

EXAMINATION INFORMATION GUIDE

PERFORMANCE MANAGEMENT

Structure of examination paper

The syllabus will be assessed in a 3 hours paper plus a 15 minutes reading time.

The questions will be in two sections as follows:

Section A:

Section A will be a compulsory 40 marks scenario-based /case study question taken from section D, the core area of the syllabus, which comprises advanced decision making and decision support, working capital and capital budgeting decisions.

Section B:

Section B will be five (5) questions of 20 marks each, out of which candidates will be required to attempt three (3) questions. The five (5) questions will be from sections A (Cost Planning and control), B (Planning and Control), C (Performance measurement and control), E (Strategic Performance Measurement) and F (Performance and Management System) of the syllabus, based on the weight attached to each section in the syllabus.

Detailed contents of the syllabus

A. Cost planning and control 20 %

1. Overview of costs for planning and control

- (a) Discuss and evaluate the sources of performance management information.
- (b) Analyse fixed and variable cost elements from total cost data using high/low method and regression analysis.
- (c) Differentiate between marginal costing and absorption costing.
- (d) Analyse overhead costs using activity based costing.

2. Cost planning and control for competitive advantage

- (a) Discuss and apply the principles of:

- (i) Target costing;
 - (ii) Life cycle costing;
 - (iii) Theory of constraints (TOC);
 - (i) Throughput accounting;
 - (ii) Back flush accounting;
 - (iii) Environmental accounting; and
 - (iv) Kaizen costing.
- (b) Learning and experience curve theory
 - (i) Discuss and apply the learning and experience curve theory to pricing, budgeting and other relevant problems.
 - (ii) Calculate and apply learning rate to cost estimation.
- (c) Cost of quality
 - i) Explain quality costs.
 - ii) Analyse quality costs into costs of conformance and costs of non-conformance.
 - iii) Discuss the significance of quality costs for organisations.

3. **Ethical issues in performance management**

- (a) Discuss ethical issues in performance management.
- (b) Discuss the professional accountants' code of ethics as it relates to performance management.

B. Planning and control

20 %

1. Budgetary system, planning and control

- (a) Discuss and apply forecasting techniques to planning and control.
- (b) Discuss budgetary system in an organization as an aid to performance management.
- (c) Evaluate the information used in budgetary system.
- (d) Discuss the behavioural aspects of budgeting.
- (e) Discuss the usefulness and problems associated with different types of budget.
- (f) Explain *beyond budgeting* models.

2. Variance Analysis

- (a) Explain the uses of standard cost and types of standard.
- (b) Discuss the methods used to derive standard cost.
- (c) Explain and analyse the principle of controllability in the performance management system.
- (d) Calculate and apply the following variances:
 - (i) Material usage and price variances;
 - (ii) Material mix and yield variances;
 - (iii) Labour rate, efficiency and idle time variances;
 - (iv) Variable overhead expenditure and efficiency variances;
 - (v) Fixed overhead budget, volume, capacity and productivity variances;
 - (vi) Sales volume variance;
 - (vii) Sales mix and quantity variances;
 - (viii) Sales market size and market share variances; and
 - (ix) Planning and operational variances.
- (e) Identify and explain causes of various variances and their inter-relationship.
- (f) Analyse and reconcile variances using absorption and marginal costing techniques.

C. Performance measurement and control 20 %

- (a) Select and calculate suitable financial performance measures for a business from a given data and information.
- (b) Evaluate the results of calculated financial performance measures based on business objectives and advise management on appropriate actions.
- (c) Select and calculate suitable non-financial performance measures for a business from a given data and information.
- (d) Evaluate the results of calculated non-financial performance measures based on business objectives and advise management on appropriate actions.
- (e) Explain the causes and problems created by short-termism and financial manipulation of results and suggest methods to encourage a long term view.
- (f) Discuss sustainability consideration in performance measurement of a business.

- (g) Select and explain stakeholders based measures of performance that may be used to evaluate social and environmental performance of a business.
- (h) Explain and interpret the Balanced Scorecard and Fitzgerald and Moon Building Block model.

2. Performance analysis in not-for-profit organisations

- (a) Discuss the problems of having non-quantifiable objectives in performance management.
- (b) Explain how performance may be measured in not-for-profit organisations.
- (c) Discuss the problems of having multiple objectives.
- (d) Demonstrate the Value for Money (VFM) as a public sector objective.

3. Divisional performance and transfer pricing

- (a) Discuss the various methods of setting transfer prices and evaluate the suitability of each method.
- (b) Determine the optimal transfer price, using appropriate models.
- (c) Explain the benefits and limitations of transfer pricing methods.
- (d) Demonstrate and explain the impact of taxation and repatriation of funds on international transfer pricing.
- (e) Select and explain suitable divisional performance measures for a given business using return on investment, residual income and economic value added approaches. Evaluate the results and advise management.

D. Decision making

30 %

1. Advanced decision-making and decision-support

- (a) Select and calculate suitable relevant cost based on given data and information. Evaluate the results and advise management.
- (b) Select, calculate and present cost-volume-profit analyses based on given data and information including single and multiple products,

using both numerical and graphical techniques. Advise management based on the results.

- (c) Apply relevant cost concept to short term management decisions including make or buy, out-sourcing, shut down, one-off contracts, adding a new product line, sell or process further, product and segment profitability analysis, etc.
- (d) Apply key limiting factors in a given business scenario to:
 - (i) Single constraint situation, including make or buy; and
 - (ii) Multiple constraint situations involving linear programming using simultaneous equations, graphical techniques and simplex method. (The simplex method is limited to formulation of initial tableau and interpretation of final tableau).

NB. Computation and interpretation of shadow prices are also required.

- (e) Explain different pricing strategies, including:
 - (i) Cost-plus;
 - (ii) Skimming;
 - (iii) Market penetration;
 - (iv) Complementary product;
 - (v) Product-line;
 - (vi) Volume discounting; and
 - (vii) Market discrimination.
- (f) Calculate and present numerically and graphically the optimum selling price for a product or service using given data and information by applying relevant cost and economic models and advise management.
- (g) Evaluate how management can deal with uncertainty in decision-making including the use of simulation, decision-trees, replacement theory, expected values, sensitivity analysis and value of perfect and imperfect information.

2. Working capital management

- (a) Discuss the nature, elements and importance of working capital.
- (b) Calculate and explain the cash operating cycle.
- (c) Evaluate and discuss the use of relevant techniques in managing working capital in relation to:
 - (i) Inventory, including economic order quantity model and Just-in-Time techniques;

- (ii) Account receivables including cash discounts, factoring and invoice discounting;
- (iii) Account payables; and
- (iv) Cash including Baumol and Miller-Orr Models.

3. Capital budgeting decisions

- (a) Discuss the characteristics of capital budgeting decisions.
 - (b) Calculate and discuss various investment appraisal techniques such as:
 - (i) Traditional techniques:
 - Accounting Rate of Return; and
 - Pay-back period.
 - (ii) Discounted cash flow technique:
 - Net Present Value; and
 - Internal Rate of Return.
- NB: These may include basic profitability index and inflation but excluding tax consideration and capital rationing.
- (b) Evaluate asset replacement decision for mutually exclusive projects with unequal lives.

E. Strategic performance measurement 5 %

- 1. Analyse and evaluate business objectives and strategies using techniques such as:
 - (a) C-analysis;
 - (b) Five forces analysis;
 - (c) The Boston Consulting Group Model;
 - (d) Value chain analysis;
 - (e) Ansoff's matrix;
 - (f) Benchmarking; and
 - (g) SWOT analysis.
- 2. Analyse and evaluate suitable performance measures for:
 - (a) Profitability (GP, ROCE, ROI, EPS, EBITDA, etc.);
 - (b) Liquidity; and
 - (c) Solvency.

F. Performance and management system 5 %

1. Evaluate and advise management on suitable information technology and strategic performance management system, covering:
 - (a) Sources of information;
 - (b) Information technology tools for performance management at various levels (strategic, tactical and operational); and
 - (c) Use of internet technologies for performance management and key performance indicators.
2. Evaluate and advise management on suitable approaches that may be used to manage people, issues and change when implementing performance management systems.
3. Discuss the accounting information requirements and analyse the different types of information systems used for strategic planning, management control and operational control, and decision-making.
4. Discuss roles of accountants in:
 - (a) Project management;
 - (b) Project planning; and
 - (c) Project control methods and standards.