

## Performance Management Cheat Sheet

### Management Information Systems (MIS)

**Definition:** An MIS is a system that focuses on the interaction between **people, processes, and technology** to provide information for decision-making, coordination, control, and analysis.

**Primary Goal:** To provide managers with the data needed to make informed choices and achieve **organisational goals**.

**Qualities of Good Information:**

- **Relevance:** Must be useful for specific decisions.
- **Reliability:** Needs to be accurate enough for its purpose and complete.
- **Timeliness:** Must be available when needed.
- **Economy:** The cost of the information must not exceed its benefits.

**Types of Systems:**

- **Transaction Processing Systems (TPS):** Handles routine, high-volume operational tasks like payroll or inventory control.
- **Decision Support Systems (DSS):** Assists with **unstructured or semi-structured problems** through data analysis models.
- **Executive Information Systems (EIS):** Provides senior executives with summarised internal and external data, featuring "drill down" capabilities.
- **Expert Systems (ES):** Uses artificial intelligence and a **knowledge base** to provide advice or solutions in specific areas like law or medicine.

**Strategy Tools:** MIS uses **Critical Success Factors (CSFs)** (factors vital for survival) and **Key Performance Indicators (KPIs)** (measures used to monitor achievement against CSFs).

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### Big Data Application and Analysis

**Definition:** Massive, complex datasets that are difficult to process using traditional database tools.

**The Four Vs (Characteristics):**

- **Volume:** The sheer scale of data (terabytes/petabytes).
- **Velocity:** The speed at which data is generated and must be processed (e.g., real-time streaming).
- **Variety:** The diversity of data formats (structured, semi-structured, and **unstructured** like video or social media).
- **Veracity:** The uncertainty and reliability of the data origin and truthfulness.

**DIKW Pyramid:** Illustrates the progression from **Data** (raw facts) to **Information** (contextualised), **Knowledge** (understanding patterns), and finally **Wisdom** (informed decisions/judgement).

**Data Mining:** The process of sorting complex data to identify patterns and trends using techniques like **clustering, regression, and neural networks**.

- **Key Benefits:** Allows for **personalisation** (tailored recommendations), operational efficiency (identifying bottlenecks), and innovation.
- **Risks:** Includes **privacy concerns** (GDPR compliance), high infrastructure costs, security vulnerabilities to cyberattacks, and "garbage in, garbage out" data quality issues.

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### Activity Based Costing (ABC)

**Concept:** ABC is a form of absorption costing that assumes **activities cause overhead costs** and products consume those activities.

**Traditional vs. ABC:** Traditional methods often use a single volume-based driver (e.g., machine hours), which can distort costs if overheads are high relative to direct labour.

**Key Components:**

- **Cost Pool:** The total overhead expenditure allocated to a specific activity.
- **Cost Driver:** The factor that causes the cost of an activity to increase (e.g., number of orders, number of inspections).

**Calculation Steps:**

1. Identify major activities (e.g., set-ups, materials handling).
2. Allocate overheads to **cost pools**.
3. Select a suitable **cost driver** for each activity.
4. Calculate the **overhead absorption rate** per driver (Total Pool Cost ÷ Total Driver Units).
5. Absorb costs into products based on their actual consumption of those drivers.

**Advantages:** Provides a more **realistic view of product costs**, helps identify non-value-adding activities, and supports better pricing and resource allocation decisions.

**Disadvantages:** Costly and time-consuming to design/operate; still involves some arbitrary apportionment of general costs like rent or insurance.

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### Target Costing

**Concept:** A method of strategic cost management where the **maximum cost** of a product is determined based on market conditions.

**The Formula:** Target Sales Price – Target Profit Margin = Target Cost.

- **The Process:**
  1. Research the market to determine customer needs.
  2. Set a competitive **target price**.
  3. Determine the required **profit margin**.
  4. Establish the **target cost**.
  5. Compare the estimated cost of the current design to the target cost; the difference is the "**cost gap**".
- **Managing the Cost Gap:** To close the gap, firms may simplify designs, negotiate with suppliers, eliminate **non-value-added activities**, or use common components across different products.
- **Timing:** Most effective during the **design and development stage**, as the majority of product costs are committed before manufacture begins.

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### Life Cycle Costing (LCC)

**Definition:** Also known as 'whole life costing,' it identifies the **total cost** of owning an asset or product from its inception to its final disposal.

**Cost Categories:**

1. **Acquisition/Set-up Costs:** Market entry, construction, and training.

### Throughput Accounting (TA)

**Theory of Constraints (TOC):** Assumes a business always has a constraint (bottleneck) that limits its goals.

**Key Assumptions:** Only **material costs** are truly variable; labour and other production costs are considered fixed **Operating Expenses**.

<p>2. <b>Operational/Running Costs:</b> Regular recurring costs like maintenance.</p> <p>3. <b>End-of-life Costs:</b> Withdrawal from market or demolition.</p> <p><b>Stages of a Product Life Cycle:</b></p> <ul style="list-style-type: none"> <li>○ <b>Development:</b> R&amp;D and capital expenditure.</li> <li>○ <b>Introduction:</b> High marketing and advertising to raise awareness.</li> <li>○ <b>Growth:</b> Increasing capacity and economies of scale.</li> <li>○ <b>Maturity:</b> Maintaining capacity and enhancing the product.</li> <li>○ <b>Decline/Withdrawal:</b> Managing withdrawal costs and remaining warranties.</li> </ul> <p><b>Benefit:</b> Allows management to assess <b>long-term profitability</b> before heavy costs are committed.</p> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>	<ul style="list-style-type: none"> <li>• <b>The Formula:</b> Throughput = Sales – Cost of Raw Materials and Components.</li> <li>• <b>Key Metrics:</b> <ul style="list-style-type: none"> <li>○ <b>Throughput Accounting Ratio (TAR):</b> (Throughput per unit of bottleneck resource) ÷ (Operating expenses per unit of bottleneck resource).</li> <li>○ <b>Decision Rule:</b> A TAR &gt; 1 means the product is profitable; a TAR &lt; 1 indicates a loss.</li> </ul> </li> <li>• <b>Optimization:</b> In multi-product scenarios, products should be ranked by their <b>throughput return per bottleneck resource hour</b>.</li> </ul> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>
<p style="text-align: center;"><b>Environmental and Sustainability Accounting</b></p> <hr/> <p><b>Purpose:</b> Environmental Management Accounting (EMA) provides information to manage environmental costs that are often hidden in conventional systems.</p> <p><b>Techniques:</b></p> <ul style="list-style-type: none"> <li>○ <b>Re-defining Costs:</b> Conventional, hidden, contingent (future clean-up), and image/relationship costs.</li> <li>○ <b>Environmental ABC:</b> Allocating environment-related overheads to specific cost drivers (e.g., volume of emissions).</li> </ul> <p><b>The 3 Ps of Sustainability:</b> <b>People</b> (social), <b>Planet</b> (environmental), and <b>Profit</b> (economic).</p> <p><b>Triple Bottom Line (TBL):</b> A reporting framework that goes beyond financial profit to include social and ecological impact.</p> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>	<p style="text-align: center;"><b>Other Advanced Costing Techniques</b></p> <hr/> <p><b>Just-in-Time (JIT):</b> A management philosophy where production occurs only when there is immediate demand; inventory is viewed as <b>waste</b>.</p> <p><b>Backflush Accounting:</b> A simplified costing system for JIT environments where costs are calculated in retrospect <b>after production is completed</b>, rather than being tracked sequentially through WIP.</p> <p><b>Kaizen Costing:</b> Focused on continuous, small improvements to reduce costs during the <b>manufacturing phase</b> of an existing product (whereas Target Costing focuses on the design phase).</p> <p><b>Profitability Analysis:</b></p> <ul style="list-style-type: none"> <li>○ <b>Direct Product Profitability (DPP):</b> Attributes purchase price and specific indirect costs (storage, distribution) to individual products to find true profitability.</li> <li>○ <b>Segment Profitability:</b> Measures performance by product line or geographical area using either a <b>Full Cost</b> (allocating all overheads) or <b>Contribution</b> approach (only direct costs).</li> </ul> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>
<p style="text-align: center;"><b>Cost Types and Costs Analysis</b></p> <hr/> <p><b>Definition:</b> Cost is the <b>value of resources sacrificed</b> to obtain or produce something.</p> <p><b>Cost Classification:</b></p> <ul style="list-style-type: none"> <li>○ <b>By Nature:</b> Material, labour, and overheads.</li> <li>○ <b>By Function:</b> Production, administration, selling, and distribution.</li> <li>○ <b>By Traceability:</b> <b>Direct costs</b> (traced to a product) and <b>indirect costs</b> (overheads).</li> <li>○ <b>By Behaviour:</b> <b>Fixed</b> (constant in total), <b>Variable</b> (constant per unit), and <b>Mixed</b> (partly fixed/variable).</li> </ul> <p><b>Cost Estimation:</b></p> <ul style="list-style-type: none"> <li>○ <b>High-Low Method:</b> Uses the highest and lowest activity levels to calculate variable cost per unit (change in cost ÷ change in activity) and fixed costs.</li> <li>○ <b>Regression Analysis:</b> A statistical technique using all available data to calculate the <b>line of best fit</b>; it is more reliable than High-Low.</li> </ul> <p><b>Absorption vs. Marginal Costing:</b></p> <ul style="list-style-type: none"> <li>○ <b>Absorption:</b> Values inventory with a share of <b>fixed production overheads</b>.</li> <li>○ <b>Marginal:</b> Treats fixed overheads as <b>period costs</b> (expensed immediately); inventory includes only variable costs.</li> <li>○ <b>Profit Difference:</b> Profits differ only when inventory levels change; if inventory increases, absorption profit is higher.</li> </ul> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>	<p style="text-align: center;"><b>Relevant Costing Techniques</b></p> <hr/> <p><b>Definition:</b> A <b>relevant cost</b> is a future cash flow that occurs as a direct consequence of a specific decision.</p> <p><b>Relevant Items:</b> Incremental costs, differential costs, avoidable costs, and <b>opportunity costs</b> (benefit lost by choosing one option over the next best alternative).</p> <p><b>Irrelevant Items:</b> <b>Sunk costs</b> (past costs), <b>committed costs</b> (unavoidable obligations), and non-cash items like depreciation.</p> <p><b>Resource Rules:</b></p> <ul style="list-style-type: none"> <li>○ <b>Materials:</b> If in regular use, use <b>replacement cost</b>. If not in use, use the higher of <b>scrap value</b> or value in alternative use.</li> <li>○ <b>Labour:</b> If spare capacity exists, relevant cost is <b>zero</b>. If at full capacity, relevant cost is the <b>labour rate plus lost contribution</b>.</li> </ul> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>
<p style="text-align: center;"><b>Cost-Volume-Profit (CVP) Analysis</b></p> <hr/> <p><b>Core Concept:</b> Shows how costs and profits change with activity volume based on the relationship: <b>Sales – Variable Costs = Contribution</b>.</p> <p><b>Key Formulas:</b></p>	<p style="text-align: center;"><b>Limiting Factors Decision</b></p> <hr/> <p><b>Limiting Factor:</b> Any resource (e.g., machine hours, materials, labour) that restricts production/sales.</p> <p><b>Single Limiting Factor:</b> Maximise profit by ranking products based on <b>contribution per unit of the scarce resource</b>.</p>

<ul style="list-style-type: none"> <li>○ <b>Break-even Point (Units):</b> Total Fixed Costs ÷ Contribution Per Unit (CPU).</li> <li>○ <b>Break-even Point (Revenue):</b> Fixed Costs ÷ Contribution to Sales (C/S) Ratio.</li> <li>○ <b>Margin of Safety:</b> Budgeted Sales minus Break-even Sales; indicates the risk of making a loss.</li> <li>○ <b>Target Profit (Units):</b> (Fixed Costs + Target Profit) ÷ CPU.</li> </ul> <p><b>Multi-Product CVP:</b> Assumes a constant <b>budgeted sales mix</b>; uses weighted average contribution or a "batch" approach to find the break-even point.</p> <ul style="list-style-type: none"> <li>• <b>Limitations:</b> Assumes linear behaviour, constant sales prices, and ignores uncertainty</li> </ul> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>	<p><b>Multiple Limiting Factors:</b> Requires <b>Linear Programming</b> to find the optimal product mix.</p> <ul style="list-style-type: none"> <li>○ <b>Objective Function:</b> The equation to be maximised (e.g., ).</li> <li>○ <b>Feasible Region:</b> The area on a graph representing all possible combinations of variables that satisfy constraints.</li> </ul> <p><b>Shadow (Dual) Price:</b> The increase in contribution resulting from having <b>one additional unit</b> of a limiting resource.</p> <p><b>Slack:</b> The amount of a <b>non-limiting resource</b> that remains unused in the optimal solution.</p> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>
<p style="text-align: center;"><b>Pricing Decisions</b></p> <hr/> <p><b>Influencing Factors:</b> Demand/supply, costs, customer income, quality, and the <b>product life cycle</b>.</p> <p><b>Price Elasticity of Demand (PED):</b> % change in quantity demanded ÷ % change in price.</p> <ul style="list-style-type: none"> <li>○ <b>Elastic (&gt;1):</b> Small price changes lead to large demand changes.</li> <li>○ <b>Inelastic (&lt;1):</b> Demand is relatively unresponsive to price changes.</li> </ul> <p><b>Profit Maximisation:</b> Occurs at the volume where <b>Marginal Revenue (MR) = Marginal Cost (MC)</b>.</p> <p><b>Pricing Strategies:</b></p> <ul style="list-style-type: none"> <li>○ <b>Full Cost-Plus:</b> Adds a profit mark-up to the total absorption cost.</li> <li>○ <b>Market Skimming:</b> Setting a <b>high initial price</b> for new, unique products to "skim" the market.</li> <li>○ <b>Market Penetration:</b> Setting a <b>low initial price</b> to capture market share quickly.</li> <li>○ <b>Price Discrimination:</b> Selling the same product at different prices in different market segments.</li> <li>○ <b>Complementary Products:</b> Pricing a "base" product low (e.g., printers) to increase demand for high-margin "linked" products (e.g., ink).</li> </ul> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>	<p style="text-align: center;"><b>Make or Buy and Other Short-Term Decisions</b></p> <hr/> <p><b>Core Principle:</b> Decisions should be based on <b>relevant costs</b>, which are future incremental cash flows arising directly from a decision.</p> <p><b>Make-or-Buy (Outsourcing):</b> Compare the internal variable/avoidable costs against the external purchase price.</p> <ul style="list-style-type: none"> <li>○ <b>With Scarce Resources:</b> Outsource products where the <b>extra cost of outsourcing is the lowest per unit of the scarce resource saved</b>.</li> </ul> <p><b>One-off Contracts:</b> Accept if the incremental revenue exceeds the relevant costs (including opportunity costs).</p> <p><b>Shutdown Decisions:</b> A part of the business should be shut down if the <b>benefits (saved costs) exceed the lost contribution</b>.</p> <p><b>Further Processing:</b> Process joint products further only if the <b>additional revenue exceeds the incremental further processing costs</b>.</p> <p><b>Non-Financial Factors:</b> Consider loss of control over quality, reliability of delivery, and the impact on employee relations.</p> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>
<p style="text-align: center;"><b>Dealing with Risk and Uncertainty</b></p> <hr/> <p><b>Uncertainty vs. Risk:</b> Uncertainty involves insufficient information to predict outcomes; risk involves several possible outcomes with known/estimable probabilities.</p> <p><b>Expected Value (EV):</b> The weighted average of all possible outcomes (.). Best used for repetitive decisions, not "one-off" events.</p> <p><b>Risk Attitudes:</b></p> <ul style="list-style-type: none"> <li>○ <b>Risk Averse:</b> Will not take extra risk without a significantly higher return.</li> <li>○ <b>Risk Neutral:</b> Ignores risk and focuses solely on the highest EV.</li> <li>○ <b>Risk Seeking:</b> Will take risks in hope of higher returns.</li> </ul> <p><b>Decision Rules (Pay-off Tables):</b></p> <ul style="list-style-type: none"> <li>○ <b>Maximax:</b> Select the option with the highest possible profit (optimistic/risk-seeking).</li> <li>○ <b>Maximin:</b> Select the option with the best "worst-case" scenario (pessimistic/risk-averse).</li> <li>○ <b>Minimax Regret:</b> Select the option that minimizes the maximum "regret" (opportunity cost of a wrong decision).</li> </ul> <p><b>Other Tools: Sensitivity Analysis</b> (tests how changes in key variables affect profit) and <b>Simulation</b> (uses random numbers/Monte Carlo to model complex systems).</p> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>	<p style="text-align: center;"><b>Budgetary Systems and Types of Budgets</b></p> <hr/> <p><b>Purpose:</b> Planning, control, coordination (goal congruence), motivation, and communication.</p> <p><b>Principal Budget Factor:</b> The factor that limits the scale of operations (usually sales demand).</p> <p><b>Budget Types:</b></p> <ul style="list-style-type: none"> <li>○ <b>Incremental:</b> Current year +/- a percentage; simple but can include "budget slack".</li> <li>○ <b>Zero-Based (ZBB):</b> Starts from zero; all spending must be justified via "decision packages".</li> <li>○ <b>Activity-Based (ABB):</b> Uses cost drivers to determine resource requirements based on activity levels.</li> <li>○ <b>Rolling:</b> Continuously updated by adding a new period (month/quarter) as the current one ends.</li> <li>○ <b>Flexible:</b> Prepared for different activity levels; <b>Flexed</b> budgets are adjusted to <i>actual</i> activity levels for variance analysis.</li> </ul> <p><b>Beyond Budgeting:</b> A model that suggests abolishing traditional budgets in favor of a "responsibility model" with relative targets and decentralised control.</p> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>
<p style="text-align: center;"><b>Analytical Techniques in Budgeting</b></p> <hr/> <p><b>Cost Estimation:</b></p> <ul style="list-style-type: none"> <li>○ <b>High-Low Method:</b> Uses the highest and lowest activity levels to find variable cost per unit and fixed costs ().</li> <li>○ <b>Linear Regression:</b> A more reliable statistical method to find the "line of best fit" ().</li> </ul>	<p style="text-align: center;"><b>Standard Costing</b></p> <hr/> <p><b>Standard Cost:</b> A predetermined unit cost used for planning and performance measurement.</p> <p><b>Types of Standards:</b></p> <ul style="list-style-type: none"> <li>○ <b>Ideal:</b> Perfect conditions; no waste.</li> <li>○ <b>Attainable:</b> Efficient but realistic; includes some allowance for waste.</li> </ul>

<p><b>Time Series Analysis:</b> Breaks data into <b>Trend (T)</b>, <b>Seasonal variation (S)</b>, <b>Cyclical variation (C)</b>, and <b>Random fluctuations (R)</b>.  <b>Learning Curve:</b> As cumulative output doubles, the cumulative average time per unit falls by a constant percentage (the learning rate).</p> <ul style="list-style-type: none"> <li>○ <b>Formula:</b> .</li> <li>○ <b>Prerequisites:</b> Must be a labour-intensive, repetitive, and complex task with low staff turnover.</li> </ul> <p>→Take quiz on this topic at <a href="https://www.finprepacademy.com">finprepacademy.com</a></p>	<ul style="list-style-type: none"> <li>○ <b>Current:</b> Based on current (possibly inefficient) performance.</li> <li>○ <b>Basic:</b> Unchanged over a long period; used to show trends.</li> </ul> <p><b>Key Variances:</b></p> <ul style="list-style-type: none"> <li>○ <b>Material:</b> Price (AQ purchased) and Usage (SQ for actual output).</li> <li>○ <b>Labour:</b> Rate (AH paid), Efficiency (SH for actual output), and Idle Time.</li> <li>○ <b>Fixed Overhead:</b> Expenditure (Budget vs. Actual) and Volume (Budget units vs. Actual units).</li> </ul> <p><b>Standard Ratios:</b></p> <ul style="list-style-type: none"> <li>○ <b>Efficiency Ratio:</b> (Standard hours for actual output / Actual hours worked) × 100%.</li> <li>○ <b>Capacity Ratio:</b> (Actual hours worked / Budgeted hours) × 100%.</li> <li>○ <b>Production Volume Ratio:</b> Efficiency Ratio × Capacity Ratio.</li> </ul> <p>→Take quiz on this topic at <a href="https://www.finprepacademy.com">finprepacademy.com</a></p>
<p style="text-align: center;"><b>Advanced Variance Analysis – Material and Labour Mix, Yield &amp; Efficiency</b></p> <hr/> <p><b>Substitutable Materials:</b> Mix and yield analysis is only performed when material or labour inputs are <b>substitutable</b>, meaning less of one grade can be compensated for by more of another.</p> <p><b>Material Mix Variance:</b> This measures the effect on cost of using a combination of materials different from the <b>standard proportions</b>.</p> <ul style="list-style-type: none"> <li>○ <b>Formula:</b> (Actual Quantity in Actual Mix – Actual Quantity in Standard Mix) × Standard Price.</li> </ul> <p><b>Material Yield Variance:</b> This indicates the effect on costs of the total material inputs yielding more or less output than the standard expected from those inputs.</p> <ul style="list-style-type: none"> <li>○ <b>Formula (Output-based):</b> (Actual Yield – Standard Yield from actual input) × Standard Cost of Output.</li> <li>○ <b>Formula (Input-based):</b> (Actual input – Standard input for actual output) × Standard Cost of Input.</li> </ul> <p><b>Labour Mix and Efficiency:</b> While calculated similarly to materials, these indicate the cost impact of using different grades of labour than the standard mix and the resulting productivity compared to the standard time for the actual output.</p> <p style="text-align: center;"><b>Advanced Variance Analysis – Operational, Planning, Sales, and Market Variances</b></p> <hr/> <p><b>Sales Volume Analysis:</b> The total sales volume variance is analysed into <b>mix</b> and <b>quantity</b> components to show the effect of changing the product proportions versus the overall volume.</p> <ul style="list-style-type: none"> <li>○ <b>Formula: Sales Quantity Variance:</b> (Actual Total Sales – Budgeted Total Sales) × Weighted Average Standard Contribution.</li> <li>○ <b>Formula: Sales Mix Variance:</b> (Actual Sales – Standard Mix of Actual Total Sales) × Standard Contribution per unit.</li> </ul> <p><b>Market Variances:</b> Sales volume is a function of total market size and the company’s share of that market.</p> <ul style="list-style-type: none"> <li>○ <b>Formula: Market Size Variance:</b> (Actual Market Size – Budgeted Market Size) × Budgeted Market Share × Standard Contribution.</li> <li>○ <b>Formula: Market Share Variance:</b> (Actual Sales – [Actual Market Size × Budgeted Market Share]) × Standard Contribution</li> </ul> <p>→Take quiz on this topic at <a href="https://www.finprepacademy.com">finprepacademy.com</a></p>	<p style="text-align: center;"><b>Planning and Operational Variances</b></p> <hr/> <p><b>Concept:</b> Traditional variances are often misleading if the original budget (<b>ex ante</b>) is based on unrealistic or flawed assumptions.</p> <p><b>Planning Variances:</b> These compare the original <b>ex ante</b> budget to a revised <b>ex post</b> budget reflecting uncontrollable environmental shifts (e.g., unexpected price inflation or equipment failure).</p> <ul style="list-style-type: none"> <li>○ <b>Formula:</b> (Ex ante standard cost of actual production – Ex post standard cost of actual production).</li> </ul> <p><b>Operational Variances:</b> These compare actual results against the <b>ex post</b> (revised) budget to evaluate <b>controllable</b> managerial performance.</p> <ul style="list-style-type: none"> <li>○ <b>Formula:</b> (Actual result – Ex post/Revised budget).</li> </ul> <p style="text-align: center;"><b>Performance Analysis Using Budgetary Control</b></p> <hr/> <p><b>Motivation:</b> Standard costs act as targets; <b>attainable standards</b> (efficient but realistic) are most likely to motivate staff, whereas unachievable <b>ideal standards</b> may cause demotivation.</p> <p><b>JIT and TQM Environments:</b> In <b>Just-in-Time (JIT)</b> and <b>Total Quality Management (TQM)</b> settings, traditional variances can be dysfunctional because they focus on short-term individual cost reduction rather than continuous improvement and total quality.</p> <p style="text-align: center;"><b>Performance Analysis for Profit Oriented Organisations</b></p> <hr/> <p><b>Financial Performance Indicators (FPIs):</b> Success is measured by long-term <b>shareholder wealth</b>, often through growth and survival metrics.</p> <ul style="list-style-type: none"> <li>○ <b>ROCE (Return on Capital Employed):</b> Relates profit to the size of the investment.</li> <li>○ <b>EPS (Earnings Per Share):</b> Growth in EPS is linked to share price appreciation.</li> <li>○ <b>EBITDA:</b> Used as an approximation of cash flow from operations before interest and tax.</li> </ul> <p><b>Balanced Scorecard:</b> Kaplan and Norton’s model looks at four perspectives: <b>Financial, Customer, Internal Processes, and Innovation/Learning</b>.</p> <p><b>Fitzgerald and Moon Building Block Model:</b> Specifically for service industries, it assesses performance across <b>Dimensions</b> (Results like profit and determinants like quality), <b>Standards</b> (Ownership, Achievability, Equity), and <b>Rewards</b>.</p> <p>→Take quiz on this topic at <a href="https://www.finprepacademy.com">finprepacademy.com</a></p>
<p style="text-align: center;"><b>Performance Analysis in Not-For-Profit Organisations</b></p> <hr/> <p><b>Objectives:</b> These organisations have <b>non-quantifiable broad objectives</b> and must provide benefits within a set budget.</p> <p><b>Value for Money (VFM):</b> Measured via the <b>3Es</b>:</p> <ol style="list-style-type: none"> <li>1. <b>Economy:</b> Minimising the cost of resources for an activity.</li> <li>2. <b>Efficiency:</b> Maximising the ratio of outputs to inputs.</li> <li>3. <b>Effectiveness:</b> Achieving the intended results or goals.</li> </ol> <p style="text-align: center;"><b>Divisional Performance and Transfer Pricing</b></p> <p><b>Divisional Measures:</b></p> <ul style="list-style-type: none"> <li>○ <b>ROI (Return on Investment):</b> Measures profit as a percentage of the capital employed. <ul style="list-style-type: none"> <li>▪ <b>Formula:</b> (Controllable Profit / Capital Employed) × 100%.</li> </ul> </li> </ul>	<p style="text-align: center;"><b>VALUE CHAIN ANALYSIS</b></p> <hr/> <p><b>Value chain analysis</b> is a model developed by Michael Porter to evaluate the inter-connected activities within an organisation that create value for the customer. Value is the benefit a customer receives, and most successful companies gain a <b>competitive advantage</b> by creating more value than rivals through either <b>cost leadership</b> or <b>differentiation</b>.</p> <ul style="list-style-type: none"> <li>• <b>Primary Activities:</b> Directly involved in creating and delivering the product. They include <b>inbound logistics</b> (receiving materials), <b>operations</b> (manufacturing), <b>outbound logistics</b> (distribution), <b>marketing and sales</b>, and <b>service</b> (after-sales support).</li> <li>• <b>Support Activities:</b> Provide the infrastructure for primary activities to function. They include <b>procurement</b>,</li> </ul>

<ul style="list-style-type: none"> <li>○ <b>Residual Income (RI):</b> Accounting profit minus a notional interest charge.             <ul style="list-style-type: none"> <li>▪ <b>Formula:</b> Controllable Profit – (Capital Employed × Cost of Capital).</li> </ul> </li> <li>○ <b>EVA (Economic Value Added):</b> Measures true economic profit by adjusting for non-cash items and intangible investments.             <ul style="list-style-type: none"> <li>▪ <b>Formula:</b> NOPAT – (Capital Employed × WACC).</li> </ul> </li> </ul> <p><b>Transfer Pricing:</b> The internal price charged when one division sells to another.</p> <ul style="list-style-type: none"> <li>○ <b>Ideal Transfer Price Rule:</b> The minimum transfer price should be the <b>Marginal Cost + Opportunity Cost</b> to the selling division.</li> </ul> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>	<p><b>technology development (R&amp;D/IT), human resources management, and corporate infrastructure</b> (planning and finance).</p> <p><b>PERFORMANCE MEASURES – PROFITABILITY, LIQUIDITY &amp; SOLVENCY</b></p> <hr/> <p>Financial performance indicators (FPIs) are quantitative measures used to assess how well an organisation meets its financial objectives.</p> <ul style="list-style-type: none"> <li>• <b>Profitability:</b> Measured using ratios like <b>Return on Capital Employed (ROCE)</b>, which relates profit to investment size, and <b>Earnings Per Share (EPS)</b>, which influences share price growth. <b>Profit margins</b> (Gross and Net) are also monitored to track how effectively costs are managed relative to revenue.</li> <li>• <b>Liquidity:</b> The ability to pay liabilities when they fall due. Key measures include the <b>Current Ratio</b> ( ) and the <b>Quick Ratio</b> (excludes inventory), which is more suitable if inventory turnover is slow.</li> <li>• <b>Solvency:</b> Long-term ability to meet debt obligations. Measures include <b>Gearing</b> (debt-to-equity or debt-to-total-capital ratios) and <b>Interest Cover</b>, which assesses if operating profits are sufficient to meet interest payments.</li> </ul> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>
<p><b>STRATEGIC PERFORMANCE ISSUES IN COMPLEX BUSINESS STRUCTURES</b></p> <hr/> <p>In complex structures, planning is hierarchical, linking <b>strategic planning</b> (long-term) with <b>tactical</b> (medium-term) and <b>operational</b> (short-term) levels.</p> <ul style="list-style-type: none"> <li>• <b>Common Problems:</b> include <b>misalignment of goals</b> between divisions, data inaccuracy, and <b>short-termism</b>, where managers take actions to improve current results (e.g., deferring maintenance) that harm long-term value.</li> <li>• <b>Analysis Models:</b> Strategic position is assessed using <b>PESTEL</b> (Political, Economic, Social, Technological, Environmental, Legal), <b>Porter’s Five Forces</b> (rivalry, new entrants, suppliers, customers, and substitutes), and <b>SWOT analysis</b> (internal Strengths/Weaknesses and external Opportunities/Threats).</li> </ul> <p><b>ALTERNATIVE VIEWS OF PERFORMANCE MEASUREMENT AND MANAGEMENT</b></p> <hr/> <p>Traditional annual appraisals are increasingly replaced by models focusing on continuous feedback and growth.</p> <p><b>The Performance Pyramid (Lynch &amp; Cross):</b> A four-level hierarchy linking corporate vision to operations. It integrates external effectiveness (e.g., customer satisfaction) with internal efficiency (e.g., cycle time and waste).</p> <p><b>The Balanced Scorecard (Kaplan &amp; Norton):</b> Measures performance across four perspectives: <b>Financial, Customer, Internal Processes, and Innovation and Learning.</b></p> <p><b>Value-Based Management (VBM):</b> Focuses on long-term shareholder value creation, often using metrics like <b>Economic Value Added (EVA).</b></p> <p><b>Value for Money (VFM):</b> Primarily used in Not-For-Profit sectors, focusing on the <b>3Es: Economy</b> (minimising cost), <b>Efficiency</b> (maximising output for inputs), and <b>Effectiveness</b> (achieving objectives).</p> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>	<p><b>PREDICTING AND PREVENTING CORPORATE FAILURES</b></p> <hr/> <p><b>Corporate failure</b> is often caused by management incompetence, weak governance, or bad investment decisions.</p> <p><b>Quantitative Prediction:</b> Focuses on financial ratios (profitability, liquidity, and solvency) and bankruptcy models like the <b>Altman Z-Score.</b></p> <p><b>Qualitative Prediction:</b> Includes assessing management quality, internal information flow, and "red flags" like <b>creative accounting.</b> The <b>Argenti A-Score</b> evaluates failure likelihood based on management defects and terminal signs.</p> <p><b>Prevention Strategies:</b> Involves implementing strong <b>operational controls</b>, good <b>corporate governance</b>, and adopting continuous improvement techniques like <b>Total Quality Management (TQM)</b> or <b>Just-in-Time (JIT).</b> Organizations must also consider <b>life cycle issues</b>, as products and business models naturally move toward decline</p> <p>→Take quiz on this topic at <a href="https://finprepacademy.com">finprepacademy.com</a></p>
<p><b>Current Developments in Management Accounting</b></p> <hr/> <p>Management accounting has evolved to address rapid environmental shifts driven by <b>globalisation</b> and continuous <b>technological innovation.</b></p> <p><b>Integration of Advanced Technologies:</b> The "digital revolution" has introduced tools like <b>Big Data analytics</b> for deeper insights into customer behavior, <b>Artificial Intelligence (AI)</b> for automating repetitive reporting and detecting anomalies, and <b>Blockchain</b> to ensure immutable record-keeping and reduce fraud risk.</p> <p><b>Focus on Non-Financial Metrics:</b> Modern management accounting increasingly incorporates <b>Environmental, Social, and Governance (ESG)</b> reporting, as well as customer and employee</p>	<p><b>Current Issues and Trends in Performance Management</b></p> <hr/> <p>Performance management is now viewed as a specialised subset of management accounting that focuses specifically on <b>measuring, evaluating, and improving</b> organisational and individual performance through hi-tech methods.</p> <p><b>Technological Leverage and Data Integrity:</b> A primary contemporary issue is the <b>explosion of data</b>, which requires robust information systems for accurate real-time processing while ensuring <b>cybersecurity</b> to protect data integrity.</p> <p><b>Sustainability and ESG Reporting:</b> There is a growing emphasis on <b>corporate sustainability</b>, requiring performance managers to report on how the business impacts the physical, social, and economic environment.</p>

metrics (satisfaction, loyalty, and innovation rates) as essential drivers of long-term value.

**Strategic Business Partnering:** The role of the accountant is shifting from a "scorekeeper" to a **strategic business partner**, embedded within cross-functional teams to provide real-time insights for decision-making.

**Agility and Real-Time Support:** Static annual budgets are being replaced by **rolling forecasts** and **scenario modeling**, allowing organisations to stress-test assumptions and adapt quickly to market realities.

**Talent Development:** Practitioners now require new skill sets in **data science**, statistical modeling, and business acumen alongside traditional technical expertise.

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**Alignment of Goals:** A critical challenge is ensuring **strategic alignment** between individual employee goals, departmental objectives, and the overall corporate vision to reduce dysfunctional behaviour or sub-optimisation.

**Employee Well-being and Engagement:** Emerging trends focus on **prioritising employee well-being**, reducing bias in evaluations, and using continuous feedback rather than infrequent annual reviews.

**Adoption of Modern Techniques:** Performance management is increasingly utilising advanced methods such as **Total Quality Management (TQM)**, **Throughput Accounting**, and **Back-flush Accounting** to drive continuous improvement.

**Information Accessibility:** Designing systems that provide **instant access** to information while avoiding **information overload** is a key factor in supporting the tasks of modern managers.

**Impact of Remote Work:** The rise of **home working** and **groupware** (electronic teams) has changed organizational structures, leading to "flatter" management hierarchies and wider spans of control.

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