

RELEVANT TO ACCA QUALIFICATION PAPER P5

Studying Paper P5

Performance objectives 12, 13 and 14 are relevant to this exam

Updated examiner's approach to Paper P5

As a relatively new examiner and having managed the marking (though not the writing) of the June 2010 paper and both the writing and marking of the December 2010 paper, I felt that it would be helpful to try to give candidates further clarification of the style of questions and skills that will be tested in Paper P5, *Advanced Performance Management*.

Key issues to consider

The paper will test a candidate's ability to assess different approaches to performance management from a variety of perspectives. This will entail the candidate knowing what the approaches are and more importantly being able to compare one with another in the context of a scenario, for example, profit and value approaches, financial and non-financial perspectives, short-term and long-term issues.

The questions set in Paper P5 will be based around an organisation. The scenario will describe the organisation, its objectives and its business environment. A good candidate will show how they have taken in this information and then applied it to the performance management of that organisation. For example, when assessing different performance management approaches, a useful question to ask is 'Does this meet the objectives/needs of the organisation?' so obviously, the candidate must have identified these from the scenario.

Candidates must make sure that they can:

1. Assess the current situation of the organisation (eg its existing performance management systems) and then
2. consider how to apply a new approach to performance management (eg value-based or based on one of the many models mentioned in the syllabus such as the performance prism or the building block model) and
3. assess whether this new approach will be an improvement.

Lists of rote-learned advantages and disadvantages for different approaches will not produce a complete answer as a candidate will be expected to tailor this knowledge to the situation given in the question. So for example, Question 2 of December 2010 asked for an evaluation of two costing systems within a laptop manufacturer. A good answer considered the advantages and disadvantages of the absorption costing and activity-based costing in a dynamic, competitive, bespoke-manufacturing environment.

Cover the whole syllabus

Remember that, broadly, the exam will test the capabilities listed in the syllabus that are required of a candidate. There are six capabilities and most will feature to some extent in every diet:

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- use strategic planning and control models to plan and monitor organisational performance
- assess and identify relevant macro economic, fiscal and market factors and key external influences on organisational performance
- identify and evaluate the design features of effective performance management information and monitoring systems
- apply appropriate strategic performance measurement techniques in evaluating and improving organisational performance
- advise clients and senior management on strategic business performance evaluation and on recognising vulnerability to corporate failure
- identify and assess the impact of current developments in management accounting and performance management on measuring, evaluating and improving organisational performance

The paper will aim to address issues at both the strategic and operational levels and will often require a candidate to understand the connections between these levels. For example, the question of how strategic objectives flow through critical success factors to performance indicators as in Question 1 of the December 2010 paper.

Another example of the type of question that arises is how does the choice of operational performance measures impact on the strategic performance of the organisation? A phrase that rings true in many situations is Drucker's dictum 'What gets measured gets done.' This phrase succinctly points to the impact that the choice of performance metrics have on the management activity of the firm.

Now these points should illustrate why it is a misapprehension that the paper is predominantly about performance *measurement*, it is a performance *management* paper. This error often manifests in a candidate's over-concentration on detailed elements of Section D (strategic performance measurement) of the syllabus. As indicated above, it is important to remember that the ideas contained in the various metrics need to be coherently applied to meet the strategic needs of an organisation and this is where other sections of the syllabus will connect to a question, for example, Section A on how strategic performance fits with the planning and control structures or Section B on external drivers of performance.

Create information

The candidate is expected to be able to calculate numbers using the various techniques of the paper, however, it is more important that the candidate can explain what their numbers mean and what importance to place on them.

A valuable management accountant will create information from the detailed data given in a question. It is often best to begin by considering the 'big picture' (what is the overall objective); next, break down the data into smaller but meaningful (and manageable) chunks; finally, discuss the individual lines

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of the data table and even then, a candidate should focus on the data that *explains* the overall picture of emission changes.

A good example of this was Question 4 Part b) of the December 2010 paper.

1. Consider the 'big picture' – whether the overall target for emission reduction be met.
2. Break down the data into smaller but meaningful (and manageable) chunks – road, rail and air transport
3. Discuss the individual lines of the data table focusing on the data that *explains* the overall picture of emission changes – the switch from petrol to diesel powered motor vehicles is complete in commercial vehicles and has led to large reductions in emissions but such a change may be more difficult in company cars as employees may resist such a change.

Note specifically, this will require answers that go beyond repeating, in sentence form, the data given in (say) a table in that question. There many candidates wasted their time by limiting their comments to only writing out statements such as 'Commercial Fleet Diesel use has fallen from 105.4 to 70.1' or even 'Commercial Fleet Diesel use has gone down'. First, this is stating the obvious to anyone who read the table but also importantly, this is far too detailed for most reporting purposes.

Candidates will be expected to *analyse* not merely calculate numerical data given from a scenario.

Overall

A candidate would be advised to ask him/herself if the answer they have produced would help the organisation to answer the question requirement. Remember... try to add value with your answers by way of comments relevant to the issue at hand.

Alex Watt is examiner for Paper P5