



Examiner's report

Advanced Performance Management (APM)

March 2020

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

Format of examination

The examination comprised two sections, A and B. Section A consisted of one compulsory question for 50 marks in total. Section B consisted of two compulsory questions for 25 marks each.

There have now been a number of diets of APM where all questions in section B of the examination were compulsory and embedded requirements have been used in Section A. However, the examination team continue to feel that a number of candidates may have been caught out by this, having not been prepared to answer questions from across the whole syllabus and the use of a detailed requirement embedded within the scenario clearly still causing many candidates problems as they do not engage with the information in the scenario. This leaves many continuing to answer a different question to the one asked.

Approach and guidance

We would strongly advise that candidates use the examiner's reports and approach articles to ensure that they have the right overall attitude to APM, which is intended to lie at a post-graduate level. Most examinations require a balance of memory work and evaluation/analysis. However, as one goes through the levels (say from MA to PM to APM) this balance changes, from pure memory to more analysis. Good candidates distinguish themselves by being aware that if they come to this examination expecting to repeat memorised material, they will probably score only between 20% and 30%. Many candidates have clearly been taught that they should define in their answer any 'jargon' terms in the question requirement. However, they are wrong to assume that this alone will provide them with a passing answer at APM which is principally about application and evaluation in a business scenario. This lack of understanding of the level of answer expected gives the impression that the majority of candidates are underprepared.

The first step to passing APM is to have a good grasp of the basic knowledge. At this diet, a lack of such knowledge was particularly clear in: question 1 (iii) on Burns and Scapens and question 2 (a) on value-based management (VBM). There were also many instances of candidates who lacked assumed knowledge from previous studies, see comments on basic ratio calculations in question 1 (ii).

Without this knowledge, candidates cannot apply methods and then have little information to evaluate. They often seem to offer answers that are based on a question that they can answer/understand rather than the one asked in the examination. For example, see question 1 (iii) [the changing role of the management accountant].

Building upon that basic knowledge, candidates need to be aware that performance management is an area which, at an advanced level, is dependent upon situation and environment - as

exemplified by the need throughout the examination to relate or illustrate points by using the information relating to the business scenario in the question. An acceptable, professional-level answer will go beyond the mere repetition of how a technique works and focus on relating it to the entity's specific environment. As in previous diets, it was clear to the examining team that those candidates that had grasped the need for this went on to pass the examination. At this diet, there were many examples of this in answers to both section B questions, see the detailed comments on both questions 2 and 3.

Finally, and critically, in order to pass APM, candidates need to be capable of analysing and evaluating the whole situation in the scenario using their technical knowledge. This is fundamental to the marker's judgement of whether they are competent at this level.

Specific Comments

Question One

This question required the candidates to consider issues of performance reporting, measurement and changes in the role of the accountant combined with new information systems at a listed clothing retailer. The company had recently transitioned to a purely on-line business. Overall, this question was done fairly well, as it mainly covered frequently examined and core topics in the syllabus.

Part (i) required an evaluation of the performance reporting system at the company. This part, though a very commonly asked question at APM, was poorly done. It is disappointing to report that a significant minority of candidates continue to respond incorrectly to such a requirement with an evaluation of the performance of the company. As a result, many answers discussed how to improve the performance of the business rather than the performance reporting of the business. Sadly, this can only reflect a failure to look at past examinations, their examiner's reports and the various approach articles and videos where this error of understanding has been pointed out on many occasions. Indeed, the general incomprehension of the scenario extended to the point where numerous candidates gave advice to the company as if it was a manufacturer by discussing various ways in which production could be made more efficient.

Future candidates need to consider the depth of answer required at the 'Advanced' level. For example, candidates are expected to go beyond giving advice on indicators justified only by it being 'best practice'. At this level, candidates should realise that best practice is a generic term which needs to be applied in the scenario's context and so give reasons effectively showing that they know why a given piece of advice is best practice. Also, candidates need to appreciate the level of detail that they are expected to have in their grasp. For example, candidates are expected to know that dividends paid are not subject to accounting assumptions or that average spend per customer purchase is not the same as average spend per customer. The ability to consider the implications of the definition of a performance indicator is a critically important skill at this level.

Additionally, it is worth repeating past guidance that there has been much evidence here, as in past questions on this subject, of the use of technical articles and textbooks to provide lists of points to consider in providing an answer to such a question. However, such template approaches must be tailored to the specific scenario presented in the examination. Sadly, a minority of

candidates chose to ignore the central concern at the company which was 'whether performance towards its mission and subsidiary objectives are being usefully measured'. This is remarkable since this is the primary, strategic purpose of internal reporting. It is this focus that is the skill being tested. The candidates who tailored their theoretical knowledge appropriately demonstrated this skill and scored accordingly.

Part (ii) required a consideration of a group of four other possible performance indicators. This part was well done from the perspective of marks scored but given the basic nature of such a question, many markers felt candidates were failing to score the full potential of the question.

As in previous diets, performance on the calculations was weak. A significant majority of candidates could not calculate return on capital employed (ROCE) generally being unable to identify the capital employed from the basic statement of financial position given. Also, significant numbers could not calculate inventory days, often being unable to calculate costs of sales although revenue and gross profit figures were given.

However, the comments on the indicators were generally done well although, again, many candidates failed to pick up easy marks by simply not answering the question 'whether and how they link to the mission and objectives of the company' which was posed in the scenario.

Part (iii) required an explanation of how the role of the management accountant is changing given conditions at the company, broadly and using the three drivers of change identified by Burns and Scapens. This part was poorly done. Answers often responded to a different question along the lines of 'how will the introduction of the ERPS affect the company' and then repeated much of the description given in the scenario. This failure to focus on the impact on the management accountant's role meant that such answers only scored marks incidental to the thrust of the question. Most candidates did not know the three driving factors of change.

Part (iv) required an assessment of the opportunities and risks associated with the new data warehouse at the company. This part was well done with candidates suggesting practical ways in which the new system could be used to improve the business and some of the risks associated with it. Some candidates cleverly used the 3 (or 4) V's of big data to discuss risks. The key to these better answers was that the candidates had thought about each point that they wanted to make and then explained how it was an opportunity or a risk.

As is now common at APM, those candidates who had practised writing professional answers prior to the examination performed admirably in the presentation area (4 marks). The markers were looking for suitable report headings, an introduction, a logical structure, signposted by the good use of subheadings in the answer, and a clear, concise style. Performance in this area was generally good.

Overall, future candidates should remember that they need to answer the specific question asked as illustrated by parts (i) and (iii).

Question Two

This question dealt with issues at a company which manufactures small, domestic, electrical appliances. The company was introducing VBM and the question had requirements based around defining the performance targets and using economic value added (EVA™) in this context. This question was poorly done.

Part (a) of the question asked about defining performance targets at the company in the context of implementing VBM. The scenario gave four headings for discussion.

This part was often poorly done, although candidates commonly used the four headings given to sensibly structure their answers. Good candidates explained what VBM meant in the context of this exercise and went on to suggest how the issues given in the scenario could be considered value drivers and so relevant for performance measurement in VBM at the company. Many weaker answers were seen which ignored the implementation of VBM and talked in generic terms about the desirable, general characteristics of targets, the timescales that they should cover (short and long) and the definitions of management levels. Such answers failed in two important regards: 1) they did not address the area of testing which required knowledge of VBM; and 2) they ignored the specific issues at the company. It has been noted in previous examinations (and their reports) that VBM is an area where candidates' basic knowledge is inadequate.

Part (b) of the question required candidates to evaluate both whether the company had created value (by using data supplied to calculate EVA™) and the difficulties of using EVA™ as a performance indicator at the company.

The calculation part of this question was more poorly done than the examining team have seen in previous diets with many candidates being unaware of the implications of the starting point of their calculation of NOPAT (whether it is operating profit or profit before tax or profit after tax). The difficulties of using this measure is frequently asked and so the poor quality of answers surprised the examining team. The problem was often that they were of a too-brief bullet point form and so did not demonstrate understanding of the issues for the company.

Future candidates need to have the basic knowledge of syllabus topics and demonstrate the ability to apply these methods in the context of the specific scenario.

Question Three

This question examined a scenario surrounding a company which is a clothing manufacturer selling to only one customer which is moving to Just-In-Time (JIT) production. Performance in this question was better than in question 2.

Part (a) required an assessment of the changes which the company will have to make in the areas of purchasing and production in order to supply goods to its customer on a JIT basis.

Those candidates that structured their answers with a brief description of JIT followed by more lengthy, detailed advice about how this system impacted on the existing purchasing and production systems scored well. Those who used the details of the current systems, such as poor-quality raw materials purchased, an untailored approach to deliveries by the company's suppliers and the existing quality review process and remuneration scheme, produced excellent answers. Those who

performed less well failed to engage with these specifics of the company's systems and produced vague and generally unhelpful answers for the business. Most candidates knew what JIT was but were much weaker on its application to the scenario.

Part (b) required the preparation of a cost of quality report for the company and comments on potential quality cost changes in light of the proposed move to JIT.

The first part of the requirement was about allocating costs correctly under the given quality cost headings. This was reasonably well done. Markers had latitude to allow for different but justified allocations. However, there was a significant minority of candidates who could not identify the difference between the easily distinguished, broad categories of conformance and non-conformance costs. The discussions of the impact of adopting JIT on these categories were generally short and again, there was little attempt to engage with the detailed ideas of each cost category and how they would be affected by the move to JIT.

Future candidates should note the need to be able not only to describe a model or technique but critically, to be able to apply it to the specifics of the systems described by the scenario.

Conclusion

In conclusion, the main messages for future candidates, like those given in the past, are:

- Answer the question requirement – practise this by reading past questions and writing answer plans to see if you have identified the key issues;
- Learn the syllabus - understand the main theoretical models and techniques and how to apply them;
- Learn to how to apply the syllabus models and techniques - when considering a technique or model, consider the areas that may be affected by its implementation and development. This is an area that is always relevant to performance management and;
- Do past questions - practice application of your knowledge in scenario contexts. Write, in full, your own answers to past questions and then review them with the model solution to make improvements. This is the best way of getting into the mind set to help you to achieve a pass in APM.