



Examiner's report

Performance Management (PM)

December 2019

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

General comments

The Performance Management (PM) exam is offered as a computer-based exam (CBE). The model of delivery for the CBE exam means that candidates do not all receive the same set of questions. In this report, the examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

- Section A objective test questions – we focus on two specific questions that caused difficulty in this sitting of the exam.
- Section B objective test case questions – here we look at the key challenge areas for this section in the exam.
- Section C constructed response questions - here we provide commentary around some of the main themes that have affected candidates' performance in this section of the exam, identifying common knowledge gaps and offering guidance on where exam technique could be improved, including in the use of the CBE functionality in answering these questions.

Section A

Here we take a look at **TWO** Section A questions which proved to be particularly challenging for candidates.

Example 1

The standard material input for making 100 kg of a product is as follows:

80 kg of material Z at \$5 per kg	\$400
45 kg of material Y at \$9 per kg	\$405
Total	\$805

During the last period, 5,000 kg of Z costing \$4.80 per kg and 2,500 kg of Y costing \$9 per kg were used to produce 6,200 kg of product.

What was the total yield variance?

- A. \$2,410 favourable

- B. \$800 favourable
- C. \$1,610 favourable
- D. \$2,570 favourable

What does this test?

- ✓ The calculation of the material yield variance.

What is the correct answer?

- ✓ The correct answer is **C**

- The material yield variance can be calculated as follows:

Material	Actual quantity in standard mix (1)	Standard quantity in standard mix (2)	Difference (kg)	Standard cost (\$)	Yield variance (\$)
Z	4,800 kg	4,960 kg	160F	5	\$800F
Y	2,700 kg	2,790 kg	90F	9	\$810F
Total	7,500 kg	7,750 kg			\$1,610F

- (1) The actual quantity of material used was 7,500kg. If this had been input in the proportion of the standard mix, it would have used $(80 \div 125 \times 7,500) = 4,800$ kg of Z and $(45 \div 125 \times 7,500) = 2,700$ kg of Y.
- (2) 100kg of product should use 80 kg of Z and 45 kg of Y therefore 6,200kg of output should use $(6,200 \div 100 \times 80) = 4,960$ kg of Z and $(6,200 \div 100 \times 45) = 2,790$ kg of Z
- The yield variance is valued using the standard cost.
- There are other ways to calculate the material yield variance, which would be equally acceptable, such as:

7,500 kg of material should have produced	6,000 kg	$(7,500 \div 125 \times 100)$
But did produce	6,200 kg	
Difference	200kg	F
x standard cost	\$8.05	$(\$805 \div 100)$
Yield variance	\$1,610	F

Example 2

Which of the following statements regarding technologies and systems are correct?

- (1) Networked computers can save costs by sharing hardware, software and data
- (2) An intranet provides quick, effective communication with suppliers

- (3) Wireless networks allow businesses to expand with less disruption than wired networks
 (4) The internet can be used to monitor and measure customer interest

Options:

- A. 2, 3 and 4
- B. 1 and 2
- C. 1, 3 and 4
- D. 1 and 4

What does this test?

- ✓ Understanding of information systems.

What is the correct answer?

- ✓ The correct answer is **C**.
- Statement (1) is correct. Networked computers can share hardware, such as printers and software, such as accountancy packages. Networks can also share data.
- Statement (2) is incorrect. An intranet is an internal network which can be used to share information and communication within the organisation. An extranet would be used to communicate with suppliers.
- Statement (3) is correct. Adding additional cabling to a wired network can be disruptive and costly. Wireless networks do not need additional cabling and new users can be added relatively easily.
- Statement (4) is correct. Organisations can use the internet to, for example, monitor social media which is a useful way to measure customer interest.

Section B

Section B tests candidates' knowledge on a number of topics in more detail than section A, with three case questions containing five two-mark objective test questions. The range of topics covered in the December 2019 examination was:

- Throughput accounting
- Activity-based costing (ABC)
- Cost volume profit (CVP) analysis
- Rolling budgets
- Learning curves

A few key points that came out of section B were:

- Read the case scenario and requirements very carefully. This goes for the whole exam, but any objective test question is 'all or nothing' – if you misread the requirement or miss a vital

piece of information from the scenario and get the answer incorrect you score zero for that question.

- Close reading is also important for identifying the instructions in the question on how to round your answers. Please take care with Fill in the Blank questions which have rounding instructions as you want to ensure that the answer you input meets those rules.
- Cover the whole syllabus. The list above should highlight this – PM has a large syllabus which can seem daunting, but it is essential to have a broad knowledge. If, for example, a section B OT case covering variances comes up and you haven't covered this in your studies, the 10 marks available are left to chance.
- Be able to apply your knowledge of theories/techniques to the scenario given, as in the OT case questions these areas will often be examined in the context of the case. It is important that you are able to apply the logic of a concept or theory to a problem and so you need to understand the method and why you are doing the calculations and not just focus on how to do the calculations.

Section C

Candidates were presented with questions drawn from the areas of:

- Transfer pricing
- Relevant costing
- Performance management
- Variance analysis
- Risk and uncertainty

Transfer pricing

This is a topic that candidates have traditionally struggled with, but this sitting saw a marked improvement in performance.

Questions on transfer pricing will vary as there are several different angles that the topic can be approached from. A common requirement is to ask candidates to prepare profit statements for two divisions and also for the company as a whole, as in one of the questions from March/June 2018 published sample questions 'The Portable Garage Company'. This profit statement requirement allows candidates to score relatively simple marks in a transfer pricing question and the majority of candidates do tend to score well, although some continue to include internal costs in the 'company' column.

Other requirements may include the consideration of the impact on profits if a different transfer price is used, or if purchases are made from an external supplier instead. These requirements do not have a set format and, consequently, candidates are free to approach it in any way that they see fit, however it is vital that a logical layout supported by appropriate workings (including formulae) are used to ensure the marker can make sense of the response they are faced with. This diet saw an improvement in candidates' ability to do just this, which was really pleasing. As is often the case, however, the discursive parts of these questions continue to prove a challenge, with candidates often providing generic answers to a question or not answering the question asked. For example, if a requirement asks about the benefits of using a specific transfer price for

the company in the scenario then a response which discusses the general benefits of transfer pricing will score very few marks, if any.

For future candidates, it is recommended that they also review the published May/June 2016 Q4, along with June 2015 (Q2) and June 2014 (Q3(b)). The latter question is a particularly good one for testing understanding of transfer pricing issues. The following article will also be useful:

<https://www.accaglobal.com/gb/en/student/exam-support-resources/fundamentals-exams-study-resources/f5/technical-articles/trans-pricing.html>

Relevant costing

The relevant costing question followed a very similar format to Q3 in the published December 2014 examination. Its similarity highlights the importance of thorough preparation and as much practice as possible of past questions. There are many resources available on the ACCA's website which will help you prepare, and past exam questions are one of the best ways to help you cover the syllabus and get used to the style of the questions.

Candidates were able to score some marks in this question by doing the basics well i.e. identifying relevant and non-relevant costs. However, the question was clear in its requirement to explain clearly why costs had been included or excluded in the relevant cost statement and it was here that candidates performed less well. The biggest reasons for marks being lost is because explanations were only given for the costs included and weren't given for the costs excluded. It highlights the importance of reading the requirements carefully.

As regards the numbers, the most common error was using financial accounting principles to value inventory rather than using relevant cost principles. Also, whilst most answers correctly recognised that the relevant cost of any labour which has spare capacity is zero, many candidates erroneously included general overheads, even though an apportionment of general overheads (not specific) is never relevant to a relevant cost statement.

Candidates may notice that the comments in this examiner's report for this topic are very much in line with what was said in the June 2018 Examiner Report. It is disappointing to see that these points had not been taken on board by the majority of candidates.

Future candidates may find the following article useful:

<https://www.accaglobal.com/gb/en/student/exam-support-resources/fundamentals-exams-study-resources/f5/technical-articles/relevant-costs.html>

Variance analysis

Questions in this area could focus on mix and yield variances, mix and quantity variances or planning and operational variances. This diet had questions which focused on mix and yield and planning and operational variances.

Mix and yield variances

Questions on this area could be similar to the published September/December 2018 question, 'Kappa Co', although the written elements could focus on a variety of topics, including assessing actual performance using mix and yield variances.

Candidates should note that when they are asked to explain what, for example, a mix variance is, they must mention how the variance is valued i.e. at standard cost. It is not enough to simply restate the quantities in the formula. 'Explain' does mean more than just restate a formula as well, even if the explanation required is only brief.

As is often the case in variance questions, the most common error in the calculations is failing to flex the standard quantities to the actual production level. This always occurs on questions which examine quantity type variances. The whole basis of variance analysis relies on assessing managers for costs which they can control. Therefore, it is never useful to compare any costs to what the costs would have been if the original production levels had remained the same as budgeted. Such calculations provide no insight on performance.

A useful article on this area can be found on the ACCA's website:

<https://www.accaglobal.com/uk/en/student/exam-support-resources/fundamentals-exams-study-resources/f5/technical-articles/mat-yield.html>

Planning and operational variances

Examples of earlier questions on these types of variances are 'The School Uniform Company' in the March/June 2017 published examination and Q5 'Glove Co' from June 2016.

Most of these questions tend to adopt a similar format, namely a requirement to calculate some variances and then a discussion about performance. On the whole, this question was reasonably well-answered. However, there were a surprising number of candidates unable to calculate the revised price and, instead of revising the standard price, they revised the actual price. However, despite this, the price variances were better answered than the usage variances, with a number of candidates managing to score full marks on them.

In any discussion about managerial performance, the main focus should be the operational variances; however, too many candidates simply rewrite the key information afforded to them within the scenario and give no further insight into managerial performance. This does not score marks.

Performance management

This area of the syllabus requires candidates to be able to analyse a business' performance from a variety of perspectives (including financial and non-financial factors) and explain the performance over a given timeframe or against budget or in comparison to a competitor. Often candidates have to consider what the organisation has set out to achieve, as detailed in the scenario and questions can take a variety of different forms.

In this diet, one of the questions was similar to 'Jungle Co' from December 2016's published exam. Answers were fairly weak in comparison to similar questions in previous exam sessions. As usual with these questions, the marks available for calculations were stated in the question so that

candidates could be guided as to how much time should be spent on performing numerical analysis. Candidates who performed well on this question produced good commentary and linked information from the scenario to their calculations in order to analyse performance.

Common errors on this type of question are:

- Offering movement calculations in absolute \$ terms rather than as percentages.
- Incorrect calculation of a percentage.
- Making general comments without adding any value e.g. “miscellaneous costs have increased and should be investigated”.
- Providing far too many calculations for the marks available, and having a pre-determined list of ratios, even if the data to produce the calculation is not actually available. Candidates should be aware that the ratios which will be relevant to calculate will vary hugely depending on the scenario and the data provided.

Performance management questions could also focus on organisations with a divisional structure. These questions will often take a standard approach, beginning with a requirement to calculate divisional performance measures like return on investment (ROI) and/or residual income (RI). This could be, for example, the annualised ROI of each division or simply the ROI of a particular investment. Similarly, it could be the ROI/RI for a number of years, with the requirement clearly asking for calculations for EACH year, as in the case of this diet’s question. This question was answered poorly and the root of the problem was that candidates did not read the first requirement properly. Consequently, calculations were done for the period as a *whole* rather than for individual periods, leading to many marks being lost. Many candidates also provided weak answers on the discussion parts of the question. When candidates are asked, for example, to discuss the problems for a particular business of using ROI to measure performance, the scenario should be used to identify the points that need to be made. If candidates make generic points and don’t refer to the scenario, they are unable to score many marks. This was a real issue this time and is an issue which has been raised in previous examiner reports.

Risk and uncertainty

This is an important area in PM and this particular diet suggests an improvement in candidates’ ability to answer questions of this nature. Questions might include calculating profit values for a range of possible outcomes, interpreting decision trees, calculating expected values, preparing minimax regret tables, using the maximax and maximin criteria, perfect and imperfect information etc. Starting with requirements that ask candidates to calculate profit values for a range of outcomes, the first thing to note is that calculating profit involves consideration of both revenues and costs. Candidates sometimes seem to forget about costs altogether or forget that there may be both fixed and variable costs. Any subsequent discussion in questions about expected values as a decision criterion must be sure to focus on the fact that it is unsuitable for one-off decisions, as it is a long-run average of a decision repeated many times. Also, whether or not it is a good criterion in a particular situation depends on the attitude of the decision-maker to risk. This is often overlooked by candidates.

A useful article for candidates to view is:

<https://www.accaglobal.com/gb/en/student/exam-support-resources/fundamentals-exams-study-resources/f5/technical-articles/the-risks-of-uncertainty.html>

Exam technique

As always, exam technique is an important aspect of success in any exam. Throughout this report the importance of reading and interpreting requirements very carefully has been reiterated many times; failure to do this is often the cause of poor scores. The tendency for some candidates is to answer the question that they want to get rather than answering the question which they have been given.

Candidates should ensure that they have read all the requirements and noted the mark allocation for each requirement; this is especially important in CBE as the requirements might be split over several screens. Each requirement should be properly broken down so that it can be established what is being asked. A recommended approach to this would be that at the start of an answer, candidates should do a small plan in which they have broken down a requirement and asked themselves how many things they are being asked to do, making sure that they consider all aspects of the requirement.

It is easier to be more focused when answering a question using word processing and spreadsheets, as the mere fact that what has been written or calculated can be seen more clearly, which helps candidates to avoid the temptation to discuss things which are irrelevant. Also, if candidates realise that they have missed a point out from an earlier part of a question, it is easier to go back and insert it in the correct place.

Finally, please remember to use the spreadsheet functionality available. Totals should be calculated by inserting formulae rather than typing in the number.

Guidance and Learning Support resources to help you succeed in your exam

Preparing for the PM examination may appear daunting but there are many support resources available to help candidates. There are technical articles available on many of the topics discussed in this report and all the past exams referred to (and many more) are available on ACCA's website. Candidates should refer to these regularly when studying for their exams. These resources are provided to help candidates develop confidence in their knowledge and understanding of PM.

<http://www.accaglobal.com/uk/en/student/exam-support-resources/fundamentals-exams-study-resources/f5.html>