that heading. They provided quantified analysis of the data in the appendix and linked it to business objectives under the heading. Again, the weaker candidates provided trend analysis but did not demonstrate an appreciation of how this then affected the business within the headings e.g. by satisfying customers and so being externally effective.