



Examiner's report

F1/FAB Accountant in Business

For CBE and Paper exams covering July to December 2014

General Comments

The examination comprised two parts. The first part required candidates to answer 46 objective test questions, worth either 1 mark or 2 marks. The second section of the paper was made up of 6 scenario-based, multi-task questions, each worth 4 marks. The time permitted was 2 hours.

The pass rate was satisfactory, with the majority of candidates demonstrating a reasonable command of the subject.

Part A of the paper – objective test questions:

With some exceptions, candidates dealt with the short objective test questions in Section A quite well. Topics on which questions had high pass rates included stakeholders (specifically, Mendelow's theory), decentralisation, accounting and finance functions, money laundering, recruitment and time management. Of the six syllabus areas, performance was most consistent for questions drawn from part C, 'Accounting and reporting systems, controls and compliance'. It should also be noted, however, that candidates performed steadily on questions relating to organisations (part A of the syllabus) and ethics (part F of the syllabus), as very few questions drawn from these areas saw pass rates that were lower than the average. This was consistent with a good overall performance on questions 1 and 6 in part B of the paper (organisational forms and ethics respectively).

None of the six parts of the syllabus seem to be disproportionately difficult, as questions with lower pass rates were quite evenly spread across a wide range of topics. The lowest pass rates occurred on questions relating to equal opportunities, micro-economics, information systems, internal control, public oversight board, duty of disclosure of non-executive directors, culture (Handy) and newer organisational models (virtual, hollow and shared services organisations). Although candidates fared quite badly on the last of these topics, performance was good on question 2(b) in part B of the paper, which related to the matrix organisational structure and reasonable for part (a) of the same question on Mintzberg's organigram typologies.

Among the weaker submissions, there was some evidence of guesswork, which may be attributable to lack of breadth in study or time management issues. This is often indicated by an even spread of responses across the correct answer and distractors (Incorrect answers).

Some candidates did not complete a full set of part A answers. This is disappointing, as there is little evidence to suggest that the paper is time pressured, and even ill-prepared candidates should be able to eliminate one or two distractors from the choices offered, and then if necessary take a reasoned guess.

Sample part A questions for discussion:

Example 1:

Question 10 examined the purposes of internal controls:

Which of the following is a purpose of internal control?

- A To provide reasonable assurance that the company can achieve its objectives
- B To ensure that all operational accounting data is totally accurate
- C To eliminate all risks arising from fraud and other criminal acts
- D To validate the financial statements of the company as a true and fair view

The correct answer is A.



Choice B must be incorrect, as there is no such thing as a perfect control system. No matter how robust and comprehensive, no control system can prevent human errors, deliberate circumvention of controls or deficiencies brought about by change over time. This also confirms that choice C must be incorrect, as control systems cannot eliminate risks entirely. Over time, new risks emerge just as existing risks may recede. Choice D summarises the purpose of external audit. Even though pursuit of an objective to ensure that the financial statements give a 'true and fair view' may be a goal of internal controls, they can only be validated by independent, external appraisal.

Although choice D is possibly a second best answer to this question, very few candidates chose this. The majority of candidates thought that choice C was correct.

The correct answer was selected by 32% of candidates. The phrase 'reasonable assurance' is often used in company reports when summarising the purposes of controls.

Example 2:

Question 27 was a scenario relating to the duty of disclosure of directors.

Max is an independent non-executive director of PLK Company, a private company in which 75% of the equity is owned by members of one family. At a recent board meeting, Max was informed that the executives had entered into a one-year contract with VCV Company, a new supplier. Although the executives did not know this, Max's sister is an executive director of VCV Company.

Which of the following statements is correct?

- A** Max should resign from the company as he can no longer be truly independent
- B** Max should disclose his family connection with VCV Company immediately
- C** Max needs to do nothing, as PLK Company is a private company
- D** Max should have been consulted about the contract before it was signed

The correct answer is B.

Independent non-executive directors have a special responsibility to remain objective, and must also be seen to be totally free of influences that may affect their judgement. However, in most jurisdictions, the duty to avoid potential conflicts of interest of accusations of such is a duty of all directors, whether they are executive directors or non-executive directors.

Choice A is incorrect because many private companies (and some public companies) have non-executive directors who are not independent. For example, some non-executive directors are engaged specifically for their technical expertise, even if they have connections with the company, and there is nothing wrong with this, provided there is full and frank disclosure to the shareholders.

Choice C is incorrect, as the company's shareholders are entitled to know of the family connection between PLK Company and VCV Company. Although 75% of the shares are in the hands of one family, by definition the remaining shares are held by others.

Option D has to be incorrect, because the other directors and the executives of the company may not even have known about Max's family connection.

Best practice in these situations is for the director concerned to declare any interest at the earliest opportunity, which should be by the next board meeting at the latest, and then not be involved in any discussions or decisions on the contract concerned.

The pass rate for this question was less than 40%. The correct answer was the most popular answer, but the large number of incorrect responses was spread across the three distractors. Choice D was the second most popular answer.



Example 3:

Question 34 related to the role of a public oversight board.

Which of the following best describes the purpose of a public oversight board?

- A To prepare primary legislation relating to the conduct of professional firms
- B To scrutinise the standards of business practice in professional firms
- C To provide detailed advice to professional firms on legal compliance and ethical standards

The correct answer is B.

Despite the question only offering three choices and therefore just 1 mark, there is no statistical evidence to suggest that such questions are any less demanding than those offering four choices for 2 marks.

The term 'scrutinise' is often used interchangeably with 'oversight' by those working in corporate governance and compliance roles, so candidates who recognised this would have been drawn to the correct answer.

Public oversight boards came to prominence with the tightening of government controls that followed the scandals in Enron and some other large companies. In the USA, it was a specific response to the peripheral role of professional firms.

Although the findings or work carried out by a public oversight board may have a role to play in drafting new legislation, the preparation of such legislation is not a role as such. The responsibility for this falls to the legislature of each country. Therefore, choice A is incorrect.

An oversight board is more likely to advise on practices considered to be inappropriate than to give detailed advice on professional and ethical standards. Such guidelines are often produced by professional bodies (such as the ACCA) and federations or other private sector bodies (such as IFAC or COSO).

The correct answer was chosen by less than 35% of candidates, with the majority of incorrect responses opting for choice C.

Interestingly, a small minority of candidates chose the non-existent option D, presumably as a result of hasty guesswork without looking at the structure of the question.

Part B of the paper – multi-task questions:

Each of the six questions in this part of the paper related to one part of the syllabus.

Question 1 was in two parts. The first part asked candidates to match descriptions of organisations to the type of business and the second part concerned the characteristics of incorporated business organisations. Generally, candidates performed extremely well on part (a) of this question and reasonably well on part (b). This question has the second highest pass rate of the multi-task questions.

Question 2 tested the candidates' understanding of the five typologies in Mintzberg's model and the characteristics of a matrix organisation. Although performance on both parts of the question was reasonable, there was evidence to suggest that those applying guesswork benefited somewhat from defaulting to 'A, B, C, D'. As on this occasion the sequence would have matched two correct answers, this questionable strategy would have resulted in gaining one mark. However, it must be emphasised that there is no greater probability of this occurring than any other permutation of the four letters, so statistical probabilities mitigate against the approach. Question 3 asked candidates to match information to where it is found in four financial statements, and to identify the purpose of IFRS. Most candidates knew which information would be derived from the statement of

financial position and the profit or loss account, but were perhaps less certain in relation to the statement of cash flows and integrated reports. Surprisingly, in part (b) most candidates thought that IFRSs are legally binding.

Question 4 contained two requirements, both concerning Belbin's team roles theory. Candidates struggled to identify the team role that most accurately fitted the individuals described, and the pass rate on this question was possibly reduced by candidates who did not know the theory having to choose from the nine team roles. However, candidates performed much more strongly on the second part of the question, in which they had to identify statements that were consistent with Belbin's theory.

Question 5 was a single part question on the Anthony hierarchy. This question saw the highest pass rate, with a significant proportion of candidates scoring full marks and the majority earning more than half marks.

Question 6 tested the candidates' ability to recognise deontological attitudes (ethical responses based on duty), and to judge the potential outcomes of introducing a code of ethics. Candidates performed moderately well on this question.

Some additional observations are relevant to those who sit the paper-based (non CBE) version of the examination. Three practices in particular are important to those presenting themselves for examination.

Firstly, it is futile to select more answers than the number required by the question. If a question asks for two choices from A, B, C and D, writing down more than two choices (such as 'A, C, D') will always result in zero marks for this part of the question. Likewise, if a candidate answers the same question twice, this will not increase the prospect of being awarded marks, as only the first attempt will be marked. Candidates who change their minds should ensure that they clearly delete any answer that they wish to have disregarded by the marker. Secondly, candidates should follow the precise instructions given. For example, in question 1, part B of the paper, writing down the names of the companies described in the scenario is not the appropriate response if the question instructs the candidate to write two of the following: 'A, B, C or D'. The correct response is to write just the letters corresponding to the companies. No additional credit is available for writing narrative answers as sentence or paragraphs, or for reproducing words or phrases in the question. Such practices not only fail to add value to the script, but also take up valuable time that could be spent more productively.

Thirdly, as the examination asks candidates to write letters (A, B, C, etc) or numbers (i, ii, iii), etc), legibility issues should be of minimal concern. However, candidates must understand that where changes are made to a response, if the marker cannot recognise the letter or number, it is impossible to award marks. For example, if the candidate changes a 'B' to a 'D' but it is unclear which letter has been chosen, the response will score zero marks. It is therefore far better practice to cross out the first response completely and replace it with another.

Conclusions:

With the majority of candidates achieving a pass, it is clear that these candidates are able to take on board sufficient knowledge across what is a very broad syllabus, as well as being able to apply their knowledge to scenarios.

Candidates should recognise that none of the topics examined in this paper require a detailed or comprehensive knowledge, and that it is best practice to have a general understanding of as many topics as possible. It is understood that very few candidates will be equally proficient across all areas of the syllabus, but the student who invests a reasonable amount of time in meaningful preparation should pass.

For a typical candidate, it is wise to spend a little more time on more complicated theories and concepts, as well as those which include more information. For example, when dealing with organisational culture, questions on



Handy's theory pose less difficulty than those on Schein's theory, because for the average candidate the latter is more difficult to grasp than the former. But in turn, candidates may find organisational culture more difficult than other organisational theories, implying that study time should be adjusted accordingly.

Candidates are unlikely to be under time pressure when sitting this paper, but time management may be an issue for some. If well prepared, candidates may be able to deal with the paper in 'sweeps', by quickly going through questions on which they are absolutely confident and then investing more of the available time on questions that they find more challenging. In this respect, it is also important to stress that this paper never contains trick questions, so quite often thinking too hard and too long about answers initially considered to be incorrect, may be counter-productive.