

Examiner's report

F1/FAB Accountant in Business

December 2011



General Comments

The December 2011 examination was the first to be examined under the new syllabus and included questions on topics such as money laundering, micro-economics and business ethics that were previously not examinable. Understandably, there was a much wider divergence in performance across the 50 questions than in previous examination sessions. However, this was not entirely due to new material appearing in the syllabus and the examination.

Candidates generally dealt with questions on ethics very well, except for a scenario question on conflict of interest, which had a pass rate of 34%. By contrast, a scenario asking candidates what actions an individual should take when she discovers that her manager is acting inappropriately had a pass rate of 78%.

There was one question on micro-economics and one question on money laundering, and most candidates struggled with these.

Of the topics that carry over from F1, there was a very mixed performance. Most candidates answered questions on Tuckman's theory, organisational structure, training and performance appraisal successfully.

Surprisingly, a relatively straightforward question on budgetary control caused difficulties (see below), as did questions on Elton Mayo's Hawthorne experiments, communications, Mendelow's stakeholder grid, organisational culture and leadership. However, it cannot be concluded that candidates find theories more difficult across the board, as there were strong performances on other theoretical questions.

Candidates performed slightly better on scenario-based questions than shorter questions. However, there is evidence that spending longer on the former may affect the ability of candidates to complete all 50 questions, as a significant number of candidates did not answer all of the questions on the paper.

SAMPLE QUESTIONS FOR DISCUSSION

Question 22 required knowledge of the budgetary control process:

VTP Company has introduced a new budgetary control system. Managers have been asked to prepare budgets for their areas of responsibility and have agreed these formally with senior executives.

What is the next stage of the process?

- A Reviewing outcomes in order to plan for the next period**
- B Measurement of actual business outcomes**
- C Analysis of variances between actual and budgeted performance**
- D Agreement on action to be taken on significant variances**

The correct answer is B.

The distractors are all key stages of the budgetary process, which starts with setting objectives and moves through a sequence of preparation, action and review. Having prepared budgets for each area of responsibility, managers have to measure the outcomes in order for proper analysis and review to take place. It is not possible to analyse variances until actual outcomes are known, nor is it possible to review the outcomes and plan appropriate actions.

Only 24% of candidates selected the correct answer.

Question 25 was a scenario question that asked candidates to apply their knowledge macro-economic policy to identify the most appropriate policy to achieve long-term objectives:

A recent report commissioned by the government of Arkana has concluded that the national birth rate has fallen from an average of 2.1 children per household to 1.7 children per household. This decline is expected to continue, as families face a period of prolonged financial pressure. The report also found that the life expectancy of the citizens of Arkana has increased from an average of 74 years to 79 years. Again, this trend is expected to continue as citizens choose healthier lifestyles. Numerous policy measures have been proposed by ministers to reduce the long-term pressure on national finances.

Which of the following measures is most appropriate in order to achieve this objective?

- A A reduction in income tax rates and an increase in personal tax-free allowances**
- B The provision of targeted support for elderly low income families**
- C The introduction of tax incentives to invest in personal pension arrangements**
- D Maintenance of low interest rates in order to increase the money supply**

The correct answer is C.

The government in Arkana is faced with a situation in which a greater proportion of the population will be in older age groups in the future, which is a real life problem currently affecting many nations.

A reduction in income tax rates and an increase in personal allowances will increase disposable income in the short-term, which may in turn encourage citizens to invest more for the future. Maintenance of low interest rates would have a similar effect to the fiscal policy changes, though with a slightly longer time lag. However, such expansionary measures are not guaranteed to achieve the long-term objective of reducing pressure on national finances.

Targeted support for elderly low income families increases the pressure on national finances in the short-term. In the long-term, such changes could be changed by successive governments.

Tax incentives to invest in personal pension arrangements have the effect of freeing up disposable income but only for the purpose of investment in retirement benefit schemes which may help to reduce long-term dependence on state pensions as a source of income, thereby reducing the public pressure to maintain or enhance state personal pension provision.

The pass rate for this question was 30%.



Question 49 required knowledge of best practices in corporate governance.

The remuneration committee of RDC Company has prepared a report to the board proposing major changes to the structure of executive remuneration packages. The recommendations include the following:

- 1. Enhanced bonuses linked to performance over 1–2 years will be paid, linked to performance, with the result that bonuses will now comprise about 80% of ‘on target earnings’**
- 2. As the output of individual directors is impossible to measure, the fairest system of remuneration is to reward executive directors with across-the-board increases on an annual basis**
- 3. A significant proportion of executive pay will be made up of shares in the company, which will be allotted subject to the achievement of objectives over a rolling five year period**
- 4. Acknowledging the contribution of all board members, share options will be made available to all executive and non-executive directors**
- 5. As the company pays its executives less than its main competitors, basic pay and fringe benefits will be increased with immediate effect, which means that the average director’s remuneration will be made up of approximately 50% ‘on target earnings’**

Which of the above recommendations are consistent with best practices in corporate governance in respect of remuneration of directors?

- A 1 and 4**
- B 2 and 3**
- C 3 and 4**
- D 3 and 5**

The correct answer is D.

Remuneration has several roles, and different elements of remuneration packages should be targeted at fulfilling these roles. An effective remuneration package should reward excellent long-term performance, which can be achieved by building in rewards such as shares, share options and pension benefits linked to performance. The package should also provide a competitive basic salary and fringe benefits, without which the organisation will not attract and retain persons of the right calibre.

Directors should focus their efforts on promoting the success of the organisation in the medium to long-term, which for many companies will be regarded as a period of 3-5 years. If incentives are provided for short-term performance, those who formulate policies could implement measures that will provide lucrative rewards in the short-term, but harm the company in the more distant future. By offering attractive bonus-driven packages, assessed over 1-2 year periods, such a consequence becomes more likely.

Most experts on corporate governance agree that across-the-board pay and incentives awards are entirely inappropriate, as they fail to acknowledge differentials in the performance of individual directors.

It is also generally acknowledged that whilst executive directors’ remuneration should be made up of both basic pay and incentives, non-executive directors should be remunerated by fees only.
The pass rate for this question was 20%.

CONCLUSIONS

'Accountant in Business' should be regarded as a predominantly knowledge-based paper. It covers a wide range of topics, but there is no expectation that individual topics will be examined in depth. A strategy for success should therefore be based on acquiring a basic knowledge and understanding of as many subjects as possible, without focusing too heavily on any one topic or group of topics. As such, the paper is a gateway to applying knowledge gained in greater depth in papers positioned at higher levels in the ACCA Qualification structure.

The platform for study should be the ACCA syllabus and study guide. Put simply, if a topic is in the study guide it may be examined. As the syllabus is broad, the learning outcomes are deliberately focused. Where theories are cited, it is generally only necessary to know the content of the theory and very basic applications.

Candidates should avoid the temptation to regard some of the subjects in the syllabus as common sense and therefore not deserving of formal study. Although topics such as time management and communications are practised on a daily basis by everyone, there is little prospect of questions appearing that can be answered without some study of the topic.

Scenario questions do not seem to pose greater difficulty than shorter questions, though they may take more time to answer on average. This has an implication for time management in the examination hall. Candidates should read the precise requirement very carefully before taking information from the question to select the correct response.

To maximise the prospect of success, it is important to attempt all questions on the paper. It is clearly impossible to know everything about every subject, but even on weaker topics, it is often possible to eliminate distractors, thereby reducing the time spent on these and improving the probability of choosing the correct answer.