

RELEVANT TO ACCA QUALIFICATION PAPERS P3 AND P5

Impact of changes to the Paper P3, *Business Analysis* and Paper P5, *Advanced Performance Management* syllabuses from June 2011

This article explains the rationale for introducing certain changes to Papers P3 and P5 in June 2011. The article then clarifies the difference in approach taken to the potential examination of the new cost and management accounting areas in the Paper P3, *Business Analysis* syllabus with effect from the June 2011 exam session. It contrasts this with the approach taken by the Paper P5, *Advanced Performance Management* examiner from that date.

The article also contains examples of the type of requirements that could be included in future exam papers to take into account these changes and how such requirements are set in different contexts in these two papers.

Rationale for changes

Since the major changes to the ACCA Qualification syllabus in 2007, ACCA's policy on qualification development is to make regular changes and updates to qualifications on a continuous improvement basis, introducing, amending and removing syllabus areas as required, to anticipate and respond to external stakeholder needs and requirements.

As part of this regular qualification review process, it became necessary to make specific changes to Papers P3 and P5, alongside revisions to other areas of the ACCA Qualification syllabus.

To comply with regulatory requirements – and to make Paper P3 more relevant and 'fit for purpose' as a comprehensive business analysis paper – it was necessary to make some material changes to its syllabus. These were first explained in [an article published in *Student Accountant* in 2010](#). The most significant changes were to increase the financial content of the syllabus, particularly in Section G, and to include forecasting, budgeting, costing and decision-making techniques. The section on quality was removed completely from the syllabus to make room for the new areas. This removal also reduced the potential overlap between Papers P3 and P5.

These new additions now help the examiner introduce a wider range of quantitative and financial information into business scenarios, allowing scope to examine scenarios more comprehensively and in a wider range of different contexts than was previously possible. These new areas also allow the examiner to present internal management information, in addition to externally reported financial information, as well as enabling a wider and more holistic analysis of any given business situation.

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To support this even further, a new subject area within Section G of Paper P3 will also be added from June 2013. This will read as follows:

G3e) Evaluate the role and limitations of cost accounting in strategy development and implementation, specifically relating to:

- (i) direct and indirect costs in multi-product contexts
- (ii) overhead apportionment in full costing
- (iii) activity-based costing in planning and control

Underpinning knowledge for Paper P3 and P5

Knowledge areas of the costing and management accounting techniques, as covered in Atrill (2010) Chapters 7 and 9, are assumed knowledge from Paper F5, *Performance Management*. Paper P3 questions could potentially draw upon this knowledge and, therefore, Paper P3 candidates are expected to be familiar with it. Paper P3 students are referred to the additional reading that reviews and reinforces their Paper F5 knowledge. Understanding these techniques will help candidates provide a more rounded analysis of business financial and quantitative data in future Paper P3 exam questions.

Neither Papers P3 nor P5 would assess these techniques in the same level of technical detail as Paper F5 does. They are more likely to form part of an overall analysis of any financial information given. Paper P5 could, however, focus in depth on certain individual techniques or processes introduced in Paper F5, but would do so from a much broader business performance perspective.

What Paper P3 could potentially examine

Current Paper P3 exam questions often require candidates to interpret financial accounting or financial reporting data, usually as part of an analysis of the success of a company's strategy, or as part of an assessment of a company's strategic position. From June 2011 and onwards, cost accounting, budgeting and variance information could also be included within the financial and quantitative information given in the scenario. This data could be used to help the candidate select or evaluate the current strategic position of an organisation or to assess or prepare strategic options available to an enterprise.

From the June 2013 exam session, Paper P3 could also potentially require candidates to use or critically evaluate methods of costing and of cost apportionment to products and divisions in the context of strategy formulation, implementation or evaluation.

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Paper P3 also now includes a specific learning objective concerning pricing. This learning objective requires candidates to describe a process for establishing a pricing strategy for products and services. This process would usually include quantitative issues (covered in Paper F5) and 'softer' factors, such as the need to align price to strategic positioning. Notice the focus of the learning objective is on 'process'. The examiner might set a scenario describing the launch of a new product and then set a question asking how such a product should be priced, given the context of the product, organisation and market. Similarly, a Paper P3 scenario might require candidates to question the usefulness of crude allocation and apportionment techniques in cost-plus pricing.

Different budgeting techniques would not be directly assessed in Paper P3, but basic principles of sound budgeting as a business process could be part of a requirement of a Paper P3 question. Budgeting assists the short-term planning and control of a business strategy. Questions could concern the basic principles, benefits and disadvantages of budgeting. They could also include the notion of controlling costs and revenues and of flexing the budget to identify variances. An example is provided in Question 3 of the revised pilot paper.

Paper P3 may also require candidates, as part of a strategic analysis, to analyse the variable costs of a division or factory and offer advice on, for example, the outsourcing of a particular product or the wisdom of taking on a special contract. Up until the syllabus revision, outsourcing questions only examined the principles and qualitative advantages and disadvantages of outsourcing. The syllabus change now means that financial data might be included in such analysis, which of course, in reality, it would be. Again, such questions use and build on material in the Paper F5 syllabus.

Paper P3 also includes a specific learning objective concerning the production and interpretation of decision trees to assist in strategic and operational decision making. The construction of a tree might be required, or candidates might be asked to consider the accuracy of the data (particularly probability estimates) and interpret the results of a decision tree analysis.

Finally, note that quantitative forecasting methods (least squares regression and time series analysis) have been added as a specific learning objective. No formulas have to be memorised (except $y = ax + b$) as the arithmetic work will be complete, as in Question 3 of the revised *Pilot Paper*. However, candidates should be able to extrapolate the data (for example, through substituting values into an equation) and interpret not only its findings but also the robustness and usefulness of the forecasting technique.

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What Paper P5 could potentially examine

Paper P5 is a high-level performance management exam. This syllabus also heavily builds on knowledge and understanding acquired from studying and passing Paper F5.

Paper P5 could potentially examine types of budgeting relevant in the private versus the public sector, including fixed, flexed, rolling and incremental budgeting in a performance management context. Questions could be detailed, asking for the different techniques to be evaluated against each other (involving calculations) and a suitable recommendation made for a specific scenario.

Paper P5 may potentially examine, in depth, the application of activity-based and zero-based budgeting and beyond budgeting as performance management techniques – again, in much greater depth than Paper P3. Paper P3 might only question the relevance and appropriateness of incremental budgeting as a valid business planning method in more general terms, for example.

Paper P5 would treat pricing differently to Paper P3, being more likely to focus on such areas as transfer pricing as a performance management control technique and as a method of motivating or rewarding performance. Paper P3 would not examine transfer pricing as a technique at any level.

Cost accounting techniques such as activity-based costing (ABC) will be covered in more depth than would ever be the case in Paper P3, which might only examine this as part of an overall requirement on cost-plus pricing, or on the effectiveness of such information for product portfolio management in a strategic context. These techniques link Paper P5 to pricing issues. However, Paper P5 will be interested in pricing only in so far as this is an obvious commercial implication of the costing techniques addressed in a question. Strategic issues associated with pricing are examinable only in Paper P3.

Paper P5 may set a specific requirement where quantitative data on cost drivers and set-up costs, and so on, would be included in a scenario, and candidates would be expected either to calculate a product cost or comment on the validity of the costs arrived at using one method as compared to another, specifically from a performance management perspective.

Outsourcing is examinable as a strategy at Paper P3 and, while this also has relevance at Paper P5, Paper P5 will be interested in the terms and conditions of an outsourcing agreement (for example, service levels, quality implications) and how these are managed from either the supplier or the customer's perspective.

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Summary

Paper F5 is now assumed knowledge for both Papers P3 and P5, but the detailed calculations required in Paper F5 are unlikely to form a substantial part of any question in Paper P3. Paper P5 could assess areas already covered in Paper F5, but at a more advanced level and in different contexts. Clearly, students opting to take the Paper P5 option need to ensure that they review their knowledge of the Paper F5 syllabus before undertaking study for Paper P5 by referring to the Paper F5 approved study texts and revision kits.

Chapters 7 and 9 of Atrill are used as part of the reading list for Paper P3 to specify the assumed knowledge and provide revision for those who have previously studied or been exempted from Paper F5. From June 2013, Chapter 8 of Peter Atrill's book also becomes relevant to cover the new learning objective defined earlier in this paper (G3e).

Paper P3 includes high-level coverage of budgeting, forecasting, pricing, costing and quantitative decision-making to allow a more comprehensive analysis of a company's strategic position or strategic options. This contrasts with papers before the revision, where only externally reported information was used in this type of analysis.

Paper P5 would examine transfer pricing as a technique in more technical depth at the divisional or corporate level in a performance management context and, more broadly, the general implications of costing techniques on pricing. Paper P3 would mainly examine pricing considerations or alternatives as part of a strategic approach, such as to gain market share or achieve cost leadership. Paper P5 would not cover pricing in this way.

Paper P3 will only assess principles of management accounting as part of a wider analysis of a business situation, whereas Paper P5 may discretely examine a particular management accounting area such as a specific budgeting, costing or pricing technique as appropriate to alternative business sectors. Paper P5 might also require the candidate to show an in-depth knowledge and understanding of the particular technique and its advantages and disadvantages in relation to planning, measuring and controlling business performance.

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