

# ACCA Syllabus

## June & December 2012

This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

### THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

#### Relational diagram of paper with other papers

This diagram shows direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers such as Advanced Performance Management by Performance Management. These links are shown as solid line arrows. Other papers only have indirect relationships with each other such as links existing between the accounting and auditing papers. The links between these are shown as dotted line arrows. This diagram indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

#### Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper.

#### Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

#### Relational diagram of the main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

#### Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

#### Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

#### Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

#### Study Guide

This is the main document that students, tuition providers and publishers should use as the basis of their studies, instruction and materials. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate, and the broad intellectual level at which these may need to be demonstrated (\*see intellectual levels below).

#### Learning Materials

ACCA's Approved Learning Partner - content (ALP-c) is the programme through which ACCA approves learning materials from high quality content providers designed to support study towards ACCA's qualifications.

ACCA has one Platinum Approved Learning Partner content which is BPP Learning Media. In addition, there are a number of Gold Approved Learning Partners - content.

For information about ACCA's Approved Learning Partners - content, please go ACCA's Content Provider Directory.

The Directory also lists materials by Subscribers, these materials have not been quality assured by ACCA but may be helpful if used in conjunction with approved learning materials. You will also find details of Examiner suggested Additional Reading which may be a useful supplement to approved learning materials.

ACCA's Content Provider Directory can be found here–  
[http://www.accaglobal.com/learningproviders/alpc/content\\_provider\\_directory/search/](http://www.accaglobal.com/learningproviders/alpc/content_provider_directory/search/).

Relevant articles will also be published in Student Accountant.

## INTELLECTUAL LEVELS

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification.

The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1: Knowledge and comprehension

Level 2: Application and analysis

Level 3: Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Knowledge module, the Skills module and the Professional level are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with the Knowledge module, level 2 equates to the Skills module and level 3 to the Professional level, some lower level skills can continue to be assessed as the student progresses through each module and level. This reflects that at each stage of study there will be a

requirement to broaden, as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

## LEARNING HOURS

The ACCA qualification does not prescribe or recommend any particular number of learning hours for examinations because study and learning patterns and styles vary greatly between people and organisations. This also recognises the wide diversity of personal, professional and educational circumstances in which ACCA students find themselves.

Each syllabus contains between 23 and 35 main subject area headings depending on the nature of the subject and how these areas have been broken down.

## GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The Fundamentals level examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

The Knowledge module is assessed by equivalent two-hour paper based and computer based examinations.

The Skills module examinations are all paper based three-hour papers. The structure of papers varies from ten questions in the *Corporate and Business Law* (F4) paper to four 25 mark questions in *Financial Management* (F9). Individual questions within all Skills module papers will attract between 10 and 30 marks.

The Professional level papers are all three-hour paper based examinations, all containing two sections. Section A is compulsory, but there will be some choice offered in Section B.

For all three hour examination papers, ACCA has introduced 15 minutes reading and planning time.

This additional time is allowed at the beginning of each three-hour examination to allow candidates to

read the questions and to begin planning their answers before they start writing in their answer books. This time should be used to ensure that all the information and exam requirements are properly read and understood.

During reading and planning time candidates may only annotate their question paper. They may not write anything in their answer booklets until told to do so by the invigilator.

The Essentials module papers all have a Section A containing a major case study question with all requirements totalling 50 marks relating to this case. Section B gives students a choice of two from three 25 mark questions.

Section A of each of the Options papers contains 50-70 compulsory marks from two questions, each attracting between 25 and 40 marks. Section B will offer a choice of two from three questions totalling 30-50 marks, with each question attracting between 15 and 25 marks.

The pass mark for all ACCA Qualification examination papers is 50%.

## GUIDE TO EXAMINATION ASSESSMENT

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and assurance, law and tax papers except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions..

For paper based examinations regulation **issued** or legislation **passed** on or before 30<sup>th</sup> September annually, will be assessed from June 1<sup>st</sup> of the following year to May 31<sup>st</sup> of the year after. . Please refer to the examinable documents for the paper (where relevant) for further information.

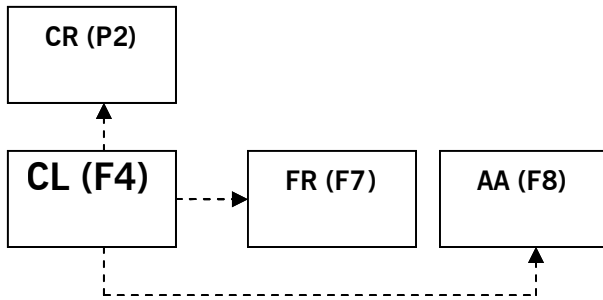
Regulation issued or legislation passed in accordance with the above dates may be examinable even if the **effective** date is in the future.

The term issued or passed relates to when regulation or legislation has been formally approved.

The term effective relates to when regulation or legislation must be applied to an entity transactions and business practices.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

# Corporate and Business Law (ENG) (F4)



## AIM

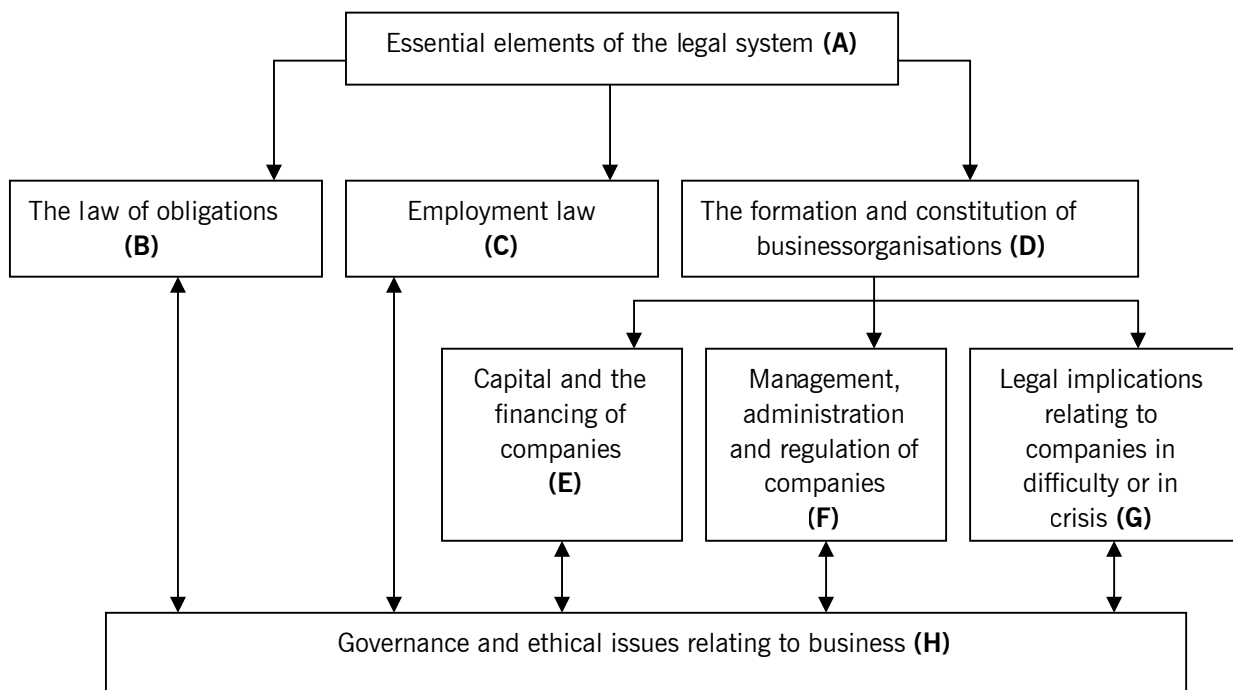
To develop knowledge and skills in the understanding of the general legal framework, and of specific legal areas relating to business, recognising the need to seek further specialist legal advice where necessary.

## MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

- A** Identify the essential elements of the legal system, including the main sources of law
- B** Recognise and apply the appropriate legal rules relating to the law of obligations
- C** Explain and apply the law relating to employment relationships
- D** Distinguish between alternative forms and constitutions of business organisations
- E** Recognise and compare types of capital and the financing of companies
- F** Describe and explain how companies are managed, administered and regulated
- G** Recognise the legal implications relating to companies in difficulty or in crisis
- H** Demonstrate an understanding of governance and ethical issues relating to business.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

*Corporate and Business Law* is divided into eight areas. The syllabus starts with an introduction to the overall English legal system such as the court system and sources of law – including – human rights legislation. It then leads into the area of the law of obligations including contract and tort, which underpin business transactions generally.

The syllabus then covers a range of specific legal areas relating to various aspects of business of most concern to finance professionals. These are the law relating to employment and the law relating to companies. These laws include the formation and constitution of companies, the financing of companies and types of capital, and the day-to-day management, the administration and regulation of companies and legal aspects of companies facing difficulty or in crisis.

The final section links back to all the previous areas. This section deals with corporate governance, ethics and ethical behaviour relating to business including criminal law.

## **DETAILED SYLLABUS**

### **A Essential elements of the legal system**

1. Court structure
2. Sources of law
3. Human rights

### **B The law of obligations**

1. Formation of contract
2. Content of contracts
3. Breach of contract and remedies
4. The law of torts
5. Professional negligence

### **C Employment law**

1. Contract of employment

2. Dismissal and redundancy

### **D The formation and constitution of business organisations**

1. Agency law
2. Partnerships
3. Corporations and legal personality
4. Company formations

### **E Capital and the financing of companies**

1. Share capital
2. Loan capital
3. Capital maintenance and dividend law

### **F Management, administration and regulation of companies**

1. Company directors
2. Other company officers
3. Company meetings and resolutions

### **G Legal implications relating to companies in difficulty or in crisis**

1. Insolvency
2. Administration

### **H Governance and ethical issues relating to business**

1. Corporate governance
2. Fraudulent and criminal behaviour

## **APPROACH TO EXAMINING THE SYLLABUS**

The syllabus is assessed by a three hour paper-based examination.

The examination consists of seven 10 mark questions assessing knowledge of the law, and three 10 mark application questions.

### **NOTE ON CASE LAW**

Candidates should support their answers with analysis referring to cases or examples. There is no need to detail the facts of the case. Remember, it is the point of law that the case establishes that is important, although knowing the facts of cases can be helpful as sometimes questions include scenarios based on well-known cases. Further it is not necessary to quote section numbers of Acts.

# Study Guide

## **A ESSENTIAL ELEMENTS OF THE LEGAL SYSTEM**

### **1. Court structure**

- a) Define law and distinguish types of law.<sup>[1]</sup>
- b) Explain the structure and operation of the courts and tribunals systems.<sup>[1]</sup>

### **2. Sources of law**

- a) Explain what is meant by case law and precedent within the context of the hierarchy of the courts.<sup>[2]</sup>
- b) Explain legislation and evaluate delegated legislation.<sup>[2]</sup>
- c) Illustrate the rules and presumptions used by the courts in interpreting statutes.<sup>[1]</sup>

### **3. Human rights**

- a) Identify the concept of human rights as expressed in the Human Rights Act 1998.<sup>[2]</sup>
- b) Explain the impact of human rights law on statutory interpretation.<sup>[2]</sup>
- c) Explain the impact of human rights law on the common law.<sup>[2]</sup>

## **B THE LAW OF OBLIGATIONS**

### **1. Formation of contract**

- a) Analyse the nature of a simple contract.<sup>[2]</sup>
- b) Explain the meaning of offer and distinguish it from invitations to treat.<sup>[2]</sup>
- c) Explain the meaning and consequence of acceptance.<sup>[2]</sup>
- d) Explain the need for consideration.<sup>[2]</sup>
- e) Analyse the doctrine of privity.<sup>[2]</sup>
- f) Distinguish the presumptions relating to intention to create legal relations.<sup>[2]</sup>

## **2. Content of contracts**

- a) Distinguish terms from mere representations.<sup>[2]</sup>
- b) Define the various contractual terms.<sup>[1]</sup>
- c) Explain the effect of exclusion clauses and evaluate their control.<sup>[2]</sup>

## **3. Breach of contract and remedies**

- a) Explain the meaning and effect of breach of contract.<sup>[2]</sup>
- b) Explain the rules relating to the award of damages.<sup>[2]</sup>
- c) Analyse the equitable remedies for breach of contract.<sup>[2]</sup>

## **4. The law of torts**

- a) Explain the meaning of tort.<sup>[2]</sup>
- b) Identify examples of torts including 'passing off' and negligence.<sup>[2]</sup>
- c) Explain the duty of care and its breach.<sup>[2]</sup>
- d) Explain the meaning of causality and remoteness of damage.<sup>[2]</sup>
- e) Discuss defences to actions in negligence.<sup>[2]</sup>

## **5. Professional negligence**

- a) Explain and analyse the duty of care of accountants and auditors.<sup>[2]</sup>

## **C EMPLOYMENT LAW**

### **1. Contract of employment**

- a) Distinguish between employees and the self-employed.<sup>[2]</sup>
- b) Explain the nature of the contract of employment and give examples of the main duties placed on the parties to such a contract.<sup>[2]</sup>

## **2. Dismissal and redundancy**

- a) Distinguish between wrongful and unfair dismissal including constructive dismissal.<sup>[2]</sup>
- b) Explain what is meant by redundancy.<sup>[2]</sup>
- c) Discuss the remedies available to those who have been subject to unfair dismissal or redundancy.<sup>[2]</sup>

## **D THE FORMATION AND CONSTITUTION OF BUSINESS ORGANISATIONS**

### **1. Agency law**

- a) Define the role of the agent and give examples of such relationships paying particular regard to partners and company directors.<sup>[2]</sup>
- b) Explain how the agency relationship is established.<sup>[2]</sup>
- c) Define the authority of the agent.<sup>[2]</sup>
- d) Explain the potential liability of both principal and agent.<sup>[2]</sup>

### **2. Partnerships**

- a) Demonstrate a knowledge of the legislation governing the partnership, both unlimited and limited.<sup>[1]</sup>
- b) Discuss how partnerships are established.<sup>[2]</sup>
- c) Explain the authority of partners in relation to partnership activity.<sup>[2]</sup>
- d) Analyse the liability of various partners for partnership debts.<sup>[2]</sup>
- e) Explain the way in which partnerships can be brought to an end and partners' subsequent rights and liabilities.<sup>[2]</sup>

### **3. Corporations and legal personality**

- a) Distinguish between sole traders, partnerships and companies.<sup>[2]</sup>
- b) Explain the meaning and effect of limited liability.<sup>[2]</sup>

- c) Analyse different types of companies, especially private and public companies.<sup>[2]</sup>
- d) Illustrate the effect of separate personality.<sup>[2]</sup>
- e) Recognise instances where separate personality will be ignored.<sup>[2]</sup>

### **4. Company formations**

- a) Explain the role and duties of company promoters.<sup>[2]</sup>
- b) Explain the meaning of, and the rules relating to, pre-incorporation contracts..<sup>[2]</sup>
- c) Describe the procedure for registering companies, both public and private.<sup>[2]</sup>
- d) Describe the statutory books, records and returns that companies must keep or make.<sup>[1]</sup>
- e) Analyse the effect of a company's constitutional documents.<sup>[2]</sup>
- f) Describe the contents of model articles of association.<sup>[1]</sup>
- g) Explain how articles of association can be changed.<sup>[2]</sup>
- h) Explain the controls over the names that companies may or may not use.<sup>[2]</sup>

## **E CAPITAL AND THE FINANCING OF COMPANIES**

### **1. Share capital**

- a) Examine the different meanings of capital.<sup>[2]</sup>
- b) Explain allotment of shares and distinguish between rights issue and bonus issue of shares.<sup>[2]</sup>
- c) Illustrate the difference between various classes of shares.<sup>[2]</sup>
- d) Explain the procedure for altering class rights.<sup>[2]</sup>

### **2. Loan capital**

- a) Define companies' borrowing powers.<sup>[1]</sup>



- b) Explain the meaning of debenture.<sup>[2]</sup>
- c) Distinguish loan capital from share capital and explain the different rights held by shareholders and debenture holders.<sup>[2]</sup>
- d) Explain the concept of a company charge and distinguish between fixed and floating charges.<sup>[2]</sup>
- e) Describe the need and the procedure for registering company charges.<sup>[2]</sup>

### 3. Capital maintenance and dividend law

- a) Explain the doctrine of capital maintenance and capital reduction.<sup>[2]</sup>
- b) Explain the nature of treasury shares.<sup>[2]</sup>
- c) Examine the effect of issuing shares at either a discount, or at a premium.<sup>[2]</sup>
- d) Explain the rules governing the distribution of dividends in both private and public companies.<sup>[2]</sup>

## F MANAGEMENT, ADMINISTRATION AND REGULATION OF COMPANIES

### 1. Company directors

- a) Explain the role of directors in the operation of a company.<sup>[2]</sup>
- b) Discuss the ways in which directors are appointed, can lose their office or be subject to a disqualification order.<sup>[2]</sup>
- c) Distinguish between types of directors, such as executive/ non-executive directors or *de jure* and *de facto* directors.<sup>[2]</sup>
- d) Distinguish between the powers of the board of directors, the managing director/ chief executive and individual directors to bind their company.<sup>[2]</sup>
- e) Explain the duties that directors owe to their companies.<sup>[2]</sup>

- f) Demonstrate an understanding of the way in which statute law has attempted to control directors.<sup>[2]</sup>

### 2. Other company officers

- a) Discuss the appointment procedure relating to, and the duties and powers of, a company secretary.<sup>[2]</sup>
- b) Discuss the appointment procedure relating to, and the duties, powers and rights of company auditors and their subsequent removal or resignation.<sup>[2]</sup>

### 3. Company meetings and resolutions

- a) Distinguish between types of meetings: ordinary general meetings and annual general meetings.<sup>[1]</sup>
- b) Explain the procedure for calling such meetings.<sup>[2]</sup>
- c) Detail the procedure for conducting company meetings.<sup>[1]</sup>
- d) Distinguish between types of resolutions: ordinary, special, and written.<sup>[2]</sup>

## G LEGAL IMPLICATIONS RELATING TO COMPANIES IN DIFFICULTY OR IN CRISIS

### 1. Insolvency

- a) Explain the meaning of and procedure involved in voluntary liquidation.<sup>[2]</sup>
- b) Explain the meaning of, the grounds for, and the procedure involved in compulsory liquidation.<sup>[2]</sup>
- c) Explain the order in which company debts will be paid off.<sup>[2]</sup>

### 2. Administration

- a) Explain administration as a general alternative to winding up.<sup>[2]</sup>
- b) Explain in particular the way in which administrators may be appointed, the effects of

such appointment, and the powers and duties of administrators.<sup>[2]</sup>

## **H GOVERNANCE AND ETHICAL ISSUES RELATING TO BUSINESS**

### **1. Corporate governance**

- a) Explain the idea of corporate governance.<sup>[2]</sup>
- b) Recognise and explain the extra-legal codes of corporate governance.<sup>[2]</sup>
- c) Identify and explain the legal regulation of corporate governance.<sup>[2]</sup>

### **2. Fraudulent and criminal behaviour**

- a) Recognise the nature and legal control over insider dealing and market abuse.<sup>[2]</sup>
- b) Recognise the nature and legal control over money laundering.<sup>[2]</sup>
- c) Recognise the nature and legal control over bribery.<sup>[2]</sup>
- d) Discuss potential criminal activity in the operation, management and winding up of companies.<sup>[2]</sup>
- e) Distinguish between fraudulent and wrongful trading.<sup>[2]</sup>

## SUMMARY OF CHANGES TO F4 (ENG)

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

The main areas that have been clarified in the syllabus (all were implicitly included previously) are shown in Table 1 below:

**Table 1 – Amendments to F4 (ENG)**

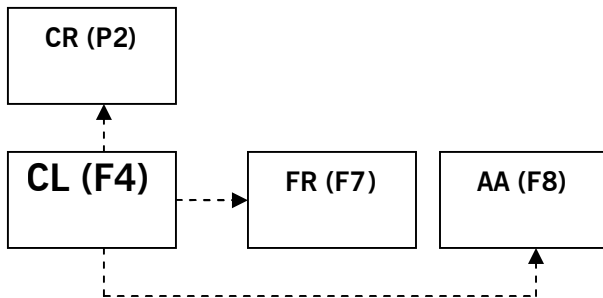
Section and subject area	Syllabus content
D2e) Partnerships	Termination of partnerships
D4b) Company formations	Pre-incorporation contracts
E1b) Share capital	Allotment of shares
E2c) Loan capital	Rights of debenture holders and rights of shareholders
F1c) Company directors	Types of directors
F2b) Other company officers	Rights and removal of company auditors
G1b) Insolvency	Grounds for compulsory liquidation
G1c)	Order of payment of company debts
G2b) Administration	Appointment, powers and duties of administrators
H1b) Corporate governance	Explain extra-legal codes of corporate governance
H2a) Fraudulent and criminal behaviour	Market abuse

The main areas that have been added to the syllabus are shown in Table 2 below:

**Table 2 – Additions to F4 (ENG)**

Section and subject area	Syllabus content
E3b) Capital maintenance	Treasury shares
H2c) Fraudulent and criminal behaviour	Bribery

# Corporate and Business Law (GLO) (F4)



## AIM

To develop knowledge and skills in the understanding of the general legal framework within which international business takes place, and of specific legal areas relating to business, recognising the need to seek further specialist legal advice where necessary.

## MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

**A** Identify the essential elements of different legal systems including the main sources of law, the relationship between the different branches of a state's constitution, and the need

for international legal regulation, and explain the roles of international organisations in the promotion and regulation of international trade, and the role of international arbitration as an alternative to court adjudication

**B** Recognise and apply the appropriate legal rules applicable under the United Nations Convention on Contracts for the International Sale of Goods, and explain the various ways in which international business transactions can be funded

**C** Recognise different types of international business forms

**D** Distinguish between the alternative forms and constitutions of business organisations

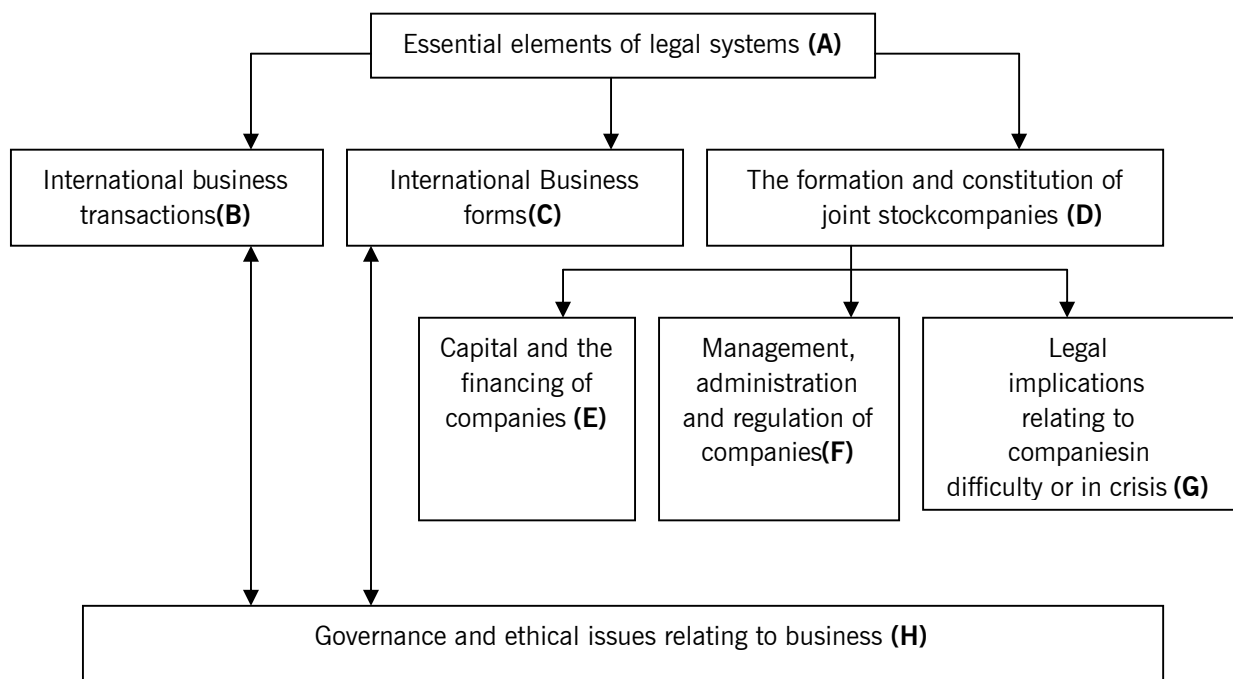
**E** Recognise and compare types of capital and the financing of companies

**F** Describe and explain how companies are managed, administered and regulated

**G** Recognise the legal implications relating to companies in difficulty or in crisis

**H** Demonstrate an understanding of governance and ethical issues relating to business

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

*Corporate and Business Law* Global is divided into eight areas. The syllabus starts with an introduction to different legal systems, different types of law and those organisations which endeavour to promote internationally applicable laws. It also introduces arbitration as an alternative to court adjudication. It then leads into an examination of the substantive law as stated in United Nations Convention on Contracts for the International Sale of Goods, which relates to the formation, content and discharge of international contracts for the sale of goods.

The syllabus then covers a range of specific legal areas relating to various aspects of international business of most concern to finance professionals. These are the law relating to the financing of international transactions, and the various legal forms through which international business transactions may be conducted. Particular attention is focused on the law relating to companies. Aspects examined include the formation and constitution of companies, the financing of companies and types of capital, and the day to day management, the administration and regulation of companies and legal aspects of companies facing difficulty or in crisis.

The final section links back to all the previous areas. This section deals with corporate governance, ethics and ethical behaviour relating to business including the criminal law.

## **DETAILED SYLLABUS**

### **A Essential elements of legal systems**

1. Economic, Political and Legal Systems
2. Different legal systems
3. International trade, international legal regulation and conflict of laws
4. Alternative Dispute Resolution mechanisms and the UNCITRAL Model Law on International Commercial Arbitration

### **B International business transactions**

1. Introduction to the United Nations Convention on Contract for the International Sale of Goods and ICC Incoterms
2. Formation of contract
3. Obligations of the seller
4. Obligations of the buyer
5. Provisions common to both the seller and the buyer, the passage of risk
6. Transportation documents
7. Means of payment

### **C International business forms**

1. Agency
2. Partnerships

### **D The formation and constitution of joint stock companies**

1. Corporations and legal personality
2. The formation of the company
3. The constitution of the company

### **E Capital and the financing of companies**

1. Share capital
2. Loan capital
3. Capital maintenance and dividend law

### **F Management, administration and regulation of companies**

1. Company directors
2. Other company officers
3. Company meetings and resolutions

**G Legal implications relating to companies in difficulty or in crisis**

1. Insolvency
2. Administration

**H Governance and ethical issues relating to business**

1. Corporate governance
2. Fraudulent and criminal behaviour

## **APPROACH TO EXAMINING THE SYLLABUS**

The syllabus is assessed by a three hour paper-based examination.

The examination consists of seven 10 mark questions assessing knowledge of the law, and three 10 mark application questions.

## **NOTE ON CASE LAW**

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# Study Guide

## **A ESSENTIAL ELEMENTS OF LEGAL SYSTEMS**

### **1. Economic, Political and Legal Systems**

- a) Explain the inter-relationship of Economic and Political and Legal systems.<sup>[2]</sup>
- b) Explain the doctrine of the separation of powers and its impact on the legal system.<sup>[2]</sup>

### **2. Different legal systems**

- a) Differentiate between different systems of law.<sup>[1]</sup>
- b) Explain the distinction between criminal and civil law.<sup>[1]</sup>
- c) Outline the operation of the following legal systems:<sup>[1]</sup>
  - i) Common law
  - ii) Civil Law
  - iii) Sharia law.

### **3. International trade, international legal regulation and conflict of laws**

- a) Explain the need for international legal regulation in the context of conflict of laws.<sup>[2]</sup>
- b) Explain the function of international treaties, conventions and model codes.<sup>[2]</sup>
- c) Explain the roles of international organisations, UN, ICC, WTO, COE, OECD, UNIDROIT, etc and courts in the promotion and regulation of international trade.<sup>[1]</sup>

### **4 Alternative Dispute Resolution mechanisms**

- a) Explain the operation, and evaluate the distinct merits, of court-based adjudication and Alternative Dispute Resolution mechanisms.<sup>[2]</sup>
- b) Explain and apply the provisions of the UNCITRAL Model Law on International Commercial Arbitration.<sup>[2]</sup>

## **B INTERNATIONAL BUSINESS TRANSACTIONS**

### **1. Introduction to the United Nations Convention on Contract for the International Sale of Goods and ICC Incoterms**

- a) Explain the sphere of application and general provisions of the convention.<sup>[1]</sup>
- b) Explain the meaning and effect of the ICC Incoterms.<sup>[1]</sup>

### **2. Formation of contract**

- a) Explain and be able to apply the rules for creating contractual relations under the convention.<sup>[2]</sup>

### **3. Obligations of the seller**

- a) Explain and be able to apply the rules relating to the obligations of the seller under the convention:<sup>[2]</sup>
  - i) delivery of goods and handing over documents
  - ii) conformity of the goods and third party claims
  - iii) remedies for breach of contract by the seller.

### **4. Obligations of the buyer**

- a) Explain and be able to apply the rules relating to the obligations of the buyer under the convention:<sup>[2]</sup>
  - i) payment of the price
  - ii) taking delivery
  - iii) remedies for breach of contract by the buyer.

### **5. Provisions common to both the seller and the buyer, the passage of risk**

- a) Explain and be able to apply the rules relating to the provisions common to both the seller and the buyer under the convention:<sup>[2]</sup>
  - i) anticipatory breach and instalment contracts
  - ii) damages
  - iii) interest
  - iv) exemptions
  - v) effects of avoidance



vi) preservation of the goods.

- b) Explain and be able to apply the rules relating to the passing of risk under the convention.<sup>[2]</sup>

## **6. Transportation documents**

- a) Define and explain the operation of bills of lading.<sup>[1]</sup>

## **7. Means of payment**

- a) Explain the operation of:<sup>[1]</sup>
- i) Bank transfers
  - ii) Bills of exchange
  - iii) Letters of credit
  - iv) Letters of comfort.
- b) Explain and be able to apply the rules of UNCITRAL model law on International Credit Transfer.<sup>[2]</sup>
- c) Explain and be able to apply the rules of United Nations Convention on International Bills Of Exchange And International Promissory Notes.<sup>[2]</sup>

## **C INTERNATIONAL BUSINESS FORMS**

### **1. Agency**

- a) Define the role of the agent and give examples of such relationships paying particular regard to partners and company directors.<sup>[2]</sup>
- b) Explain how the agency relationship is established.<sup>[2]</sup>
- c) Define the authority of the agent.<sup>[2]</sup>
- d) Explain the potential liability of both principal and agent.<sup>[2]</sup>

### **2. Partnerships**

- a) Demonstrate a knowledge of the legislation governing the partnership, both unlimited and limited.<sup>[1]</sup>
- b) Discuss how partnerships are established.<sup>[2]</sup>
- c) Explain the authority of partners in relation to partnership activity.<sup>[2]</sup>

- d) Analyse the liability of various partners for partnership debts.<sup>[2]</sup>

- e) Explain the way in which partnerships can be brought to an end and partners' subsequent rights and liabilities.<sup>[2]</sup>

## **D THE FORMATION AND CONSTITUTION OF JOINT STOCK COMPANIES**

### **1. Corporations and legal personality**

- a) Distinguish between sole traders, partnerships and companies.<sup>[2]</sup>
- b) Explain the meaning and effect of limited liability.<sup>[2]</sup>
- c) Analyse different types of companies, especially private and public companies.<sup>[2]</sup>
- d) Illustrate the effect of separate personality.<sup>[2]</sup>
- e) Recognise instances where separate personality will be ignored.<sup>[2]</sup>

### **2. The formation of the company**

- a) Explain the role and duties of company promoters.<sup>[2]</sup>
- b) Explain the meaning of, and the rules relating to, pre-incorporation contracts.<sup>[2]</sup>
- c) Describe the procedure for registering companies, both public and private.<sup>[1]</sup>
- d) Describe the statutory books, records and returns that companies must keep or make.<sup>[1]</sup>

### **3. The constitution of the company**

- a) Analyse the effect of a company's constitutional documents.<sup>[2]</sup>
- b) Describe the contents of model articles of association.<sup>[1]</sup>
- c) Explain how articles of association can be changed.<sup>[2]</sup>
- d) Explain the control over the names that companies may or may not use.<sup>[2]</sup>

## **E CAPITAL AND THE FINANCING OF COMPANIES**

### **1. Share capital**

- a) Examine the different meanings of capital.<sup>[2]</sup>
- b) Explain allotment of shares and distinguish between rights issue and bonus issue of shares.<sup>[2]</sup>
- c) Illustrate the difference between various classes of shares.<sup>[2]</sup>
- d) Explain the procedure for altering class rights.<sup>[2]</sup>

### **2. Loan capital**

- a) Define companies' borrowing powers.<sup>[1]</sup>
- b) Explain the meaning of debenture.<sup>[2]</sup>
- c) Distinguish loan capital from share capital and explain the different rights held by shareholders and debenture holders.<sup>[2]</sup>
- d) Explain the concept of a company charge and distinguish between fixed and floating charges.<sup>[2]</sup>
- e) Describe the need and the procedure for registering company charges.<sup>[2]</sup>

### **3. Capital maintenance and dividend law**

- a) Explain the doctrine of capital maintenance and capital reduction.<sup>[2]</sup>
- b) Explain the nature of treasury shares.<sup>[2]</sup>
- c) Examine the effect of issuing shares at either a discount, or at a premium.<sup>[2]</sup>
- d) Explain the rules governing the distribution of dividends in both private and public companies.<sup>[2]</sup>

## **F MANAGEMENT, ADMINISTRATION AND REGULATION OF COMPANIES**

### **1. Company directors**

- a) Explain the role of directors in the operation of a company.<sup>[2]</sup>
- b) Discuss the ways in which directors are appointed, can lose their office or be subject to a disqualification order.<sup>[2]</sup>
- c) Distinguish between types of directors, such as executive/ non-executive directors or *de jure* and *de facto* directors.<sup>[2]</sup>
- d) Distinguish between the powers of the board of directors, the managing director/ chief executive and individual directors to bind their company.<sup>[2]</sup>
- e) Explain the duties that directors owe to their companies.<sup>[2]</sup>
- f) Demonstrate an understanding of the way in which statute law has attempted to control directors.<sup>[2]</sup>

### **2 Other company officers**

- a) Discuss the appointment procedure relating to, and the duties and powers of, a company secretary.<sup>[2]</sup>
- b) Discuss the appointment procedure relating to, and the duties, powers and rights of, company auditors and their subsequent removal or resignation.<sup>[2]</sup>

### **3. Company meetings and resolutions**

- a) Distinguish between types of meetings: ordinary general meetings and annual general meetings.<sup>[1]</sup>
- b) Explain the procedure for calling such meetings.<sup>[2]</sup>
- c) Detail the procedure for conducting company meetings.<sup>[1]</sup>
- d) Distinguish between types of resolutions: ordinary, special and written.<sup>[2]</sup>

## **G LEGAL IMPLICATIONS RELATING TO COMPANIES IN DIFFICULTY OR IN CRISIS**

### **1 Insolvency**

- a) Explain the meaning of and procedure involved in voluntary liquidation.<sup>[2]</sup>
- b) Explain the meaning of, the grounds for and the procedure involved in compulsory liquidation.<sup>[2]</sup>
- c) Explain the order in which company debts will be paid off.<sup>[2]</sup>
- d) Explain and apply the rules in the 1997 UNCITRAL Model Law on Cross-Border Insolvency.<sup>[2]</sup>

### **2. Administration**

- a) Explain administration as an alternative to winding up.<sup>[2]</sup>
- b) Compare administration and Chapter 11 protection.<sup>[2]</sup>
- c) Explain in particular the way in which administrators may be appointed, the effects of such appointment, and the powers and duties of administrators.<sup>[2]</sup>

## **H GOVERNANCE AND ETHICAL ISSUES RELATING TO BUSINESS**

### **1 Corporate governance**

- a) Explain the idea of corporate governance.<sup>[2]</sup>
- b) Recognise and explain the extra-legal codes of corporate governance.<sup>[2]</sup>
- c) Identify and explain the legal regulation of corporate governance.<sup>[2]</sup>

### **2 Fraudulent and criminal behaviour**

- a) Recognise the nature and legal control over insider dealing and market abuse.<sup>[2]</sup>
- b) Recognise the nature and legal control over money laundering.<sup>[2]</sup>

c) Recognise the nature and legal control over bribery.<sup>[2]</sup>

d) Discuss potential criminal activity in the operation, management and winding up of companies.<sup>[2]</sup>

e) Distinguish between fraudulent and wrongful trading.<sup>[2]</sup>

## **SUMMARY OF CHANGES TO F4 (GLO)**

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

The areas that have been clarified in the syllabus (all were implicitly included) are shown in Table 1 below:

:

**Table 1 – Amendments to F4 (GLO)**

<b>Section and subject area</b>	<b>Syllabus content</b>
C2e) Partnerships	Termination of partnerships
D2b) The formation of the company	Pre-incorporation contracts
D3d) The constitution of the company	Company names
E1b) Share capital	Allotment of shares
E2c) Loan capital	Rights of debenture holders and rights of shareholders
F1c) Company directors	Types of directors
F2b) Other company officers	Rights and removal of company auditors
G1b) Insolvency	Grounds for compulsory liquidation
G1c)	Order of payment of company debts
G2c) Administration	Appointment, powers and duties of administrators
H1b) Corporate governance	Explain extra-legal codes of corporate governance
H2a) Fraudulent and criminal behaviour	Market abuse

The areas to be added to the syllabus are shown in Table 2 below:

**Table 1 – Additions to F4 (GLO)**

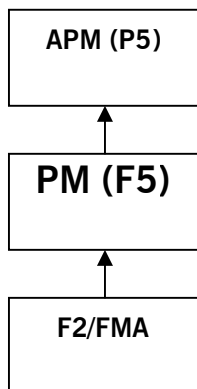
<b>Section and subject area</b>	<b>Syllabus content</b>
E3b) Capital maintenance	Treasury shares
H2c) Fraudulent and criminal behaviour	Bribery

The areas to be deleted from the syllabus are shown in Table 3 below:

**Table 3 – Deletions to F4 (GLO)**

<b>Section and subject area</b>	<b>Syllabus content</b>
A2a) Different legal systems	Different types of law
A3a) International trade, international regulation	Public and private international law

# Performance Management (F5)



## AIM

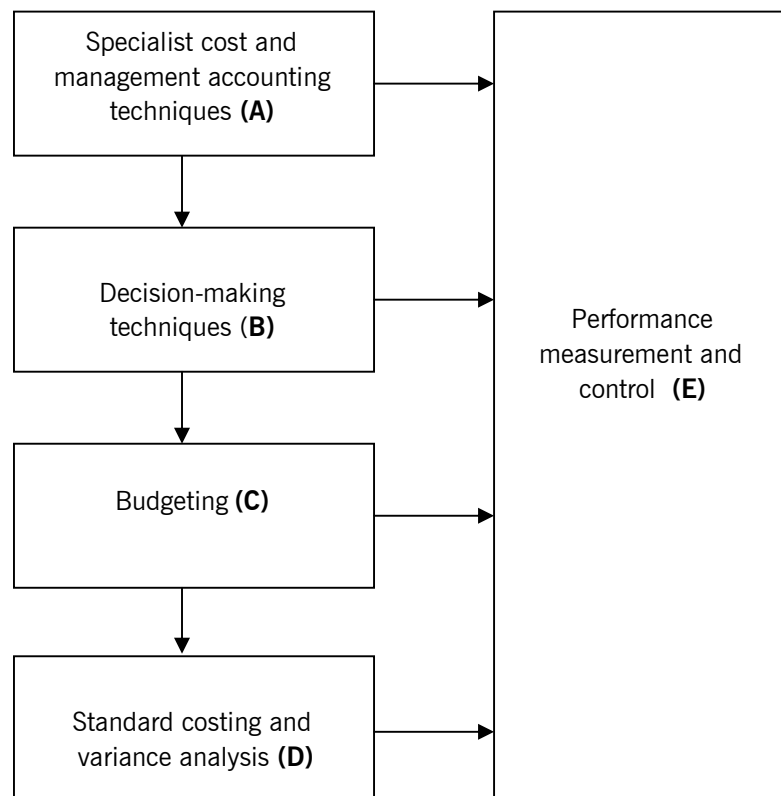
To develop knowledge and skills in the application of management accounting techniques to quantitative and qualitative information for planning, decision-making, performance evaluation, and control

On successful completion of this paper, candidates should be able to:

- A** Explain and apply cost accounting techniques
- B** Select and appropriately apply decision-making techniques to facilitate business decisions and promote efficient and effective use of scarce business resources, appreciating the risks and uncertainty inherent in business and controlling those risks
- C** Identify and apply appropriate budgeting techniques and methods for planning and control
- D** Use standard costing systems to measure and control business performance and to identify remedial action
- E** Assess the performance of a business from both a financial and non-financial viewpoint, appreciating the problems of controlling divisionalised businesses and the importance of allowing for external aspects

## MAIN CAPABILITIES

### RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## RATIONALE

The syllabus for Paper F5, *Performance Management*, builds on the knowledge gained in Paper F2, *Management Accounting*. It also prepares candidates for more specialist capabilities which are covered in P5 *Advanced Performance Management*.

The syllabus begins by introducing more specialised management accounting topics. There is some knowledge assumed from Paper F2 – primarily overhead treatments. The objective here is to ensure candidates have a broader background in management accounting techniques.

The syllabus then considers decision-making. Candidates need to appreciate the problems surrounding scarce resource, pricing and make-or-buy decisions, and how this relates to the assessment of performance. Risk and uncertainty are a factor of real-life decisions and candidates need to understand risk and be able to apply some basic methods to help resolve the risks inherent in decision-making.

Budgeting is an important aspect of many accountants' lives. The syllabus explores different budgeting techniques and the problems inherent in them. The behavioural aspects of budgeting are important for accountants to understand, and the syllabus includes consideration of the way individuals react to a budget.

Standard costing and variances are then built on. All the variances examined in Paper F2 are examinable here. The new topics are mix and yield variances, and planning and operational variances. Again, the link is made to performance management. It is important for accountants to be able to interpret the numbers that they calculate and ask what they mean in the context of performance.

The syllabus concludes with performance measurement and control. This is a major area of the syllabus. Accountants need to understand how a business should be managed and controlled. They should appreciate the importance of both financial and non-financial performance measures in management. Accountants should also appreciate the difficulties in assessing performance in divisionalised businesses and the problems caused

by failing to consider external influences on performance. This section leads directly to Paper P5.

All of the subject areas covered in this syllabus could be examined in either a public sector or private sector context.

## DETAILED SYLLABUS

### A Specialist cost and management accounting techniques

1. Activity-based costing
2. Target costing
3. Life-cycle costing
4. Throughput accounting
5. Environmental accounting

### B Decision-making techniques

1. Relevant cost analysis
2. Cost volume analysis
3. Limiting factors
4. Pricing decisions
5. Make-or-buy and other short-term decisions
6. Dealing with risk and uncertainty in decision-making

### C Budgeting

1. Objectives
2. Budgetary systems
3. Types of budget
4. Quantitative analysis in budgeting
5. Behavioural aspects of budgeting

## **D Standard costing and variances analysis**

1. Budgeting and standard costing
2. Basic variances and operating statements
3. Mix and yield variances
4. Planning and operational variances
5. Behavioural aspects of standard costing

## **E Performance measurement and control**

1. The scope of performance measurement
2. Divisional performance and transfer pricing
3. Performance analysis in not-for-profit organisations and the public sector
4. External considerations and behavioural aspects

## **APPROACH TO EXAMINING THE SYLLABUS**

Paper F5, *Performance Management*, seeks to examine candidates' understanding of how to manage the performance of a business.

The paper builds on the knowledge acquired in Paper F2, *Management Accounting*, and prepares those candidates who choose to study Paper P5, *Advanced Performance Management*, at the Professional level

The syllabus is assessed by a three-hour paper-based examination.

The examination will contain five compulsory 20-mark questions. There will be calculation and discursive elements to the paper with the balance being broadly in line with the pilot paper. The pilot paper contains questions from four of the five syllabus sections. Generally, the paper will seek to draw questions from as many of the syllabus sections as possible.



# Study Guide

## A SPECIALIST COST AND MANAGEMENT ACCOUNTING TECHNIQUES

### 1. Activity based costing

- a) Identify appropriate cost drivers under ABC.<sup>[1]</sup>
- b) Calculate costs per driver and per unit using ABC.<sup>[2]</sup>
- c) Compare ABC and traditional methods of overhead absorption based on production units, labour hours or machine hours.<sup>[2]</sup>

### 2. Target costing

- a) Derive a target cost in manufacturing and service industries.<sup>[2]</sup>
- b) Explain the difficulties of using target costing in service industries.<sup>[2]</sup>
- c) Suggest how a target cost gap might be closed.<sup>[2]</sup>

### 3. Life-cycle costing

- a) Identify the costs involved at different stages of the life-cycle.<sup>[2]</sup>
- b) Derive a life cycle cost in manufacturing and service industries.<sup>[2]</sup>
- c) Identify the benefits of life cycle costing.<sup>[2]</sup>

### 4. Throughput accounting

- a) Calculate and interpret a throughput accounting ratio (TPAR).<sup>[2]</sup>
- b) Suggest how a TPAR could be improved.<sup>[2]</sup>
- c) Apply throughput accounting to a multi-product decision-making problem.<sup>[2]</sup>

### 5. Environmental accounting

- a) Discuss the issues business face in the management of environmental costs.<sup>[1]</sup>

- b) Describe the different methods a business may use to account for its environmental costs.<sup>[1]</sup>

## B DECISION-MAKING TECHNIQUES

### 1 Relevant cost analysis

- a) Explain the concept of relevant costing.<sup>[2]</sup>
- b) Identify and calculate relevant costs for a specific decision situations from given data.<sup>[2]</sup>
- c) Explain and apply the concept of opportunity costs.<sup>[2]</sup>

### 2. Cost volume profit analysis

- a) Explain the nature of CVP analysis.<sup>[2]</sup>
- b) Calculate and interpret break even point and margin of safety.<sup>[2]</sup>
- c) Calculate the contribution to sales ratio, in single and multi-product situations, and demonstrate an understanding of its use.<sup>[2]</sup>
- d) Calculate target profit or revenue in single and multi-product situations, and demonstrate an understanding of its use.<sup>[2]</sup>
- e) Prepare break even charts and profit volume charts and interpret the information contained within each, including multi-product situations.<sup>[2]</sup>
- f) Discuss the limitations of CVP analysis for planning and decision making.<sup>[2]</sup>

### 3. Limiting factors

- a) Identify limiting factors in a scarce resource situation and select an appropriate technique.<sup>[2]</sup>
- b) Determine the optimal production plan where an organisation is restricted by a single limiting factor, including within the context of “make” or “buy” decisions.<sup>[2]</sup>
- c) Formulate and solve multiple scarce resource problem both graphically and using simultaneous equations as appropriate.<sup>[2]</sup>

- d) Explain and calculate shadow prices (dual prices) and discuss their implications on decision-making and performance management.<sup>[2]</sup>
- e) Calculate slack and explain the implications of the existence of slack for decision-making and performance management.<sup>[2]</sup> (Excluding simplex and sensitivity to changes in objective functions)

#### 4. Pricing decisions

- a) Explain the factors that influence the pricing of a product or service.<sup>[2]</sup>
- b) Explain the price elasticity of demand.<sup>[1]</sup>
- c) Derive and manipulate a straight line demand equation. Derive an equation for the total cost function (including volume-based discounts).<sup>[2]</sup>
- d) Calculate the optimum selling price and quantity for an organisation, equating marginal cost and marginal revenue.<sup>[2]</sup>
- e) Evaluate a decision to increase production and sales levels, considering incremental costs, incremental revenues and other factors.<sup>[2]</sup>
- f) Determine prices and output levels for profit maximisation using the demand based approach to pricing (both tabular and algebraic methods).<sup>[1]</sup>
- g) Explain different price strategies, including:<sup>[2]</sup>
  - i) All forms of cost-plus
  - ii) Skimming
  - iii) Penetration
  - iv) Complementary product
  - v) Product-line
  - vi) Volume discounting
  - vii) Discrimination
  - viii) Relevant cost
- h) Calculate a price from a given strategy using cost-plus and relevant cost.<sup>[2]</sup>

#### 5. Make-or-buy and other short-term decisions

- a) Explain the issues surrounding make vs. buy and outsourcing decisions.<sup>[2]</sup>

- b) Calculate and compare “make” costs with “buy-in” costs.<sup>[2]</sup>
- c) Compare in-house costs and outsource costs of completing tasks and consider other issues surrounding this decision.<sup>[2]</sup>
- d) Apply relevant costing principles in situations involving shut down, one-off contracts and the further processing of joint products.<sup>[2]</sup>

#### 6. Dealing with risk and uncertainty in decision-making

- a) Suggest research techniques to reduce uncertainty e.g. Focus groups, market research.<sup>[2]</sup>
- b) Explain the use of simulation, expected values and sensitivity.<sup>[1]</sup>
- c) Apply expected values and sensitivity to decision-making problems.<sup>[2]</sup>
- d) Apply the techniques of maximax, maximin, and minimax regret to decision-making problems including the production of profit tables.<sup>[2]</sup>
- e) Draw a decision tree and use it to solve a multi-stage decision problem
- f) Calculate the value of perfect and imperfect information.

### C BUDGETING

#### 1. Objectives

- a) Outline the objectives of a budgetary control system.<sup>[2]</sup>
- b) Explain how corporate and divisional objectives may differ and can be reconciled.<sup>[2]</sup>
- c) Identify and resolve conflicting objectives and explain implications.<sup>[2]</sup>

#### 2. Budgetary systems

- a) Explain how budgetary systems fit within the performance hierarchy.<sup>[2]</sup>

- b) Select and explain appropriate budgetary systems for an organisation, including top-down, bottom-up, rolling, zero-base, activity-base, incremental and feed-forward control.<sup>[2]</sup>
- c) Describe the information used in budget systems and the sources of the information needed.<sup>[2]</sup>
- d) Explain the difficulties of changing a budgetary system.<sup>[2]</sup>
- e) Explain how budget systems can deal with uncertainty in the environment.<sup>[2]</sup>

### **3. Types of Budget**

- a) Indicate the usefulness and problems with different budget types (zero-base, activity-based, incremental, master, functional and flexible).<sup>[2]</sup>
- b) Explain the difficulties of changing the type of budget used.<sup>[2]</sup>

### **4. Quantitative analysis in budgeting**

- a) Analyse fixed and variable cost elements from total cost data using high/low and regression methods.<sup>[2]</sup>
- b) Explain the use of forecasting techniques, including time series, simple average growth models and estimates based on judgement and experience. Predict a future value from provided time series analysis data using both additive and proportional data.<sup>[2]</sup>
- c) Estimate the learning effect and apply the learning curve to a budgetary problem, including calculations on steady states.<sup>[2]</sup>
- d) Discuss the reservations with the learning curve.<sup>[2]</sup>
- e) Apply expected values and explain the problems and benefits.<sup>[2]</sup>
- f) Explain the benefits and dangers inherent in using spreadsheets in budgeting.<sup>[1]</sup>

### **5. Behavioural aspects of budgeting**

- a) Identify the factors which influence behaviour.<sup>[2]</sup>
- b) Discuss the issues surrounding setting the difficulty level for a budget.<sup>[2]</sup>
- c) Explain the benefits and difficulties of the participation of employees in the negotiation of targets.<sup>[2]</sup>

## **D STANDARD COSTING AND VARIANCES ANALYSIS**

### **1. Budgeting and standard costing**

- a) Explain the use of standard costs.<sup>[2]</sup>
- b) Outline the methods used to derive standard costs and discuss the different types of cost possible.<sup>[2]</sup>
- c) Explain the importance of flexing budgets in performance management.<sup>[2]</sup>
- d) Prepare budgets and standards that allow for waste and idle time.<sup>[2]</sup>
- e) Explain and apply the principle of controllability in the performance management system.<sup>[2]</sup>
- f) Prepare a flexed budget and comment on its usefulness.<sup>[2]</sup>

### **2. Basic variances and operating statements**

- a) Calculate, identify the cause of and interpret basic variances:<sup>[1]</sup>
  - i) Sales price and volume
  - ii) Materials total, price and usage
  - iii) Labour total, rate and efficiency
  - iv) Variable overhead total, expenditure and efficiency
  - v) Fixed overhead total, expenditure and, where appropriate, volume, capacity and efficiency.
- b) Explain the effect on labour variances where the learning curve has been used in the budget process.<sup>[2]</sup>

- c) Produce full operating statements in both a marginal cost and full absorption costing environment, reconciling actual profit to budgeted profit.<sup>[2]</sup>
- d) Calculate the effect of idle time and waste on variances including where idle time has been budgeted for.<sup>[2]</sup>
- e) Explain the possible causes of idle time and waste and suggest methods of control.<sup>[2]</sup>
- f) Calculate, using a simple situation, ABC-based variances.<sup>[3]</sup>
- g) Explain the different methods available for deciding whether or not to investigate a variance cause.<sup>[2]</sup>

### 3. Material mix and yield variances

- a) Calculate, identify the cause of, and explain material mix and yield variances.<sup>[2]</sup>
- b) Explain the wider issues involved in changing material mix e.g. cost, quality and performance measurement issues.<sup>[2]</sup>
- c) Identify and explain the relationship of the material price variance with the material mix and yield variances.<sup>[2]</sup>
- d) Suggest and justify alternative methods of controlling production processes.<sup>[2]</sup>

### 4. Sales mix and quantity variances

- a) Calculate, identify the cause of, and explain sales mix and quantity variances.<sup>[2]</sup>
- b) Identify and explain the relationship of the sales volume variances with the sales mix and quantity variances.<sup>[2]</sup>

### 5. Planning and operational variances

- a) Calculate a revised budget.<sup>[2]</sup>
- b) Identify and explain those factors that could and could not be allowed to revise an original budget.<sup>[2]</sup>

- c) Calculate planning and operational variances for sales, including market size and market share, materials and labour.<sup>[2]</sup>
- d) Explain and discuss the manipulation issues involved in revising budgets.<sup>[2]</sup>

### 6. Behavioural aspects of standard costing

- a) Describe the dysfunctional nature of some variances in the modern environment of JIT and TQM.<sup>[2]</sup>
- b) Discuss the behavioural problems resulting from using standard costs in rapidly changing environments.<sup>[2]</sup>
- c) Discuss the effect that variances have on staff motivation and action.<sup>[2]</sup>

## E PERFORMANCE MEASUREMENT AND CONTROL

### 1. The scope of performance measurement

- a) Describe, calculate and interpret financial performance indicators (FPIs) for profitability, liquidity and risk in both manufacturing and service businesses. Suggest methods to improve these measures.<sup>[2]</sup>
- b) Describe, calculate and interpret non-financial performance indicators (NFPIs) and suggest method to improve the performance indicated.<sup>[2]</sup>
- c) Explain the causes and problems created by short-termism and financial manipulation of results and suggest methods to encourage a long term view.<sup>[2]</sup>
- d) Explain and interpret the Balanced Scorecard, and the Building Block model proposed by Fitzgerald and Moon.<sup>[2]</sup>
- e) Discuss the difficulties of target setting in qualitative areas.<sup>[2]</sup>

## **2. Divisional performance and transfer pricing**

- a) Explain and illustrate the basis for setting a transfer price using variable cost, full cost and the principles behind allowing for intermediate markets.<sup>[2]</sup>
- b) Explain how transfer prices can distort the performance assessment of divisions and decisions made.<sup>[2]</sup>
- c) Explain the meaning of, and calculate, Return on Investment (ROI) and Residual Income (RI), and discuss their shortcomings.<sup>[2]</sup>
- d) Compare divisional performance and recognise the problems of doing so.<sup>[2]</sup>

## **3. Performance analysis in not for profit organisations and the public sector**

- a) Comment on the problems of having non-quantifiable objectives in performance management.<sup>[2]</sup>
- b) Explain how performance could be measured in this sector.<sup>[2]</sup>
- c) Comment on the problems of having multiple objectives in this sector.<sup>[2]</sup>
- d) Outline Value for Money (VFM) as a public sector objective.<sup>[1]</sup>

## **4. External considerations and behavioural aspects**

- a) Explain the need to allow for external considerations in performance management, including stakeholders, market conditions and allowance for competitors.<sup>[2]</sup>
- b) Suggest ways in which external considerations could be allowed for in performance management.<sup>[2]</sup>
- c) Interpret performance in the light of external considerations.<sup>[2]</sup>
- d) Identify and explain the behavioural aspects of performance management <sup>[2]</sup>

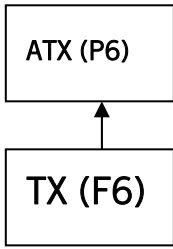
## SUMMARY OF CHANGES TO F5

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

There are no changes to the syllabus. One area however has been clarified in the syllabus (it was implicitly included previously) and is shown in Table 1 below:

**Table 1 – Amendments to F5**

<b>Section and subject area</b>	<b>Syllabus content</b>
B6f) Dealing with risk and uncertainty in decision making	Calculate the value of perfect and imperfect information.



**AIM**

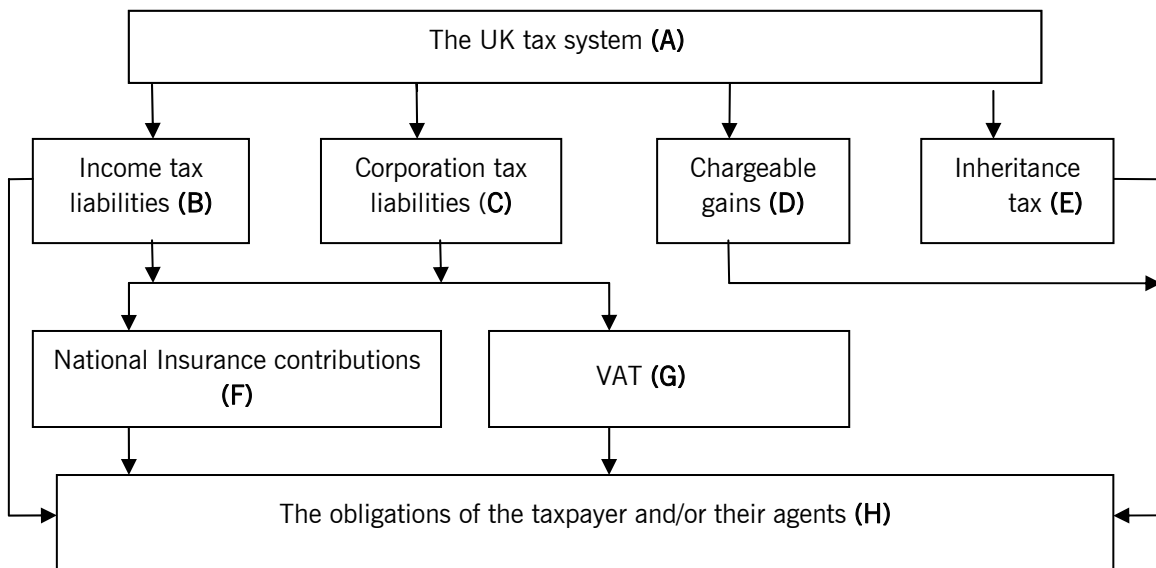
To develop knowledge and skills relating to the tax system as applicable to individuals, single companies, and groups of companies.

**MAIN CAPABILITIES**

On successful completion of this paper candidates should be able to:

- A** Explain the operation and scope of the tax system
- B** Explain and compute the income tax liabilities of individuals
- C** Explain and compute the corporation tax liabilities of individual companies and groups of companies
- D** Explain and compute the chargeable gains arising on companies and individuals
- E** Explain and compute the inheritance tax liabilities of individuals
- F** Explain and compute the effect of national insurance contributions on employees, employers and the self employed
- G** Explain and compute the effects of value added tax on incorporated and unincorporated businesses
- H** Identify and explain the obligations of tax payers and/or their agents and the implications of non-compliance

**RELATIONAL DIAGRAM OF MAIN CAPABILITIES**



## RATIONALE

The syllabus for Paper F6, *Taxation*, introduces candidates to the subject of taxation and provides the core knowledge of the underlying principles and major technical areas of taxation as they affect the activities of individuals and businesses.

Candidates are introduced to the rationale behind – and the functions of – the tax system. The syllabus then considers the separate taxes that an accountant would need to have a detailed knowledge of, such as income tax from self-employment, employment and investments, the corporation tax liability of individual companies and groups of companies, the national insurance contribution liabilities of both employed and self-employed persons, the value added tax liability of businesses, and the chargeable gains arising on disposals of investments by both individuals and companies.

Having covered the core areas of the basic taxes, candidates should be able to compute tax liabilities, explain the basis of their calculations, apply tax planning techniques for individuals and companies and identify the compliance issues for each major tax through a variety of business and personal scenarios and situations.

## DETAILED SYLLABUS

### A. The UK tax system

1. The overall function and purpose of taxation in a modern economy
2. Different types of taxes
3. Principal sources of revenue law and practice
4. Tax avoidance and tax evasion

### B. Income tax liabilities

1. The scope of income tax
2. Income from employment
3. Income from self-employment
4. Property and investment income

5. The comprehensive computation of taxable income and income tax liability
6. The use of exemptions and reliefs in deferring and minimising income tax liabilities

### C. Corporation tax liabilities

1. The scope of corporation tax
2. Taxable total profits
3. The comprehensive computation of corporation tax liability
4. The effect of a group corporate structure for corporation tax purposes
5. The use of exemptions and reliefs in deferring and minimising corporation tax liabilities

### D. Chargeable gains

1. The scope of the taxation of capital gains
2. The basic principles of computing gains and losses.
3. Gains and losses on the disposal of movable and immovable property
4. Gains and losses on the disposal of shares and securities
5. The computation of capital gains tax payable by individuals
6. The use of exemptions and reliefs in deferring and minimising tax liabilities arising on the disposal of capital assets

### E. Inheritance tax

1. The scope of inheritance tax
2. The basic principles of computing transfers of value
3. The liabilities arising on chargeable lifetime transfers and on the death of an individual
4. The use of exemptions in deferring and minimising inheritance tax liabilities



5. Payment of inheritance tax

**F. National insurance contributions**

1. The scope of national insurance
2. Class 1 and Class 1A contributions for employed persons
3. Class 2 and Class 4 contributions for self-employed persons

**G. Value added tax**

1. The scope of value added tax (VAT)
2. The VAT registration requirements
3. The computation of VAT liabilities
4. The effect of special schemes

**H. The obligations of taxpayers and/or their agents**

1. The systems for self-assessment and the making of returns
2. The time limits for the submission of information, claims and payment of tax, including payments on account
3. The procedures relating to compliance checks, appeals and disputes
4. Penalties for non-compliance

## APPROACH TO EXAMINING THE SYLLABUS

The syllabus is assessed by a three-hour paper-based examination.

### Assessment: Taxation (UK)

The paper will be predominantly computational and will have five questions, all of which will be compulsory.

- Question one will focus on income tax and question two will focus on corporation tax. The two questions will be for a total of 55 marks, with one of the questions being for 30 marks and the other being for 25 marks.
- Question three will focus on chargeable gains (either personal or corporate) and will be for 15 marks.
- Questions four and five will be on any area of the syllabus, can cover more than one topic, and will be for 15 marks.

There will always be at a minimum of 10 marks on value added tax. These marks will normally be

included within question one or question two, although there might be a separate question on value added tax.

There will always be between 5 and 15 marks on inheritance tax. Inheritance tax can be included within questions three, four or five.

National insurance contributions will not be examined as a separate question, but may be examined in any question involving income tax or corporation tax.

Groups and overseas aspects of corporation tax may be examined in either question two, question four or question five.

A small element of chargeable gains may be included in questions other than question three.

Any of the five questions might include the consideration of issues relating to the minimisation or deferral of tax liabilities.

# Study Guide

## A THE UK TAX SYSTEM

### 1. The overall function and purpose of taxation in a modern economy

- a) Describe the purpose (economic, social etc) of taxation in a modern economy.<sup>[2]</sup>

### 2. Different types of taxes

- a) Identify the different types of capital and revenue tax.<sup>[1]</sup>
- b) Explain the difference between direct and indirect taxation.<sup>[2]</sup>

### 3. Principal sources of revenue law and practice

- a) Describe the overall structure of the UK tax system.<sup>[1]</sup>
- b) State the different sources of revenue law.<sup>[1]</sup>
- c) Appreciate the interaction of the UK tax system with that of other tax jurisdictions.<sup>[2]</sup>

### 4. Tax avoidance and tax evasion

- a) Explain the difference between tax avoidance and tax evasion.<sup>[1]</sup>
- b) Explain the need for an ethical and professional approach.<sup>[2]</sup>

#### Excluded topics

- *Anti-avoidance legislation.*

## B INCOME TAX LIABILITIES

### 1. The scope of income tax

- a) Explain how the residence of an individual is determined.<sup>[1]</sup>

#### Excluded topics

- *The treatment of a person who comes to the UK to work or a person who leaves the UK to take up employment overseas.*
- *Foreign income, non-residents and double taxation relief.*
- *Income from trusts and settlements.*

### 2. Income from employment

- a) Recognise the factors that determine whether an engagement is treated as employment or self-employment.<sup>[2]</sup>
- b) Recognise the basis of assessment for employment income.<sup>[2]</sup>
- c) Compute the income assessable.<sup>[2]</sup>
- d) Recognise the allowable deductions, including travelling expenses.<sup>[2]</sup>
- e) Discuss the use of the statutory approved mileage allowances.<sup>[2]</sup>
- f) Explain the PAYE system.<sup>[1]</sup>
- g) Identify P11D employees.<sup>[1]</sup>
- h) Compute the amount of benefits assessable.<sup>[2]</sup>
- i) Explain the purpose of a dispensation from HM Revenue & Customs.<sup>[2]</sup>
- k) Explain how charitable giving can be made through a payroll deduction scheme.<sup>[1]</sup>

#### Excluded topics

- *The calculation of a car benefit where emission figures are not available.*
- *The exemption for zero emission company motor cars.*
- *Share and share option incentive schemes for employees.*
- *Payments on the termination of employment, and other lump sums received by employees.*

### 3 Income from self-employment

- a) Recognise the basis of assessment for self-employment income.<sup>[2]</sup>
- b) Describe and apply the badges of trade.<sup>[2]</sup>
- c) Recognise the expenditure that is allowable in calculating the tax-adjusted trading profit.<sup>[2]</sup>
- d) Recognise the relief that can be obtained for pre-trading expenditure.<sup>[2]</sup>
- e) Compute the assessable profits on commencement and on cessation.<sup>[2]</sup>
- f) Change of accounting date
  - i) Recognise the factors that will influence the choice of accounting date.<sup>[2]</sup>
  - ii) State the conditions that must be met for a change of accounting date to be valid.<sup>[1]</sup>
  - iii) Compute the assessable profits on a change of accounting date.<sup>[2]</sup>
- g) Capital allowances
  - i) Define plant and machinery for capital allowances purposes.<sup>[1]</sup>
  - ii) Compute writing down allowances, first-year allowances and the annual investment allowance.<sup>[2]</sup>
  - iii) Compute capital allowances for motor cars, including motor cars already owned at 6 April 2009 (1 April 2009 for companies).<sup>[2]</sup>
  - iv) Compute balancing allowances and balancing charges.<sup>[2]</sup>
  - v) Recognise the treatment of short life assets.<sup>[2]</sup>
  - vi) Explain the treatment of assets included in the special rate pool.<sup>[2]</sup>
- h) Relief for trading losses
  - i) Understand how trading losses can be carried forward.<sup>[2]</sup>
  - ii) Explain how trading losses can be carried forward following the incorporation of a business.<sup>[2]</sup>
  - iii) Understand how trading losses can be claimed against total income and chargeable gains.<sup>[2]</sup>
  - iv) Explain and compute the relief for trading losses in the early years of a trade.<sup>[1]</sup>
  - v) Explain and compute terminal loss relief.<sup>[1]</sup>

- i) Partnerships and limited liability partnerships
  - i) Explain how a partnership is assessed to tax.<sup>[2]</sup>
  - ii) Compute the assessable profits for each partner following a change in the profit sharing ratio.<sup>[2]</sup>
  - iii) Compute the assessable profits for each partner following a change in the membership of the partnership.<sup>[2]</sup>
  - iv) Describe the alternative loss relief claims that are available to partners.<sup>[1]</sup>
  - v) Explain the loss relief restriction that applies to the partners of a limited liability partnership.<sup>[1]</sup>

#### Excluded topics

- *The 100% allowance for expenditure on renovating business premises in disadvantaged areas, flats above shops and water technologies.*
- *Capital allowances for industrial buildings, agricultural buildings, patents, scientific research and know how.*
- *Enterprise zones.*
- *Investment income of a partnership.*
- *The allocation of notional profits and losses for a partnership.*
- *Farmers averaging of profits.*
- *The averaging of profits for authors and creative artists.*
- *Loss relief for shares in unquoted trading companies.*

### 4. Property and investment income

- a) Compute property business profits.<sup>[2]</sup>
- b) Explain the treatment of furnished holiday lettings.<sup>[1]</sup>
- c) Describe rent-a-room relief.<sup>[1]</sup>

- d) Compute the amount assessable when a premium is received for the grant of a short lease.<sup>[2]</sup>
- e) Understand how relief for a property business loss is given.<sup>[2]</sup>
- f) Compute the tax payable on savings income.<sup>[2]</sup>
- g) Compute the tax payable on dividend income.<sup>[2]</sup>
- h) Explain the treatment of individual savings accounts (ISAs) and other tax exempt investments.<sup>[1]</sup>

#### Excluded topics

- *The deduction for expenditure by landlords on energy-saving items.*
- *Junior ISAs.*

#### 5 The comprehensive computation of taxable income and income tax liability

- a) Prepare a basic income tax computation involving different types of income.<sup>[2]</sup>
- b) Calculate the amount of personal allowance available generally, and for people aged 65 and above.<sup>[2]</sup>
- c) Compute the amount of income tax payable.<sup>[2]</sup>
- d) Explain the treatment of interest paid for a qualifying purpose.<sup>[2]</sup>
- e) Explain the treatment of gift aid donations.<sup>[1]</sup>
- f) Explain the treatment of property owned jointly by a married couple, or by a couple in a civil partnership.<sup>[1]</sup>

#### Excluded topics

- *The blind person's allowance and the married couple's allowance.*
- *Tax credits.*
- *Maintenance payments.*

- *The income of minor children.*

#### 6. The use of exemptions and reliefs in deferring and minimising income tax liabilities

- a) Explain and compute the relief given for contributions to personal pension schemes, using the rules applicable from 6 April 2011.<sup>[2]</sup>
- b) Describe the relief given for contributions to occupational pension schemes, using the rules applicable from 6 April 2011.<sup>[1]</sup>
- c) Explain how a married couple or a couple in a civil partnership can minimise their tax liabilities.<sup>[2]</sup>

#### Excluded topics

- *The conditions that must be met in order for a pension scheme to obtain approval from HM Revenue & Customs.*
- *The enterprise investment scheme.*
- *Venture capital trusts.*

## C CORPORATION TAX LIABILITIES

### 1. The scope of corporation tax

- a) Define the terms 'period of account', 'accounting period', and 'financial year'.<sup>[1]</sup>
- b) Recognise when an accounting period starts and when an accounting period finishes.<sup>[1]</sup>
- c) Explain how the residence of a company is determined.<sup>[2]</sup>

#### Excluded topics

- *Investment companies.*
- *Close companies.*
- *Companies in receivership or liquidation.*
- *Reorganisations.*
- *The purchase by a company of its own shares.*
- *Personal service companies.*

### 2. Taxable total profits

- a) Recognise the expenditure that is allowable in calculating the tax-adjusted trading profit.<sup>[2]</sup>
- b) Explain how relief can be obtained for pre-trading expenditure.<sup>[1]</sup>
- c) Compute capital allowances (as for income tax).<sup>[2]</sup>
- d) Compute property business profits.<sup>[2]</sup>
- e) Explain the treatment of interest paid and received under the loan relationship rules.<sup>[1]</sup>
- f) Explain the treatment of gift aid donations.<sup>[2]</sup>
- g) Understand how trading losses can be carried forward.<sup>[2]</sup>
- h) Understand how trading losses can be claimed against income of the current or previous accounting periods.<sup>[2]</sup>

- i) Recognise the factors that will influence the choice of loss relief claim.<sup>[2]</sup>
- j) Explain how relief for a property business loss is given.<sup>[1]</sup>
- k) Compute taxable total profits.<sup>[2]</sup>

#### Excluded topics

- *Research and development expenditure.*
- *Non-trading deficits on loan relationships.*
- *Relief for intangible assets.*

### 3. The comprehensive computation of corporation tax liability

- a) Compute the corporation tax liability and apply marginal relief.<sup>[2]</sup>
- b) Explain the implications of receiving franked investment income.<sup>[2]</sup>

### 4. The effect of a group corporate structure for corporation tax purposes

- a) Define an associated company and recognise the effect of being an associated company for corporation tax purposes.<sup>[2]</sup>
- b) Define a 75% group, and recognise the reliefs that are available to members of such a group.<sup>[2]</sup>
- c) Define a 75% capital gains group, and recognise the reliefs that are available to members of such a group.<sup>[2]</sup>
- d) Compare the UK tax treatment of an overseas branch to an overseas subsidiary.<sup>[2]</sup>
- e) Calculate double taxation relief.<sup>[2]</sup>
- f) Explain the basic principles of the transfer pricing rules.<sup>[2]</sup>

#### Excluded topics

- *Relief for trading losses incurred by an overseas subsidiary.*

- *Consortia.*
- *Pre-entry gains and losses.*
- *The anti-avoidance provisions where arrangements exist for a company to leave a group.*
- *The tax charge that applies where a company leaves a group within six years of receiving an asset by way of a no gain/no loss transfer.*
- *Controlled foreign companies.*
- *Foreign companies trading in the UK.*
- *Expense relief in respect of overseas tax.*
- *Election for the exemption of profits from an overseas branch.*
- *Transfer pricing transactions not involving an overseas company.*

## 5. The use of exemptions and reliefs in deferring and minimising corporation tax liabilities:

The use of such exemptions and reliefs is implicit within all of the above sections 1 to 4 of part C of the syllabus, concerning corporation tax.

### D CHARGEABLE GAINS

#### 1. The scope of the taxation of capital gains

- Describe the scope of capital gains tax.<sup>[2]</sup>
- Explain how the residence and ordinary residence of an individual is determined.<sup>[2]</sup>
- List those assets which are exempt.<sup>[1]</sup>

#### Excluded topics

- *Assets situated overseas and double taxation relief.*
- *Partnership capital gains.*

#### 2. The basic principles of computing gains and losses.

- Compute capital gains for both individuals and companies.<sup>[2]</sup>
- Calculate the indexation allowance available to companies.<sup>[2]</sup>
- Explain the treatment of capital losses for both individuals and companies.<sup>[1]</sup>
- Explain the treatment of transfers between a husband and wife or between a couple in a civil partnership.<sup>[2]</sup>
- Compute the amount of allowable expenditure for a part disposal.<sup>[2]</sup>
- Explain the treatment where an asset is damaged, lost or destroyed, and the implications of receiving insurance proceeds and reinvesting such proceeds.<sup>[2]</sup>

#### Excluded topics

- *Small part disposals of land.*
- *Losses in the year of death.*
- *Relief for losses incurred on loans made to traders.*
- *Negligible value claims.*

#### 3. Gains and losses on the disposal of movable and immovable property

- Identify when chattels and wasting assets are exempt.<sup>[1]</sup>
- Compute the chargeable gain when a chattel is disposed of.<sup>[2]</sup>
- Calculate the chargeable gain when a wasting asset is disposed of.<sup>[2]</sup>
- Compute the exemption when a principal private residence is disposed of.<sup>[2]</sup>
- Calculate the chargeable gain when a principal private residence has been used for business purposes.<sup>[2]</sup>

- f) Identify the amount of letting relief available when a principal private residence has been let out.<sup>[2]</sup>

#### Excluded topics

- *The disposal of leases and the creation of sub-leases.*

#### 4. Gains and losses on the disposal of shares and securities

- a) Calculate the value of quoted shares where they are disposed of by way of a gift.<sup>[2]</sup>
- b) Explain and apply the identification rules as they apply to individuals and to companies, including the same day, nine day, and 30 day matching rules.<sup>[2]</sup>
- c) Explain the pooling provisions.<sup>[2]</sup>
- d) Explain the treatment of bonus issues, rights issues, takeovers and reorganisations.<sup>[2]</sup>
- e) Explain the exemption available for gilt-edged securities and qualifying corporate bonds.<sup>[1]</sup>

#### Excluded topics

- *A detailed question on the pooling provisions for shares as they apply to limited companies.*
- *The small part disposal rules applicable to rights issues.*
- *Substantial shareholdings.*
- *Gilt-edged securities and qualifying corporate bonds other than the fact that they are exempt.*

#### 5. The computation of capital gains tax payable by individuals

- a) Compute the amount of capital gains tax payable.<sup>[2]</sup>

#### 6. The use of exemptions and reliefs in deferring and minimising tax liabilities arising on the disposal of capital assets

- a) Explain and apply entrepreneurs' relief as it applies to individuals.<sup>[2]</sup>
- b) Explain and apply rollover relief as it applies to individuals and companies.<sup>[2]</sup>
- c) Explain and apply holdover relief for the gift of business assets.<sup>[2]</sup>
- d) Explain and apply the incorporation relief that is available upon the transfer of a business to a company.<sup>[2]</sup>

#### Excluded topics

- *Reinvestment relief.*
- *Entrepreneurs' relief for associated disposals.*

### E INHERITANCE TAX

#### 1. The scope of inheritance tax

- a) Describe the scope of inheritance tax.<sup>[2]</sup>
- b) Identify and explain the persons chargeable.<sup>[2]</sup>

#### Excluded topics

- *Pre 18 March 1986 lifetime transfers.*
- *Transfers of value by close companies.*
- *Domicile, deemed domicile, and non-UK domiciled individuals.*
- *Trusts.*

#### 2. The basic principles of computing transfers of value

- a) State, explain and apply the meaning of transfer of value, chargeable transfer and potentially exempt transfer.<sup>[2]</sup>
- b) Demonstrate the diminution in value principle.<sup>[2]</sup>
- c) Demonstrate the seven year accumulation principle taking into account changes in the level of the nil rate band.<sup>[2]</sup>



### ***Excluded topics***

- *Excluded property.*
- *Related property.*
- *The tax implications of the location of assets.*
- *Gifts with reservation of benefit.*
- *Associated operations.*

### **3. The liabilities arising on chargeable lifetime transfers and on the death of an individual**

- Understand the tax implications of chargeable lifetime transfers and compute the relevant liabilities.<sup>[2]</sup>
- Understand the tax implications of transfers within seven years of death and compute the relevant liabilities.<sup>[2]</sup>
- Compute the tax liability on a death estate.<sup>[2]</sup>
- Understand and apply the transfer of any unused nil rate band between spouses.<sup>[2]</sup>

### ***Excluded topics***

- *Specific rules for the valuation of assets (values will be provided).*
- *Business property relief.*
- *Agricultural relief.*
- *Relief for the fall in value of lifetime gifts.*
- *Quick succession relief.*
- *Double tax relief.*
- *Variation of wills and disclaimers of legacies.*
- *Grossing up on death.*
- *Post mortem reliefs.*
- *Double charges legislation.*

### **4. The use of exemptions in deferring and minimising inheritance tax liabilities**

- Understand and apply the following exemptions:
  - small gifts exemption<sup>[2]</sup>
  - annual exemption<sup>[2]</sup>
  - normal expenditure out of income<sup>[2]</sup>
  - gifts in consideration of marriage<sup>[2]</sup>
  - gifts between spouses.<sup>[2]</sup>

### ***Excluded topics***

- *Gifts to charities.*
- *Gifts to political parties.*
- *Gifts for national purposes.*

### **5. Payment of inheritance tax**

- Identify who is responsible for the payment of inheritance tax.<sup>[2]</sup>
- Advise on the due date for payment of inheritance tax.<sup>[2]</sup>

### ***Excluded topics***

- *Administration of inheritance tax other than listed above.*
- *The instalment option for the payment of tax.*
- *Interest and penalties.*

## **F NATIONAL INSURANCE CONTRIBUTIONS**

### **1. The scope of national insurance**

- a) Describe the scope of national insurance.<sup>[1]</sup>

### **2. Class 1 and Class 1A contributions for employed persons**

- a) Compute Class 1 NIC.<sup>[2]</sup>  
b) Compute Class 1A NIC.<sup>[2]</sup>

#### **Excluded topics**

- *The calculation of directors' national insurance on a month by month basis.*
- *Contracted out contributions.*

### **3. Class 2 and Class 4 contributions for self-employed persons**

- a) Compute Class 2 NIC.<sup>[2]</sup>  
b) Compute Class 4 NIC.<sup>[2]</sup>

#### **Excluded topics**

- *The offset of trading losses against non-trading income.*

## **G VALUE ADDED TAX**

### **1. The scope of value added tax (VAT)**

- a) Describe the scope of VAT.<sup>[2]</sup>  
b) List the principal zero-rated and exempt supplies.<sup>[1]</sup>

### **2. The VAT registration requirements**

- a) Recognise the circumstances in which a person must register for VAT.<sup>[2]</sup>  
b) Explain the advantages of voluntary VAT registration.<sup>[2]</sup>  
c) Explain the circumstances in which pre-registration input VAT can be recovered.<sup>[2]</sup>

- d) Explain how and when a person can deregister for VAT.<sup>[1]</sup>

- e) Explain the conditions that must be met for two or more companies to be treated as a group for VAT purposes, and the consequences of being so treated.<sup>[1]</sup>

### **3. The computation of VAT liabilities**

- a) Explain how VAT is accounted for and administered.<sup>[2]</sup>  
b) Recognise the tax point when goods or services are supplied.<sup>[2]</sup>  
c) List the information that must be given on a VAT invoice.<sup>[1]</sup>  
d) Explain and apply the principles regarding the valuation of supplies.<sup>[2]</sup>  
e) Recognise the circumstances in which input VAT is non-deductible.<sup>[2]</sup>  
f) Compute the relief that is available for impairment losses on trade debts.<sup>[2]</sup>  
g) Explain the circumstances in which the default surcharge, a penalty for an incorrect VAT return, and default interest will be applied.<sup>[1]</sup>  
h) Explain the treatment of imports, exports and trade within the European Union.

#### **Excluded topics**

- *VAT periods where there is a change of VAT rate.*
- *Partial exemption.*
- *In respect of property and land: leases, do-it-yourself builders, and a landlord's option to tax.*
- *Penalties apart from those listed in the study guide.*

#### 4. The effect of special schemes

- a) Describe the cash accounting scheme, and recognise when it will be advantageous to use the scheme.<sup>[2]</sup>
- b) Describe the annual accounting scheme, and recognise when it will be advantageous to use the scheme.<sup>[2]</sup>
- c) Describe the flat rate scheme, and recognise when it will be advantageous to use the scheme.<sup>[2]</sup>

#### Excluded topics

- *The second-hand goods scheme.*
- *The capital goods scheme.*
- *The special schemes for retailers.*

### H THE OBLIGATIONS OF TAX PAYERS AND/OR THEIR AGENTS

#### 1. The systems for self-assessment and the making of returns

- a) Explain and apply the features of the self-assessment system as it applies to individuals.<sup>[2]</sup>
- b) Explain and apply the features of the self-assessment system as it applies to companies, including the use of iXBRL.<sup>[2]</sup>

#### 2. The time limits for the submission of information, claims and payment of tax, including payments on account

- a) Recognise the time limits that apply to the filing of returns and the making of claims.<sup>[2]</sup>
- b) Recognise the due dates for the payment of tax under the self-assessment system.<sup>[2]</sup>
- c) Compute payments on account and balancing payments/repayments for individuals.<sup>[2]</sup>
- d) Explain how large companies are required to account for corporation tax on a quarterly basis.<sup>[2]</sup>
- e) List the information and records that taxpayers need to retain for tax purposes.<sup>[1]</sup>

#### Excluded topics

- *The payment of CGT by annual instalments.*

#### 3. The procedures relating to compliance checks, appeals and disputes

- a) Explain the circumstances in which HM Revenue & Customs can make a compliance check into a self-assessment tax return.<sup>[2]</sup>
- b) Explain the procedures for dealing with appeals and disputes.<sup>[1]</sup>

#### 4. Penalties for non-compliance

- a) Calculate late payment interest.<sup>[2]</sup>
- b) State the penalties that can be charged.<sup>[2]</sup>

## SUMMARY OF CHANGES TO F6 (UK)

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

The main areas that have been added to the syllabus are shown in Table 1 below:

**Table 1 – Additions to F6 (UK)**

Section and subject area	Syllabus content
B3 Income from self-employment – <i>Excluded topics</i>	Industrial buildings allowance (IBA)
B4 Property and investment income – <i>Excluded topics</i>	Junior ISAs
C4 Group Structure – <i>Excluded topics</i>	Profits from overseas branch

The main areas that have been added to the syllabus are shown in Table 2 below:

**Table 2 – Deletions from F6 (UK)**

Section and subject area	Syllabus content
B3g)vii) Income from self-employment	Industrial buildings allowance (IBA)
B3g)viii) Income from self-employment	IBA
B3 Income from self-employment – <i>Excluded topics</i>	40% FYA
B3 Income from self-employment – <i>Excluded topics</i>	Apportionment of AIA
B3 Income from self-employment – <i>Excluded topics</i>	Calculation of IBA
B3 Income from self-employment – <i>Excluded topics</i>	Additional loss relief
B4 Property and investment income – <i>Excluded topics</i>	Pension additional tax charge
B4 Property and investment income – <i>Excluded topics</i>	Anti-forestalling provisions
C2 Taxable total profits – <i>Excluded topics</i>	Extended loss relief
C3c) The comprehensive computation of corporation tax liability	Exemptions and reliefs (as repetition of C5)
C3 The comprehensive computation of corporation tax liability – <i>Excluded topics</i>	The corporate venturing scheme
C4 Group Structure – <i>Excluded topics</i>	Overseas dividends
D2 Computing gains and losses – <i>Excluded topics</i>	Disposals prior to 23 June 2010
D6 Use of exemptions – <i>Excluded topics</i>	Entrepreneurs' relief qualifying limits prior to 22 June 2010

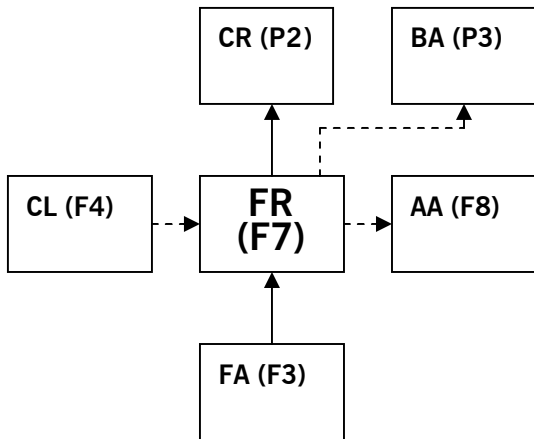
The main areas that have been amended or clarified in the syllabus are shown in Table 3 below:

**Table 3 – Amendments to F6 (UK)**

Section and subject area	Amendment
Approach to examining	Groups and overseas aspects can also be examined in question four
Approach to examining	A small element of chargeable gains could be included in questions other than question three

Approach to examining	Inheritance tax specified as between 5 and 15 marks on every paper, within questions three, four or five.
B6a) Use of exemptions	Pensions rules will only be examined from 6 April 2011
E3 The liabilities arising on chargeable lifetime transfers and on the death of an individual – <i>Excluded topics</i>	Double grossing up on death amended to Grossing up on death
F3g) The computation of VAT liabilities	A serious misdeclaration penalty replaced with a penalty for an incorrect VAT return
H1b) Corporate self-assessment	Use of iXBRL
H3a) Procedures relating to compliance checks	'Enquiry' changed to 'compliance check' to agree to HMRC terminology
H4a) Penalties for non-compliance	Interest on overdue tax replaced with late payment interest

# Financial Reporting (INT) (F7)



## AIM

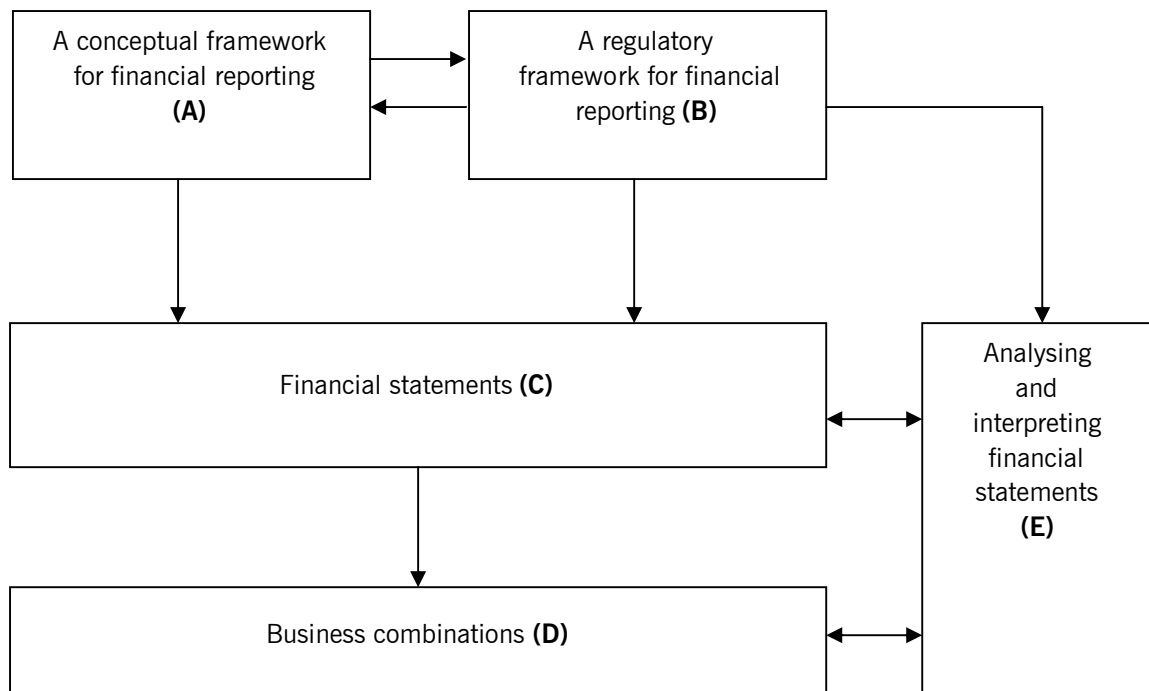
To develop knowledge and skills in understanding and applying accounting standards and the theoretical framework in the preparation of financial statements of entities, including groups and how to analyse and interpret those financial statements.

## MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

- A** Discuss and apply a conceptual framework for financial reporting
- B** Discuss a regulatory framework for financial reporting
- C** Prepare and present financial statements which conform with International accounting standards
- D** Account for business combinations in accordance with International accounting standards
- E** Analyse and interpret financial statements.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

The financial reporting syllabus assumes knowledge acquired in Paper F3, *Financial Accounting*, and develops and applies this further and in greater depth.

The syllabus begins with the conceptual framework of accounting with reference to the qualitative characteristics of useful information and the fundamental bases of accounting introduced in the Paper F3 syllabus within the Knowledge module. It then moves into a detailed examination of the regulatory framework of accounting and how this informs the standard setting process.

The main areas of the syllabus cover the reporting of financial information for single companies and for groups in accordance with generally accepted accounting principles and relevant accounting standards.

Finally, the syllabus covers the analysis and interpretation of information from financial reports.

## **DETAILED SYLLABUS**

### **A A conceptual framework for financial reporting**

1. The need for a conceptual framework
2. Understandability, relevance, reliability and comparability
3. Recognition and measurement
4. The legal versus the commercial view of accounting
5. Alternative models and practices
6. The concept of 'faithful representation' ('true and fair view')

### **B A regulatory framework for financial reporting**

1. Reasons for the existence of a regulatory framework
2. The standard setting process
3. Specialised, not-for-profit, and public sector entities

### **C Financial statements**

1. Statements of cash flows
2. Tangible non-current assets
3. Intangible assets
4. Inventory
5. Financial assets and financial liabilities
6. Leases
7. Provisions, contingent liabilities, and contingent assets
8. Impairment of assets
9. Taxation
10. Regulatory requirements relating to the preparation of financial statements
11. Reporting financial performance

### **D Business combinations**

1. The concept and principles of a group
2. The concept of consolidated financial statements
3. Preparation of consolidated financial statements including an associate

### **E Analysing and interpreting financial statements**

1. Limitations of financial statements
2. Calculation and interpretation of accounting ratios and trends to address users' and stakeholders' needs
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# Study Guide

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  - iii) factoring of receivables.

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- a) Describe what is meant by financial statements achieving a faithful representation.<sup>[2]</sup>
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- a) Describe the structure and objectives of the IFRS Foundation, the International Accounting Standards Board (IASB), the IFRS Advisory Council (IFRS AC) and the IFRS Interpretations Committee (IFRS IC).<sup>[2]</sup>
- b) Describe the IASB's Standard setting process including revisions to and interpretations of Standards.<sup>[2]</sup>
- c) Explain the relationship of national standard setters to the IASB in respect of the standard setting process.<sup>[2]</sup>

## **3. Specialised, not-for-profit and public sector entities**

- a) Distinguish between the primary aims of not-for profit and public sector entities and those of profit oriented entities.<sup>[1]</sup>
- b) Discuss the extent to which International Financial Reporting Standards (IFRSs) are relevant to specialised, not-for-profit and public sector entities.<sup>[1]</sup>

## **C FINANCIAL STATEMENTS**

### **1. Statements of Cash flows**

- a) Prepare a statement of cash flows for a single entity (not a group) in accordance with relevant accounting standards using the direct and the indirect method.<sup>[2]</sup>
- b) Compare the usefulness of cash flow information with that of an income statement or statement of comprehensive income.<sup>[2]</sup>
- c) Interpret a statement of cash flows (together with other financial information) to assess the performance and financial position of an entity.<sup>[2]</sup>

### **2. Tangible non-current assets**

- a) Define and compute the initial measurement of a non-current (including a self-constructed and borrowing costs) asset.<sup>[2]</sup>
- b) Identify subsequent expenditure that may be capitalised, distinguishing between capital and revenue items.<sup>[2]</sup>
- c) Discuss the requirements of relevant accounting standards in relation to the revaluation of non-current assets.<sup>[2]</sup>
- d) Account for revaluation and disposal gains and losses for non-current assets.<sup>[2]</sup>
- e) Compute depreciation based on the cost and revaluation models and on assets that have two or more significant parts (complex assets).<sup>[2]</sup>

- f) Apply the provisions of relevant accounting standards in relation to accounting for government grants.<sup>[2]</sup>
- g) Discuss why the treatment of investment properties should differ from other properties.<sup>[2]</sup>
- h) Apply the requirements of relevant accounting standards for investment property.<sup>[2]</sup>

### 3. Intangible assets

- a) Discuss the nature and accounting treatment of internally generated and purchased intangibles.<sup>[2]</sup>
- b) Distinguish between goodwill and other intangible assets.<sup>[2]</sup>
- c) Describe the criteria for the initial recognition and measurement of intangible assets.<sup>[2]</sup>
- d) Describe the subsequent accounting treatment, including the principle of impairment tests in relation to goodwill.<sup>[2]</sup>
- e) Indicate why the value of purchase consideration for an investment may be less than the value of the acquired identifiable net assets and how the difference should be accounted for.<sup>[2]</sup>
- f) Describe and apply the requirements of relevant accounting standards to research and development expenditure.<sup>[2]</sup>

### 4. Inventory

- a) Describe and apply the principles of inventory valuation.<sup>[2]</sup>
- b) Define a construction contract and discuss the role of accounting concepts in the recognition of profit.<sup>[2]</sup>
- c) Describe the acceptable methods of determining the stage (percentage) of completion of a contract.<sup>[2]</sup>
- d) Prepare financial statement extracts for construction contracts.<sup>[2]</sup>

### 5 Financial assets and financial liabilities

- a) Explain the need for an accounting standard on financial instruments.<sup>[1]</sup>
- b) Define financial instruments in terms of financial assets and financial liabilities.<sup>[1]</sup>
- c) Indicate for the following categories of financial instruments how they should be measured and how any gains and losses from subsequent measurement should be treated in the financial statements:<sup>[1]</sup>
  - i) amortised cost
  - ii) fair value ( including option to classify equity instruments through other comprehensive income)
- d) Distinguish between debt and equity capital.<sup>[2]</sup>
- e) Apply the requirements of relevant accounting standards to the issue and finance costs of:<sup>[2]</sup>
  - i) equity
  - ii) redeemable preference shares and debt instruments with no conversion rights (principle of amortised cost)
  - iii) convertible debt

### 6. Leases

- a) Explain why recording the legal form of a finance lease can be misleading to users (referring to the commercial substance of such leases).<sup>[2]</sup>
- b) Describe and apply the method of determining a lease type (i.e. an operating or finance lease).<sup>[2]</sup>
- c) Discuss the effect on the financial statements of a finance lease being incorrectly treated as an operating lease.<sup>[2]</sup>
- d) Account for assets financed by finance leases in the records of the lessee.<sup>[2]</sup>
- e) Account for operating leases in the records of the lessee.<sup>[2]</sup>

## **7. Provisions, contingent liabilities and contingent assets**

- a) Explain why an accounting standard on provisions is necessary.<sup>[2]</sup>
- b) Distinguish between legal and constructive obligations.<sup>[2]</sup>
- c) State when provisions may and may not be made and demonstrate how they should be accounted for.<sup>[2]</sup>
- d) Explain how provisions should be measured.<sup>[1]</sup>
- e) Define contingent assets and liabilities and describe their accounting treatment.<sup>[2]</sup>
- f) Identify and account for:<sup>[2]</sup>
  - i) warranties/guarantees
  - ii) onerous contracts
  - iii) environmental and similar provisions
  - iv) provisions for future repairs or refurbishments.

## **8. Impairment of assets**

- a) Define an impairment loss.<sup>[2]</sup>
- b) Identify the circumstances that may indicate impairments to assets.<sup>[2]</sup>
- c) Describe what is meant by a cash generating unit.<sup>[2]</sup>
- d) State the basis on which impairment losses should be allocated, and allocate an impairment loss to the assets of a cash generating unit.<sup>[2]</sup>

## **9. Taxation**

- a) Account for current taxation in accordance with relevant accounting standards.<sup>[2]</sup>
- b) Record entries relating to income tax in the accounting records.<sup>[2]</sup>
- c) Explain the effect of taxable temporary differences on accounting and taxable profits.<sup>[2]</sup>
- d) Compute and record deferred tax amounts in the financial statements.<sup>[2]</sup>

## **10. Regulatory requirements relating to the preparation of financial statements**

- a) Describe the structure (format) and content of financial statements presented under IFRS.<sup>[2]</sup>
- b) Prepare an entity's financial statements in accordance with the prescribed structure and content.<sup>[2]</sup>

## **11. Reporting financial performance**

- a) Discuss the importance of identifying and reporting the results of discontinued operations.<sup>[2]</sup>
- b) Define and account for non-current assets held for sale and discontinued operations.<sup>[2]</sup>
- c) Indicate the circumstances where separate disclosure of material items of income and expense is required.<sup>[2]</sup>
- d) Prepare and explain the contents and purpose of the statement of changes in equity.<sup>[2]</sup>
- e) Describe and prepare a statement of changes in equity.<sup>[2]</sup>
- f) Earnings per share (eps)
  - i) calculate the eps in accordance with relevant accounting standards (dealing with bonus issues, full market value issues and rights issues)<sup>[2]</sup>
  - ii) explain the relevance of the diluted eps and calculate the diluted eps involving convertible debt and share options (warrants)<sup>[2]</sup>
  - iii) explain why the trend of eps may be a more accurate indicator of performance than a company's profit trend and the importance of eps as a stock market indicator<sup>[2]</sup>
  - iv) discuss the limitations of using eps as a performance measure.<sup>[3]</sup>
- g) Events after the reporting date
  - i) distinguish between and account for adjusting and non-adjusting events after the reporting date<sup>[2]</sup>
  - ii) Identify items requiring separate disclosure, including their accounting treatment and required disclosures<sup>[2]</sup>

## **D BUSINESS COMBINATIONS**

### **1. The concept and principles of a group**

- a) Describe the concept of a group as a single economic unit.<sup>[2]</sup>
- b) Explain and apply the definition of a subsidiary within relevant accounting standards.<sup>[2]</sup>
- c) Identify and outline using accounting standards and other applicable regulation the circumstances in which a group is required to prepare consolidated financial statements.<sup>[2]</sup>
- d) Describe the circumstances when a group may claim exemption from the preparation of consolidated financial statements. .<sup>[2]</sup>
- e) Explain why directors may not wish to consolidate a subsidiary and outline using accounting standards and other applicable regulation the circumstances where this is permitted.<sup>[2]</sup>
- f) Explain the need for using coterminous year ends and uniform accounting policies when preparing consolidated financial statements.<sup>[2]</sup>
- g) Explain why it is necessary to eliminate intra-group transactions.<sup>[2]</sup>

### **2. The concept of consolidated financial statements**

- a) Explain the objective of consolidated financial statements.<sup>[2]</sup>
- b) Indicate the effect that the related party relationship between a parent and subsidiary may have on the subsidiary's entity statements and the consolidated financial statements.<sup>[2]</sup>
- c) Explain why it is necessary to use fair values for the consideration for an investment in a subsidiary together with the fair values of a subsidiary's identifiable assets and liabilities when preparing consolidated financial statements.<sup>[2]</sup>
- d) Describe and apply the required accounting treatment of consolidated goodwill.<sup>[2]</sup>

### **3. Preparation of consolidated financial statements including an associate**

- a) Prepare a consolidated statement of financial position for a simple group (parent and one subsidiary) dealing with pre and post acquisition profits, minority interests and consolidated goodwill.<sup>[2]</sup>
- b) Prepare a consolidated income statement and consolidated statement of comprehensive income for a simple group dealing with an acquisition in the period and minority interest.<sup>[2]</sup>
- c) Explain and account for other reserves (e.g. share premium and revaluation reserves).<sup>[1]</sup>
- d) Account for the effects in the financial statements of intra-group trading.<sup>[2]</sup>
- e) Account for the effects of fair value adjustments (including their effect on consolidated goodwill) to:<sup>[2]</sup>
  - i) depreciating and non-depreciating non-current assets
  - ii) inventory
  - iii) monetary liabilities
  - iv) assets and liabilities not included in the subsidiary's own statement of financial position, including contingent assets and liabilities
- f) Account for goodwill impairment.<sup>[2]</sup>
- g) Define an associate and explain the principles and reasoning for the use of equity accounting.<sup>[2]</sup>
- h) Prepare consolidated financial statements to include a single subsidiary and an associate.<sup>[2]</sup>

## **E ANALYSING AND INTERPRETING FINANCIAL STATEMENTS**

### **1. Limitations of financial statements**

- a) Indicate the problems of using historic information to predict future performance and trends.<sup>[2]</sup>

- b) Discuss how financial statements may be manipulated to produce a desired effect (creative accounting, window dressing).<sup>[2]</sup>
- c) Recognise how related party relationships have the potential to mislead users.<sup>[2]</sup>
- d) Explain why figures in a statement of financial position may not be representative of average values throughout the period for example, due to:<sup>[2]</sup>
  - i) seasonal trading
  - ii) major asset acquisitions near the end of the accounting period.

## **2 Calculation and interpretation of accounting ratios and trends to address users' and stakeholders' needs**

- a) Define and compute relevant financial ratios.<sup>[2]</sup>
- b) Explain what aspects of performance specific ratios are intended to assess.<sup>[2]</sup>
- c) Analyse and interpret ratios to give an assessment of an entity's performance and financial position in comparison with:<sup>[2]</sup>
  - i) an entity's previous period's financial statements
  - ii) another similar entity for the same reporting period
  - iii) industry average ratios.
- d) Interpret an entity's financial statements to give advice from the perspectives of different stakeholders.<sup>[2]</sup>
- e) Discuss how the interpretation of current value based financial statements would differ from those using historical cost based accounts.<sup>[1]</sup>

## **3. Limitations of interpretation techniques**

- a) Discuss the limitations in the use of ratio analysis for assessing corporate performance.<sup>[2]</sup>
- b) Discuss the effect that changes in accounting policies or the use of different accounting policies between entities can have on the ability to interpret performance.<sup>[2]</sup>

- c) Indicate other information, including non-financial information, that may be of relevance to the assessment of an entity's performance.<sup>[1]</sup>

## **4. Specialised, not-for-profit and public sector entities**

- a) Discuss the different approaches that may be required when assessing the performance of specialised, not-for-profit and public sector organisations.<sup>[1]</sup>

## **SUMMARY OF CHANGES TO F7 (INT)**

### **RATIONALE FOR CHANGES**

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

### **Note of significant changes to study guide Paper F7 INT**

The main areas to be added or deleted from the syllabus from that date are shown in Table 1 and 2 below:

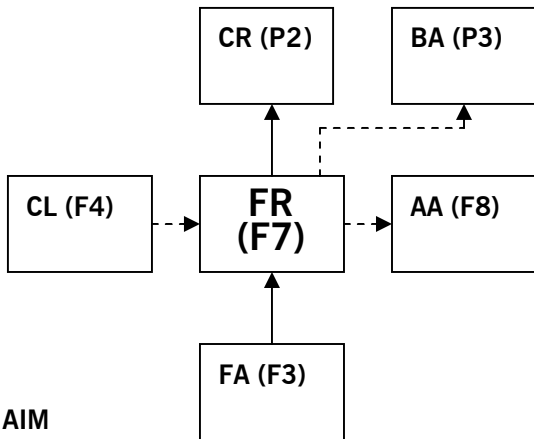
#### **Table 1 – Additions to F7 INT**

**There have not been any additions to the 2011 study guide for 2012. However there have been minor amendments to the wording of some of the study guide outcomes corresponding to changes within examinable documents and to ensure greater clarity.**

#### **Table 2 – Deletions to F7 INT**

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# Financial Reporting (UK) (F7)



## AIM

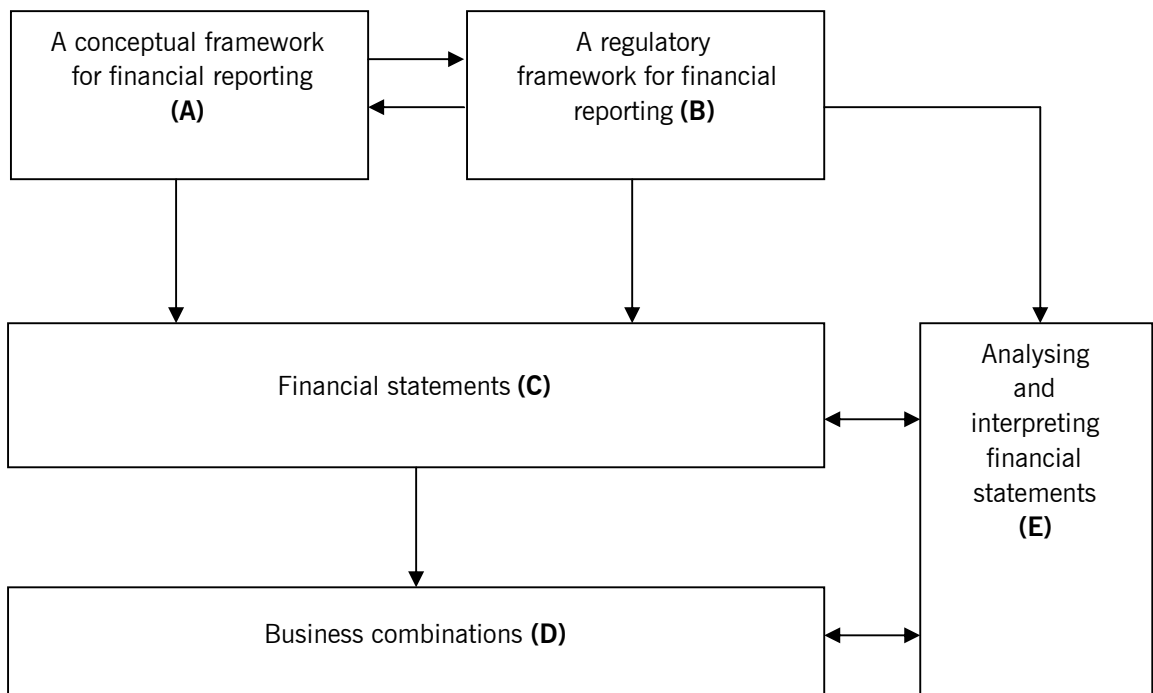
To develop knowledge and skills in understanding and applying accounting standards and the theoretical framework in the preparation of financial statements of entities, including groups and how to analyse and interpret those financial statements.

## MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

- A** Discuss and apply a conceptual framework for financial reporting
- B** Discuss a regulatory framework for financial reporting
- C** Prepare and present financial statements which conform with International accounting standards
- D** Account for business combinations in accordance with International accounting standards
- E** Analyse and interpret financial statements.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES





## **RATIONALE**

The financial reporting syllabus assumes knowledge acquired in Paper F3, *Financial Accounting*, and develops and applies this further and in greater depth.

The UK syllabus is primarily based on International accounting standards together with elements of UK legislation governing the preparation of financial statements both for individual and group entities. Selected differences between UK and International accounting standards will also be tested.

The syllabus begins with the conceptual framework of accounting with reference to the qualitative characteristics of useful information and the fundamental bases of accounting introduced in the Paper F3 syllabus within the Knowledge module. It then moves into a detailed examination of the regulatory framework of accounting and how this informs the standard setting process.

The main areas of the syllabus cover the reporting of financial information for single companies and for groups in accordance with generally accepted accounting principles and relevant accounting standards.

Finally, the syllabus covers the analysis and interpretation of information from financial reports.

## **DETAILED SYLLABUS**

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4. The legal versus the commercial view of accounting
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- a) Describe what is meant by financial statements achieving a faithful representation.<sup>[2]</sup>
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- a) Describe the structure and objectives of the IFRS Foundation, the International Accounting Standards Board (IASB), the IFRS Advisory Council (IFRS AC) and the IFRS Interpretations Committee (IFRS IC).<sup>[2]</sup>
- b) Describe the IASB's Standard setting process including revisions to and interpretations of Standards.<sup>[2]</sup>
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## **3. Specialised, not-for-profit and public sector entities**

- a) Distinguish between the primary aims of not-for profit and public sector entities and those of profit oriented entities.<sup>[1]</sup>
- b) Discuss the extent to which International Financial Reporting Standards (IFRSs) are relevant to specialised, not-for-profit and public sector entities.<sup>[1]</sup>

## **4. Legal requirements relating to the preparation of single entity financial statements**

- a) Identify and outline the circumstances in which a single entity is required to prepare and present statutory financial statements.<sup>[2]</sup>
- b) Recognise and apply the laws, regulations, accounting standards and other requirements to the preparation of statutory financial statements of an entity<sup>[2]</sup>

## **C FINANCIAL STATEMENTS**

### **1. Statements of Cash flows**

- a) Prepare a statement of cash flows for a single entity (not a group) in accordance with relevant accounting standards using the direct and the indirect method. Describe the differences in format under a UK presentation of a cash flow statement.<sup>[2]</sup>
- b) Compare the usefulness of cash flow information with that of an income statement or statement of comprehensive income.<sup>[2]</sup>
- c) Interpret a statement of cash flows (together with other financial information) to assess the performance and financial position of an entity.<sup>[2]</sup>

### **2. Tangible non-current assets**

- a) Define and compute the initial measurement of a non-current (including a self-constructed and borrowing costs under International and UK rules) asset.<sup>[2]</sup>
- b) Identify subsequent expenditure that may be capitalised, distinguishing between capital and revenue items.<sup>[2]</sup>

- c) Discuss the requirements of relevant accounting standards in relation to the revaluation of non-current assets. Outline how revaluation guidance differs under UK rules including frequency of valuation, methods of valuation given different property types. .<sup>[2]</sup>
- d) Account for revaluation and disposal gains and losses for non-current assets. Outline how accounting for revaluation gains and losses differs under UK rules (including non specialised property and situations where an asset is subject to revaluation and is now subject to clear consumption of economic benefit)<sup>[2]</sup>
- e) Compute depreciation based on the cost and revaluation models and on assets that have two or more significant parts (complex assets).<sup>[2]</sup>
- f) Apply the provisions of relevant accounting standards in relation to accounting for government grants.<sup>[2]</sup>
- g) Discuss why the treatment of investment properties should differ from other properties.<sup>[2]</sup>
- h) Apply the requirements of relevant accounting standards for investment property.<sup>[2]</sup>

### **3. Intangible assets**

- a) Discuss the nature and accounting treatment of internally generated and purchased intangibles.<sup>[2]</sup>
- b) Distinguish between goodwill and other intangible assets.<sup>[2]</sup>
- c) Describe the criteria for the initial recognition and measurement of intangible assets. Outline how under UK rules the recognition criteria for intangibles. <sup>[2]</sup>
- d) Describe the subsequent accounting treatment, including the principle of impairment tests in relation to goodwill.<sup>[2]</sup>
- e) Indicate why the value of purchase consideration for an investment may be less than the value of the acquired identifiable net assets and how the difference should be accounted for.<sup>[2]</sup>

- f) Describe and apply the requirements of relevant accounting standards to research and development expenditure including the choice for deferment under UK rules. <sup>[2]</sup>

### **4. Inventory**

- a) Describe and apply the principles of inventory valuation.<sup>[2]</sup>
- b) Define a construction contract and discuss the role of accounting concepts in the recognition of profit.<sup>[2]</sup>
- c) Describe the acceptable methods of determining the stage (percentage) of completion of a contract.<sup>[2]</sup>
- d) Prepare financial statement extracts for construction contracts and outline how construction contracts should be accounted and presented under UK rules.<sup>[2]</sup>

### **5 Financial assets and financial liabilities**

- a) Explain the need for an accounting standard on financial instruments.<sup>[1]</sup>
- b) Define financial instruments in terms of financial assets and financial liabilities.<sup>[1]</sup>
- c) Indicate for the following categories of financial instruments how they should be measured and how any gains and losses from subsequent measurement should be treated in the financial statements: <sup>[1]</sup>
  - i) amortised cost
  - ii) fair value ( including option to classify equity instruments through other comprehensive income)
- d) Distinguish between debt and equity capital.<sup>[2]</sup>
- e) Apply the requirements of relevant accounting standards to the issue and finance costs of: <sup>[2]</sup>
  - i) equity
  - ii) redeemable preference shares and debt instruments with no conversion rights (principle of amortised cost)
  - iii) convertible debt

## 6. Leases

- a) Explain why recording the legal form of a finance lease can be misleading to users (referring to the commercial substance of such leases).<sup>[2]</sup>
- b) Describe and apply the method of determining a lease type (i.e. an operating or finance lease). Outline how under UK rules a lease is classified.<sup>[2]</sup>
- c) Discuss the effect on the financial statements of a finance lease being incorrectly treated as an operating lease.<sup>[2]</sup>
- d) Account for assets financed by finance leases in the records of the lessee.<sup>[2]</sup>
- e) Account for operating leases in the records of the lessee.<sup>[2]</sup>

## 7. Provisions, contingent liabilities and contingent assets

- a) Explain why an accounting standard on provisions is necessary.<sup>[2]</sup>
- b) Distinguish between legal and constructive obligations.<sup>[2]</sup>
- c) State when provisions may and may not be made and demonstrate how they should be accounted for.<sup>[2]</sup>
- d) Explain how provisions should be measured.<sup>[1]</sup>
- e) Define contingent assets and liabilities and describe their accounting treatment.<sup>[2]</sup>
- f) Identify and account for:<sup>[2]</sup>
  - i) warranties/guarantees
  - ii) onerous contracts
  - iii) environmental and similar provisions
  - iv) provisions for future repairs or refurbishments.

## 8. Impairment of assets

- a) Define an impairment loss.<sup>[2]</sup>
- b) Identify the circumstances that may indicate impairments to assets.<sup>[2]</sup>

- c) Describe what is meant by a cash generating unit.<sup>[2]</sup>
- d) State the basis on which impairment losses should be allocated, and allocate an impairment loss to the assets of a cash generating unit.<sup>[2]</sup>

## 9. Taxation

- a) Account for current taxation in accordance with relevant accounting standards.<sup>[2]</sup>
- b) Record entries relating to income tax in the accounting records.<sup>[2]</sup>
- c) Explain the effect of taxable temporary differences on accounting and taxable profits.<sup>[2]</sup>
- d) Compute and record deferred tax amounts in the financial statements and distinguish between International and UK treatment for revaluation of non-current assets and in the discounting of the deferred tax liability.<sup>[2]</sup>

## 10. Regulatory requirements relating to the preparation of financial statements

- a) Describe the structure (format) and content of financial statements presented under IFRS.<sup>[2]</sup>
- b) Prepare an entity's financial statements in accordance with the prescribed structure and content.<sup>[2]</sup>

## 11. Reporting financial performance

- a) Discuss the importance of identifying and reporting the results of discontinued operations.<sup>[2]</sup>
- b) Define and account for non-current assets held for sale and discontinued operations.<sup>[2]</sup>
- c) Outline the different definitions and treatment of discontinued operations and assets held for sale under UK standards.<sup>[1]</sup>
- d) Indicate the circumstances where separate disclosure of material items of income and expense is required.<sup>[2]</sup>

- e) Prepare and explain the contents and purpose of the statement of changes in equity.<sup>[2]</sup>
- f) Describe and prepare a statement of changes in equity.<sup>[2]</sup>
- g) Earnings per share (eps)
  - i) calculate the eps in accordance with relevant accounting standards (dealing with bonus issues, full market value issues and rights issues)<sup>[2]</sup>
  - ii) explain the relevance of the diluted eps and calculate the diluted eps involving convertible debt and share options (warrants)<sup>[2]</sup>
  - iii) explain why the trend of eps may be a more accurate indicator of performance than a company's profit trend and the importance of eps as a stock market indicator<sup>[2]</sup>
  - iv) discuss the limitations of using eps as a performance measure.<sup>[3]</sup>
- h) Events after the reporting date
  - i) distinguish between and account for adjusting and non-adjusting events after the reporting date<sup>[2]</sup>
  - ii) Identify items requiring separate disclosure, including their accounting treatment and required disclosures<sup>[2]</sup>

## **D BUSINESS COMBINATIONS**

### **1. The concept and principles of a group**

- a) Describe the concept of a group as a single economic unit.<sup>[2]</sup>
- b) Explain and apply the definition of a subsidiary within relevant accounting standards.<sup>[2]</sup>
- c) Identify and outline using accounting standards, other applicable regulation and UK legislation the circumstances in which a group is required to prepare consolidated financial statements.<sup>[2]</sup>
- d) Describe the circumstances when a group may claim exemption from the preparation of consolidated financial statements under accounting standards, other applicable regulation and UK legislation.<sup>[2]</sup>

- e) Explain why directors may not wish to consolidate a subsidiary and outline using accounting standards and other applicable regulation the circumstances where this is permitted.<sup>[2]</sup>
- f) Explain the need for using coterminous year ends and uniform accounting policies when preparing consolidated financial statements.<sup>[2]</sup>
- g) Explain why it is necessary to eliminate intra-group transactions.<sup>[2]</sup>

### **2. The concept of consolidated financial statements**

- a) Explain the objective of consolidated financial statements.<sup>[2]</sup>
- b) Indicate the effect that the related party relationship between a parent and subsidiary may have on the subsidiary's entity statements and the consolidated financial statements.<sup>[2]</sup>
- c) Explain why it is necessary to use fair values for the consideration for an investment in a subsidiary together with the fair values of a subsidiary's identifiable assets and liabilities when preparing consolidated financial statements.<sup>[2]</sup>
- d) Describe and apply the required accounting treatment of consolidated goodwill.<sup>[2]</sup>

### **3. Preparation of consolidated financial statements including an associate**

- a) Prepare a consolidated statement of financial position for a simple group (parent and one subsidiary) dealing with pre and post acquisition profits, non-controlling interest (at fair value or proportionate share of subsidiary's net assets) and consolidated goodwill.<sup>[2]</sup>
- b) Prepare a consolidated income statement and consolidated statement of comprehensive income for a simple group dealing with an acquisition in the period and non-controlling interest.<sup>[2]</sup>
- c) Explain and account for other reserves (e.g. share premium and revaluation reserves).<sup>[1]</sup>



- d) Account for the effects in the financial statements of intra-group trading.<sup>[2]</sup>
- e) Account for the effects of fair value adjustments (including their effect on consolidated goodwill) to: <sup>[2]</sup>
  - i) depreciating and non-depreciating non-current assets
  - ii) inventory
  - iii) monetary liabilities
  - iv) assets and liabilities not included in the subsidiary's own statement of financial position, including contingent assets and liabilities
- f) Account for goodwill impairment.<sup>[2]</sup>
- g) Outline differences under UK rules of accounting for goodwill (initial measurement and subsequent treatment), minority interest, contingent consideration and acquisition expenses.
- h) Define an associate and explain the principles and reasoning for the use of equity accounting.<sup>[2]</sup>
- i) Prepare consolidated financial statements to include a single subsidiary and an associate.<sup>[2]</sup>

## **E ANALYSING AND INTERPRETING FINANCIAL STATEMENTS**

### **1. Limitations of financial statements**

- a) Indicate the problems of using historic information to predict future performance and trends.<sup>[2]</sup>
- b) Discuss how financial statements may be manipulated to produce a desired effect (creative accounting, window dressing).<sup>[2]</sup>
- c) Recognise how related party relationships have the potential to mislead users.<sup>[2]</sup>
- d) Explain why figures in a statement of financial position may not be representative of average values throughout the period for example, due to: <sup>[2]</sup>
  - i) seasonal trading
  - ii) major asset acquisitions near the end of the accounting period.

### **2 Calculation and interpretation of accounting ratios and trends to address users' and stakeholders' needs**

- a) Define and compute relevant financial ratios.<sup>[2]</sup>
- b) Explain what aspects of performance specific ratios are intended to assess.<sup>[2]</sup>
- c) Analyse and interpret ratios to give an assessment of an entity's performance and financial position in comparison with: <sup>[2]</sup>
  - i) an entity's previous period's financial statements
  - ii) another similar entity for the same reporting period
  - iii) industry average ratios.
- d) Interpret an entity's financial statements to give advice from the perspectives of different stakeholders.<sup>[2]</sup>
- e) Discuss how the interpretation of current value based financial statements would differ from those using historical cost based accounts.<sup>[1]</sup>

### **3. Limitations of interpretation techniques**

- a) Discuss the limitations in the use of ratio analysis for assessing corporate performance.<sup>[2]</sup>
- b) Discuss the effect that changes in accounting policies or the use of different accounting polices between entities can have on the ability to interpret performance.<sup>[2]</sup>
- c) Indicate the effect that the application of the different UK rules contained in this syllabus guide may have on an assessment of an entities performance. <sup>[1]</sup>
- d) Indicate other information, including non-financial information, that may be of relevance to the assessment of an entity's performance.<sup>[1]</sup>

### **4. Specialised, not-for-profit and public sector entities**

- a) Discuss the different approaches that may be required when assessing the performance of specialised, not-for-profit and public sector organisations.<sup>[1]</sup>

## **SUMMARY OF CHANGES TO F7 (UK)**

### **RATIONALE FOR CHANGES**

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of

stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

These changes are summarised in Table 1 and 2 below:

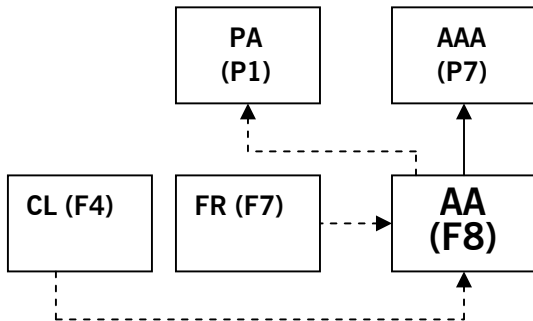
#### **Table 1 – Additions to F7 UK**

**There have not been any additions to the 2011 study guide for 2012. However there have been minor amendments to the wording of some of the study guide outcomes corresponding to changes within examinable documents and to ensure greater clarity.**

#### **Table 2 – Deletions to F7 UK**

**There have not been any deletions to the 2011 study guide for 2012. However there have been minor amendments to the wording of some of the study guide outcomes corresponding to changes within examinable documents and to ensure greater clarity.**

# Audit and Assurance (INT) (F8)



## AIM

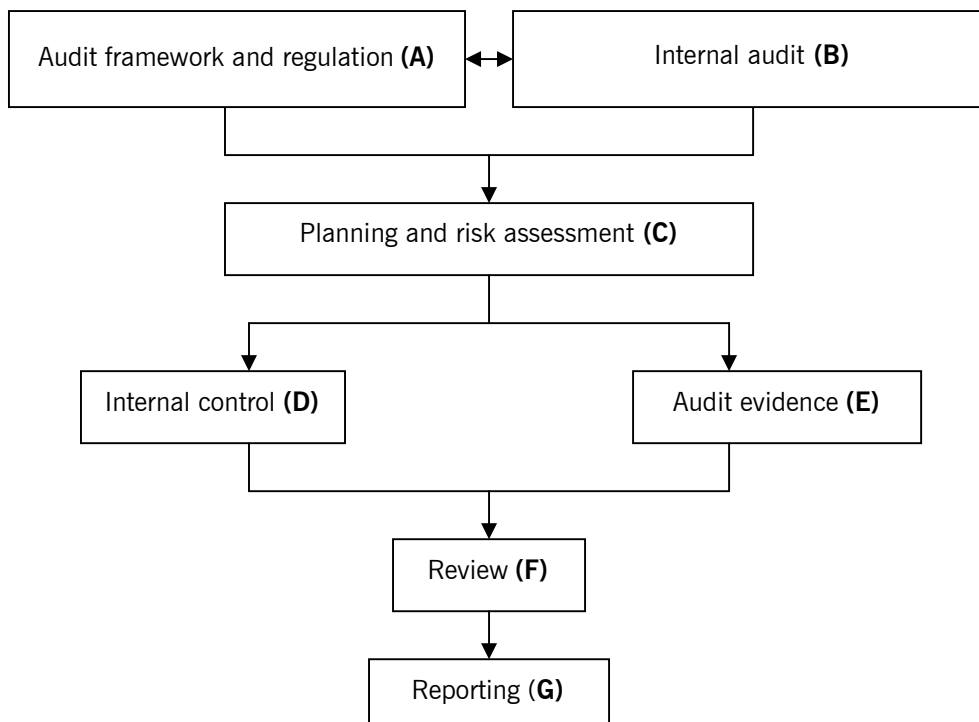
To develop knowledge and understanding of the process of carrying out the assurance engagement and its application in the context of the professional regulatory framework.

## MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

- A** Explain the nature, purpose and scope of assurance engagements including the role of the external audit and its regulatory and ethical framework
- B** Explain the nature of internal audit and describe its role as part of overall performance management and its relationship with the external audit
- C** Demonstrate how the auditor obtains an understanding of the entity and its environment, assesses the risk of material misstatement (whether arising from fraud or other irregularities) and plans an audit of financial statements
- D** Describe and evaluate information systems and internal controls to identify and communicate control risks and their potential consequences, making appropriate recommendations
- E** Identify and describe the work and evidence required to meet the objectives of audit engagements and the application of the International Standards on Auditing
- F** Evaluate findings and modify the audit plan as necessary
- G** Explain how the conclusions from audit work are reflected in different types of audit report, explain the elements of each type of report.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

The Audit and Assurance syllabus is essentially divided into seven areas. The syllabus starts with the nature, purpose and scope of assurance engagements, including the statutory audit, its regulatory environment, and introduces professional ethics relating to audit and assurance. It then leads into internal audit, including the scope of internal audit as well as the differences between internal audit and external audit. The syllabus then covers a range of areas relating to an audit of financial statements. These include planning and risk assessment, evaluating internal controls, audit evidence, and a review of the financial statements. The final section then deals with reporting, including statutory audit reports, management reports, and internal audit reports.

## **DETAILED SYLLABUS**

### **A. Audit framework and regulation**

1. The concept of audit and other assurance engagements
2. Statutory audits
3. The regulatory environment and corporate governance
4. Professional ethics and ACCA's Code of Ethics and Conduct

### **B. Internal audit**

1. Internal audit and corporate governance
2. Differences between the external auditor and the internal audit function
3. The scope of the internal audit function
4. Outsourcing the internal audit function
5. Internal audit assignments

### **C. Planning and risk assessment**

1. Objective and general principles
2. Assessing the risks of material misstatement

3. Understanding the entity and its environment
4. Materiality, fraud, laws and regulations
5. Analytical procedures
6. Planning an audit
7. Audit documentation

### **D. Internal control**

1. Internal control systems
2. The use of internal control systems by auditors
3. Transaction cycles
4. Tests of control
5. The evaluation of internal control components
6. Communication on internal control

### **E. Audit evidence**

1. The use of assertions by auditors
2. Audit procedures
3. The audit of specific items
4. Audit sampling and other means of testing
5. Computer-assisted audit techniques
6. The work of others
7. Not-for-profit organisations

### **F. Review**

1. Subsequent events
2. Going concern
3. Written representations
4. Audit finalisation and the final review

### **G. Reporting**

1. Audit reports

2. Reports to management
3. Internal audit reports

### **APPROACH TO EXAMINING THE SYLLABUS**

The syllabus is assessed by a three-hour paper-based examination, consisting of five compulsory questions. The bulk of the questions will be discursive but some questions involving computational elements will be set from time to time.

The questions will cover all areas of the syllabus.

Question 1 will be a scenario-based question worth 30 marks. Question 2 will be a knowledge-based question worth 10 marks. Questions 3, 4 and 5 will be worth 20 marks each.

# Study Guide

## A AUDIT FRAMEWORK AND REGULATION

### 1. The concept of audit and other assurance engagements

- a) Identify and describe the objective and general principles of external audit engagements.<sup>[2]</sup>
- b) Explain the nature and development of audit and other assurance engagements.<sup>[1]</sup>
- c) Discuss the concepts of accountability, stewardship and agency.<sup>[2]</sup>
- d) Discuss the concepts of true and fair presentation and reasonable assurance.<sup>[2]</sup>
- e) Explain reporting as a means of communication to different stakeholders.<sup>[1]</sup>
- f) Define and provide the objectives of an assurance engagement.<sup>[1]</sup>
- g) Explain the five elements of an assurance engagement.<sup>[2]</sup>
- h) Explain the level of assurance provided by audit and other review engagements.<sup>[1]</sup>

### 2. Statutory audits

- a) Describe the regulatory environment within which statutory audits take place.<sup>[1]</sup>
- b) Discuss the reasons and mechanisms for the regulation of auditors.<sup>[2]</sup>
- c) Explain the statutory regulations governing the appointment, rights, removal and resignation of auditors.<sup>[1]</sup>
- d) State the objectives and principle activities of statutory audit and assess its value (e.g. in assisting management to reduce risk and improve performance).<sup>[1]</sup>
- e) Describe the limitations of statutory audits.<sup>[1]</sup>

### 3. The regulatory environment and corporate governance

- a) Explain the development and status of International Standards on Auditing (ISAs).<sup>[1]</sup>
- b) Explain the relationship between International Standards on Auditing and national standards.<sup>[1]</sup>
- c) Discuss the objective, relevance and importance of corporate governance.<sup>[2]</sup>
- d) Discuss the need for auditors to communicate with those charged with governance.<sup>[2]</sup>
- e) Discuss the provisions of international codes of corporate governance (such as OECD) that are most relevant to auditors.<sup>[2]</sup>
- f) Describe good corporate governance requirements relating to directors' responsibilities (e.g. for risk management and internal control) and the reporting responsibilities of auditors.<sup>[1]</sup>
- g) Analyse the structure and roles of audit committees and discuss their benefits and limitations.<sup>[2]</sup>
- h) Explain the importance of internal control and risk management.<sup>[1]</sup>
- i) Compare the responsibilities of management and auditors for the design and operation of systems and controls.<sup>[2]</sup>

### 4. Professional ethics and ACCA's Code of Ethics and Conduct

- a) Define and apply the fundamental principles of professional ethics of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.<sup>[2]</sup>
- b) Define and apply the conceptual framework, including the threats to the fundamental principles of self-interest, self-review, advocacy, familiarity, and intimidation.<sup>[2]</sup>
- c) Discuss the safeguards to offset the threats to the fundamental principles.<sup>[2]</sup>

- d) Describe the auditor's responsibility with regard to auditor independence, conflicts of interest and confidentiality.<sup>[1]</sup>
- e) Discuss the preconditions, requirements of professional ethics, and other requirements in relation to the acceptance of new audit engagements.<sup>[2]</sup>
- f) Discuss the process by which an auditor obtains an audit engagement.<sup>[2]</sup>
- g) Explain the importance of engagement letters and state their contents.<sup>[1]</sup>

## **B INTERNAL AUDIT**

### **1. Internal audit and corporate governance**

- a) Discuss the factors to be taken into account when assessing the need for internal audit.<sup>[2]</sup>
- b) Discuss the elements of best practice in the structure and operations of internal audit with reference to appropriate international codes of corporate governance.<sup>[2]</sup>

### **2. Differences between the external auditor and the internal audit function**

- a) Compare and contrast the role of external and internal audit.<sup>[2]</sup>

### **3. The scope of the internal audit function**

- a) Discuss the scope of internal audit and the limitations of the internal audit function.<sup>[2]</sup>

### **4. Outsourcing the internal audit function**

- a) Explain the advantages and disadvantages of outsourcing the internal audit function.<sup>[1]</sup>

### **5. Internal audit assignments**

- a) Discuss the nature and purpose of internal audit assignments including value for money, IT, best value and financial.<sup>[2]</sup>
- b) Discuss the nature and purpose of operational internal audit assignments including procurement.<sup>[2]</sup>

## **C PLANNING AND RISK ASSESSMENT**

### **1. Objective and general principles**

- a) Identify the overall objectives of the auditor.<sup>[2]</sup>
- b) Identify and describe the need to plan and perform audits with an attitude of professional scepticism, and to exercise professional judgment.<sup>[2]</sup>
- c) Explain the need to conduct an audit in accordance with ISAs.<sup>[1]</sup>

### **2. Assessing the risks of material misstatement**

- a) Explain the components of audit risk.<sup>[1]</sup>
- b) Explain the risks of material misstatement in the financial statements.<sup>[2]</sup>

### **3. Understanding the entity and its environment**

- a) Explain how auditors obtain an initial understanding of the entity and its environment.<sup>[2]</sup>
- b) Describe risk assessment procedures for the identification and assessment of the risks of material misstatement.<sup>[2]</sup>

### **4. Materiality, fraud, laws and regulations**

- a) Define and explain the concepts of materiality and performance materiality.<sup>[2]</sup>
- b) Explain and calculate materiality levels from financial information.<sup>[2]</sup>
- c) Discuss the effect of fraud and misstatements on the audit strategy and extent of audit work.<sup>[2]</sup>
- d) Discuss the responsibilities of internal and external auditors for the prevention and detection of fraud and error.<sup>[2]</sup>
- e) Explain the auditor's responsibility to consider laws and regulations.<sup>[2]</sup>

## 5. Analytical procedures

- a) Describe and explain the nature, and purpose of, analytical procedures in planning.<sup>[2]</sup>
- b) Compute and interpret key ratios used in analytical procedures.<sup>[2]</sup>

## 6. Planning an audit

- a) Identify and explain the need for planning an audit.<sup>[2]</sup>
- b) Identify and describe the contents of the overall audit strategy and audit plan.<sup>[2]</sup>
- c) Explain and describe the relationship between the overall audit strategy and the audit plan.<sup>[2]</sup>
- d) Explain the difference between interim and final audit.<sup>[1]</sup>
- e) Describe the purpose of an interim audit, and the procedures likely to be adopted at this stage in the audit.<sup>[2]</sup>
- f) Describe the impact of the work performed during the interim audit on the final audit.<sup>[2]</sup>

## 7. Audit documentation

- a) Explain the need for, and the importance of, audit documentation.<sup>[1]</sup>
- b) Describe the contents of working papers and supporting documentation.<sup>[2]</sup>
- c) Explain the procedures to ensure safe custody and retention of working papers.<sup>[1]</sup>

## D INTERNAL CONTROL

The following transaction cycles and account balances are relevant to this capability:

- revenue,
- purchases,
- inventory,
- revenue and capital expenditure,
- payroll,
- bank and cash.

## 1. Internal control systems

- a) Explain why an auditor needs to obtain an understanding of internal control relevant to the audit.<sup>[1]</sup>
- b) Describe and explain the five components of an internal control system of the control environment, the entity's risk assessment process, the information system, including the related business processes, relevant to financial reporting, and communication, control activities relevant to the audit, and monitoring of controls.<sup>[2]</sup>
- c) Discuss the difference between tests of control and substantive procedures.<sup>[2]</sup>

## 2. The use of internal control systems by auditors

- a) Explain how auditors record internal control systems including the use of internal control questionnaires and internal control evaluation questionnaires.<sup>[2]</sup>
- b) Explain how auditors identify deficiencies and significant deficiencies in internal control systems and how those significant deficiencies limit the extent of auditors' reliance on those systems.<sup>[2]</sup>

## 3. Transaction cycles

- a) Explain, analyse and provide examples of internal control procedures and control activities.<sup>[2]</sup>
- b) Provide examples of computer system controls.<sup>[2]</sup>

## 4. Tests of control

- a) Explain and tabulate tests of control suitable for inclusion in audit working papers.<sup>[2]</sup>
- b) List examples of application controls and general IT controls.<sup>[2]</sup>

## 5. The evaluation of internal control components

- a) Analyse the limitations of internal control components in the context of fraud and error.<sup>[2]</sup>



- b) Explain the need to modify the audit strategy and audit plan following the results of tests of control.<sup>[1]</sup>
- c) Identify and explain management's risk assessment process with reference to internal control components.<sup>[1]</sup>

## 6. Communication on internal control

- a) Discuss and provide examples of how the reporting of internal control significant deficiencies and recommendations to overcome those significant deficiencies are provided to management.<sup>[2]</sup>

## E AUDIT EVIDENCE

### 1. The use of assertions by auditors

- a) Explain the assertions contained in the financial statements.<sup>[2]</sup>
- b) Explain the assertions in relation to classes of transactions, account balances, and presentation and disclosures.<sup>[1]</sup>
- c) Explain the use of assertions in obtaining audit evidence.<sup>[2]</sup>

### 2. Audit procedures

- a) Discuss the quality and quantity of audit evidence.<sup>[2]</sup>
- b) Discuss the relevance and reliability of audit evidence.<sup>[2]</sup>
- c) Discuss and provide examples of how analytical procedures are used as substantive procedures.<sup>[2]</sup>
- d) Discuss the problems associated with the audit and review of accounting estimates.<sup>[2]</sup>
- e) Describe why smaller entities may have different control environments and describe the types of evidence likely to be available in smaller entities.<sup>[1]</sup>
- f) Explain the auditor's responsibilities and describe procedures to be applied in relation to

opening balances and comparative information.<sup>[2]</sup>

### 3. The audit of specific items

For each of the account balances stated in this sub-capability:

- explain the purpose of substantive procedures in relation to assertions,
  - explain the substantive procedures used in auditing each balance.
- a) Receivables:<sup>[2]</sup>
    - i) direct confirmation of accounts receivable
    - ii) other evidence in relation to receivables and prepayments, and
    - iii) the related income statement entries.
  - b) Inventory:<sup>[2]</sup>
    - i) inventory counting procedures in relation to year-end and continuous inventory systems
    - ii) cut-off
    - iii) auditor's attendance at inventory counting
    - iv) direct confirmation of inventory held by third parties,
    - v) other evidence in relation to inventory.
  - c) Payables, accruals, provisions and contingencies:<sup>[2]</sup>
    - i) supplier statement reconciliations and direct confirmation of accounts payable,
    - ii) obtain evidence in relation to payables and accruals, and
    - iii) the related income statement entries.
  - d) Bank and cash:<sup>[2]</sup>
    - i) bank confirmation reports used in obtaining evidence in relation to bank and cash
    - ii) other evidence in relation to bank and cash, and
    - iii) the related income statement entries.
  - e) Tangible non-current assets and non-current liabilities:<sup>[2]</sup>
    - i) evidence in relation to non-current assets and
    - ii) non-current liabilities and
    - iii) the related income statement entries.
  - f) Share capital, reserves and directors' emoluments:<sup>[2]</sup>

- i) evidence in relation to share capital, reserves and directors' emoluments, and
- ii) the related income statement entries.

#### **4. Audit sampling and other means of testing**

- a) Define audit sampling and explain the need for sampling.<sup>[1]</sup>
- b) Identify and discuss the differences between statistical and non-statistical sampling.<sup>[2]</sup>
- c) Discuss and provide relevant examples of, the application of the basic principles of statistical sampling and other selective testing procedures.<sup>[2]</sup>
- d) Discuss the results of statistical sampling, including consideration of whether additional testing is required.<sup>[2]</sup>

#### **5. Computer-assisted audit techniques**

- a) Explain the use of computer-assisted audit techniques in the context of an audit.<sup>[1]</sup>
- b) Discuss and provide relevant examples of the use of test data and audit software for the transaction cycles and balances mentioned in sub-capability 3.<sup>[2]</sup>

#### **6. The work of others**

- a) Discuss why auditors rely on the work of others.<sup>[2]</sup>
- b) Discuss the extent to which auditors are able to rely on the work of experts.<sup>[2]</sup>
- c) Discuss the extent to which external auditors are able to rely on the work of internal audit.<sup>[2]</sup>
- d) Discuss the audit considerations relating to entities using service organisations.<sup>[2]</sup>
- e) Explain the extent to which reference to the work of others can be made in audit reports.<sup>[1]</sup>

#### **7. Not-for-profit organisations**

- a) Apply audit techniques to not-for-profit organisations.<sup>[2]</sup>

- b) Explain how the audit of not-for-profit organisations differs from the audit of for-profit organisations.<sup>[1]</sup>

### **F REVIEW**

#### **1. Subsequent events**

- a) Explain the purpose of a subsequent events review.<sup>[1]</sup>
- b) Discuss the procedures to be undertaken in performing a subsequent events review.<sup>[2]</sup>

#### **2. Going concern**

- a) Define and discuss the significance of the concept of going concern.<sup>[2]</sup>
- b) Explain the importance of and the need for going concern reviews.<sup>[2]</sup>
- c) Explain the respective responsibilities of auditors and management regarding going concern.<sup>[1]</sup>
- d) Identify and explain potential indicators that an entity is not a going concern.<sup>[2]</sup>
- e) Discuss the procedures to be applied in performing going concern reviews.<sup>[2]</sup>
- f) Discuss the disclosure requirements in relation to going concern issues.<sup>[2]</sup>
- g) Discuss the reporting implications of the findings of going concern reviews.<sup>[2]</sup>

#### **3. Written representations**

- a) Explain the purpose of and procedure for obtaining written representations.<sup>[2]</sup>
- b) Discuss the quality and reliability of written representations as audit evidence.<sup>[2]</sup>
- c) Discuss the circumstances where written representations are necessary and the matters on which representations are commonly obtained.<sup>[2]</sup>

#### **4. Audit finalisation and the final review**

- a) Discuss the importance of the overall review of evidence obtained.<sup>[2]</sup>
- b) Explain the significance of uncorrected misstatements.<sup>[1]</sup>
- c) Evaluate the effect of dealing with uncorrected misstatements.<sup>[2]</sup>

### **G REPORTING**

#### **1. Audit reports**

- a) Describe and analyse the format and content of unmodified audit reports.<sup>[2]</sup>
- b) Describe and analyse the format and content of modified audit reports.<sup>[2]</sup>

#### **2. Reports to management**

- a) Identify and analyse internal control and system deficiencies and significant deficiencies and their potential effects, and make appropriate recommendations to management and those charged with governance.<sup>[2]</sup>

#### **3. Internal audit reports**

- a) Describe and explain the format and content of internal audit review reports and make appropriate recommendations to management and those charged with governance.<sup>[2]</sup>

## SUMMARY OF CHANGES TO F8

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

The main areas to be added or deleted from the syllabus are shown in Table 1 below:

**Table 1 – Additions to F8**

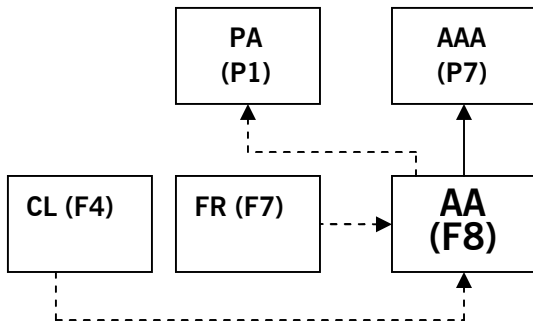
Section and subject area	Syllabus content
C6E and C6f) Planning an audit	Interim audit
F2d) Going concern	Going concern indicators

The main area to be deleted from the syllabus is shown in Table 2 below:

**Table 2 – Deletions to F8**

Section and subject area	Syllabus content
G3b Internal audit reports	Explain the process for producing an internal audit report.

# Audit and Assurance (UK) (F8)



## AIM

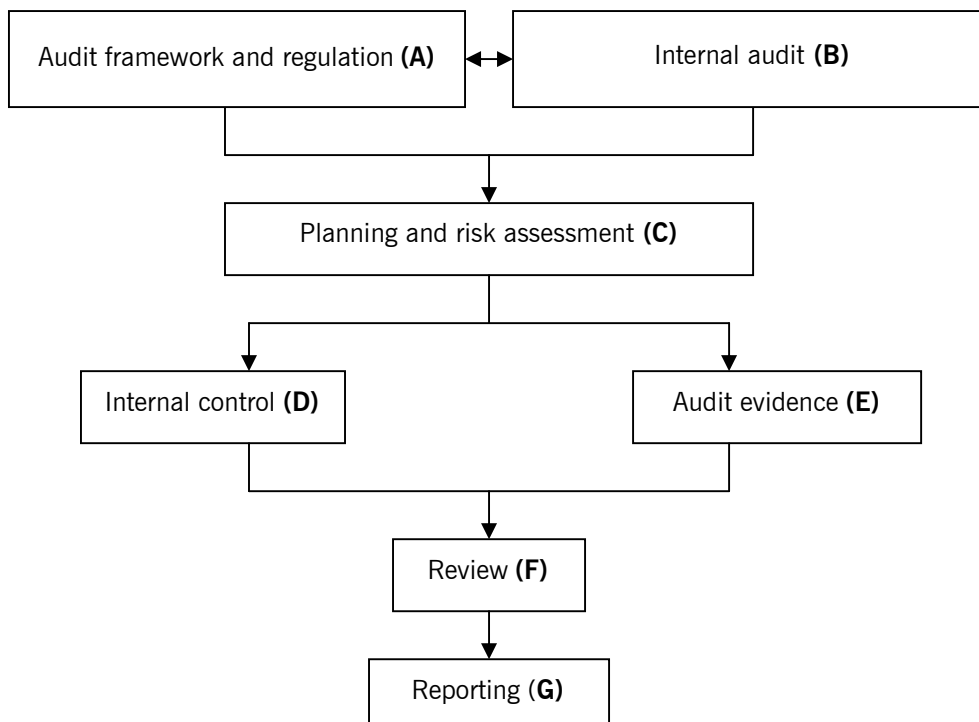
To develop knowledge and understanding of the process of carrying out the assurance engagement and its application in the context of the professional regulatory framework.

## MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

- A** Explain the nature, purpose and scope of assurance engagements including the role of the external audit and its regulatory and ethical framework
- B** Explain the nature of internal audit and describing its role as part of overall performance management and its relationship with the external audit
- C** Demonstrate how the auditor obtains an understanding of the entity and its environment, assesses the risk of material misstatement (whether arising from fraud or other irregularities) and plans an audit of financial statements
- D** Describe and evaluate information systems and internal controls to identify and communicate control risks and their potential consequences, making appropriate recommendations
- E** Identify and describe the work and evidence required to meet the objectives of audit engagements and the application of the International Standards on Auditing (UK and Ireland)
- F** Evaluate findings and modify the audit plan as necessary
- G** Explain how the conclusions from audit work are reflected in different types of audit report, explaining the elements of each type of report

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

The syllabus for Paper F8, *Audit and Assurance*, is divided into seven areas. The syllabus starts with the nature, purpose and scope of assurance engagements, including the statutory audit, its regulatory environment, and introduces professional ethics relating to audit and assurance. It then leads into internal audit, including the scope of internal audit as well as the differences between internal audit and external audit. The syllabus then covers a range of areas relating to an audit of financial statements. These include planning and risk assessment, evaluating internal controls, audit evidence, and a review of the financial statements. The final section then deals with reporting, including statutory audit reports, management reports, and internal audit reports.

## **DETAILED SYLLABUS**

### **A Audit framework and regulation**

1. The concept of audit and other assurance engagements
2. Statutory audits
3. The regulatory environment and corporate governance
4. APB ethical standards and ACCA's Code of Ethics and Conduct

### **B Internal audit**

1. Internal audit and corporate governance
2. Differences between the external auditor and the internal audit function
3. The scope of the internal audit function
4. Outsourcing the internal audit function
5. Internal audit assignments

### **C Planning and risk assessment**

1. Objective and general principles
2. Assessing the risks of material misstatement

3. Understanding the entity and its environment
4. Materiality, fraud, laws and regulations
5. Analytical procedures
6. Planning an audit
7. Audit documentation

### **D Internal control**

1. Internal control systems
2. The use of internal control systems by auditors
3. Transaction cycles
4. Tests of control
5. The evaluation of internal control components
6. Communication on internal control

### **E Audit evidence**

1. The use of assertions by auditors
2. Audit procedures
3. The audit of specific items
4. Audit sampling and other means of testing
5. Computer-assisted audit techniques
6. The work of others
7. Not-for-profit organisations

### **F Review**

1. Subsequent events
2. Going concern
3. Written representations
4. Audit finalisation and the final review

### **G Reporting**

1. Audit reports

2. Reports to management
3. Internal audit reports

### **APPROACH TO EXAMINING THE SYLLABUS**

The syllabus is assessed by a three-hour paper-based examination, consisting of five compulsory questions. The bulk of the questions will be discursive but some questions involving computational elements will be set from time to time.

The questions will cover all areas of the syllabus.

Question 1 will be a scenario-based question worth 30 marks. Question 2 will be a knowledge-based question worth 10 marks. Questions 3, 4 and 5 will be worth 20 marks each.

# Study Guide

## A AUDIT FRAMEWORK AND REGULATION

### 1. The concept of audit and other assurance engagements

- a) Identify and describe the objective and general principles of external audit engagements.<sup>[2]</sup>
- b) Explain the nature and development of audit and other assurance engagements.<sup>[1]</sup>
- c) Discuss the concepts of accountability, stewardship and agency.<sup>[2]</sup>
- d) Discuss the concepts of true and fair presentation and reasonable assurance.<sup>[2]</sup>
- e) Explain reporting as a means of communication to different stakeholders.<sup>[1]</sup>
- f) Define and provide the objectives of an assurance engagement.<sup>[1]</sup>
- g) Explain the five elements of an assurance engagement.<sup>[2]</sup>
- h) Explain the level of assurance provided by audit and other review engagements.<sup>[1]</sup>

### 2. Statutory audits

- a) Describe the regulatory environment within which statutory audits take place.<sup>[1]</sup>
- b) Discuss the reasons and mechanisms for the regulation of auditors.<sup>[2]</sup>
- c) Explain the statutory regulations governing the appointment, rights, removal and resignation of auditors.<sup>[1]</sup>
- d) State the objectives and principle activities of statutory audit and assess its value (e.g. in assisting management to reduce risk and improve performance).<sup>[1]</sup>
- e) Describe the limitations of statutory audits.<sup>[1]</sup>

### 3. The regulatory environment and corporate governance

- a) Explain the development and status of International Standards on Auditing (ISAs) (UK and Ireland).<sup>[1]</sup>
- b) Explain the relationship between International Standards on Auditing and the work of the Auditing Practices Board.<sup>[1]</sup>
- c) Discuss the objective, relevance and importance of corporate governance.<sup>[2]</sup>
- d) Discuss the need for auditors to communicate with those charged with governance.<sup>[2]</sup>
- e) Discuss the provisions of international codes of corporate governance (such as the Combined Code on Corporate Governance) that are most relevant to auditors.<sup>[2]</sup>
- f) Describe good corporate governance requirements relating to directors' responsibilities (e.g. for risk management and internal control) and the reporting responsibilities of auditors.<sup>[1]</sup>
- g) Analyse the structure and roles of audit committees and discuss their benefits and limitations.<sup>[2]</sup>
- h) Explain the importance of internal control and risk management.<sup>[1]</sup>
- i) Compare the responsibilities of management and auditors for the design and operation of systems and controls.<sup>[2]</sup>

### 4. APB ethical standards and ACCA's Code of Ethics and Conduct

- a) Define and apply the fundamental principles of professional ethics of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.<sup>[2]</sup>
- b) Define and apply the conceptual framework, including the threats to the fundamental principles of self-interest, self-review, advocacy, familiarity, and intimidation.<sup>[2]</sup>



- c) Discuss the safeguards to offset the threats to the fundamental principles.<sup>[2]</sup>
- d) Describe the auditor's responsibility with regard to auditor independence, conflicts of interest and confidentiality.<sup>[1]</sup>
- e) Discuss the preconditions, requirements of professional ethics and other requirements in relation to the acceptance of new audit engagements.<sup>[2]</sup>
- f) Discuss the process by which an auditor obtains an audit engagement.<sup>[2]</sup>
- g) Explain the importance of engagement letters and state their contents.<sup>[1]</sup>

## **B INTERNAL AUDIT**

### **1. Internal audit and corporate governance**

- a) Discuss the factors to be taken into account when assessing the need for internal audit.<sup>[2]</sup>
- b) Discuss the elements of best practice in the structure and operations of internal audit with reference to the UK Corporate Governance Code.<sup>[2]</sup>

### **2. Differences between the external auditor and the internal audit function**

- a) Compare and contrast the role of external and internal audit.<sup>[2]</sup>

### **3. The scope of the internal audit function**

- a) Discuss the scope of internal audit and the limitations of the internal audit function.<sup>[2]</sup>

### **4. Outsourcing the internal audit function**

- a) Explain the advantages and disadvantages of outsourcing the internal audit function.<sup>[1]</sup>

### **5. Internal audit assignments**

- a) Discuss the nature and purpose of internal audit assignments including value for money, IT, best value and financial.<sup>[2]</sup>

- b) Discuss the nature and purpose of operational internal audit assignments including procurement.<sup>[2]</sup>

## **C PLANNING AND RISK ASSESSMENT**

### **1. Objective and general principles**

- a) Identify the overall objectives of the auditor.<sup>[2]</sup>
- b) Identify and describe the need to plan and perform audits with an attitude of professional scepticism, and to exercise professional judgment.<sup>[2]</sup>

- c) Explain the need to conduct an audit in accordance with ISAs.<sup>[1]</sup>

### **2. Assessing the risks of material misstatement**

- a) Explain the components of audit risk.<sup>[2]</sup>
- b) Explain the risks of material misstatement in the financial statements.<sup>[2]</sup>

### **3. Understanding the entity and its environment**

- a) Explain how auditors obtain an initial understanding of the entity and its environment.<sup>[2]</sup>
- b) Risk assessment procedures for the identification and assessment of the risks of material misstatement.<sup>[2]</sup>

### **4. Materiality, fraud, laws and regulations**

- a) Define and explain the concepts of materiality and performance materiality.<sup>[2]</sup>
- b) Explain and calculate materiality levels from financial information.<sup>[2]</sup>
- c) Discuss the effect of fraud and misstatements on the audit strategy and extent of audit work.<sup>[2]</sup>
- d) Discuss the responsibilities of internal and external auditors for the prevention and detection of fraud and error.<sup>[2]</sup>
- e) Explain the auditor's responsibility to consider laws and regulations.<sup>[2]</sup>

## 5. Analytical procedures

- a) Describe and explain the nature, and purpose of, analytical procedures in planning.<sup>[2]</sup>
- b) Compute and interpret key ratios used in analytical procedures.<sup>[2]</sup>

## 6. Planning an audit

- a) Identify and explain the need for planning an audit.<sup>[2]</sup>
- b) Identify and describe the contents of the overall audit strategy and audit plan.<sup>[2]</sup>
- c) Explain and describe the relationship between the overall audit strategy and the audit plan.<sup>[2]</sup>
- d) Explain the difference between interim and final audit.<sup>[1]</sup>
- e) Describe the purpose of an interim audit, and the procedures likely to be adopted at this stage in the audit.<sup>[2]</sup>
- f) Describe the impact of the work performed during the interim audit on the final audit.<sup>[2]</sup>

## 7. Audit documentation

- a) Explain the need for, and the importance of, audit documentation.<sup>[1]</sup>
- b) Describe the contents of working papers and supporting documentation.<sup>[2]</sup>
- c) Explain the procedures to ensure safe custody and retention of working papers.<sup>[1]</sup>

## D INTERNAL CONTROL

The following transaction cycles and account balances are relevant to this capability:

- revenue,
- purchases,
- inventory,
- revenue and capital expenditure,
- payroll,
- bank and cash.

## 1. Internal control systems

- a) Explain why an auditor needs to obtain an understanding of internal control activities relevant to the audit.<sup>[1]</sup>
- b) Describe and explain the five components of an internal control system of the control environment, the entity's risk assessment process, the information system, including the related business processes, relevant to financial reporting, and communication, control activities relevant to the audit, and monitoring of controls.<sup>[2]</sup>
- c) Discuss the difference between tests of control and substantive procedures.<sup>[2]</sup>

## 2. The use of internal control systems by auditors

- a) Explain how auditors record internal control systems including the use of internal control questionnaires and internal control evaluation questionnaires.<sup>[2]</sup>
- b) Explain how auditors identify deficiencies and significant deficiencies in internal control systems and how those significant deficiencies limit the extent of auditors' reliance on those systems.<sup>[2]</sup>

## 3. Transaction cycles

- a) Explain, analyse and provide examples of internal control procedures and control activities.<sup>[2]</sup>
- b) Provide examples of computer system controls.<sup>[2]</sup>

## 4. Tests of control

- a) Explain and tabulate tests of control suitable for inclusion in audit working papers.<sup>[2]</sup>
- b) List examples of application controls and general IT controls.<sup>[2]</sup>

## 5. The evaluation of internal control components

- a) Analyse the limitations of internal control components in the context of fraud and error.<sup>[2]</sup>

- b) Explain the need to modify the audit strategy and audit plan following the results of tests of control.<sup>[1]</sup>
- c) Identify and explain management's risk assessment process with reference to internal control components.<sup>[1]</sup>

## 6. Communication on internal control

- a) Discuss and provide examples of how the reporting of internal control significant deficiencies and recommendations to overcome those significant deficiencies are provided to management.<sup>[2]</sup>

## E AUDIT EVIDENCE

### 1. The use of assertions by auditors

- a) Explain the assertions contained in the financial statements.<sup>[2]</sup>
- a) Explain the assertions in relation to classes of transactions, account balances and presentation and disclosures.<sup>[1]</sup>
- b) Explain the use of assertions in obtaining audit evidence.<sup>[2]</sup>

### 2. Audit procedures

- a) Discuss the quality and quantity of audit evidence.<sup>[2]</sup>
- b) Discuss the relevance and reliability of audit evidence.<sup>[2]</sup>
- c) Discuss and provide examples of how analytical procedures are used as substantive procedures.<sup>[2]</sup>
- d) Discuss the problems associated with the audit and review of accounting estimates.<sup>[2]</sup>
- e) Describe why smaller entities may have different control environments and describe the types of evidence likely to be available in smaller entities.<sup>[1]</sup>
- f) Explain the auditor's responsibilities and describe procedures to be applied in relation to

opening balances and comparative information.<sup>[2]</sup>

### 3. The audit of specific items

For each of the account balances stated in this sub-capability:

- explain the purpose of substantive procedures in relation to assertions,
- explain the substantive procedures used in auditing each balance.

- a) Receivables:<sup>[2]</sup>
  - i) direct confirmation of receivables
  - ii) other evidence in relation to receivables and prepayments, and
  - iii) the related income statement entries.
- b) Inventory:<sup>[2]</sup>
  - i) inventory counting procedures in relation to year-end and continuous inventory systems
  - ii) cut-off
  - iii) auditor's attendance at inventory counting
  - iv) direct confirmation of inventory held by third parties,
  - v) other evidence in relation to inventory.
- c) Payables, accruals provisions and contingencies:<sup>[2]</sup>
  - i) supplier statement reconciliations and direct confirmation of accounts payable,
  - i) obtain evidence in relation to payables and accruals, and
  - ii) the related income statement entries.
- d) Bank and cash:<sup>[2]</sup>
  - ii) bank confirmation reports used in obtaining evidence in relation to bank and cash
  - iii) other evidence in relation to bank and cash, and
  - iv) the related income statement entries.
- e) Tangible non-current assets and non-current liabilities:<sup>[2]</sup>
  - iii) evidence in relation to non-current assets and
  - v) non-current liabilities and
  - vi) the related income statement entries.

- f) Share capital, reserves and directors' emoluments.<sup>[2]</sup>
  - i) evidence in relation to share capital, reserves and directors' emoluments
  - ii) the related income statement entries.

#### **4. Audit sampling and other means of testing**

- a) Define audit sampling and explain the need for sampling.<sup>[1]</sup>
- b) Identify and discuss the differences between statistical and non-statistical sampling.<sup>[2]</sup>
- c) Discuss and provide relevant examples of, the application of the basic principles of statistical sampling and other selective testing procedures.<sup>[2]</sup>
- d) Discuss the results of statistical sampling, including consideration of whether additional testing is required.<sup>[2]</sup>

#### **5. Computer-assisted audit techniques**

- a) Explain the use of computer-assisted audit techniques in the context of an audit.<sup>[1]</sup>
- b) Discuss and provide relevant examples of the use of test data and audit software for the transaction cycles and balances mentioned in sub-capability 3.<sup>[2]</sup>

#### **6. The work of others**

- a) Discuss why auditors rely on the work of others.<sup>[2]</sup>
- b) Discuss the extent to which auditors are able to rely on the work of experts.<sup>[2]</sup>
- c) Discuss the extent to which external auditors are able to rely on the work of internal audit.<sup>[2]</sup>
- d) Discuss the audit considerations relating to entities using service organisations.<sup>[2]</sup>
- e) Explain the extent to which reference to the work of others can be made in audit reports.<sup>[1]</sup>

#### **7. Not-for-profit organisations**

- a) Apply audit techniques to not-for-profit organisations.<sup>[2]</sup>
- b) Explain how the audit of not-for-profit organisations differs from the audit of for-profit organisations.<sup>[1]</sup>

### **F REVIEW**

#### **1. Subsequent events**

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- a) Define and discuss the significance of the concept of going concern.<sup>[2]</sup>
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- d) Identify and explain potential indicators that an entity is not a going concern.<sup>[2]</sup>
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- a) Explain the purpose of and procedure for obtaining written representations.<sup>[2]</sup>
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- a) Describe and explain the format and content of internal audit review reports and make appropriate recommendations to management and those charged with governance.<sup>[2]</sup>

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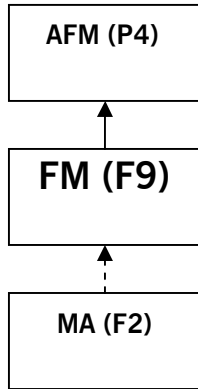
Section and subject area	Syllabus content
C6E and C6f) Planning an audit	Interim audit
F2d) Going concern	Going concern indicators

The main area to be deleted from the syllabus is shown in Table 2 below:

**Table 2 – Deletions to F8**

Section and subject area	Syllabus content
G3b Internal audit reports	Explain the process for producing an internal audit report.

# Financial Management (F9)



## AIM

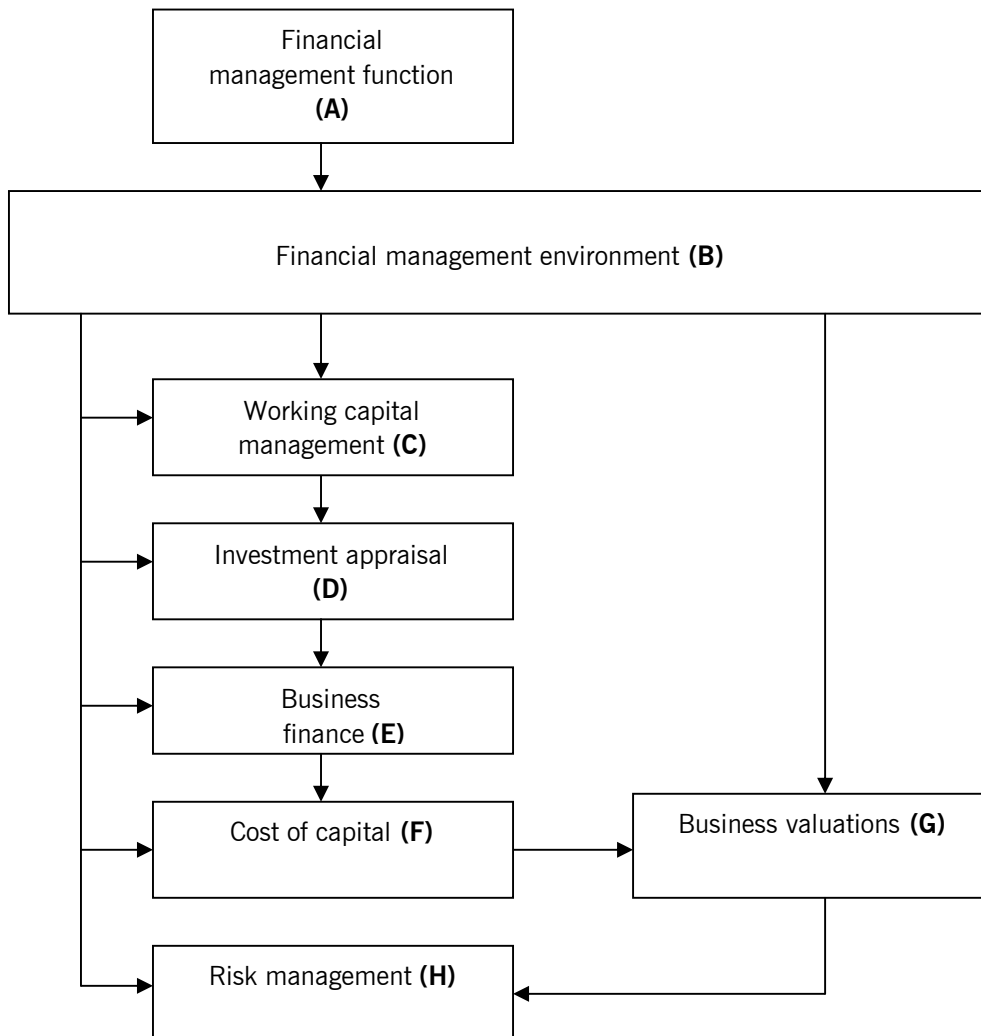
To develop the knowledge and skills expected of a finance manager, in relation to investment, financing, and dividend policy decisions.

## MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

- A** Discuss the role and purpose of the financial management function
- B** Assess and discuss the impact of the economic environment on financial management
- C** Discuss and apply working capital management techniques
- D** Carry out effective investment appraisal
- E** Identify and evaluate alternative sources of business finance
- F** Explain and calculate the cost of capital and the factors which affect it
- G** Discuss and apply principles of business and asset valuations
- H** Explain and apply risk management techniques in business.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

The syllabus for Paper F9, *Financial Management*, is designed to equip candidates with the skills that would be expected from a finance manager responsible for the finance function of a business. The paper, therefore, starts by introducing the role and purpose of the financial management function within a business. Before looking at the three key financial management decisions of investing, financing, and dividend policy, the syllabus explores the economic environment in which such decisions are made.

The next section of the syllabus is the introduction of investing decisions. This is done in two stages - investment in (and the management of) working capital and the appraisal of long-term investments.

The next area introduced is financing decisions. This section of the syllabus starts by examining the various sources of business finance, including dividend policy and how much finance can be raised from within the business. Cost of capital and other factors that influence the choice of the type of capital a business will raise then follows. The principles underlying the valuation of business and financial assets, including the impact of cost of capital on the value of business, is covered next.

The syllabus finishes with an introduction to, and examination of, risk and the main techniques employed in the management of such risk.

## **DETAILED SYLLABUS**

### **A Financial management function**

1. The nature and purpose of financial management
2. Financial objectives and relationship with corporate strategy
3. Stakeholders and impact on corporate objectives
4. Financial and other objectives in not-for-profit organisations

### **B Financial management environment**

1. The economic environment for business
2. The nature and role of financial markets and institutions

### **C Working capital management**

1. The nature, elements and importance of working capital
2. Management of inventories, accounts receivable, accounts payable and cash
3. Determining working capital needs and funding strategies

### **D Investment appraisal**

1. The nature of investment decisions and the appraisal process
2. Non-discounted cash flow techniques
3. Discounted cash flow (DCF) techniques
4. Allowing for inflation and taxation in DCF
5. Adjusting for risk and uncertainty in investment appraisal
6. Specific investment decisions (lease or buy; asset replacement, capital rationing)

### **E Business finance**

1. Sources of, and raising short-term finance
2. Sources of, and raising long-term finance
3. Raising short and long term finance through Islamic financing
4. Internal sources of finance and dividend policy
5. Gearing and capital structure considerations
6. Finance for Small and Medium-size Entities (SMEs)

### **F Cost of capital**

1. Sources of finance and their relative costs



2. Estimating the cost of equity
3. Estimating the cost of debt and other capital instruments
4. Estimating the overall cost of capital
5. Capital structure theories and practical considerations
6. Impact of cost of capital on investments

#### **G Business valuations**

1. Nature and purpose of the valuation of business and financial assets
2. Models for the valuation of shares
3. The valuation of debt and other financial assets
4. Efficient market hypothesis (EMH) and practical considerations in the valuation of shares

#### **H Risk management**

1. The nature and types of risk and approaches to risk management
2. Causes of exchange rate differences and interest rate fluctuations
3. Hedging techniques for foreign currency risk
4. Hedging techniques for interest rate risk

#### **APPROACH TO EXAMINING THE SYLLABUS**

The syllabus for Paper F9 aims to develop the skills expected of a finance manager who is responsible for the finance function of a business.

The paper also prepares candidates for more advanced and specialist study in Paper P4, *Advanced Financial Management*.

The syllabus is assessed by a three-hour paper-based examination consisting of four compulsory 25-mark questions. All questions will have computational and discursive elements. The balance between computational and discursive content will continue in line with the pilot paper.

Candidates are provided with a formulae sheet and tables of discount and annuity factors.

# Study Guide

## A FINANCIAL MANAGEMENT FUNCTION

### 1. The nature and purpose of financial management

- a) Explain the nature and purpose of financial management.<sup>[1]</sup>
- b) Explain the relationship between financial management and financial and management accounting.<sup>[1]</sup>

### 2. Financial objectives and the relationship with corporate strategy

- a) Discuss the relationship between financial objectives, corporate objectives and corporate strategy.<sup>[2]</sup>
- b) Identify and describe a variety of financial objectives, including:<sup>[2]</sup>
  - i) shareholder wealth maximisation
  - ii) profit maximisation
  - iii) earnings per share growth

### 3. Stakeholders and impact on corporate objectives

- a) Identify the range of stakeholders and their objectives<sup>[2]</sup>
- b) Discuss the possible conflict between stakeholder objectives<sup>[2]</sup>
- c) Discuss the role of management in meeting stakeholder objectives, including the application of agency theory.<sup>[2]</sup>
- d) Describe and apply ways of measuring achievement of corporate objectives including:<sup>[2]</sup>
  - i) ratio analysis, using appropriate ratios such as return on capital employed, return on equity, earnings per share and dividend per share
  - ii) changes in dividends and share prices as part of total shareholder return
- e) Explain ways to encourage the achievement of stakeholder objectives, including:<sup>[2]</sup>

- i) managerial reward schemes such as share options and performance-related pay
- ii) regulatory requirements such as corporate governance codes of best practice and stock exchange listing regulations

### 4. Financial and other objectives in not-for-profit organisations

- a) Discuss the impact of not-for-profit status on financial and other objectives.<sup>[2]</sup>
- b) Discuss the nature and importance of Value for Money as an objective in not-for-profit organisations.<sup>[2]</sup>
- c) Discuss ways of measuring the achievement of objectives in not-for-profit organisations.<sup>[2]</sup>

## B FINANCIAL MANAGEMENT ENVIRONMENT

### 1. The economic environment for business

- a) Identify and explain the main macroeconomic policy targets.<sup>[1]</sup>
- b) Define and discuss the role of fiscal, monetary, interest rate and exchange rate policies in achieving macroeconomic policy targets.<sup>[1]</sup>
- c) Explain how government economic policy interacts with planning and decision-making in business.<sup>[2]</sup>
- d) Explain the need for, and the interaction with, planning and decision-making in business of:<sup>[1]</sup>
  - i) competition policy
  - ii) government assistance for business
  - iii) green policies
  - iv) corporate governance regulation.<sup>[2]</sup>

### 2. The nature and role of financial markets and institutions

- a) Identify the nature and role of money and capital markets, both nationally and internationally.<sup>[2]</sup>
- b) Explain the role of financial intermediaries.<sup>[1]</sup>
- c) Explain the functions of a stock market and a corporate bond market.<sup>[2]</sup>

- d) Explain the nature and features of different securities in relation to the risk/return trade-off.<sup>[2]</sup>

- ii) evaluating the benefits of discounts for early settlement and bulk purchase<sup>[2]</sup>
- iii) managing foreign accounts payable<sup>[1]</sup>

## **C WORKING CAPITAL MANAGEMENT**

### **1. The nature, elements and importance of working capital**

- a) Describe the nature of working capital and identify its elements.<sup>[1]</sup>
- b) Identify the objectives of working capital management in terms of liquidity and profitability, and discuss the conflict between them.<sup>[2]</sup>
- c) Discuss the central role of working capital management in financial management.<sup>[2]</sup>

### **2. Management of inventories, accounts receivable, accounts payable and cash**

- a) Explain the cash operating cycle and the role of accounts payable and accounts receivable.<sup>[2]</sup>
- b) Explain and apply relevant accounting ratios, including:<sup>[2]</sup>
  - i) current ratio and quick ratio
  - ii) inventory turnover ratio, average collection period and average payable period
  - iii) sales revenue/net working capital ratio
- c) Discuss, apply and evaluate the use of relevant techniques in managing inventory, including the Economic Order Quantity model and Just-in-Time techniques.<sup>[2]</sup>
- d) Discuss, apply and evaluate the use of relevant techniques in managing accounts receivable, including:
  - i) assessing creditworthiness<sup>[1]</sup>
  - ii) managing accounts receivable<sup>[1]</sup>
  - iii) collecting amounts owing<sup>[1]</sup>
  - iv) offering early settlement discounts<sup>[2]</sup>
  - v) using factoring and invoice discounting<sup>[2]</sup>
  - vi) managing foreign accounts receivable<sup>[2]</sup>
- e) Discuss and apply the use of relevant techniques in managing accounts payable, including:
  - i) using trade credit effectively<sup>[1]</sup>

- f) Explain the various reasons for holding cash, and discuss and apply the use of relevant techniques in managing cash, including:<sup>[2]</sup>
  - i) preparing cash flow forecasts to determine future cash flows and cash balances
  - ii) assessing the benefits of centralised treasury management and cash control
  - iii) cash management models, such as the Baumol model and the Miller-Orr model
  - iv) investing short-term

### **3. Determining working capital needs and funding strategies**

- a) Calculate the level of working capital investment in current assets and discuss the key factors determining this level, including:<sup>[2]</sup>
  - i) the length of the working capital cycle and terms of trade
  - ii) an organisation's policy on the level of investment in current assets
  - iii) the industry in which the organisation operates
- b) Describe and discuss the key factors in determining working capital funding strategies, including:<sup>[2]</sup>
  - i) the distinction between permanent and fluctuating current assets
  - ii) the relative cost and risk of short-term and long-term finance
  - iii) the matching principle
  - iv) the relative costs and benefits of aggressive, conservative and matching funding policies
  - v) management attitudes to risk, previous funding decisions and organisation size<sup>[1]</sup>

## **D INVESTMENT APPRAISAL**

### **1. The nature of investment decisions and the appraisal process**

- a) Distinguish between capital and revenue expenditure, and between non-current assets and working capital investment.<sup>[2]</sup>
- b) Explain the role of investment appraisal in the capital budgeting process.<sup>[2]</sup>

- c) Discuss the stages of the capital budgeting process in relation to corporate strategy.<sup>[2]</sup>

## **2. Non-discounted cash flow techniques**

- a) Identify and calculate relevant cash flows for investment projects.<sup>[2]</sup>
- b) Calculate payback period and discuss the usefulness of payback as an investment appraisal method.<sup>[2]</sup>
- c) Calculate return on capital employed (accounting rate of return) and discuss its usefulness as an investment appraisal method.<sup>[2]</sup>

## **3. Discounted cash flow (DCF) techniques**

- a) Explain and apply concepts relating to interest and discounting, including:<sup>[2]</sup>
  - i) the relationship between interest rates and inflation, and between real and nominal interest rates
  - ii) the calculation of future values and the application of the annuity formula
  - iii) the calculation of present values, including the present value of an annuity and perpetuity, and the use of discount and annuity tables
  - iv) the time value of money and the role of cost of capital in appraising investments
- b) Calculate net present value and discuss its usefulness as an investment appraisal method.<sup>[2]</sup>
- c) Calculate internal rate of return and discuss its usefulness as an investment appraisal method.<sup>[2]</sup>
- d) Discuss the superiority of DCF methods over non-DCF methods.<sup>[2]</sup>
- e) Discuss the relative merits of NPV and IRR.<sup>[2]</sup>
- f) Calculate discounted payback and discuss its usefulness as an investment appraisal method.<sup>[2]</sup>

## **4. Allowing for inflation and taxation in DCF**

- a) Apply and discuss the real-terms and nominal-terms approaches to investment appraisal.<sup>[2]</sup>
- b) Calculate the taxation effects of relevant cash flows, including the tax benefits of capital allowances and the tax liabilities of taxable profit.<sup>[2]</sup>
- c) Calculate and apply before- and after-tax discount rates.<sup>[2]</sup>

## **5. Adjusting for risk and uncertainty in investment appraisal**

- a) Describe and discuss the difference between risk and uncertainty in relation to probabilities and increasing project life.<sup>[2]</sup>
- b) Apply sensitivity analysis to investment projects and discuss the usefulness of sensitivity analysis in assisting investment decisions.<sup>[2]</sup>
- c) Apply probability analysis to investment projects and discuss the usefulness of probability analysis in assisting investment decisions.<sup>[2]</sup>
- d) Apply and discuss other techniques of adjusting for risk and uncertainty in investment appraisal, including:
  - i) simulation<sup>[1]</sup>
  - ii) adjusted payback<sup>[1]</sup>
  - iii) risk-adjusted discount rates<sup>[2]</sup>

## **6. Specific investment decisions (Lease or buy; asset replacement; capital rationing)**

- a) Evaluate leasing and borrowing to buy using the before-and after-tax costs of debt.<sup>[2]</sup>
- b) Evaluate asset replacement decisions using equivalent annual cost.<sup>[2]</sup>
- c) Evaluate investment decisions under single-period capital rationing, including:<sup>[2]</sup>
  - i) the calculation of profitability indexes for divisible investment projects
  - ii) the calculation of the NPV of combinations of non-divisible investment projects
  - iii) a discussion of the reasons for capital rationing

## **E BUSINESS FINANCE**

### **1. Sources of and raising short-term finance**

- a) Identify and discuss the range of short-term sources of finance available to businesses, including: <sup>[2]</sup>
- i) overdraft
  - ii) short-term loan
  - iii) trade credit
  - iv) lease finance

### **2. Sources of and raising, long-term finance**

- a) Identify and discuss the range of long-term sources of finance available to businesses, including: <sup>[2]</sup>
- i) equity finance
  - ii) debt finance
  - iii) lease finance
  - iv) venture capital
- b) Identify and discuss methods of raising equity finance, including: <sup>[2]</sup>
- i) rights issue
  - ii) placing
  - iii) public offer
  - iv) stock exchange listing

### **3. Raising short and long term finance through Islamic financing**

- a) Explain the major difference between Islamic finance and the other forms of business finance. <sup>[1]</sup>
- b) Explain the concept of interest (riba) and how returns are made by Islamic financial securities. <sup>[1]</sup> (calculations are not required)
- c) Identify and briefly discuss a range of short and long term Islamic financial instruments available to businesses including <sup>[1]</sup>
- i) trade credit (murabaha)
  - ii) lease finance (ijara)
  - iii) equity finance (mudaraba)
  - iv) debt finance (sukuk)
  - v) venture capital (musharaka)

### **4. Internal sources of finance and dividend policy**

- a) Identify and discuss internal sources of finance, including: <sup>[2]</sup>
- i) retained earnings
  - ii) increasing working capital management efficiency
- b) Explain the relationship between dividend policy and the financing decision <sup>[2]</sup>
- c) Discuss the theoretical approaches to, and the practical influences on, the dividend decision, including: <sup>[2]</sup>
- i) legal constraints
  - ii) liquidity
  - iii) shareholder expectations
  - iv) alternatives to cash dividends

### **5. Gearing and capital structure considerations**

- a) Identify and discuss the problem of high levels of gearing <sup>[2]</sup>
- b) Assess the impact of sources of finance on financial position and financial risk using appropriate measures, including:
- i) ratio analysis using statement of financial position gearing, operational and financial gearing, interest coverage ratio and other relevant ratios <sup>[2]</sup>
  - ii) cash flow forecasting <sup>[2]</sup>
  - iii) effect on shareholder wealth <sup>[2]</sup>

### **6. Finance for small and medium sized entities (SMEs)**

- a) Describe the financing needs of small businesses. <sup>[2]</sup>
- b) Describe the nature of the financing problem for small businesses in terms of the funding gap, the maturity gap and inadequate security. <sup>[2]</sup>
- c) Explain measures that may be taken to ease the financing problems of SMEs, including the responses of government departments and financial institutions. <sup>[1]</sup>

- d) Identify appropriate sources of finance for SMEs and evaluate the financial impact of different sources of finance on SMEs.<sup>[2]</sup>

## **F COST OF CAPITAL**

### **1. Sources of finance and their relative costs**

- a) Describe the relative risk-return relationship and the relative costs of equity and debt.<sup>[2]</sup>
- b) Describe the creditor hierarchy and its connection with the relative costs of sources of finance.<sup>[2]</sup>

### **2. Estimating the cost of equity**

- a) Apply the dividend growth model and discuss its weaknesses.<sup>[2]</sup>
- b) Apply the capital asset pricing model (CAPM) and describe and explain the assumptions and components of the CAPM.<sup>[2]</sup>
- c) Explain and discuss the advantages and disadvantages of the CAPM.<sup>[2]</sup>

### **3. Estimating the cost of debt and other capital instruments**

- a) Calculate the cost of capital of a range of capital instruments, including:<sup>[2]</sup>
  - i) irredeemable debt
  - ii) redeemable debt
  - iii) convertible debt
  - iv) preference shares
  - v) bank debt

### **4. Estimating the overall cost of capital**

- a) Distinguish between average and marginal cost of capital.<sup>[2]</sup>
- b) Calculate the weighted average cost of capital (WACC) using book value and market value weightings.<sup>[2]</sup>

### **5. Capital structure theories and practical considerations**

- a) Describe the traditional view of capital structure and its assumptions.<sup>[2]</sup>

- b) Describe the views of Miller and Modigliani on capital structure, both without and with corporate taxation, and their assumptions.<sup>[2]</sup>

- c) Identify a range of capital market imperfections and describe their impact on the views of Miller and Modigliani on capital structure.<sup>[2]</sup>

- d) Explain the relevance of pecking order theory to the selection of sources of finance.<sup>[1]</sup>

### **6. Impact of cost of capital on investments**

- a) Explain the relationship between company value and cost of capital.<sup>[2]</sup>
- b) Discuss the circumstances under which WACC can be used in investment appraisal.<sup>[2]</sup>
- c) Discuss the advantages of the CAPM over WACC in determining a project-specific cost of capital.<sup>[2]</sup>
- d) Apply the CAPM in calculating a project-specific discount rate.<sup>[2]</sup>

## **G BUSINESS VALUATIONS**

### **1. Nature and purpose of the valuation of business and financial assets**

- a) Identify and discuss reasons for valuing businesses and financial assets.<sup>[2]</sup>
- b) Identify information requirements for valuation and discuss the limitations of different types of information.<sup>[2]</sup>

### **2. Models for the valuation of shares**

- a) Asset-based valuation models, including:<sup>[2]</sup>
  - i) net book value (statement of financial position basis).
  - ii) net realisable value basis.
  - iii) net replacement cost basis.
- b) Income-based valuation models, including:<sup>[2]</sup>
  - i) price/earnings ratio method.
  - ii) earnings yield method.
- c) Cash flow-based valuation models, including:<sup>[2]</sup>
  - i) dividend valuation model and the dividend growth model.

ii) discounted cash flow basis.

### 3. The valuation of debt and other financial assets

- a) Apply appropriate valuation methods to:<sup>[2]</sup>
- i) irredeemable debt
  - ii) redeemable debt
  - iii) convertible debt
  - iv) preference shares

### 4. Efficient Market Hypothesis (EMH) and practical considerations in the valuation of shares

- a) Distinguish between and discuss weak form efficiency, semi-strong form efficiency and strong form efficiency <sup>[2]</sup>
- b) Discuss practical considerations in the valuation of shares and businesses, including:<sup>[2]</sup>
- i) marketability and liquidity of shares
  - ii) availability and sources of information
  - iii) market imperfections and pricing anomalies
  - iv) market capitalisation
- c) Describe the significance of investor speculation and the explanations of investor decisions offered by behavioural finance <sup>[1]</sup>

## H RISK MANAGEMENT

### 1. The nature and types of risk and approaches to risk management

- a) Describe and discuss different types of foreign currency risk:<sup>[2]</sup>
- i) translation risk
  - ii) transaction risk
  - iii) economic risk
- b) Describe and discuss different types of interest rate risk:<sup>[1]</sup>
- i) gap exposure
  - ii) basis risk

### 2. Causes of exchange rate differences and interest rate fluctuations

- a) Describe the causes of exchange rate fluctuations, including:

- i) balance of payments <sup>[1]</sup>
- ii) purchasing power parity theory <sup>[2]</sup>
- iii) interest rate parity theory <sup>[2]</sup>
- iv) four-way equivalence <sup>[2]</sup>

- b) Forecast exchange rates using:<sup>[2]</sup>
- i) purchasing power parity
  - ii) interest rate parity
- c) Describe the causes of interest rate fluctuations, including: <sup>[2]</sup>
- i) structure of interest rates and yield curves
  - ii) expectations theory
  - iii) liquidity preference theory
  - iv) market segmentation

### 3. Hedging techniques for foreign currency risk

- a) Discuss and apply traditional and basic methods of foreign currency risk management, including:
- i) currency of invoice <sup>[1]</sup>
  - ii) netting and matching <sup>[2]</sup>
  - iii) leading and lagging <sup>[2]</sup>
  - iv) forward exchange contracts <sup>[2]</sup>
  - v) money market hedging <sup>[2]</sup>
  - vi) asset and liability management <sup>[1]</sup>
- b) Compare and evaluate traditional methods of foreign currency risk management. <sup>[2]</sup>
- c) Identify the main types of foreign currency derivatives used to hedge foreign currency risk and explain how they are used in hedging.<sup>[1]</sup>  
(No numerical questions will be set on this topic)

### 4. Hedging techniques for interest rate risk

- a) Discuss and apply traditional and basic methods of interest rate risk management, including:
- i) matching and smoothing <sup>[1]</sup>
  - ii) asset and liability management <sup>[1]</sup>
  - ii) forward rate agreements <sup>[2]</sup>
- b) Identify the main types of interest rate derivatives used to hedge interest rate risk and explain how they are used in hedging.<sup>[1]</sup>  
(No numerical questions will be set on this topic)

## SUMMARY OF CHANGES TO F9

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

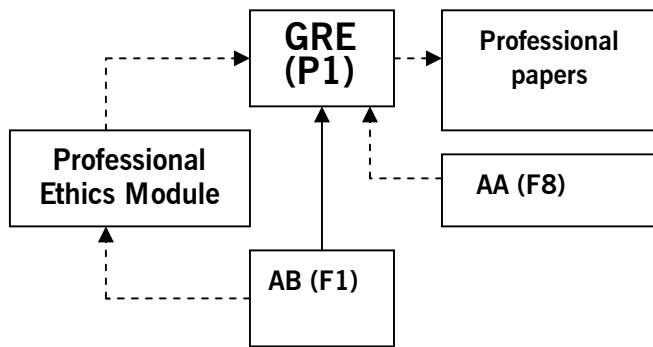
There are no changes to the syllabus. One area however has been clarified in the syllabus (it was implicitly included previously) and is shown in Table 1 below:

**Table 1 – Amendments to F9**

<b>Section and subject area</b>	<b>Syllabus content</b>
D3f) Discounted cash flow (DCF) techniques	Calculate discounted payback and discuss its usefulness as an investment appraisal method. <sup>[2]</sup>



# Governance, Risk and Ethics (P1)



## AIM

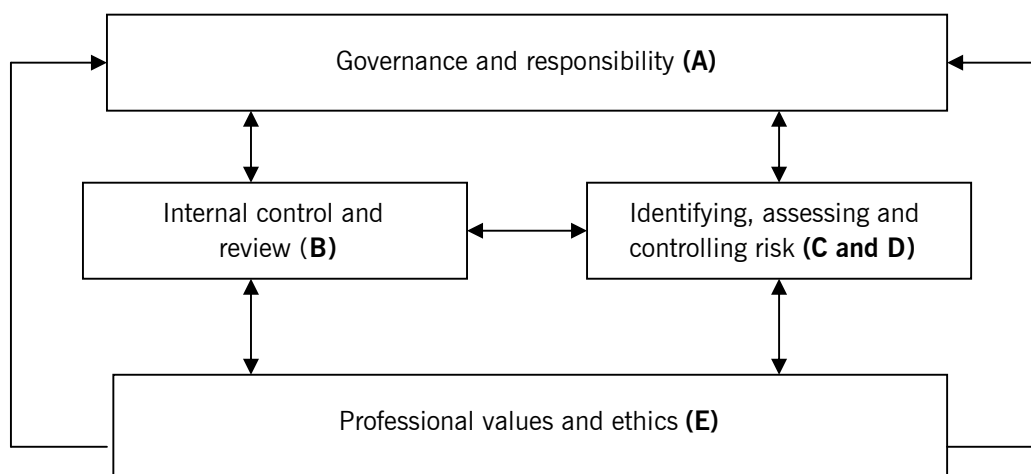
To apply relevant knowledge, skills and exercise professional judgement in carrying out the role of the accountant relating to governance, internal control, compliance and the management of risk within an organisation, in the context of an overall ethical framework.

## MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

- A** Define governance and explain its function in the effective management and control of organisations and of the resources for which they are accountable
- B** Evaluate the Governance, Risk and Ethics's role in internal control, review and compliance
- C** Explain the role of the accountant in identifying and assessing risk
- D** Explain and evaluate the role of the accountant in controlling and mitigating risk
- E** Demonstrate the application of professional values and judgement through an ethical framework that is in the best interests of society and the profession, in compliance with relevant professional codes, laws and regulations.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

The syllabus for Paper P1, *Governance, Risk and Ethics*, acts as the gateway syllabus into the professional level. It sets the other Essentials and Options papers into a wider professional, organisational, and societal context.

The syllabus assumes essential technical skills and knowledge acquired at the Fundamentals level where the core technical capabilities will have been acquired, and where ethics, corporate governance, internal audit, control, and risk will have been introduced in a subject-specific context.

The GRE syllabus begins by examining the whole area of governance within organisations in the broad context of the agency relationship. This aspect of the syllabus focuses on the respective roles and responsibilities of directors and officers to organisational stakeholders and of accounting and auditing as support and control functions.

The syllabus then explores internal review, control, and feedback to implement and support effective governance, including compliance issues related to decision-making and decision-support functions. The syllabus also examines the whole area of identifying, assessing, and controlling risk as a key aspect of responsible management.

Finally, the syllabus covers personal and professional ethics, ethical frameworks – and professional values – as applied in the context of the accountant's duties and as a guide to appropriate professional behaviour and conduct in a variety of situations.

## **DETAILED SYLLABUS**

### **A Governance and responsibility**

1. The scope of governance
2. Agency relationships and theories
3. The board of directors
4. Board committees
5. Directors' remuneration
6. Different approaches to corporate governance

7. Corporate governance and corporate social responsibility

8. Governance: reporting and disclosure

### **B Internal control and review**

1. Management control systems in corporate governance

2. Internal control, audit and compliance in corporate governance

3. Internal control and reporting

4. Management information in audit and internal control

### **C Identifying and assessing risk**

1. Risk and the risk management process

2. Categories of risk

3. Identification, assessment and measurement of risk

### **D Controlling risk**

1. Targeting and monitoring risk

2. Methods of controlling and reducing risk

3. Risk avoidance, retention and modelling

### **E Professional values and ethics**

1. Ethical theories

2. Different approaches to ethics and social responsibility

3. Professions and the public interest

4. Professional practice and codes of ethics

5. Conflicts of interest and the consequences of unethical behaviour

6. Ethical characteristics of professionalism

7. Social and environmental issues in the conduct of business and of ethical behaviour

### **APPROACH TO EXAMINING THE SYLLABUS**

The syllabus will be assessed by a three-hour paper-based examination. The examination paper will be structured in two sections. Section A will be based on a case study style question comprising a compulsory 50 mark question, with requirements based on several parts with all parts relating to the same case information. The case study will usually assess a range of subject areas across the syllabus and will require the candidate to demonstrate high level capabilities to evaluate, relate and apply the information in the case study to several of the requirements.

Section B comprises three questions of 25 marks each, of which candidates must answer two. These questions will be more likely to assess a range of discrete subject areas from the main syllabus section headings, but may require application, evaluation and the synthesis of information contained within short scenarios in which some requirements may need to be contextualised.

# Study Guide

## A GOVERNANCE AND RESPONSIBILITY

### 1. The scope of governance

- a) Define and explain the meaning of corporate governance.<sup>[2]</sup>
- b) Explain, and analyse the issues raised by the development of the joint stock company as the dominant form of business organisation and the separation of ownership and control over business activity.<sup>[3]</sup>
- c) Analyse the purposes and objectives of corporate governance.<sup>[2]</sup>
- d) Explain, and apply in context of corporate governance, the key underpinning concepts of:<sup>[3]</sup>
  - i) fairness
  - ii) openness/transparency
  - iii) independence
  - iv) probity/honesty
  - v) responsibility
  - vi) accountability
  - vii) reputation
  - viii) judgment
  - ix) integrity
- e) Explain and assess the major areas of organisational life affected by issues in corporate governance.<sup>[3]</sup>
  - i) duties of directors and functions of the board (including performance measurement)
  - ii) the composition and balance of the board (and board committees)
  - iii) reliability of financial reporting and external auditing
  - iv) directors' remuneration and rewards
  - v) responsibility of the board for risk management systems and internal control
  - vi) the rights and responsibilities of shareholders, including institutional investors
  - vii) corporate social responsibility and business ethics.

- f) Compare, and distinguish between public, private and non-governmental organisations (NGO) sectors with regard to the issues raised by, and scope of, governance.<sup>[3]</sup>
- g) Explain and evaluate the roles, interests and claims of, the internal parties involved in corporate governance.<sup>[3]</sup>
  - i) Directors
  - ii) Company secretaries
  - iii) Sub-board management
  - iv) Employee representatives (e.g. trade unions)
- h) Explain and evaluate the roles, interests and claims of, the external parties involved in corporate governance.<sup>[3]</sup>
  - i) Shareholders (including shareholders' rights and responsibilities)
  - ii) Auditors
  - iii) Regulators
  - iv) Government
  - v) Stock exchanges
  - vi) Small investors (and minority rights)
  - vii) Institutional investors (see also next point)
- i) Analyse and discuss the role and influence of institutional investors in corporate governance systems and structures, for example the roles and influences of pension funds, insurance companies and mutual funds.<sup>[2]</sup>

### 2. Agency relationships and theories

- a) Define and explore agency theory.<sup>[2]</sup>
- b) Define and explain the key concepts in agency theory.<sup>[2]</sup>
  - i) Agents
  - ii) Principals
  - iii) Agency
  - iv) Agency costs
  - v) Accountability
  - vi) Fiduciary responsibilities
  - vii) Stakeholders
- c) Explain and explore the nature of the principal-agent relationship in the context of corporate governance.<sup>[3]</sup>
- d) Analyse and critically evaluate the nature of agency accountability in agency relationships.<sup>[3]</sup>

- e) Explain and analyse the following other theories used to explain aspects of the agency relationship.<sup>[2]</sup>
  - i) Transaction costs theory
  - ii) Stakeholder theory

### 3. The board of directors

- a) Explain and evaluate the roles and responsibilities of boards of directors.<sup>[3]</sup>
- b) Describe, distinguish between and evaluate the cases for and against, unitary and two-tier board structures.<sup>[3]</sup>
- c) Describe the characteristics, board composition and types of, directors (including defining executive and non-executive directors (NED)).<sup>[2]</sup>
- d) Describe and assess the purposes, roles and responsibilities of NEDs.<sup>[3]</sup>
- e) Describe and analyse the general principles of legal and regulatory frameworks within which directors operate on corporate boards:<sup>[2]</sup>
  - i) legal rights and responsibilities,
  - ii) time-limited appointments
  - iii) retirement by rotation,
  - iv) service contracts,
  - v) removal,
  - vi) disqualification
  - vii) conflict and disclosure of interests
  - viii) insider dealing/trading
- f) Define, explore and compare the roles of the chief executive officer and company chairman.<sup>[3]</sup>
- g) Describe and assess the importance and execution of, induction and continuing professional development of directors on boards of directors.<sup>[3]</sup>
- h) Explain and analyse the frameworks for assessing the performance of boards and individual directors (including NEDs) on boards.<sup>[2]</sup>

### 4. Board committees

- a) Explain and assess the importance, roles and accountabilities of, board committees in corporate governance.<sup>[3]</sup>

- b) Explain and evaluate the role and purpose of the following committees in effective corporate governance:<sup>[3]</sup>
  - i) Remuneration committees
  - ii) Nominations committees
  - iii) Risk committees.
  - iv) Audit committees

### 5. Directors' remuneration

- a) Describe and assess the general principles of remuneration.<sup>[3]</sup>
  - i) purposes
  - ii) components
  - iii) links to strategy
  - iv) links to labour market conditions.
- b) Explain and assess the effect of various components of remuneration packages on directors' behaviour.<sup>[3]</sup>
  - i) basic salary
  - ii) performance related
  - iii) shares and share options
  - iv) loyalty bonuses
  - v) benefits in kind
  - vi) pension benefits
- c) Explain and analyse the legal, ethical, competitive and regulatory issues associated with directors' remuneration.<sup>[3]</sup>

### 6. Different approaches to corporate governance

- a) Describe and compare the essentials of 'rules' and 'principles' based approaches to corporate governance. Includes discussion of 'comply or explain'.<sup>[3]</sup>
- b) Describe and analyse the different models of business ownership that influence different governance regimes (e.g. family firms versus joint stock company-based models).<sup>[2]</sup>
- c) Describe and critically evaluate the reasons behind the development and use of codes of practice in corporate governance (acknowledging national differences and convergence).<sup>[3]</sup>
- d) Explain and briefly explore the development of corporate governance codes in principles-based jurisdictions.<sup>[2]</sup>
  - i) impetus and background

- ii) major corporate governance codes
- iii) effects of

- e) Explain and explore the Sarbanes-Oxley Act (2002) as an example of a rules-based approach to corporate governance.<sup>[2]</sup>
  - i) impetus and background
  - ii) main provisions/contents
  - iii) effects of
- f) Describe and explore the objectives, content and limitations of, corporate governance codes intended to apply to multiple national jurisdictions.<sup>[2]</sup>
  - i) Organisation for economic cooperation and development (OECD) Report (2004)
  - ii) International corporate governance network (ICGN) Report (2005)

## **7. Corporate governance and corporate social responsibility**

- a) Explain and explore social responsibility in the context of corporate governance.<sup>[2]</sup>
- b) Discuss and critically assess the concept of stakeholders and stakeholding in organisations and how this can affect strategy and corporate governance.<sup>[3]</sup>
- c) Analyse and evaluate issues of 'ownership,' 'property' and the responsibilities of ownership in the context of shareholding.<sup>[3]</sup>
- d) Explain the concept of the organisation as a corporate citizen of society with rights and responsibilities.<sup>[3]</sup>

## **8. Governance: reporting and disclosure**

- a) Explain and assess the general principles of disclosure and communication with shareholders.<sup>[3]</sup>
- b) Explain and analyse 'best practice' corporate governance disclosure requirements.<sup>[2]</sup>
- c) Define and distinguish between mandatory and voluntary disclosure of corporate information in the normal reporting cycle.<sup>[2]</sup>
- d) Explain and explore the nature of, and reasons and motivations for, voluntary disclosure in a

principles-based reporting environment (compared to, for example, the reporting regime in the USA).<sup>[3]</sup>

- e) Explain and analyse the purposes of the annual general meeting and extraordinary general meetings for information exchange between board and shareholders.<sup>[2]</sup>
- f) Describe and assess the role of proxy voting in corporate governance.<sup>[3]</sup>

## **B INTERNAL CONTROL AND REVIEW**

### **1. Management control systems in corporate governance**

- a) Define and explain internal management control.<sup>[2]</sup>
- b) Explain and explore the importance of internal control and risk management in corporate governance.<sup>[3]</sup>
- c) Describe the objectives of internal control systems.<sup>[2]</sup>
- d) Identify, explain and evaluate the corporate governance and executive management roles in risk management (in particular the separation between responsibility for ensuring that adequate risk management systems are in place and the application of risk management systems and practices in the organisation).<sup>[3]</sup>
- e) Identify and assess the importance of the elements or components of internal control systems.<sup>[3]</sup>

### **2. Internal control, audit and compliance in corporate governance**

- a) Describe the function and importance of internal audit.<sup>[1]</sup>
- b) Explain, and discuss the importance of, auditor independence in all client-auditor situations (including internal audit).<sup>[3]</sup>
- c) Explain, and assess the nature and sources of risks to, auditor independence. Assess the hazard of auditor capture.<sup>[3]</sup>

- d) Explain and evaluate the importance of compliance and the role of the internal audit function in internal control.<sup>[3]</sup>
- e) Explore and evaluate the effectiveness of internal control systems.<sup>[3]</sup>
- f) Describe and analyse the work of the internal audit committee in overseeing the internal audit function.<sup>[2]</sup>
- g) Explain and explore the importance and characteristics of, the audit committee's relationship with external auditors.<sup>[2]</sup>

### **3. Internal control and reporting**

- a) Describe and assess the need to report on internal controls to shareholders.<sup>[3]</sup>
- b) Describe the content of a report on internal control and audit.<sup>[2]</sup>
- c) Explain and assess how internal controls underpin and provide information for accurate financial reporting.<sup>[3]</sup>

### **4. Management information in audit and internal control**

- a) Explain and assess the need for adequate information flows to management for the purposes of the management of internal control and risk.<sup>[3]</sup>
- b) Evaluate the qualities and characteristics of information required in internal control and risk management and monitoring.<sup>[3]</sup>

## **C IDENTIFYING AND ASSESSING RISK**

### **1. Risk and the risk management process**

- a) Define and explain risk in the context of corporate governance.<sup>[2]</sup>
- b) Define and describe management responsibilities in risk management.<sup>[2]</sup>
- c) Explain the dynamic nature of risk assessment.<sup>[2]</sup>

- d) Explain the importance and nature of management responses to changing risk assessments.<sup>[2]</sup>

- e) Explain risk appetite and how this affects risk policy.<sup>[2]</sup>

### **2. Categories of risk**

- a) Define and compare (distinguish between) strategic and operational risks.<sup>[2]</sup>
- b) Define and explain the sources and impacts of common business risks.<sup>[2]</sup>
  - i) market
  - ii) credit
  - iii) liquidity
  - iv) technological
  - v) legal
  - vi) health, safety and environmental
  - vii) reputation
  - viii) business probity
  - ix) derivatives
- c) Describe and evaluate the nature and importance of business and financial risks.<sup>[3]</sup>
- d) Recognise and analyse the sector or industry specific nature of many business risks.<sup>[2]</sup>

### **3. Identification, assessment and measurement of risk**

- a) Identify, and assess the impact upon, the stakeholders involved in business risk.<sup>[3]</sup>
- b) Explain and analyse the concepts of assessing the severity and probability of risk events.<sup>[2]</sup>
- c) Describe and evaluate a framework for board level consideration of risk.<sup>[3]</sup>
- d) Describe the process of and importance of, externally reporting on internal control and risk.<sup>[2]</sup>
- e) Explain the sources, and assess the importance of, accurate information for risk management.<sup>[3]</sup>
- f) Explain and assess the ALARP (as low as reasonably practicable) principle in risk assessment and how this relates to severity and probability.<sup>[3]</sup>

g) Evaluate the difficulties of risk perception including the concepts of objective and subjective risk perception.<sup>[3]</sup>

h) Explain and evaluate the concepts of related and correlated risk factors.<sup>[3]</sup>

## **D CONTROLLING AND MANAGING RISK**

### **1. Targeting and monitoring of risk**

- a) Explain and assess the role of a risk manager in identifying and monitoring risk.<sup>[3]</sup>
- b) Explain and evaluate the role of the risk committee in identifying and monitoring risk.<sup>[3]</sup>
- c) Describe and assess the role of internal or external risk auditing in monitoring risk.<sup>[3]</sup>

### **2. Methods of controlling and reducing risk**

- a) Explain the importance of risk awareness at all levels in an organisation.<sup>[2]</sup>
- b) Describe and analyse the concept of embedding risk in an organisation's systems and procedures.<sup>[3]</sup>
- c) Describe and evaluate the concept of embedding risk in an organisation's culture and values.<sup>[3]</sup>
- d) Explain and analyse the concepts of spreading and diversifying risk and when this would be appropriate.<sup>[2]</sup>
- e) Identify and assess how business organisations use policies and techniques to mitigate various types of business and financial risks.<sup>[3]</sup>

### **3. Risk avoidance, retention and modelling**

- a) Explain, and assess the importance of, risk transference, avoidance, reduction and acceptance.<sup>[3]</sup>
- b) Explain and evaluate the different attitudes to risk and how these can affect strategy.<sup>[3]</sup>
- c) Explain and assess the necessity of incurring risk as part of competitively managing a business organisation.<sup>[3]</sup>

d) Explain and assess attitudes towards risk and the ways in which risk varies in relation to the size, structure and development of an organisation<sup>[3]</sup>

## **E PROFESSIONAL VALUES AND ETHICS**

### **1. Ethical theories**

- a) Explain and distinguish between the ethical theories of relativism and absolutism.<sup>[2]</sup>
- b) Explain, in an accounting and governance context, Kohlberg's stages of human moral development.<sup>[3]</sup>
- c) Describe and distinguish between deontological and teleological/consequentialist approaches to ethics.<sup>[2]</sup>
- d) Apply commonly used ethical decision-making models in accounting and professional contexts<sup>[2]</sup>
  - i) American Accounting Association model
  - ii) Tucker's 5-question model

### **2. Different approaches to ethics and social responsibility.**

- a) Describe and evaluate Gray, Owen & Adams (1996) seven positions on social responsibility.<sup>[2]</sup>
- b) Describe and evaluate other constructions of corporate and personal ethical stance:<sup>[2]</sup>
  - i) short-term shareholder interests
  - ii) long-term shareholder interests
  - iii) multiple stakeholder obligations
  - iv) shaper of society
- c) Describe and analyse the variables determining the cultural context of ethics and corporate social responsibility (CSR).<sup>[2]</sup>

### **3. Professions and the public interest**

- a) Explain and explore the nature of a 'profession' and 'professionalism'.<sup>[2]</sup>
- b) Describe and assess what is meant by 'the public interest'.<sup>[2]</sup>



- c) Describe the role of, and assess the widespread influence of, accounting as a profession in the organisational context.<sup>[3]</sup>
- d) Analyse the role of accounting as a profession in society.<sup>[2]</sup>
- e) Recognise accounting's role as a value-laden profession capable of influencing the distribution of power and wealth in society.<sup>[3]</sup>
- f) Describe and critically evaluate issues surrounding accounting and acting against the public interest.<sup>[3]</sup>

#### **4. Professional practice and codes of ethics**

- a) Describe and explore the areas of behaviour covered by *corporate* codes of ethics.<sup>[3]</sup>
- b) Describe and assess the content of, and principles behind, *professional* codes of ethics.<sup>[3]</sup>
- c) Describe and assess the codes of ethics relevant to accounting professionals such as the IFAC or professional body codes.<sup>[3]</sup>

#### **5. Conflicts of interest and the consequences of unethical behaviour**

- a) Describe and evaluate issues associated with conflicts of interest and ethical conflict resolution.<sup>[3]</sup>
- b) Explain and evaluate the nature and impacts of ethical threats and safeguards.<sup>[3]</sup>
- c) Explain and explore how threats to independence can affect ethical behaviour.<sup>[3]</sup>
- d) Explain and explore 'bribery' and 'corruption' in the context of corporate governance, and assess how these can undermine confidence and trust.<sup>[3]</sup>
- e) Describe and assess best practice measures for reducing and combating bribery and corruption, and the barriers to implementing such measures.<sup>[3]</sup>

#### **6. Ethical characteristics of professionalism**

- a) Explain and analyse the content and nature of ethical decision-making using content from Kohlberg's framework as appropriate.<sup>[2]</sup>
- b) Explain and analyse issues related to the application of ethical behaviour in a professional context.<sup>[2]</sup>
- c) Describe and discuss 'rules based' and 'principles based' approaches to resolving ethical dilemmas encountered in professional accounting.<sup>[2]</sup>

#### **7. Social and environmental issues in the conduct of business and ethical behaviour**

- a) Describe and assess the social and environmental effects that economic activity can have (in terms of social and environmental 'footprints').<sup>[3]</sup>
- b) Explain and assess the concept of sustainability and evaluate the issues concerning accounting for sustainability (including the contribution of 'full cost' accounting).<sup>[3]</sup>
- c) Describe the main features of internal management systems for underpinning environmental accounting such as EMAS and ISO 14000.<sup>[1]</sup>
- d) Explain the nature of social and environmental audit and evaluate the contribution it can make to the development of environmental accounting.<sup>[3]</sup>

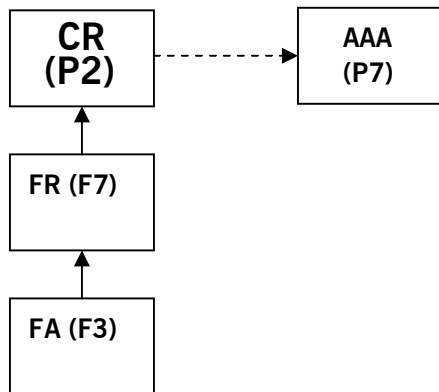
## SUMMARY OF CHANGES TO P1

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders including employers, students, regulatory and advisory bodies and learning providers.

**Table 1 – Additions to P1**

<b>Section and subject area</b>	<b>Syllabus content</b>
E5d)	Explain and explore 'bribery' and 'corruption' in the context of corporate governance, and assess how these can undermine confidence and trust.
E5e)	Describe and assess best practice measures for reducing and combating bribery and corruption, and the barriers to implementing such measures.

# Corporate Reporting (INT) (P2)



## AIM

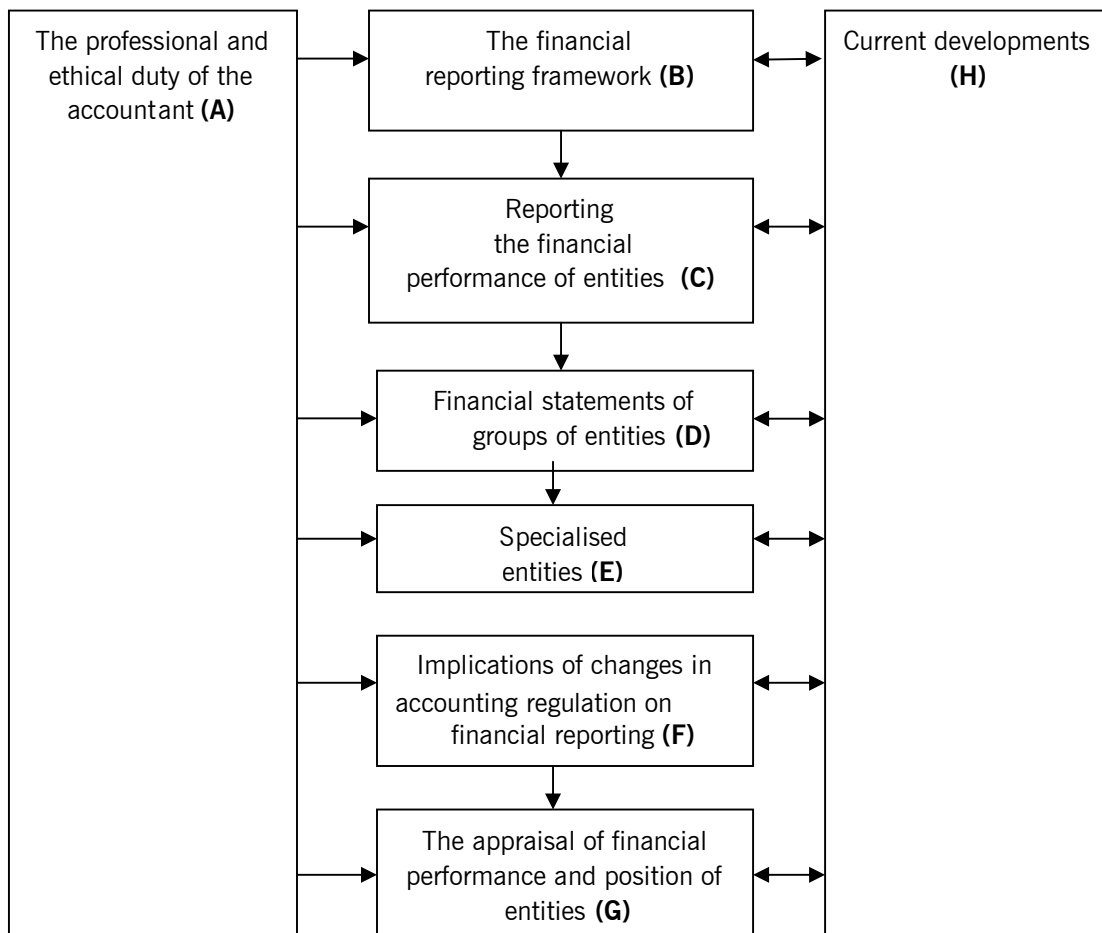
To apply knowledge, skills and exercise professional judgement in the application and evaluation of financial reporting principles and practices in a range of business contexts and situations.

## MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

- A** Discuss the professional and ethical duties of the accountant
- B** Evaluate the financial reporting framework
- C** Advise on and report the financial performance of entities
- D** Prepare the financial statements of groups of entities in accordance with relevant accounting standards
- E** Explain reporting issues relating to specialised entities
- F** Discuss the implications of changes in accounting regulation on financial reporting
- G** Appraise the financial performance and position of entities
- H** Evaluate current developments

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

The syllabus for Paper P2, *Corporate Reporting*, assumes knowledge acquired at the Fundamentals level including the core technical capabilities to prepare and analyse financial reports for single and combined entities.

The Paper P2 syllabus takes the subject into greater depth and contextualises the role of the accountant as a professional steward and adviser/analyst by initially exploring the wider professional duties and responsibilities of the accountant to the stakeholders of an organisation.

The syllabus examines the financial reporting framework within which the accountant operates and examines detailed financial reporting requirements for entities leading to the preparation of group financial reports in accordance with generally accepted accounting practice and relevant standards.

The syllabus then deals with the nature of reporting for specialised entities including not-for-profit and small and medium-sized enterprises.

The final sections of the syllabus explore – in more depth – the role of the accountant as financial analyst and adviser through the assessment of financial performance and position of entities, and the accountant's role in assessing and advising on the implications of accounting regulation on corporate reporting.

Finally, the syllabus covers the evaluation of current developments and their implications for financial reporting.

## **DETAILED SYLLABUS**

### **A The professional and ethical duty of the accountant**

1. Professional behaviour and compliance with accounting standards
2. Ethical requirements of corporate reporting and the consequences of unethical behaviour
3. Social responsibility

### **B The financial reporting framework**

1. The applications, strengths and weaknesses of an accounting framework
2. Critical evaluation of principles and practices

### **C Reporting the financial performance of entities**

1. Performance reporting
2. Non-current assets
3. Financial instruments
4. Leases
5. Segment reporting
6. Employee benefits
7. Income taxes
8. Provisions, contingencies and events after the reporting date
9. Related parties
10. Share-based payment
11. Reporting requirements of small and medium-sized entities (SMEs)

### **D Financial statements of groups of entities**

1. Group accounting including statements of cash flows
2. Continuing and discontinued interests
3. Changes in group structures
4. Foreign transactions and entities

### **E Specialised entities and specialised transactions**

1. Financial reporting in specialised, not-for-profit and public sector entities
2. Entity reconstructions

**F Implications of changes in accounting regulation on financial reporting**

1. The effect of changes in accounting standards on accounting systems
2. Proposed changes to accounting standards

**G The appraisal of financial performance and position of entities**

1. The creation of suitable accounting policies
2. Analysis and interpretation of financial information and measurement of performance

**H Current developments**

1. Environmental and social reporting
2. Convergence between national and international reporting standards
3. Current reporting issues

## APPROACH TO EXAMINING THE SYLLABUS

The syllabus is assessed by a three-hour paper-based examination. It examines professional competences within the corporate reporting environment.

Students will be examined on concepts, theories, and principles, and on their ability to question and comment on proposed accounting treatments.

Students should be capable of relating professional issues to relevant concepts and practical situations. The evaluation of alternative accounting practices and the identification and prioritisation of issues will be a key element of the paper. Professional and ethical judgement will need to be exercised, together with the integration of technical knowledge when addressing corporate reporting issues in a business context.

Global issues will be addressed via the current issues questions on the paper. Students will be required to adopt either a stakeholder or an external focus in answering questions and to demonstrate personal skills such as problem solving, dealing with information and decision making.

The paper also deals with specific professional knowledge appropriate to the preparation and presentation of consolidated and other financial statements from accounting data, to conform with accounting standards.

The paper will comprise two sections.

Section A Compulsory question	50 marks
Section B 2 from 3 questions of 25 marks each	<u>50 marks</u>
	<u>100 marks</u>

Section A will consist of one scenario based question worth 50 marks. It will deal with the preparation of consolidated financial statements including group statements of cash flows and with issues in financial reporting.

Students will be required to answer two out of three questions in Section B, which will normally comprise two questions which will be scenario or case-study based and one essay question which may have some computational element. Section B could deal with any aspects of the syllabus.

# Study Guide

## **A THE PROFESSIONAL AND ETHICAL DUTIES OF THE ACCOUNTANT**

### **1. Professional behaviour and compliance with accounting standards**

- a) Appraise and discuss the ethical and professional issues in advising on corporate reporting.<sup>[3]</sup>
- b) Assess the relevance and importance of ethical and professional issues in complying with accounting standards.<sup>[3]</sup>

### **2. Ethical requirements of corporate reporting and the consequences of unethical behaviour**

- a) Appraise the potential ethical implications of professional and managerial decisions in the preparation of corporate reports.<sup>[3]</sup>
- b) Assess the consequences of not upholding ethical principles in the preparation of corporate reports.<sup>[3]</sup>

### **3. Social Responsibility**

- a) Discuss the increased demand for transparency in corporate reports, and the emergence of non-financial reporting standards.<sup>[3]</sup>
- b) Discuss the progress towards a framework for environmental and sustainability reporting.<sup>[3]</sup>

## **B THE FINANCIAL REPORTING FRAMEWORK**

### **1. The applications, strengths and weaknesses of an accounting framework**

- a) Evaluate the valuation models adopted by standard setters.<sup>[3]</sup>
- b) Discuss the use of an accounting framework in underpinning the production of accounting standards.<sup>[3]</sup>
- c) Assess the success of such a framework in introducing rigorous and consistent accounting standards.<sup>[3]</sup>

### **2. Critical evaluation of principles and practices**

- a) Identify the relationship between accounting theory and practice.<sup>[2]</sup>
- b) Critically evaluate accounting principles and practices used in corporate reporting.<sup>[3]</sup>

## **C REPORTING THE FINANCIAL PERFORMANCE OF ENTITIES**

### **1. Performance reporting**

- a) Prepare reports relating to corporate performance for external stakeholders.<sup>[3]</sup>
- b) Discuss the issues relating to the recognition of revenue.<sup>[3]</sup>
- c) Evaluate proposed changes to reporting financial performance.<sup>[3]</sup>

### **2. Non-current assets**

- a) Apply and discuss the timing of the recognition of non-current assets and the determination of their carrying amounts including impairments and revaluations.<sup>[3]</sup>
- b) Apply and discuss the treatment of non-current assets held for sale.<sup>[3]</sup>
- c) Apply and discuss the accounting treatment of investment properties including classification, recognition and measurement issues.<sup>[3]</sup>
- d) Apply and discuss the accounting treatment of intangible assets including the criteria for recognition and measurement subsequent to acquisition and classification.<sup>[3]</sup>

### **3. Financial Instruments**

- a) Apply and discuss the recognition and de-recognition of financial assets and financial liabilities.<sup>[2]</sup>
- b) Apply and discuss the classification of financial assets and financial liabilities and their measurement.<sup>[2]</sup>

- c) Apply and discuss the treatment of gains and losses arising on financial assets and financial liabilities.<sup>[2]</sup>
- d) Apply and discuss the treatment of impairments of financial assets.<sup>[2]</sup>
- e) Account for derivative financial instruments, and simple embedded derivatives.<sup>[2]</sup>
- f) Outline the principles of hedge accounting and account for fair value hedges and cash flow hedges including hedge effectiveness.<sup>[2]</sup>

#### **4. Leases**

- a) Apply and discuss the classification of leases and accounting for leases by lessors and lessees.<sup>[3]</sup>
- b) Account for and discuss sale and leaseback transactions.<sup>[3]</sup>

#### **5. Segment Reporting**

- a) Determine the nature and extent of reportable segments.<sup>[3]</sup>
- b) Specify and discuss the nature of segment information to be disclosed.<sup>[3]</sup>

#### **6. Employee Benefits**

- a) Apply and discuss the accounting treatment of short term and long term employee benefits.<sup>[3]</sup>
- b) Apply and discuss the accounting treatment of defined contribution and defined benefit plans.<sup>[3]</sup>
- c) Account for gains and losses on settlements and curtailments.<sup>[2]</sup>
- d) Account for the “Asset Ceiling” test and the reporting of actuarial gains and losses.<sup>[2]</sup>

#### **7. Income taxes**

- a) Apply and discuss the recognition and measurement of deferred tax liabilities and deferred tax assets.<sup>[3]</sup>

- b) Determine the recognition of tax expense or income and its inclusion in the financial statements.<sup>[3]</sup>

#### **8. Provisions, contingencies and events after the reporting date**

- a) Apply and discuss the recognition, de-recognition and measurement of provisions, contingent liabilities and contingent assets including environmental provisions.<sup>[3]</sup>
- b) Calculate and discuss restructuring provisions.<sup>[3]</sup>
- c) Apply and discuss the accounting for events after the reporting date.<sup>[3]</sup>
- d) Determine and report going concern issues arising after the reporting date.<sup>[3]</sup>

#### **9. Related parties**

- a) Determine the parties considered to be related to an entity.<sup>[3]</sup>
- b) Identify the implications of related party relationships and the need for disclosure.<sup>[3]</sup>

#### **10. Share based payment**

- a) Apply and discuss the recognition and measurement criteria for share-based payment transactions.<sup>[3]</sup>
- b) Account for modifications, cancellations and settlements of share based payment transactions.<sup>[2]</sup>

#### **11. Reporting requirements of small and medium-sized entities (SMEs)**

- a) Outline the principal considerations in developing a set of accounting standards for SMEs.<sup>[3]</sup>
- b) Discuss solutions to the problem of differential financial reporting.<sup>[3]</sup>
- c) Discuss the reasons why the IFRS for SME's does not address certain topics.<sup>[3]</sup>



- d) Discuss the accounting treatments not allowable under the IFRS for SME's including the revaluation model for certain assets.<sup>[3]</sup>
- e) Discuss and apply the simplifications introduced by the IFRS for SME's including accounting for goodwill and intangible assets, financial instruments, defined benefit schemes, exchange differences and associates and joint ventures.<sup>[3]</sup>

## **D FINANCIAL STATEMENTS OF GROUPS OF ENTITIES**

### **1. Group accounting including statements of cash flows**

- a) Apply the method of accounting for business combinations including complex group structures.<sup>[3]</sup>
- b) Apply the principles in determining the cost of a business combination.<sup>[3]</sup>
- c) Apply the recognition and measurement criteria for identifiable acquired assets and liabilities and goodwill including step acquisitions.<sup>[3]</sup>
- d) Apply and discuss the criteria used to identify a subsidiary and an associate.<sup>[3]</sup>
- e) Determine and apply appropriate procedures to be used in preparing group financial statements.<sup>[3]</sup>
- f) Identify and outline:
  - the circumstances in which a group is required to prepare consolidated financial statements.<sup>[2]</sup>
  - the circumstances when a group may claim and exemption from the preparation of consolidated financial statements.<sup>[2]</sup>
  - why directors may not wish to consolidate a subsidiary and where this is permitted.<sup>[2]</sup>
- g) Apply the equity method of accounting for associates.<sup>[3]</sup>
- h) Outline and apply the key definitions and accounting methods which relate to interests in joint arrangements.<sup>[3]</sup>

- i) Prepare and discuss group statements of cash flows.<sup>[3]</sup>

### **2. Continuing and discontinued interests**

- a) Prepare group financial statements where activities have been discontinued, or have been acquired or disposed of in the period.<sup>[3]</sup>
- b) Apply and discuss the treatment of a subsidiary which has been acquired exclusively with a view to subsequent disposal.<sup>[3]</sup>

### **3. Changes in group structures**

- a) Discuss the reasons behind a group reorganisation.<sup>[3]</sup>
- b) Evaluate and assess the principal terms of a proposed group reorganisation.<sup>[3]</sup>

### **4. Foreign transactions and entities**

- a) Outline and apply the translation of foreign currency amounts and transactions into the functional currency and the presentational currency.<sup>[3]</sup>
- b) Account for the consolidation of foreign operations and their disposal.<sup>[2]</sup>

## **E SPECIALISED ENTITIES AND SPECIALISED TRANSACTIONS**

### **1. Financial reporting in specialised, not-for-profit and public sector entities**

- a) Apply knowledge from the syllabus to straightforward transactions and events arising in specialised, not-for-profit, and public sector entities.<sup>[3]</sup>

### **2. Entity reconstructions**

- a) Identify when an entity may no longer be viewed as a going concern or uncertainty exists surrounding the going concern status.<sup>[2]</sup>
- b) Identify and outline the circumstances in which a reconstruction would be an appropriate alternative to a company liquidation.<sup>[2]</sup>

- c) Outline the appropriate accounting treatment required relating to reconstructions.<sup>[2]</sup>

## **F IMPLICATIONS OF CHANGES IN ACCOUNTING REGULATION ON FINANCIAL REPORTING**

### **1. The effect of changes in accounting standards on accounting systems**

- a) Apply and discuss the accounting implications of the first time adoption of a body of new accounting standards.<sup>[3]</sup>

### **2. Proposed changes to accounting standards**

- a) Identify issues and deficiencies which have led to a proposed change to an accounting standard.<sup>[2]</sup>

## **G THE APPRAISAL OF FINANCIAL PERFORMANCE AND POSITION OF ENTITIES**

### **1. The creation of suitable accounting policies**

- a) Develop accounting policies for an entity which meet the entity's reporting requirements.<sup>[3]</sup>
- b) Identify accounting treatments adopted in financial statements and assess their suitability and acceptability.<sup>[3]</sup>

### **2. Analysis and interpretation of financial information and measurement of performance**

- a) Select and calculate relevant indicators of financial and non-financial performance.<sup>[3]</sup>
- b) Identify and evaluate significant features and issues in financial statements.<sup>[3]</sup>
- c) Highlight inconsistencies in financial information through analysis and application of knowledge.<sup>[3]</sup>
- d) Make inferences from the analysis of information taking into account the limitation of the information, the analytical methods used and the business environment in which the entity operates.<sup>[3]</sup>

## **H CURRENT DEVELOPMENTS**

### **1. Environmental and social reporting**

- a) Appraise the impact of environmental, social, and ethical factors on performance measurement.<sup>[3]</sup>
- b) Evaluate current reporting requirements in the area.<sup>[3]</sup>
- c) Discuss why entities might include disclosures relating to the environment and society.<sup>[3]</sup>

### **2. Convergence between national and international reporting standards**

- a) Evaluate the implications of worldwide convergence with International Financial Reporting Standards.<sup>[3]</sup>
- b) Discuss the influence of national regulators on international financial reporting.<sup>[2]</sup>

### **3. Current reporting issues**

- a) Discuss current issues in corporate reporting.<sup>[3]</sup>

**NOTE OF SIGNIFICANT CHANGES TO STUDY GUIDE PAPER P2 INT**

stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

**RATIONALE FOR CHANGES**

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of

The main areas to be added or deleted from the syllabus from that date are shown in Tables 1 and 2 below:

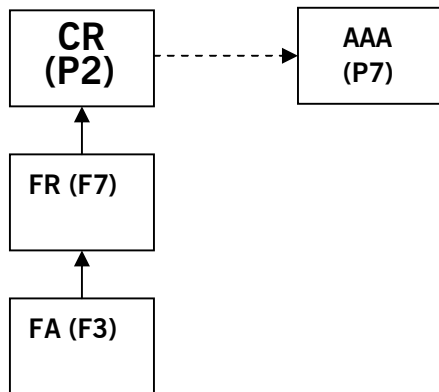
**Table 1 – Additions to P2 INT**

**There have not been any additions to the 2011 study guide for 2012. However there have been minor amendment to the wording of some of the study guide outcomes corresponding to changes within examinable documents.**

**Table 2 – Deletions to P2 INT**

**There have not been any deletions to the 2011 study guide for 2012. However there have been minor amendments to the wording of some of the study guide outcomes corresponding to changes within examinable documents.**

# Corporate Reporting (UK) (P2)



## AIM

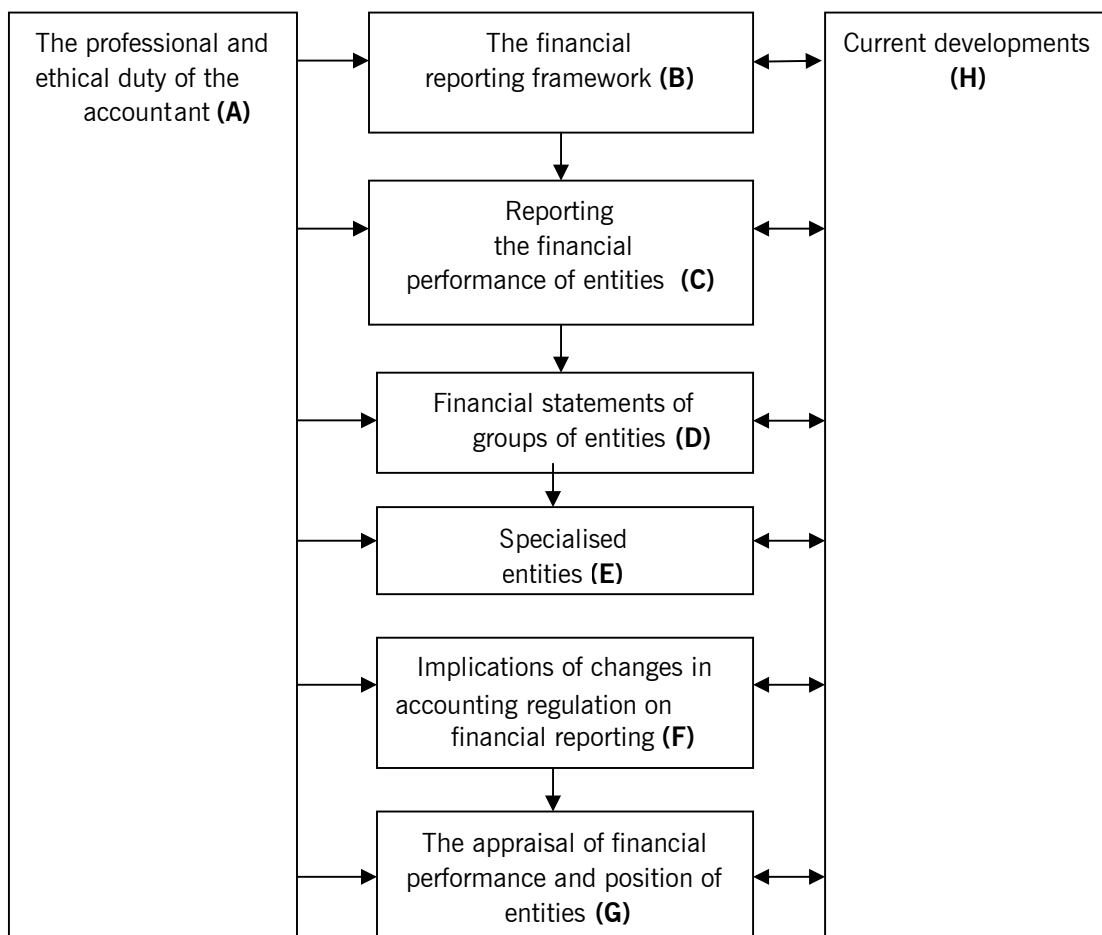
To apply knowledge, skills and exercise professional judgement in the application and evaluation of financial reporting principles and practices in a range of business contexts and situations.

## MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

- A** Discuss the professional and ethical duties of the accountant
- B** Evaluate the financial reporting framework
- C** Advise on and report the financial performance of entities
- D** Prepare the financial statements of groups of entities in accordance with relevant accounting standards
- E** Explain reporting issues relating to specialised entities
- F** Discuss the implications of changes in accounting regulation on financial reporting
- G** Appraise the financial performance and position of entities
- H** Evaluate current developments

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## RATIONALE

The syllabus for paper P2, *Corporate Reporting*, assumes knowledge acquired at the Fundamentals level including the core technical capabilities to prepare and analyse financial reports for single and combined entities.

The Paper P2 syllabus takes the subject into greater depth and contextualises the role of the accountant as a professional steward and adviser/analyst by initially exploring the wider professional duties and responsibilities of the accountant to the stakeholders of an organisation.

The syllabus examines the financial reporting framework within which the accountant operates and examines detailed financial reporting requirements for entities leading to the preparation of group financial reports in accordance with generally accepted accounting practice and relevant standards.

The syllabus then deals with the nature of reporting for specialised entities including not-for-profit and small and medium-sized enterprises.

The final sections of the syllabus explore – in more depth – the role of the accountant as financial analyst and adviser through the assessment of financial performance and position of entities, and the accountant's role in assessing and advising on the implications of accounting regulation on corporate reporting.

Finally, the syllabus covers the evaluation of current developments and their implications for financial reporting.

For the purpose of this exam, International Financial Reporting Standards (IFRS) are the main accounting standards examined in the preparation of financial information. The key differences between UK GAAP and International Financial Reporting Standards are looked at on a subject by subject basis.

## DETAILED SYLLABUS

### **A The professional and ethical duty of the accountant**

1. Professional behaviour and compliance with accounting standards
2. Ethical requirements of corporate reporting and the consequences of unethical behaviour
3. Social responsibility

### **B The legal and financial reporting framework**

1. The applications, strengths and weaknesses of an accounting framework
2. Critical evaluation of principles and practices
3. The legal requirements relating to the preparation of single entity financial reporting statements

### **C Reporting the financial performance of entities including key differences between IFRS and UK GAAP**

1. Performance reporting
2. Non-current assets
3. Financial instruments
4. Leases
5. Segment reporting
6. Employee benefits
7. Taxation
8. Provisions, contingencies and events after the reporting date
9. Related parties
10. Share-based payment
11. Reporting requirements of small and medium-sized entities (SMEs)

**D Financial statements of groups of entities including key differences between IFRS and UK GAAP**

1. Group accounting including cash flow statements
2. Continuing and discontinued interests
3. Changes in group structures
4. Foreign transactions and entities

**E Specialised entities and specialised transactions**

1. Financial reporting in specialised, not-for-profit and public sector entities
2. Entity schemes of arrangement and reconstructions

**F Implications of changes in accounting regulation on financial reporting**

1. The effect of changes in accounting standards on accounting systems
2. Proposed changes to accounting standards

**G The appraisal of financial performance and position of entities**

1. The creation of suitable accounting policies
2. Analysis and interpretation of financial information and measurement of performance

**H Current developments**

1. Environmental and social reporting
2. Convergence between national and international reporting standards
3. Current reporting issues

## APPROACH TO EXAMINING THE SYLLABUS

The syllabus is assessed by a three-hour paper-based examination. It examines professional competences within the corporate reporting environment.

Students will be examined on concepts, theories, and principles, and on their ability to question and comment on proposed accounting treatments.

Students should be capable of relating professional issues to relevant concepts and practical situations. The evaluation of alternative accounting practices and the identification and prioritisation of issues will be a key element of the paper. Professional and ethical judgement will need to be exercised, together with the integration of technical knowledge when addressing corporate reporting issues in a business context.

Global issues will be addressed via the current issues questions on the paper. Students will be required to adopt either a stakeholder or an external focus in answering questions and to demonstrate personal skills such as problem solving, dealing with information and decision making.

The paper also deals with specific professional knowledge appropriate to the preparation and presentation of consolidated and other financial statements from accounting data to conform with accounting standards.

The paper will comprise two sections.

Section A Compulsory question    50 marks

Section B 2 from 3 questions of  
25 marks each                    50 marks  
   100 marks

Section A will consist of one scenario-based question worth 50 marks. It will deal with the preparation of consolidated financial statements including group cash flow statements and with issues in financial reporting.

Students will be required to answer two out of three questions in Section B, which will normally comprise two questions which will be scenario or case-study based and one essay question which may have some computational element. Section B could deal with any aspects of the syllabus.

# Study Guide

## **A THE PROFESSIONAL AND ETHICAL DUTIES OF THE ACCOUNTANT**

### **1. Professional behaviour and compliance with accounting standards**

- a) Appraise and discuss the ethical and professional issues in advising on corporate reporting.<sup>[3]</sup>
- b) Assess the relevance and importance of ethical and professional issues in complying with accounting standards.<sup>[3]</sup>

### **2. Ethical requirements of corporate reporting and the consequences of unethical behaviour**

- a) Appraise the potential ethical implications of professional and managerial decisions in the preparation of corporate reports.<sup>[3]</sup>
- b) Assess the consequences of not upholding ethical principles in the preparation of corporate reports.<sup>[3]</sup>

### **3. Social Responsibility**

- a) Discuss the increased demand for transparency in corporate reports, and the emergence of non-financial reporting standards.<sup>[3]</sup>
- b) Discuss the progress towards a framework for environmental and sustainability reporting.<sup>[3]</sup>

## **B THE FINANCIAL REPORTING FRAMEWORK**

### **1. The applications, strengths and weaknesses of an accounting framework**

- a) Evaluate the “balance sheet” and “fair value” models adopted by standard setters.<sup>[3]</sup>
- b) Discuss the use of an accounting framework in underpinning the production of accounting standards.<sup>[3]</sup>
- c) Assess the success of such a framework in introducing rigorous and consistent accounting standards.<sup>[3]</sup>

### **2. Critical evaluation of principles and practices**

- a) Identify the relationship between accounting theory and practice.<sup>[2]</sup>
- b) Critically evaluate accounting principles and practices used in corporate reporting.<sup>[3]</sup>

### **3. Legal requirements relating to the preparation of single entity financial statements**

- a) Recognise and apply the laws, regulations, accounting standards and other requirements to the preparation of statutory financial statements of an entity, including the circumstances where an entity is required to prepare and present statutory financial statements.<sup>[2]</sup>

## **C REPORTING THE FINANCIAL PERFORMANCE OF ENTITIES**

### **1. Performance reporting**

- a) Prepare reports relating to corporate performance for external stakeholders.<sup>[3]</sup>
- b) Discuss the issues relating to the recognition of revenue
- c) Evaluate proposed changes to reporting financial performance.<sup>[3]</sup>

### **2. Non-current assets**

- a) Apply and discuss the timing of the recognition of non-current assets and the determination of their carrying amounts including impairments and revaluations.<sup>[3]</sup>
- b) Apply and discuss the treatment of non-current assets held for sale.<sup>[3]</sup>
- c) Apply and discuss the accounting treatment of investment properties including classification, recognition and measurement issues.<sup>[3]</sup>
- d) Apply and discuss the accounting treatment of intangible assets including the criteria for recognition and measurement subsequent to acquisition and classification.<sup>[3]</sup>



- 3) Discuss and apply the key differences between UK GAAP and IFRS in accounting and non-current assets including revaluation, impairment and investment property.<sup>[3]</sup>

### **3. Financial Instruments**

- a) Apply and discuss the recognition and de-recognition of financial assets and financial liabilities.<sup>[2]</sup>
- b) Apply and discuss the classification of financial assets and financial liabilities and their measurement.<sup>[2]</sup>
- c) Apply and discuss the treatment of gains and losses arising on financial assets and financial liabilities.<sup>[2]</sup>
- d) Apply and discuss the treatment of impairments of financial assets.<sup>[2]</sup>
- e) Account for derivative financial instruments, and simple embedded derivatives.<sup>[2]</sup>
- f) Outline the principles of hedge accounting and account for fair value hedges and cash flow hedges including hedge effectiveness.<sup>[2]</sup>

### **4. Leases**

- a) Apply and discuss the classification of leases and accounting for leases by lessors and lessees.<sup>[3]</sup>
- b) Account for and discuss sale and leaseback transactions.<sup>[3]</sup>
- c) Discuss and apply the key differences between UK GAAP and IFRS in accounting for leases.<sup>[3]</sup>

### **5. Segment Reporting**

- a) Determine the nature and extent of reportable segments.<sup>[3]</sup>
- b) Specify and discuss the nature of segment information to be disclosed.<sup>[3]</sup>
- c) Discuss and apply the key differences between UK GAAP and IFRS in accounting for segments.<sup>[3]</sup>

### **6. Employee Benefits**

- a) Apply and discuss the accounting treatment of short term and long term benefits.<sup>[3]</sup>
- b) Apply and discuss the accounting treatment of defined contribution and defined benefit plans.<sup>[3]</sup>
- c) Account for gains and losses on settlements and curtailments.<sup>[2]</sup>
- d) Account for the “Asset Ceiling” test and the reporting of actuarial gains and losses.<sup>[2]</sup>
- e) Discuss the key differences between UK GAAP and IFRS in accounting for Employee Benefits.<sup>[3]</sup>

### **7. Taxation**

- a) Apply and discuss the recognition and measurement of deferred tax liabilities and deferred tax assets.<sup>[3]</sup>
- b) Determine the recognition of tax expense or income and its inclusion in the financial statements.<sup>[3]</sup>
- c) Discuss and apply the key differences between UK GAAP and IFRS in accounting for taxation.<sup>[3]</sup>

### **8. Provisions, contingencies and events after the reporting date**

- a) Apply and discuss the recognition, de-recognition and measurement of provisions, contingent liabilities and contingent assets including environmental provisions.<sup>[3]</sup>
- b) Calculate and discuss restructuring provisions.<sup>[3]</sup>
- c) Apply and discuss the accounting for events after the reporting date.<sup>[3]</sup>
- d) Determine and report going concern issues arising after the reporting date.<sup>[3]</sup>

## 9. Related parties

- a) Determine the parties considered to be related to an entity.<sup>[3]</sup>
- b) Identify the implications of related party relationships and the need for disclosure.<sup>[3]</sup>
- c) Discuss and apply the key differences between UK GAAP and IFRS in accounting for related parties.<sup>[3]</sup>

## 10. Share based payment

- a) Apply and discuss the recognition and measurement criteria for share-based payment transactions.<sup>[3]</sup>
- b) Account for modifications, cancellations and settlements of share based payment transactions.<sup>[2]</sup>

## 11. Reporting requirements of small and medium-sized entities (SMEs)

- a) Outline the principal considerations in developing a set of accounting standards for SMEs.<sup>[3]</sup>
- b) Discuss solutions to the problem of differential financial reporting.<sup>[3]</sup>
- c) Discuss the reasons why the IFRS for SME's does not address certain topics.<sup>[3]</sup>
- d) Discuss the accounting treatments not allowable under the IFRS for SME's including the revaluation model for certain assets ,<sup>[3]</sup>
- e) Discuss and apply the simplifications introduced by the IFRS for SME's including accounting for goodwill and intangible assets, financial instruments, defined benefit schemes, exchange differences and associates and joint ventures.<sup>[3]</sup>
- f) Discuss the key differences in principle between IFRS and UK GAAP.<sup>[2]</sup>

## D FINANCIAL STATEMENTS OF GROUPS OF ENTITIES

### 1. Group accounting including cash flow statements

- a) Apply the method of accounting for business combinations including complex group structures.<sup>[3]</sup>
- b) Apply the principles in determining the cost of a business combination.<sup>[3]</sup>
- c) Apply the recognition and measurement criteria for identifiable acquired assets and liabilities and goodwill including step acquisitions.<sup>[3]</sup>
- d) Apply and discuss the criteria used to identify a subsidiary and an associate.<sup>[3]</sup>
- e) Determine and apply appropriate procedures to be used in preparing group financial statements.<sup>[3]</sup>
- f) Identify and outline (using relevant legislation, accounting standards and other applicable regulation):
  - the circumstances in which a group is required to prepare consolidated financial statements.<sup>[2]</sup>
  - the circumstances when a group may claim and exemption from the preparation of consolidated financial statements.<sup>[2]</sup>
  - why directors may not wish to consolidate a subsidiary and where this is permitted.<sup>[2]</sup>
- g) Apply the equity method of accounting for associates.<sup>[3]</sup>
- h) Outline and apply the key definitions and accounting methods which relate to interests in joint arrangements.<sup>[3]</sup>
- i) Prepare and discuss group cash flow statements.<sup>[3]</sup>
- j) Discuss and apply the key differences between UK GAAP and IFRS in accounting for business combinations

## **2. Continuing and discontinued interests**

- a) Prepare group financial statements where activities have been discontinued, or have been acquired or disposed of in the period.<sup>[3]</sup>
- b) Apply and discuss the treatment of a subsidiary which has been acquired exclusively with a view to subsequent disposal.<sup>[3]</sup>

## **3. Changes in group structures**

- a) Discuss the reasons behind a group reorganisation.<sup>[3]</sup>
- b) Evaluate and assess the principal terms of a proposed group reorganisation.<sup>[3]</sup>

## **4. Foreign transactions and entities**

- a) Outline and apply the translation of foreign currency amounts and transactions into the functional currency and the presentational currency.<sup>[3]</sup>
- b) Account for the consolidation of foreign operations and their disposal.<sup>[2]</sup>

## **E SPECIALISED ENTITIES AND SPECIALISED TRANSACTIONS**

### **1. Financial reporting in specialised, not-for-profit and public sector entities**

- a) Apply knowledge from the syllabus to straightforward transactions and events arising in specialised, not-for-profit, and public sector entities.<sup>[3]</sup>

### **2. Entity schemes of arrangement and reconstructions**

- a) Identify when an entity may no longer be viewed as a going concern or uncertainty exists surrounding the going concern status.<sup>[2]</sup>
- b) Identify and outline the circumstances in which a scheme of arrangement or reconstruction would be an appropriate alternative to a company liquidation.<sup>[2]</sup>

- c) Outline the appropriate accounting treatment and relevant disclosures required relating to schemes of arrangement and reconstructions.<sup>[2]</sup>

## **F IMPLICATIONS OF CHANGES IN ACCOUNTING REGULATION ON FINANCIAL REPORTING**

### **1. The effect of changes in accounting standards on accounting systems**

- a) Apply and discuss the accounting implications of the first time adoption of a body of new accounting standards.<sup>[3]</sup>

### **2. Proposed changes to accounting standards**

- a) Identify issues and deficiencies which have led to a proposed change to an accounting standard.<sup>[2]</sup>

## **G THE APPRAISAL OF FINANCIAL PERFORMANCE AND POSITION OF ENTITIES**

### **1. The creation of suitable accounting policies**

- a) Develop accounting policies for an entity which meet the entity's reporting requirements.<sup>[3]</sup>
- b) Identify accounting treatments adopted in financial statements and assess their suitability and acceptability.<sup>[3]</sup>

### **2. Analysis and interpretation of financial information and measurement of performance**

- a) Select and calculate relevant indicators of financial and non-financial performance.<sup>[3]</sup>
- b) Identify and evaluate significant features and issues in financial statements.<sup>[3]</sup>
- c) Highlight inconsistencies in financial information through analysis and application of knowledge.<sup>[3]</sup>
- d) Make inferences from the analysis of information taking into account the limitation of the information, the analytical methods used and the business environment in which the entity operates.<sup>[3]</sup>

## **H CURRENT DEVELOPMENTS**

### **1. Environmental and social reporting**

- a) Appraise the impact of environmental, social, and ethical factors on performance measurement.<sup>[3]</sup>
- b) Evaluate current reporting requirements in the area.<sup>[3]</sup>
- c) Discuss why entities might include disclosures relating to the environment and society.<sup>[3]</sup>

### **2. Convergence between national and international reporting standards**

- a) Evaluate the implications of worldwide convergence with International Financial Reporting Standards.<sup>[3]</sup>
- b) Discuss the influence of national regulators on international financial reporting.<sup>[2]</sup>

### **3. Current reporting issues**

- a) Discuss current issues in corporate reporting.<sup>[3]</sup>

**NOTE OF SIGNIFICANT CHANGES TO STUDY  
GUIDE PAPER P2 UK**

**RATIONALE FOR CHANGES**

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of

stakeholders such as employers, students, regulatory and advisory bodies and learning providers

The main areas to be added or deleted from the syllabus from that date are shown in Tables 1 and 2 below:

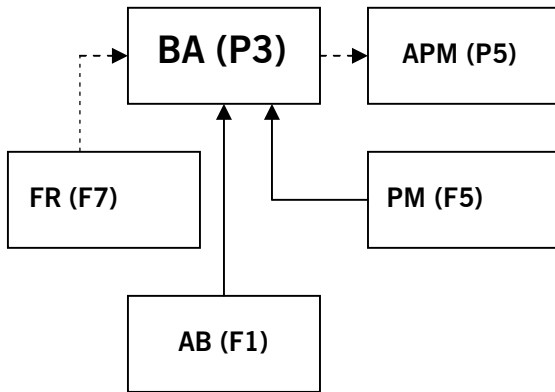
**Table 1 – Additions to P2 UK**

**There have not been any additions to the 2012 study guide. However there have been minor amendments to the wording of some of the study guide outcomes corresponding to changes within examinable documents.**

**Table 2 – Deletions to P2 UK**

**There have not been any deletions to the 2012 study guide. However there have been minor amendments to the wording of some of the study guide outcomes corresponding to changes within examinable documents.**

# Business Analysis (P3)



## AIM

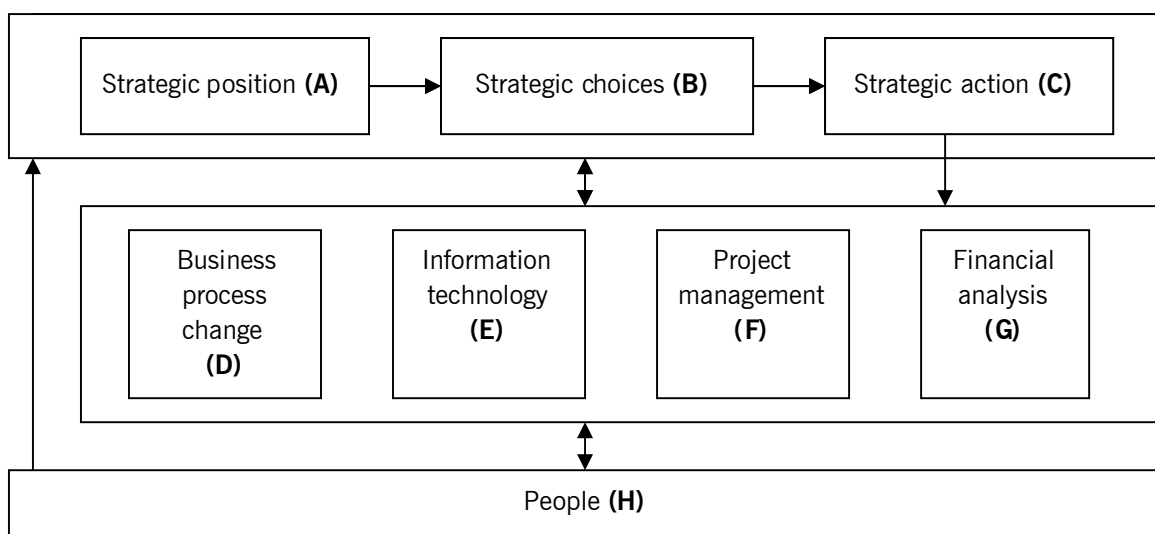
To apply relevant knowledge, skills, and exercise professional judgement in assessing strategic position, determining strategic choice, and implementing strategic action through beneficial business process and structural change; coordinating knowledge systems and information technology and by effectively managing processes, projects, and people within financial and other resource constraints.

## MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

- A** Assess the strategic position of an organisation
- B** Evaluate the strategic choices available to an organisation
- C** Discuss how an organisation might go about its strategic implementation
- D** Evaluate and redesign business processes and structures to implement and support the organisation's strategy taking account of customer and other major stakeholder requirements
- E** Integrate appropriate information technology solutions to support the organisation's strategy
- F** Advise on the principles of project management to enable the implementation of aspects of the organisation's strategy with the twin objectives of managing risk and ensuring benefits realisation
- G** Analyse and evaluate the effectiveness of a company's strategy and the financial consequences of implementing strategic decisions
- H** Assess the role of leadership and people management in formulating and implementing business strategy.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## RATIONALE

The syllabus for Paper P3, *Business Analysis*, is primarily concerned with two issues. The first is the external forces (the behaviour of customers, the initiatives of competitors, the emergence of new laws and regulations) that shape the environment of an organisation. The second is the internal ambitions and concerns (desire for growth, the design of processes, the competences of employees, the financial resources) that exist within an organisation. This syllabus looks at both of these perspectives, from assessing strategic position and choice to identifying and formulating strategy and strategic action. It identifies opportunities for beneficial change that involve people, finance and information technology. It examines how these opportunities may be implemented through the appropriate management of programmes and projects.

The syllabus begins with the assessment of strategic position in the present and in the future using relevant forecasting techniques, and is primarily concerned with the impact of the external environment on the business, its internal capabilities and expectations and how the organisation positions itself under these constraints. It examines how factors such as culture, leadership and stakeholder expectations shape organisational purpose. Strategic choice is concerned with decisions which have to be made about an organisation's future and the way in which it can respond to the influences and pressures identified in the assessment of its current and future strategic position.

Strategic action concerns the implementation of strategic choices and the transformation of these choices into organisational action. Such action takes place in day-to-day processes and organisational relationships and these processes and relationships need to be managed in line with the intended strategy, involving the effective coordination of information technology, people, finance and other business resources.

Companies that undertake successful business process redesign claim significant organisational improvements. This simply reflects the fact that many existing processes are less efficient than they could be and that new technology makes it possible to design more efficient processes. Strategic

planning and strategy implementation has to be subject to financial benchmarks. Financial analysis explicitly recognises this, reminding candidates of the importance of focusing on the key management accounting techniques that help to determine strategic action and the financial ratios and measures that may be used to assess the viability of a strategy and to monitor and measure its success.

Throughout, the syllabus recognises that successful strategic planning and implementation requires the effective recruitment, leadership, organisation and training and development of people.

## DETAILED SYLLABUS

### A Strategic position

1. The need for, and purpose of, strategic and business analysis
2. Environmental issues affecting the strategic position of an organisation
3. Competitive forces affecting an organisation
4. Marketing and the value of goods and services
5. The internal resources, capabilities and competences of an organisation
6. The expectations of stakeholders and the influence of ethics and culture

### B Strategic choices

1. The influence of corporate strategy on an organisation
2. Alternative approaches to achieving competitive advantage
3. Alternative directions and methods of development

### C Strategic action

1. Organising and enabling success
2. Managing strategic change
3. Understanding strategy development

## **D Business process change**

1. The role of process and process change initiatives
2. Improving the processes of the organisation
3. Software solutions

## **E Information technology**

1. Principles of e-business
2. E-business application: upstream supply chain management
3. E-business application: downstream supply chain management
4. E-business application: customer relationship management

## **F Project management**

1. The nature of projects
2. Building a business case
3. Managing and leading projects
4. Planning, monitoring and controlling projects
5. Concluding a project

## **G Financial Analysis**

1. The link between strategy and finance
2. Finance decisions to formulate and support business strategy
3. The role of cost and management accounting in strategic planning and implementation
4. Financial implications of making strategic choices and of implementing strategic actions

## **H People**

1. Strategy and people: leadership
2. Strategy and people: job design

3. Strategy and people: staff development

## **APPROACH TO EXAMINING THE SYLLABUS**

The syllabus is assessed by a three-hour paper-based examination.

### **Section A**

Section A contains one multi-part question based on a case study scenario. This question is worth 50 marks.

### **Section B**

Section B will consist of three discrete questions each worth 25 marks. Candidates must answer two questions from this section.

Total: 100 marks



# Study Guide

## A STRATEGIC POSITION

### 1. The need for, and purpose of, strategic and business analysis

- a) Recognise the fundamental nature and vocabulary of strategy and strategic decisions.<sup>[2]</sup>
- b) Discuss how strategy may be formulated at different levels (corporate, business level, operational) of an organisation.<sup>[2]</sup>
- c) Explore the Johnson, Scholes and Whittington model for defining elements of strategic management – the strategic position, strategic choices and strategy into action.<sup>[3]</sup>
- d) Analyse how strategic management is affected by different organisational contexts.<sup>[3]</sup>
- e) Compare three different strategy lenses (Johnson, Scholes and Whittington) for viewing and understanding strategy and strategic management.<sup>[3]</sup>
- f) Explore the scope of business analysis and its relationship to strategy and strategic management in the context of the relational diagram of this syllabus.<sup>[3]</sup>

### 2. Environmental issues affecting the strategic position of an organisation

- a) Assess the macro-environment of an organisation using PESTEL.<sup>[3]</sup>
- b) Highlight the key drivers of change likely to affect the structure of a sector or market.<sup>[3]</sup>
- c) Explore, using Porter's Diamond, the influence of national competitiveness on the strategic position of an organisation.<sup>[2]</sup>
- d) Prepare scenarios reflecting different assumptions about the future environment of an organisation.<sup>[3]</sup>
- e) Evaluate methods of business forecasting used when quantitatively assessing the likely outcome of different business strategies.<sup>[3]</sup>

### 3. Competitive forces affecting an organisation

- a) Discuss the significance of industry, sector and convergence.<sup>[3]</sup>
- b) Evaluate the sources of competition in an industry or sector using Porter's five forces framework.<sup>[3]</sup>
- c) Assess the contribution of the lifecycle model, the cycle of competition and associated costing implications to understanding competitive behaviour.<sup>[3]</sup>
- d) Analyse the influence of strategic groups and market segmentation.<sup>[3]</sup>
- e) Determine the opportunities and threats posed by the environment of an organisation.<sup>[2]</sup>

### 4. Marketing and the value of goods and services

- a) Analyse customers and markets<sup>[2]</sup>
- b) Establish appropriate critical success factors (CSF) and key performance indicators (KPI) for products and services<sup>[2]</sup>
- c) Explore the role of the value chain in creating and sustaining competitive advantage.<sup>[2]</sup>
- d) Advise on the role and influence of value networks.<sup>[3]</sup>
- e) Assess different approaches to benchmarking an organisation's performance.<sup>[3]</sup>

### 5. The internal resources, capabilities and competences of an organisation

- a) Discriminate between strategic capability, threshold resources, threshold competences, unique resources and core competences.<sup>[3]</sup>
- b) Discuss from a strategic perspective, the continuing need for effective cost management and control systems within organisations.<sup>[3]</sup>
- c) Discuss the capabilities required to sustain competitive advantage.<sup>[2]</sup>

d) Explain the impact of new product, process, and service developments and innovation in supporting business strategy.<sup>[2]</sup>

e) Discuss the contribution of organisational knowledge to the strategic capability of an organisation.<sup>[2]</sup>

f) Identify opportunities for managing the strategic capability of an organisation.<sup>[2]</sup>

g) Determine the strengths and weaknesses of an organisation and formulate an appropriate SWOT analysis.<sup>[2]</sup>

## **6. The expectations of stakeholders and the influence of ethics and culture**

a) Advise on the implications of corporate governance on organisational purpose and strategy.<sup>[2]</sup>

b) Evaluate, through stakeholder mapping, the relative influence of stakeholders on organisational purpose and strategy.<sup>[3]</sup>

c) Assess ethical influences on organisational purpose and strategy.<sup>[3]</sup>

d) Explore the scope of corporate social responsibility.<sup>[3]</sup>

e) Assess the impact of culture on organisational purpose and strategy.<sup>[3]</sup>

f) Prepare and evaluate a cultural web of an organisation.<sup>[2]</sup>

g) Advise on how organisations can communicate their core values and mission.<sup>[3]</sup>

## **B STRATEGIC CHOICES**

### **1. The influence of corporate strategy on an organisation**

a) Explore the relationship between a corporate parent and its business units.<sup>[2]</sup>

b) Assess the opportunities and potential problems of pursuing different corporate strategies of product/market diversification from

a national, international and global perspective.<sup>[3]</sup>

c) Assess the opportunities and potential problems of pursuing a corporate strategy of international diversity, international scale operations and globalisation.<sup>[3]</sup>

d) Discuss a range of ways that the corporate parent can create and destroy organisational value.<sup>[2]</sup>

e) Explain three corporate rationales for adding value – portfolio managers, synergy managers and parental developers.<sup>[3]</sup>

f) Explain and assess a range of portfolio models (the growth/share (BCG) matrix, the public sector portfolio matrix, market attractiveness/SBU strength matrix, directional policy matrix, Ashridge Portfolio Display) that may assist corporate parents manage their business portfolios.<sup>[3]</sup>

### **2. Alternative approaches to achieving competitive advantage**

a) Evaluate, through the strategy clock, generic strategy options available to an organisation.<sup>[3]</sup>

b) Advise on how price-based strategies, differentiation and lock-in can help an organisation sustain its competitive advantage.<sup>[3]</sup>

c) Explore how organisations can respond to hypercompetitive conditions.<sup>[2]</sup>

d) Assess opportunities for improving competitiveness through collaboration.<sup>[3]</sup>

### **3. Alternative directions and methods of development**

a) Determine generic development directions (employing an adapted Ansoff matrix and a TOWS matrix) available to an organisation.<sup>[2]</sup>

b) Assess how internal development, mergers, acquisitions, strategic alliances and franchising can be used as different methods of pursuing a chosen strategic direction.<sup>[3]</sup>

- c) Establish success criteria to assist in the choice of a strategic direction and method (strategic options).<sup>[2]</sup>
- d) Assess the suitability of different strategic options to an organisation.<sup>[3]</sup>
- e) Assess the feasibility of different strategic options to an organisation.<sup>[3]</sup>
- f) Establish the acceptability of strategic options to an organisation through analysing risk and return on investment.<sup>[3]</sup>

## **C STRATEGIC ACTION**

### **1. Organising and enabling success**

- a) Advise on how the organisation can be structured to deliver a selected strategy.<sup>[3]</sup>
- b) Explore generic processes that take place within the structure, with particular emphasis on the planning process.<sup>[3]</sup>
- c) Discuss how internal relationships can be organised to deliver a selected strategy.<sup>[2]</sup>
- d) Discuss how external relationships (outsourcing, strategic alliances, networks and the virtual organisation) can be structured to deliver a selected strategy.<sup>[2]</sup>
- e) Explore (through Mintzberg's organisational configurations) the design of structure, processes and relationships.<sup>[3]</sup>

### **2. Managing strategic change**

- a) Explore different types of strategic change and their implications.<sup>[2]</sup>
- b) Determine and diagnose the organisational context of change using Balogun and Hope Hailey's contextual features model and the cultural web.<sup>[3]</sup>
- c) Establish potential blockages and levers of change.<sup>[2]</sup>
- d) Advise on the style of leadership appropriate to manage strategic change.<sup>[2]</sup>

- e) Specify organisational roles required to manage strategic change.<sup>[2]</sup>
- f) Discuss levers that can be employed to manage strategic change.<sup>[2]</sup>

## **3. Understanding strategy development**

- a) Discriminate between the concepts of intended and emergent strategies.<sup>[3]</sup>
- b) Explain how organisations attempt to put an intended strategy into place.<sup>[2]</sup>
- c) Highlight how emergent strategies appear from within an organisation.<sup>[3]</sup>
- d) Discuss how process redesign, and e-business can contribute to emergent strategies.<sup>[2]</sup>
- e) Assess the implications of strategic drift and the demand for multiple processes of strategy development.<sup>[3]</sup>

## **D BUSINESS PROCESS CHANGE**

### **1. The role of process and process change initiatives**

- a) Advise on how an organisation can reconsider the design of its processes to deliver a selected strategy.<sup>[3]</sup>
- b) Appraise business process change initiatives previously adopted by organisations.<sup>[3]</sup>
- c) Establish an appropriate scope and focus for business process change using Harmon's process-strategy matrix.<sup>[3]</sup>
- d) Explore the commoditisation of business processes.<sup>[3]</sup>
- e) Advise on the implications of business process outsourcing.<sup>[3]</sup>
- f) Recommend a business process redesign methodology for an organisation.<sup>[2]</sup>

### **2. Improving the processes of the organisation**

- a) Evaluate the effectiveness of current organisational processes.<sup>[3]</sup>

- b) Describe a range of process redesign patterns.<sup>[2]</sup>
- c) Establish possible redesign options for improving the current processes of an organisation.<sup>[2]</sup>
- d) Assess the feasibility of possible redesign options.<sup>[3]</sup>
- e) Assess the relationship between process redesign and strategy.<sup>[3]</sup>

### **3. Software solutions**

- a) Establish information system requirements required by business users.<sup>[2]</sup>
- b) Assess the advantages and disadvantages of using a generic software solution to fulfil those requirements.<sup>[2]</sup>
- c) Establish a process for evaluating, selecting and implementing a generic software solution.<sup>[2]</sup>
- d) Explore the relationship between generic software solutions and business process redesign.<sup>[2]</sup>

## **E INFORMATION TECHNOLOGY**

### **1. Principles of e-business**

- a) Discuss the meaning and scope of e-business.<sup>[2]</sup>
- b) Advise on the reasons for the adoption of e-business and recognise barriers to its adoption.<sup>[3]</sup>
- c) Evaluate how e-business changes the relationships between organisations and their customers.<sup>[3]</sup>
- d) Discuss and evaluate the main business and marketplace models for delivering e-business.<sup>[3]</sup>
- e) Advise on the hardware and software infrastructure required to support e-business.<sup>[3]</sup>

- f) Advise on how the organisation can utilise information technology to help it deliver a selected strategy.<sup>[3]</sup>

### **2. E-business application: upstream supply chain management**

- a) Analyse the main elements of both the push and pull models of the supply chain.<sup>[2]</sup>
- b) Discuss the relationship of the supply chain to the value chain and the value network.<sup>[2]</sup>
- c) Assess the potential application of information technology to support and restructure the supply chain.<sup>[3]</sup>
- d) Advise on how external relationships with suppliers and distributors can be structured to deliver a restructured supply chain.<sup>[3]</sup>
- e) Discuss the methods, benefits and risks of e-procurement.<sup>[2]</sup>
- f) Assess different options and models for implementing e-procurement.<sup>[2]</sup>

### **3. E-business application: downstream supply chain management**

- a) Define the scope and media of e-marketing.<sup>[2]</sup>
- b) Highlight how the media of e-marketing can be used when developing an effective e-marketing plan.<sup>[2]</sup>
- c) Explore the characteristics of the media of e-marketing using the '6I's of Interactivity, Intelligence, Individualisation, Integration, Industry structure and Independence of location.<sup>[2]</sup>
- d) Evaluate the effect of the media of e-marketing on the traditional marketing mix of product, promotion, price, place, people, processes and physical evidence.<sup>[3]</sup>
- e) Describe a process for establishing a pricing strategy for products and services that recognises both economic and non-economic factors.<sup>[2]</sup>

- f) Assess the importance of on-line branding in e-marketing and compare it with traditional branding.<sup>[2]</sup>

#### **4. E-business application: customer relationship management**

- a) Define the meaning and scope of customer relationship management.<sup>[2]</sup>
- b) Explore different methods of acquiring customers through exploiting electronic media.<sup>[2]</sup>
- c) Evaluate different buyer behaviour amongst on-line customers.<sup>[3]</sup>
- d) Recommend techniques for retaining customers using electronic media.<sup>[2]</sup>
- e) Recommend how electronic media may be used to increase the activity and value of established, retained customers.<sup>[2]</sup>
- f) Discuss the scope of a representative software package solution designed to support customer relationship management.<sup>[2]</sup>

### **F PROJECT MANAGEMENT**

#### **1. The nature of projects**

- a) Determine the distinguishing features of projects and the constraints they operate in.<sup>[2]</sup>
- b) Discuss the implications of the triple constraint of scope, time and cost.<sup>[2]</sup>
- c) Discuss the relationship between organisational strategy and project management.<sup>[2]</sup>
- d) Identify and plan to manage risks.<sup>[2]</sup>
- e) Advise on the structures and information that have to be in place to successfully initiate a project.<sup>[3]</sup>
- f) Explain the relevance of projects to process re-design and e-business systems development.<sup>[2]</sup>

#### **2. Building the business case**

- a) Describe the structure and contents of a business case document.<sup>[2]</sup>
- b) Analyse, describe, assess and classify benefits of a project investment.<sup>[3]</sup>
- c) Analyse, describe, assess and classify the costs of a project investment.<sup>[3]</sup>
- d) Evaluate the costs and benefits of a business case using standard techniques
- e) Establish responsibility for the delivery of benefits<sup>[2]</sup>
- f) Explain the role of a benefits realisation plan<sup>[2]</sup>

#### **3. Managing and leading projects**

- a) Discuss the organisation and implications of project-based team structures.<sup>[2]</sup>
- b) Establish the role and responsibilities of the project manager and the project sponsor.<sup>[2]</sup>
- c) Identify and describe typical problems encountered by a project manager when leading a project.<sup>[2]</sup>
- d) Advise on how these typical problems might be addressed and overcome.<sup>[3]</sup>

#### **4. Planning, monitoring and controlling projects**

- a) Discuss the principles of a product breakdown structure<sup>[2]</sup>
- b) Assess the importance of developing a project plan and discuss the work required to produce this plan.<sup>[3]</sup>
- c) Monitor the status of a project and identify project risks, issues, slippage and changes.<sup>[2]</sup>
- d) Formulate responses for dealing with project risks, issues, slippage and changes.<sup>[2]</sup>
- e) Discuss the role of benefits management and project gateways in project monitoring.<sup>[2]</sup>

## **5. Concluding a project**

- a) Establish mechanisms for successfully concluding a project.<sup>[2]</sup>
- b) Discuss the relative meaning and benefits of a post-implementation and a post-project review.<sup>[2]</sup>
- c) Discuss the meaning and value of benefits realisation.<sup>[2]</sup>
- d) Evaluate how project management software may support the planning and monitoring of a project.<sup>[3]</sup>
- e) Apply 'lessons learned' to future business case validation and to capital allocation decisions.<sup>[3]</sup>

## **G FINANCIAL ANALYSIS**

### **1. The link between strategy and finance**

- a) Explain the relationship between strategy and finance <sup>[3]</sup>
  - i) Managing for value
  - ii) Financial expectations of stakeholders
  - iii) Funding strategies

### **2. Finance decisions to formulate and support business strategy**

- a) Determine the overall investment requirements of the business.<sup>[2]</sup>
- b) Evaluate alternative sources of finance for these investments and their associated risks.<sup>[3]</sup>
- c) Efficiently and effectively manage the current and non-current assets of the business from a finance and risk perspective.<sup>[2]</sup>

### **3. The role of cost and management accounting in strategic planning and decision-making**

- a) Explain the role, advantages and possible limitations of a budgetary process.<sup>[2]</sup>
- b) Explain the principles of standard costing, its role in variance analysis and suggest possible reasons for identified variances.<sup>[3]</sup>

- c) Evaluate strategic and operational decisions taking into account risk and uncertainty using decision trees.<sup>[3]</sup>
- d) Evaluate the following strategic options using marginal and relevant costing techniques.<sup>[3]</sup>
  - i) Make or buy decisions
  - ii) Accepting or declining special contracts
  - iii) Closure or continuation decisions
  - iv) Effective use of scarce resources

## **4. Financial implications of making strategic choices and of implementing strategic actions**

- a) Apply efficiency ratios to assess how efficiently an organisation uses its current resources.<sup>[2]</sup>
- b) Apply appropriate gearing ratios to assess the risks associated with financing and investment in the organisation.<sup>[2]</sup>
- c) Apply appropriate liquidity ratios to assess the organisation's short-term commitments to creditors and employees.<sup>[2]</sup>
- d) Apply appropriate profitability ratios to assess the viability of chosen strategies.<sup>[2]</sup>
- e) Apply appropriate investment ratios to assist investors and shareholders in evaluating organisational performance and strategy.<sup>[2]</sup>

## **H PEOPLE**

### **1. Strategy and people: leadership**

- a) Explain the role of visionary leadership and identify the key leadership traits effective in the successful formulation and implementation of strategy and change management.<sup>[3]</sup>
- b) Apply and compare alternative classical and modern theories of leadership in the effective implementation of strategic objectives.<sup>[3]</sup>

### **2. Strategy and people: job design**

- a) Assess the contribution of four different approaches to job design (scientific management, job enrichment, Japanese management and re-engineering).<sup>[3]</sup>

- b) Explain the human resource implications of knowledge work and post-industrial job design.<sup>[2]</sup>
- c) Discuss the tensions and potential ethical issues related to job design.<sup>[2]</sup>
- d) Advise on the relationship of job design to process re-design, project management and the harnessing of e-business opportunities.<sup>[3]</sup>

### **3. Strategy and people: staff development**

- a) Discuss the emergence and scope of human resource development, succession planning and their relationship to the strategy of the organisation.<sup>[2]</sup>
- b) Advise and suggest different methods of establishing human resource development.<sup>[3]</sup>
- c) Advise on the contribution of competency frameworks to human resource development.<sup>[3]</sup>
- d) Discuss the meaning and contribution of workplace learning, the learning organisation, organisation learning and knowledge management.<sup>[3]</sup>

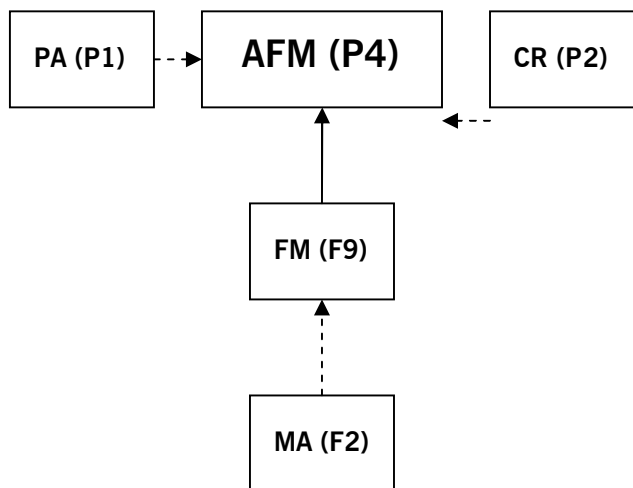
**NOTE OF SIGNIFICANT CHANGES TO STUDY  
GUIDE PAPER P3**

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders including employers, students, regulatory and advisory bodies and learning providers.

There are no changes to the syllabus.



# Advanced Financial Management (P4)



## AIM

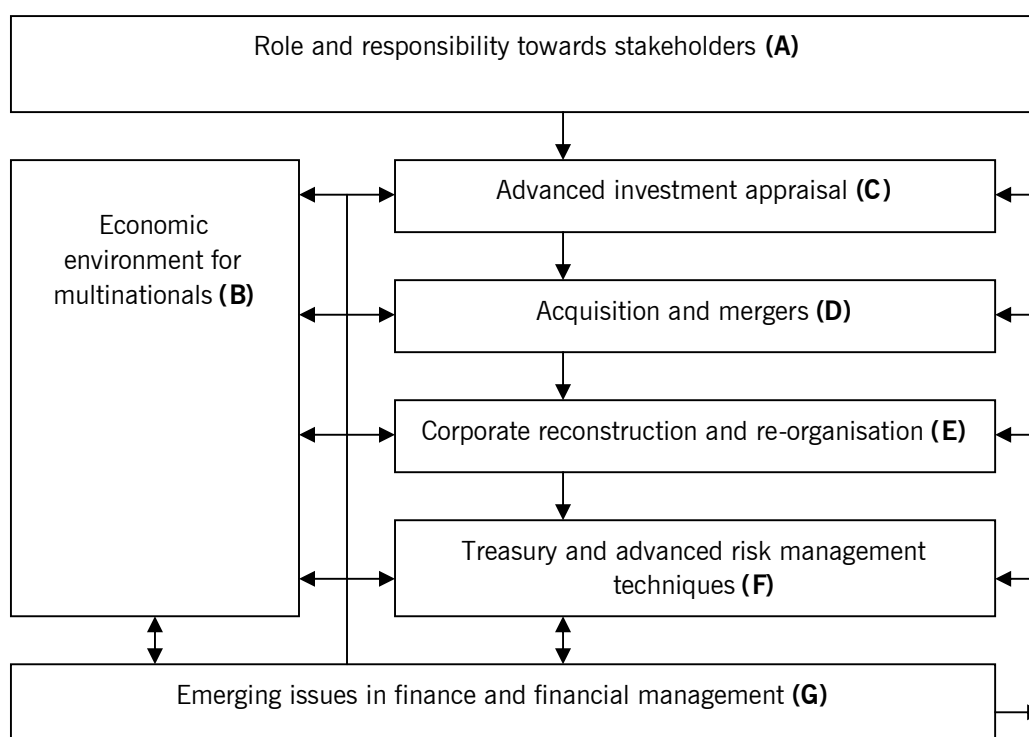
To apply relevant knowledge, skills and exercise professional judgement as expected of a senior financial executive or advisor, in taking or recommending decisions relating to the financial management of an organisation.

## MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

- A** Explain and evaluate the role and responsibility of the senior financial executive or advisor in meeting conflicting needs of stakeholders
- B** Evaluate the impact of macro economics and recognise the role of international financial institutions in the financial management of multinationals
- C** Evaluate potential investment decisions and assessing their financial and strategic consequences, both domestically and internationally
- D** Assess and plan acquisitions and mergers as an alternative growth strategy
- E** Evaluate and advise on alternative corporate re-organisation strategies
- F** Apply and evaluate alternative advanced treasury and risk management techniques
- G** Identify and assess the potential impact of emerging issues in finance and financial management.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

This syllabus develops upon the core financial management knowledge and skills covered in the F9, *Financial Management*, syllabus at the Fundamentals level and prepares candidates to advise management and/or clients on complex strategic financial management issues facing an organisation.

The syllabus starts by exploring the role and responsibility of a senior executive or advisor in meeting competing needs of stakeholders within the business environment of multinationals. The syllabus then re-examines investment and financing decisions, with the emphasis moving towards the strategic consequences of making such decisions in a domestic, as well as international, context. Candidates are then expected to develop further advisory skills in planning strategic acquisitions and mergers and corporate re-organisations.

The next part of the syllabus covers the role of a treasury function in large complex corporate structures. It re-examines, in the broadest sense, the existence of risk in business and the sophisticated strategies which are employed in order to manage such risks. This is a build-up on what candidates would have covered in the F9, *Financial Management*, syllabus and the P1, *Governance, Risk and Ethics*, syllabus. The syllabus finishes by examining the impact of emerging issues in finance.

## **DETAILED SYLLABUS**

### **A Role and responsibility towards stakeholders**

1. The role and responsibility of senior financial executive/advisor
2. Financial strategy formulation
3. Conflicting stakeholder interests
4. Ethical issues in financial management
5. Impact of environmental issues on corporate objectives and on governance

### **B Economic environment for multinationals**

1. Management of international trade and finance

2. Strategic business and financial planning for multinationals

### **C Advanced investment appraisal**

1. Discounted cash flow techniques and the use of free cash flows
2. Application of option pricing theory in investment decisions and valuation
3. Impact of financing on investment decisions and adjusted present values
4. International investment and financing decisions

### **D Acquisitions and mergers**

1. Acquisitions and mergers versus other growth strategies
2. Valuation for acquisitions and mergers
3. Regulatory framework and processes
4. Financing acquisitions and mergers

### **E Corporate reconstruction and re-organisation**

1. Financial reconstruction
2. Business re-organisation

### **F Treasury and advanced risk management techniques**

1. The role of the treasury function in multinationals
2. The use of financial derivatives to hedge against forex risk
3. The use of financial derivatives to hedge against interest rate risk
4. Dividend policy in multinationals and transfer pricing

### **G Emerging issues in finance and financial management**

1. Developments in world financial markets

2. Developments in international trade and finance

## **APPROACH TO EXAMINING THE SYLLABUS**

The P4, *Advanced Financial Management*, paper builds upon the skills and knowledge examined in the F9, *Financial Management*, paper. At this stage candidates will be expected to demonstrate an integrated knowledge of the subject and an ability to relate their technical understanding of the subject to issues of strategic importance to the company. The study guide specifies the wide range of contextual understanding that is required to achieve a satisfactory standard at this level.

### **Examination Structure**

The examination will be a three-hour paper in two sections:

#### **Section A:**

Section A will contain two compulsory questions, comprising between 50 and 70 marks in total.

Section A will normally cover significant issues relevant to the senior financial manager or advisor and will be set in the form of a short case study or scenario. The requirements of the section A questions are such that candidates will be expected to show a comprehensive understanding of issues from across the syllabus. Each question will contain a mix of computational and discursive elements. Each question in section A will comprise of between 25 and 40 marks. Candidates will be expected to provide answers in a specified form such as a short report or board memorandum commensurate with the professional level of the paper.

#### **Section B:**

In section B candidates will be asked to answer two from three questions, comprising of between 15 and 25 marks each.

Section B questions are designed to provide a more focused test of the syllabus with, normally, one question being wholly discursive.

#### **Total 100 marks**

# Study Guide

## A ROLE AND RESPONSIBILITY TOWARDS STAKEHOLDERS

### 1. The role and responsibility of senior financial executive/advisor

- a) Develop strategies for the achievement of the company's goals in line with its agreed policy framework.<sup>[3]</sup>
- b) Recommend strategies for the management of the financial resources of the company such that they are utilised in an efficient, effective and transparent way.<sup>[3]</sup>
- c) Advise the board of directors of the company in setting the financial goals of the business and in its financial policy development<sup>[2]</sup> with particular reference to:
  - i) Investment selection and capital resource allocation
  - ii) Minimising the company's cost of capital
  - iii) Distribution and retention policy
  - iv) Communicating financial policy and corporate goals to internal and external stakeholders
  - v) Financial planning and control
  - vi) The management of risk.

### 2. Financial strategy formulation

- a) Assess corporate performance using methods such as ratios, trends, EVA<sup>TM</sup> and MVA.<sup>[3]</sup>
- b) Recommend the optimum capital mix and structure within a specified business context and capital asset structure.<sup>[3]</sup>
- c) Recommend appropriate distribution and retention policy.<sup>[3]</sup>
- d) Explain the theoretical and practical rationale for the management of risk.<sup>[3]</sup>
- e) Assess the company's exposure to business and financial risk including operational, reputational, political, economic, regulatory and fiscal risk.<sup>[3]</sup>
- f) Develop a framework for risk management comparing and contrasting risk mitigation,

hedging and diversification strategies, and demonstrate risk diversification through the application of portfolio theory.<sup>[3]</sup>

- g) Establish capital investment monitoring and risk management systems.<sup>[3]</sup>

### 3. Conflicting stakeholder interests

- a) Assess the potential sources of the conflict within a given corporate governance/ stakeholder framework informed by an understanding of the alternative theories of managerial behaviour.<sup>[3]</sup>  
Relevant underpinning theory for this assessment would be:
  - i) The Separation of Ownership and Control
  - ii) Transaction cost economics and comparative governance structures
  - iii) Agency Theory.
- b) Recommend, within specified problem domains, appropriate strategies for the resolution of stakeholder conflict and advise on alternative approaches that may be adopted.<sup>[3]</sup>
- c) Compare the emerging governance structures and policies with respect to corporate governance (with particular emphasis upon the European stakeholder and the US/UK shareholder model) and with respect to the role of the financial manager.<sup>[3]</sup>

### 4. Ethical issues in financial management

- a) Assess the ethical dimension within business issues and decisions and advise on best practice in the financial management of the company.<sup>[3]</sup>
- b) Demonstrate an understanding of the interconnectedness of the ethics of good business practice between all of the functional areas of the company.<sup>[2]</sup>
- c) Establish an ethical financial policy for the financial management of the company which is grounded in good governance, the highest standards of probity and is fully aligned with the ethical principles of the Association.<sup>[3]</sup>

- d) Recommend an ethical framework for the development of a company's financial policies and a system for the assessment of their ethical impact upon the financial management of the company.<sup>[3]</sup>
- e) Explore the areas within the ethical framework of the company which may be undermined by agency effects and/or stakeholder conflicts and establish strategies for dealing with them.<sup>[3]</sup>

## **5. Impact of environmental issues on corporate objectives and on governance**

- a) Assess the issues which may impact upon corporate objectives and governance from:<sup>[3]</sup>
  - i) Sustainability and environmental risk
  - ii) The carbon-trading economy and emissions
  - iii) The role of the environment agency
  - iv) Environmental audits and the triple bottom line approach.

## **B ECONOMIC ENVIRONMENT FOR MULTINATIONALS**

### **1. Management of international trade and finance**

- a) Advise on the theory and practice of free trade and the management of barriers to trade.<sup>[3]</sup>
- b) Demonstrate an up to date understanding of the major trade agreements and common markets and, on the basis of contemporary circumstances, advise on their policy and strategic implications for a given business.<sup>[3]</sup>
- c) Discuss the objectives of the World Trade Organisation.<sup>[2]</sup>
- d) Discuss the role of international financial institutions within the context of a globalised economy, with particular attention to the International Monetary Fund, the Bank of International Settlements, The World Bank and the principal Central Banks (the Fed, Bank of England, European Central Bank and the Bank of Japan).<sup>[2]</sup>
- e) Assess the role of the international financial markets with respect to the management of global debt, the financial development of the

emerging economies and the maintenance of global financial stability.<sup>[2]</sup>

## **2. Strategic business and financial planning for multinationals**

- a) Advise on the development of a financial planning framework for a multinational taking into account:<sup>[3]</sup>
  - i) Compliance with national governance requirements (for example the London Stock Exchange admission requirements)
  - ii) The mobility of capital across borders and national limitations on remittances and transfer pricing
  - iii) The pattern of economic and other risk exposures in the different national markets
  - iv) Agency issues in the central coordination of overseas operations and the balancing of local financial autonomy with effective central control.

## **C ADVANCED INVESTMENT APPRAISAL**

### **1. Discounted cash flow techniques and the use of free cash flows**

- a) Evaluate the potential value added to a company arising from a specified capital investment project or portfolio using the net present value model.<sup>[3]</sup> Project modelling should include explicit treatment and discussion of:
  - i) Inflation and specific price variation
  - ii) Taxation including capital allowances and tax exhaustion
  - iii) Multi-period capital rationing to include the formulation of programming methods and the interpretation of their output
  - iv) Probability analysis and sensitivity analysis when adjusting for risk and uncertainty in investment appraisal.
- b) Outline the application of Monte Carlo simulation to investment appraisal.<sup>[2]</sup> Candidates will not be expected to undertake simulations in an examination context but will be expected to demonstrate an understanding of:
  - i) Simple model design
  - ii) The different types of distribution controlling the key variables within the simulation

- iii) The significance of the simulation output and the assessment of the likelihood of project success
- iv) The measurement and interpretation of project value at risk.

- c) Establish the potential economic return (using internal rate of return and modified internal rate of return) and advise on a project's return margin.<sup>[3]</sup>
- d) Forecast a company's free cash flow and its free cash flow to equity (pre and post capital reinvestment).<sup>[2]</sup>
- e) Advise, in the context of a specified capital investment programme, on a company's current and projected dividend capacity.<sup>[3]</sup>
- f) Advise on the value of a company using its free cash flow and free cash flow to equity under alternative horizon and growth assumptions.<sup>[3]</sup>

## 2. Application of option pricing theory in investment decisions and valuation

- a) Apply the Black-Scholes Option Pricing (BSOP) model to financial product/asset valuation:<sup>[3]</sup>
  - i) Determine, using published data, the five principal drivers of option value (value of the underlying, exercise price, time to expiry, volatility and the risk-free rate)
  - ii) Discuss the underlying assumptions, structure, application and limitations of the BSOP model.
- b) Evaluate embedded real options within a project, classifying them into one of the real option archetypes.<sup>[3]</sup>
- c) Assess and advise on the value of options to delay, expand, redeploy and withdraw using the BSOP model.<sup>[3]</sup>
- d) Apply the BSOP model to estimate the value of equity of a company and discuss the implications of the change in value.<sup>[3]</sup>

## 3. Impact of financing on investment decisions and adjusted present values

- a) Assess the appropriateness and price of the range of sources of finance available to a

company including equity, debt, hybrids, lease finance, venture capital, business angel finance, private equity, asset securitisation and sale.<sup>[3]</sup>

- b) Assess a company's debt exposure to interest rate changes using the simple Macaulay duration method.<sup>[3]</sup>
- c) Discuss the benefits and limitations of duration including the impact of convexity.<sup>[3]</sup>
- d) Assess the company's exposure to credit risk, including:<sup>[2]</sup>
  - i) Explain the role of, and the risk assessment models used by the principal rating agencies
  - ii) Estimate the likely credit spread over risk free
  - iii) Estimate the company's current cost of debt capital using the appropriate term structure of interest rates and the credit spread.

- e) Explain the role of BSOP model in the assessment of default risk, the value of debt and its potential recoverability.<sup>[2]</sup>

- f) Assess the impact of financing and capital structure upon the company with respect to:<sup>[3]</sup>
  - i) Pecking order theory
  - ii) Static trade-off theory
  - iii) Agency effects.

- g) Apply the adjusted present value technique to the appraisal of investment decisions that entail significant alterations in the financial structure of the company, including their fiscal and transactions cost implications.<sup>[3]</sup>

- h) Assess the impact of a significant capital investment project upon the reported financial position and performance of the company taking into account alternative financing strategies.<sup>[3]</sup>

## 4. International investment and financing decisions

- a) Assess the impact upon the value of a project of alternative exchange rate assumptions.<sup>[3]</sup>
- b) Forecast project or company free cash flows in any specified currency and determine the

project's net present value or company value under differing exchange rate, fiscal and transaction cost assumptions.<sup>[2]</sup>

- c) Evaluate the significance of exchange controls for a given investment decision and strategies for dealing with restricted remittance.<sup>[3]</sup>
- d) Assess the impact of a project upon a company's exposure to translation, transaction and economic risk.<sup>[3]</sup>
- e) Assess and advise upon the costs and benefits of alternative sources of finance available within the international equity and bond markets.<sup>[3]</sup>

## **D ACQUISITIONS AND MERGERS**

### **1. Acquisitions and mergers versus other growth strategies**

- a) Discuss the arguments for and against the use of acquisitions and mergers as a method of corporate expansion.<sup>[2]</sup>
- b) Evaluate the corporate and competitive nature of a given acquisition proposal.<sup>[3]</sup>
- c) Advise upon the criteria for choosing an appropriate target for acquisition.<sup>[3]</sup>
- d) Compare the various explanations for the high failure rate of acquisitions in enhancing shareholder value.<sup>[3]</sup>
- e) Evaluate, from a given context, the potential for synergy separately classified as:<sup>[3]</sup>
  - i) Revenue synergy
  - ii) Cost synergy
  - iii) Financial synergy.

### **2. Valuation for acquisitions and mergers**

- a) Outline the argument and the problem of overvaluation.<sup>[1]</sup>
- b) Estimate the potential near-term and continuing growth levels of a company's earnings using both internal and external measures.<sup>[3]</sup>

- c) Assess the impact of an acquisition or merger upon the risk profile of the acquirer distinguishing:<sup>[3]</sup>
  - i) Type 1 acquisitions that do not disturb the acquirer's exposure to financial or business risk
  - ii) Type 2 acquisitions that impact upon the acquirer's exposure to financial risk
  - iii) Type 3 acquisitions that impact upon the acquirer's exposure to both financial and business risk.
- d) Advise on the valuation of a type 1 acquisition of both quoted and unquoted entities using:<sup>[3]</sup>
  - i) 'Book value-plus' models
  - ii) Market relative models
  - iii) Cash flow models, including EVA<sup>TM</sup>, MVA.

- e) Advise on the valuation of type 2 acquisitions using the adjusted net present value model.<sup>[3]</sup>
- f) Advise on the valuation of type 3 acquisitions using iterative revaluation procedures.<sup>[3]</sup>
- g) Demonstrate an understanding of the procedure for valuing high growth start-ups.<sup>[2]</sup>

### **3. Regulatory framework and processes**

- a) Demonstrate an understanding of the principal factors influencing the development of the regulatory framework for mergers and acquisitions globally and, in particular, be able to compare and contrast the shareholder versus the stakeholder models of regulation.<sup>[2]</sup>
- b) Identify the main regulatory issues which are likely to arise in the context of a given offer and
  - i) assess whether the offer is likely to be in the shareholders' best interests
  - ii) advise the directors of a target company on the most appropriate defence if a specific offer is to be treated as hostile.<sup>[3]</sup>

### **4. Financing acquisitions and mergers**

- a) Compare the various sources of financing available for a proposed cash-based acquisition.<sup>[3]</sup>
- b) Evaluate the advantages and disadvantages of a financial offer for a given acquisition proposal using pure or mixed mode financing and

recommend the most appropriate offer to be made.<sup>[3]</sup>

- c) Assess the impact of a given financial offer on the reported financial position and performance of the acquirer.<sup>[3]</sup>

## **E CORPORATE RECONSTRUCTION AND RE-ORGANISATION**

### **1. Financial reconstruction**

- a) Assess a company situation and determine whether a financial reconstruction is the most appropriate strategy for dealing with the problem as presented.<sup>[3]</sup>
- b) Assess the likely response of the capital market and/or individual suppliers of capital to any reconstruction scheme and the impact their response is likely to have upon the value of the company.<sup>[3]</sup>
- c) Recommend a reconstruction scheme from a given business situation, justifying the proposal in terms of its impact upon the reported performance and financial position of the company.<sup>[3]</sup>

### **2. Business re-organisation**

- a) Recommend, with reasons, strategies for unbundling parts of a quoted company.<sup>[3]</sup>
- b) Evaluate the likely financial and other benefits of unbundling.<sup>[3]</sup>
- c) Advise on the financial issues relating to a management buy-out and buy-in.<sup>[3]</sup>

## **F TREASURY AND ADVANCED RISK MANAGEMENT TECHNIQUES**

### **1. The role of the treasury function in multinationals**

- a) Describe the role of the money markets in:<sup>[1]</sup>
  - i) Providing short-term liquidity to industry and the public sector
  - ii) Providing short-term trade finance
  - iii) Allowing a multinational company to manage its exposure to FOREX and interest rate risk.

- b) Explain the role of the banks and other financial institutions in the operation of the money markets.<sup>[2]</sup>

- c) Explain the characteristics and role of the principal money market instruments:<sup>[2]</sup>

- i) Coupon bearing
- ii) Discount instruments
- iii) Derivative products.

- d) Discuss the operations of the derivatives market, including:<sup>[3]</sup>

- i) The relative advantages and disadvantages of exchange traded versus OTC agreements
- ii) Key features, such as standard contracts, tick sizes, margin requirements and margin trading
- iii) The source of basis risk and how it can be minimised.
- iv) Risks such as delta, gamma, vega, rho and theta, and how these can be managed.

- e) Explain the role of the treasury management function within:<sup>[2]</sup>

- i) The short term management of the company's financial resources
- ii) The longer term maximisation of shareholder value
- iii) The management of risk exposure.

### **2. The use of financial derivatives to hedge against forex risk**

- a) Assess the impact on a company to exposure in translation, transaction and economic risks and how these can be managed.<sup>[2]</sup>

- b) Evaluate, for a given hedging requirement, which of the following is the most appropriate strategy, given the nature of the underlying position and the risk exposure:<sup>[3]</sup>

- i) The use of the forward exchange market and the creation of a money market hedge
- ii) Synthetic foreign exchange agreements (SAFE's)
- iii) Exchange-traded currency futures contracts
- iv) Currency swaps
- v) FOREX swaps
- vi) Currency options.

- c) Advise on the use of bilateral and multilateral netting and matching as tools for minimising



FOREX transactions costs and the management of market barriers to the free movement of capital and other remittances.<sup>[3]</sup>

### **3. The use of financial derivatives to hedge against interest rate risk**

- a) Evaluate, for a given hedging requirement, which of the following is the most appropriate given the nature of the underlying position and the risk exposure.<sup>[3]</sup>
  - i) Forward Rate Agreements
  - ii) Interest Rate Futures
  - iii) Interest rate swaps
  - iv) Options on FRA's (caps and collars), Interest rate futures and interest rate swaps.

### **4. Dividend policy in multinationals and transfer pricing**

- a) Determine a company's dividend capacity and its policy given:<sup>[3]</sup>
  - i) The company's short- and long-term reinvestment strategy
  - ii) The impact of any other capital reconstruction programmes on free cash flow to equity such as share repurchase agreements and new capital issues
  - iii) The availability and timing of central remittances
  - iv) The corporate tax regime within the host jurisdiction
- b) Develop company policy on the transfer pricing of goods and services across international borders and be able to determine the most appropriate transfer pricing strategy in a given situation reflecting local regulations and tax regimes.<sup>[3]</sup>

## **G EMERGING ISSUES**

### **1. Developments in world financial markets**

Discuss the significance to the company, of latest developments in the world financial markets such as the causes and impact of the recent financial crisis, growth and impact of dark pool trading systems, the removal of barriers to the free movement of capital, and the international regulations on money laundering.<sup>[2]</sup>

### **2. Developments in international trade and finance**

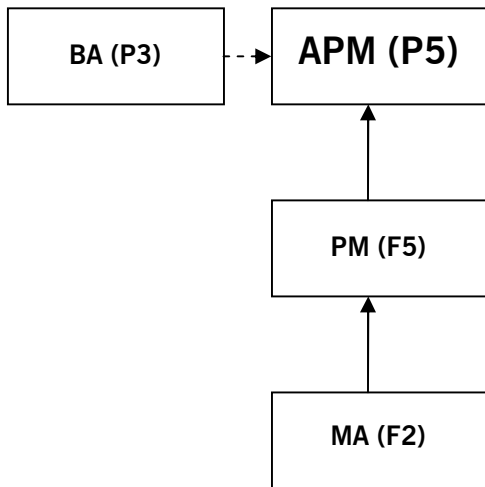
Demonstrate an awareness of new developments in the macroeconomic environment, establishing their impact upon the company, and advising on the appropriate response to those developments both internally and externally.<sup>[2]</sup>

## **SUMMARY OF CHANGES TO P4**

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

There are no changes to the syllabus:

# Advanced Performance Management (P5)



## AIM

To apply relevant knowledge, skills and exercise professional judgement in selecting and applying strategic management accounting techniques in different business contexts and to contribute to the evaluation of the performance of an organisation and its strategic development.

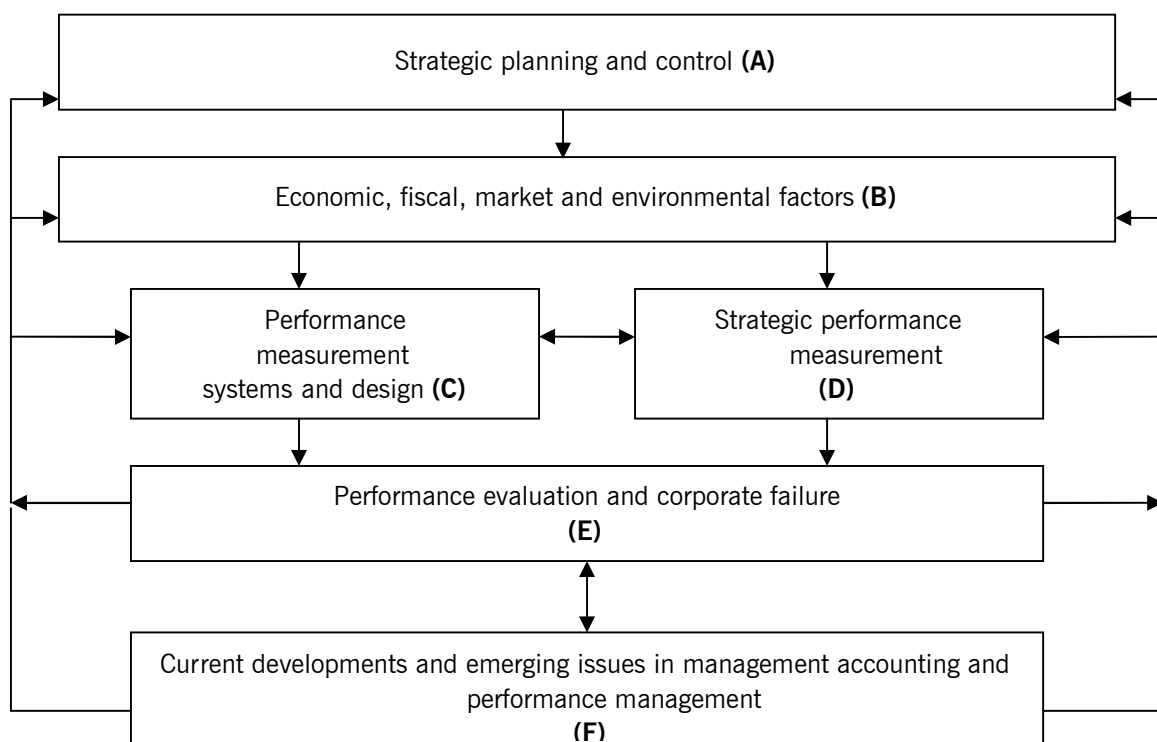
## MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

On successful completion of this paper, candidates should be able to:

- A** Use strategic planning and control models to plan and monitor organisational performance
- B** Assess and identify relevant macro economic, fiscal and market factors and key external influences on organisational performance
- C** Identify and evaluate the design features of effective performance management information and monitoring systems
- D** Apply appropriate strategic performance measurement techniques in evaluating and improving organisational performance
- E** Advise clients and senior management on strategic business performance evaluation and on recognising vulnerability to corporate failure
- F** Identify and assess the impact of current developments in management accounting and performance management on measuring, evaluating and improving organisational performance

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## RATIONALE

The Advanced Performance Management syllabus further develops key aspects introduced in Paper F5, *Performance Management*, at the skills level and draws on aspects of the material covered from a more strategic and operational planning perspective in Paper P3, *Business Analysis*.

The syllabus introduces candidates to the strategic role of management accounting as a discipline for planning and controlling performance so that strategic objectives can be set, monitored and controlled. It also covers the impact of external factors on strategic management issues, such as macro economic, fiscal, market and environmental impacts on performance. From appreciating the strategic context of performance management and the impact of wider factors, the syllabus examines, at an operational level, the issues relating to performance measurement systems and their design.

The syllabus then moves from performance management systems and their design to the scope and application of high-level performance measurement techniques in a variety of contexts, including not-for-profit organisations and multi-national businesses. Having covered the strategic aspects of performance management and operational systems for the measurement and control of performance in a variety of contexts, candidates are then expected to synthesise this knowledge in the role of an advisor to senior management or independent clients on how to assess and control the performance of an entity, including the recognition of whether a business is facing difficulties or possibly failure.

Finally, the syllabus deals with current developments in performance management and with emerging issues as they might affect or influence the management of performance within organisations.

## DETAILED SYLLABUS

### A. Strategic planning and control

1. Introduction to strategic management accounting
2. Performance management and control of the organisation
3. Changes in business structure and management accounting
4. Effect of Information Technology (IT) on strategic management accounting
5. Other environmental and ethical issues

### B. External influences on organisational performance

1. Changing business environment
2. Impact of external factors on strategy and performance

### C. Performance measurement systems and design

1. Performance management information systems
2. Sources of management information
3. Recording and processing methods
4. Management reports

### D. Strategic performance measurement

1. Performance hierarchy
2. Strategic performance measures in private sector
3. Divisional performance and transfer pricing issues
4. Strategic performance measures in not-for-profit organisations

5. Non- financial performance indicators
6. The role of quality in management information and performance measurement systems
7. Performance measurement and strategic human resource management issues
8. Performance measurement and the reward systems
9. Other behavioural aspects of performance measurement

**E. Performance evaluation and corporate failure**

1. Alternative views of performance measurement and management
2. Strategic performance issues in complex business structures
3. Predicting and preventing corporate failure

**F. Current developments and emerging issues performance management**

1. Current developments in management accounting techniques
2. Current issues and trends in performance management

**APPROACH TO EXAMINING THE SYLLABUS**

Paper P5 builds on paper F5, *Performance Management*, and candidates are expected to have a thorough understanding of the paper F5 syllabus. In addition, candidates will also be required to apply the principles and techniques covered in paper F2, *Management Accounting*.

Paper P5 has a link with Paper P3, *Business Analysis*, in the areas of strategic planning and control and performance measurement

**EXAMINATION STRUCTURE**

The examination will be a three hour paper in two sections:

Section A

Section A will comprise two compulsory questions comprising between 50 and 70 marks in total. Each question will comprise of between 25 and 40 marks

Section B

In section B candidates will be asked to answer two from three questions comprising of between 15 and 25 marks each

**Total 100 marks**

# Study Guide

## A STRATEGIC PLANNING AND CONTROL

### 1. Introduction to strategic management accounting

- a) Explain the role of strategic performance management in strategic planning and control. <sup>[2]</sup>
- b) Discuss the role of corporate planning in clarifying corporate objectives, making strategic decisions and checking progress towards the objectives. <sup>[2]</sup>
- c) Compare planning and control between the strategic and operational levels within a business entity. <sup>[2]</sup>
- d) Assess the use of strategic management accounting in the context of multinational companies. <sup>[3]</sup>
- e) Discuss the scope for potential conflict between strategic business plans and short-term localised decisions. <sup>[2]</sup>
- f) Evaluate how SWOT analysis may assist in the performance management process. <sup>[2]</sup>
- g) Evaluate the methods of benchmarking performance. <sup>[3]</sup>

### 2. Performance management and control of the organisation

- a) Evaluate the strengths and weaknesses of alternative budgeting models and compare such techniques as fixed and flexible, rolling, activity based, zero based and incremental. <sup>[3]</sup>
- b) Assess how budgeting may differ in not-for-profit organisations from profit-seeking organisations. <sup>[3]</sup>
- c) Evaluate the impact to an organisation of a move beyond budgeting <sup>[3]</sup>

### 3. Changes in business structure and management accounting

- a) Identify and discuss the particular information needs of organisations adopting a functional, divisional or network form and the implications for performance management. <sup>[2]</sup>
- b) Assess the influence of Business Process Re-engineering on systems development and improvements in organisational performance. <sup>[3]</sup>
- c) Discuss the concept of business integration and the linkage between people, operations, strategy and technology. <sup>[2]</sup>
- d) Analyse the role that performance management systems play in business integration using models such as the value chain and McKinsey's 7S's <sup>[3]</sup>
- e) Identify and discuss the required changes in management accounting systems as a consequence of empowering staff to manage sectors of a business. <sup>[3]</sup>

### 4. Effect of Information Technology (IT) on strategic management accounting

- a) Assess the changing accounting needs of modern service orientated businesses compared with the needs of traditional manufacturing industry. <sup>[3]</sup>
- b) Discuss how IT systems provide the opportunity for instant access to management accounting data throughout the organisation and their potential impact on business performance. <sup>[2]</sup>
- c) Assess how IT systems facilitate the remote input of management accounting data in an acceptable format by non-finance specialists. <sup>[2]</sup>
- d) Explain how information systems provide instant access to previously unavailable data that can be used for benchmarking and control purposes and help improve business performance (for example, through the use of enterprise resource planning systems and data warehouses). <sup>[2]</sup>

- e) Assess the need for businesses to continually refine and develop their management accounting and information systems if they are to maintain or improve their performance in an increasingly competitive and global market. <sup>[3]</sup>

## **5. Other environmental and ethical issues**

- a) Discuss the ways in which stakeholder groups operate and how they effect an organisation and its strategy formulation and implementation (e.g. using Mendelow's matrix). <sup>[2]</sup>
- b) Discuss the ethical issues that may impact on strategy formulation and business performance. <sup>[3]</sup>
- c) Discuss the ways in which stakeholder groups may influence business performance. <sup>[2]</sup>

## **B EXTERNAL INFLUENCES ON ORGANISATIONAL PERFORMANCE**

### **1. Changing business environment**

- a) Assess the continuing effectiveness of traditional management accounting techniques within a rapidly changing business environment. <sup>[3]</sup>
- b) Assess the impact of the different risk appetites of stakeholders on performance management <sup>[3]</sup>
- c) Evaluate how risk and uncertainty play an important role in long term strategic planning and decision-making that relies upon forecasts of exogenous variables. <sup>[3]</sup>
- d) Apply different risk analysis techniques in assessing business performance such as maximin, maximax, minimax regret and expected values. <sup>[3]</sup>

### **2. Impact of external factors on strategy and performance**

- a) Discuss the need to consider the environment in which an organisation is operating when assessing its performance using models such as PEST and Porter's 5 forces, including areas: <sup>[2]</sup>
  - i) Political climate
  - ii) Market conditions
  - iii) Funding

- b) Assess the impact of governmental regulations and policies on performance measurement techniques used and the performance levels achieved (for example, in the case of utility services and former state monopolies). <sup>[3]</sup>

## **C PERFORMANCE MEASUREMENT SYSTEMS AND DESIGN**

### **1. Performance management information systems**

- a) Identify the accounting information requirements and describe the different types of information systems used for strategic planning, management control and operational control and decision-making. <sup>[2]</sup>
- b) Discuss, with reference to performance management, ways in which the information requirements of a management structure are affected by the features of the structure. <sup>[2]</sup>
- c) Evaluate the compatibility of the objectives of management accounting and management accounting information. <sup>[3]</sup>
- d) Discuss the integration of management accounting information within an overall information system, for example the use of enterprise resource planning systems. <sup>[2]</sup>
- e) Evaluate whether the management information systems are lean and value of the information that they provide. <sup>[3]</sup>
- f) Define and discuss the merits of, and potential problems with, open and closed systems with regard to the needs of performance management. <sup>[2]</sup>
- g) Highlight the ways in which contingent (internal and external) factors influence management accounting and its design and use. <sup>[3]</sup>
- h) Evaluate how anticipated human behaviour will influence the design of a management accounting system. <sup>[3]</sup>
- i) Assess the impact of responsibility accounting on information requirements. <sup>[3]</sup>

## 2. Sources of management information

- a) Identify and discuss the principal internal and external sources of management accounting information. <sup>[2]</sup>
- b) Demonstrate how these principal sources of management information might be used for control purposes. <sup>[2]</sup>
- c) Identify and discuss the direct data capture and process costs of management accounting information. <sup>[2]</sup>
- d) Identify and discuss the indirect costs of producing information. <sup>[2]</sup>
- e) Discuss the limitations of using externally generated information. <sup>[2]</sup>
- f) Demonstrate how the information might be used in planning and controlling activities e.g. benchmarking against similar activities. <sup>[2]</sup>
- g) Discuss those factors that need to be considered when determining the capacity and development potential of a system. <sup>[2]</sup>

## 3. Recording and processing methods

- a) Demonstrate how the type of business entity will influence the recording and processing methods. <sup>[2]</sup>
- b) Discuss how IT developments e.g. unified corporate databases, RFIDs and network technology may influence management accounting systems. <sup>[2]</sup>
- c) Discuss the difficulties associated with recording and processing data of a qualitative nature. <sup>[2]</sup>

## 4. Management reports

- a) Discuss the principal controls required in generating and distributing internal information. <sup>[2]</sup>
- b) Discuss the procedures that may be necessary to ensure security of highly confidential information that is not for external consumption. <sup>[2]</sup>

- c) Evaluate the output reports of an information system in the light of best practice and avoiding the problem of information overload. <sup>[3]</sup>

## D STRATEGIC PERFORMANCE MEASUREMENT

### 1. Performance hierarchy

- a) Discuss how the purpose, structure and content of a mission statement impacts on business performance. <sup>[2]</sup>
- b) Discuss the ways in which high-level corporate performance objectives are developed. <sup>[2]</sup>
- c) Identify strategic objectives and discuss how they may be incorporated into the business plan. <sup>[2]</sup>
- d) Discuss how strategic objectives are cascaded down the organisation via the formulation of subsidiary performance objectives. <sup>[2]</sup>
- e) Discuss social and ethical obligations that should be considered in the pursuit of corporate performance objectives. <sup>[2]</sup>
- f) Explain the performance 'planning gap' and evaluate alternative strategies to fill that gap. <sup>[3]</sup>
- g) Apply critical success factor analysis in developing performance metrics from business objectives. <sup>[3]</sup>
- h) Identify and discuss the characteristics of operational performance. <sup>[2]</sup>
- i) Discuss the relative significance of planning as against controlling activities at different levels in the performance hierarchy. <sup>[3]</sup>

### 2. Strategic performance measures in private sector

- a) Demonstrate why the primary objective of financial performance should be primarily concerned with the benefits to shareholders. <sup>[2]</sup>
- b) Justify the crucial objectives of survival and business growth. <sup>[3]</sup>



- c) Discuss the appropriateness of, and apply different measures of performance, including: <sup>[3]</sup>
  - i) Return on Capital Employed (ROCE)
  - ii) Return on Investment (ROI)
  - iii) Earnings Per Share (EPS)
  - iv) Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)
  - v) Residual Income (RI)
  - vi) Net Present value (NPV)
  - vii) Internal rate of return and modified internal Rate of Return (IRR, MIRR)
  - viii) Economic Value Added (EVA <sup>TM</sup>)
- d) Discuss why indicators of liquidity and gearing need to be considered in conjunction with profitability. <sup>[3]</sup>
- e) Compare and contrast short and long run financial performance and the resulting management issues. <sup>[3]</sup>
- f) Explore the traditional relationship between profits and share value with the long-term profit expectations of the stock market and recent financial performance of new technology companies. <sup>[3]</sup>
- g) Assess the relative financial performance of the organisation compared to appropriate benchmarks. <sup>[3]</sup>

### **3. Divisional performance and transfer pricing issues**

- a) Describe, compute and evaluate performance measures relevant in a divisionalised organisation structure including ROI, RI and Economic value added (EVA). <sup>[3]</sup>
- b) Discuss the need for separate measures in respect of managerial and divisional performance. <sup>[2]</sup>
- c) Discuss the circumstances in which a transfer pricing policy may be needed and discuss the necessary criteria for its design. <sup>[2]</sup>
- d) Demonstrate and evaluate the use of alternative bases for transfer pricing. <sup>[3]</sup>

- e) Explain and demonstrate issues that require consideration when setting transfer prices in multinational companies. <sup>[2]</sup>

### **4. Strategic performance measures in not-for-profit organisations**

- a) Highlight and discuss the potential for diversity in objectives depending on organisation type. <sup>[3]</sup>
- b) Discuss the need to achieve objectives with limited funds that may not be controllable. <sup>[2]</sup>
- c) Identify and discuss ways in which performance may be judged in not-for profit organisations. <sup>[2]</sup>
- d) Discuss the difficulties in measuring outputs when performance is not judged in terms of money or an easily quantifiable objective. <sup>[2]</sup>
- e) Discuss how the combination of politics and the desire to measure public sector performance may result in undesirable service outcomes. <sup>[3]</sup>
- f) Assess 'value for money' service provision as a measure of performance in not-for-profit organisations and the public sector. <sup>[3]</sup>

### **5. Non-financial performance indicators**

- a) Discuss the interaction of non-financial performance indicators with financial performance indicators. <sup>[2]</sup>
- b) Discuss the implications of the growing emphasis on non-financial performance indicators. <sup>[3]</sup>
- c) Discuss the significance of non-financial performance indicators in relation to employees. <sup>[2]</sup>
- d) Identify and discuss the significance of non-financial performance indicators in relation to product/service quality e.g. customer satisfaction reports, repeat business ratings, customer loyalty, access and availability. <sup>[3]</sup>
- e) Discuss the difficulties in interpreting data on qualitative issues. <sup>[2]</sup>

- f) Discuss the significance of brand awareness and company profile and their potential impact on business performance. <sup>[3]</sup>

## **6. The role of quality in management information and performance measurement systems**

- a) Discuss and evaluate the application of Japanese business practices and management accounting techniques, including: <sup>[3]</sup>
  - i) Kaizen costing,
  - ii) Target costing,
  - iii) Just-in-time, and
  - iv) Total Quality Management.
- b) Discriminate between quality, quality assurance, quality control and quality management. <sup>[2]</sup>
- c) Assess the relationship of quality management to the performance management strategy of an organisation. <sup>[3]</sup>
- d) Advise on the structure and benefits of quality management systems and quality certification. <sup>[3]</sup>
- d) Justify the need and assess the characteristics of quality in management information systems <sup>[3]</sup>
- e) Discuss and apply Six Sigma as a quality improvement method using tools such as DMAIC for implementation. <sup>[2]</sup>

## **7. Performance measurement and strategic Human Resource Management issues**

- a) Explain how the effective recruitment, management and motivation of people are necessary for enabling strategic and operational success. <sup>[3]</sup>
- b) Discuss the judgemental and developmental roles of assessment and appraisal and their role in improving business performance. <sup>[3]</sup>
- c) Advise on the relationship of performance management to performance measurement (performance rating) and determine the implications of performance measurement to quality initiatives and process redesign. <sup>[3]</sup>

## **8. Performance measurement and the reward systems**

- a) Explore the meaning and scope of reward systems. <sup>[2]</sup>
- b) Discuss and evaluate different methods of reward practices. <sup>[2]</sup>
- c) Explore the principles and difficulty of aligning reward practices with strategy. <sup>[2]</sup>
- d) Advise on the relationship of reward management to quality initiatives, process re-design and harnessing of e-business opportunities. <sup>[3]</sup>
- e) Assess the potential beneficial and adverse consequences of linking reward schemes to performance measurement, for example, how it can affect the risk appetite of employees. <sup>[3]</sup>

## **9 Other behaviour aspects of performance measurement**

- a) Discuss the accountability issues that might arise from performance measurement systems. <sup>[3]</sup>
- b) Evaluate the ways in which performance measurements systems may send the wrong signals and result in undesirable business consequences. <sup>[3]</sup>
- c) Demonstrate how management style needs to be considered when designing an effective performance measurement system. <sup>[3]</sup>

## **E PERFORMANCE EVALUATION AND CORPORATE FAILURE**

### **1. Alternative views of performance measurement and management**

- a) Evaluate the 'balanced scorecard' approach as a way in which to improve the range and linkage between performance measures. <sup>[3]</sup>
- b) Evaluate the 'performance pyramid' as a way in which to link strategy, operations and performance. <sup>[3]</sup>

- c) Evaluate the work of Fitzgerald and Moon that considers performance measurement in business services using building blocks for dimensions, standards and rewards. <sup>[3]</sup>
- d) Discuss and apply the Performance Prism. <sup>[2]</sup>
- e) Discuss and evaluate the application of activity-based management. <sup>[3]</sup>
- f) Evaluate and apply the value-based management approaches to performance management. <sup>[3]</sup>

## **2. Strategic performance issues in complex business structures**

- a) Evaluate the use and the application of strategic models in assessing the business performance of an entity, such as Ansoff, Boston Consulting Group and Porter. <sup>[3]</sup>
- b) Discuss the problems encountered in planning, controlling and measuring performance levels, e.g. productivity, profitability, quality and service levels, in complex business structures. <sup>[3]</sup>
- c) Discuss the impact on performance management of the use of business models involving strategic alliances, joint ventures and complex supply chain structures. <sup>[3]</sup>

## **3. Predicting and preventing corporate failure**

- a) Assess the potential likelihood of corporate failure, utilising quantitative and qualitative performance measures. <sup>[3]</sup>
- b) Assess and critique quantitative and qualitative corporate failure prediction models. <sup>[3]</sup>
- c) Identify and discuss performance improvement strategies that may be adopted in order to prevent corporate failure. <sup>[3]</sup>
- d) Discuss how long-term survival necessitates consideration of life-cycle issues. <sup>[3]</sup>
- e) Identify and discuss operational changes to performance management systems required to implement the performance improvement strategies. <sup>[3]</sup>

## **F. CURRENT DEVELOPMENTS AND EMERGING ISSUES IN PERFORMANCE MANAGEMENT**

### **1. Current developments in management accounting techniques**

- a) Discuss the ways through which management accounting practitioners are made aware of new techniques and how they evaluate them. <sup>[3]</sup>
- b) Discuss, evaluate and apply environmental management accounting using for example lifecycle costing, input/output analysis and activity-based costing. <sup>[3]</sup>
- c) Discuss the use of benchmarking in public sector performance (league tables) and its effects on operational and strategic management and client behaviour. <sup>[3]</sup>

- d) Discuss the issues surrounding the use of targets in public sector organisations. <sup>[3]</sup>

### **2. Current issues and trends in performance management**

- a) Assess the changing role of the management accountant in today's business environment as outlined by Burns and Scapens. <sup>[3]</sup>
- b) Discuss contemporary issues in performance management. <sup>[2]</sup>
- c) Discuss how changing organisation's structure, culture and strategy will influence the adoption of new performance measurement methods and techniques. <sup>[3]</sup>

## SUMMARY OF CHANGES TO P5

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

The main areas that have been clarified in the syllabus (all were implicitly included previously) are shown in Table 1 below:

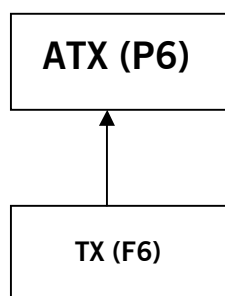
**Table 1 – Amendments to P5**

<b>Section and subject area</b>	<b>Syllabus content</b>
A3d) Changes in business structure and management accounting	Analyse the role that performance management systems play in business integration using models such as the value chain and McKinsey's 7S's <sup>[3]</sup>
B1b and B1d) Changing business environment	b) Assess the impact of different risk appetites of stakeholders on performance management  d) Apply different risk analysis techniques in assessing business performance such as maximin, maximax, minimax regret and expected values. <sup>[3]</sup>
Other changes:  Inclusion of models/methods in A4d, A5a, B2a, C2b,D2c, F1b and D6e.  Changes in level descriptors in A3c, C1h and C1i,  D2h is moved to D6 .	

### NOTE:

**There are no addition to and deletions from the syllabus**

# Advanced Taxation (UK) (P6)



## AIM

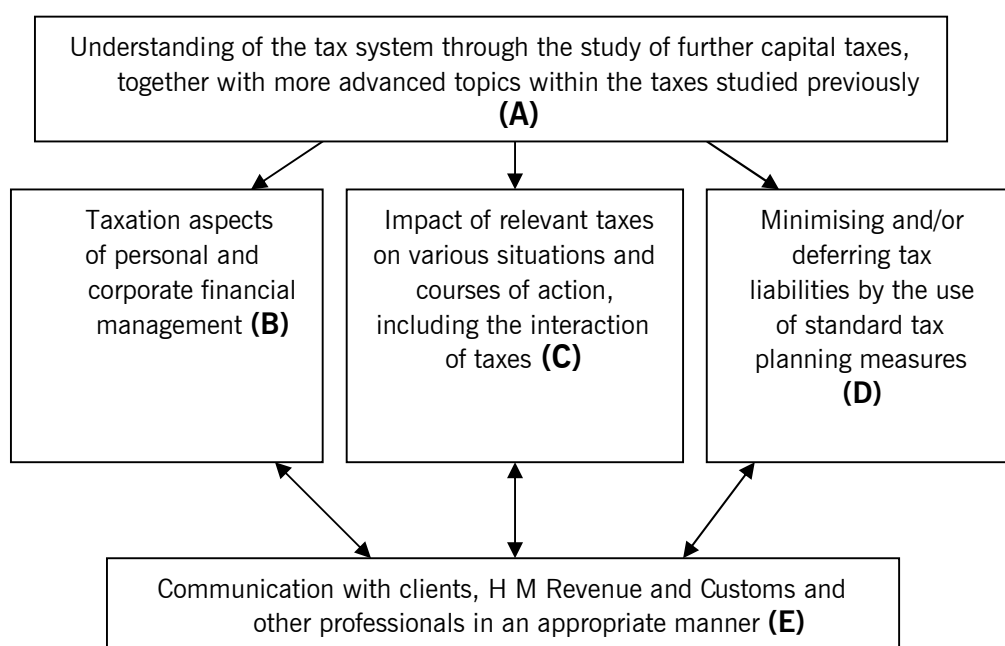
To apply relevant knowledge and skills and exercise professional judgement in providing relevant information and advice to individuals and businesses on the impact of the major taxes on financial decisions and situations.

## MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

- A** Apply further knowledge and understanding of the UK tax system through the study of further capital taxes, together with more advanced topics within the taxes studied previously
- B** Evaluate and explain the importance of taxation to personal and corporate financial management
- C** Identify and evaluate the impact of relevant taxes on various situations and courses of action, including the interaction of taxes
- D** Provide advice on minimising and/or deferring tax liabilities by the use of standard tax planning measures
- E** Communicate with clients, HM Revenue and Customs and other professionals in an appropriate manner.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## RATIONALE

The Advanced Taxation syllabus further develops the key aspects of taxation introduced in the compulsory Taxation syllabus within the Skills module and extends the candidates' knowledge of the tax system, together with their ability to apply that knowledge to the issues commonly encountered by individuals and businesses, such that successful candidates should have the ability to interpret and analyse the information provided and communicate the outcomes in a manner appropriate to the intended audience.

The syllabus builds on the basic knowledge of core taxes from the earlier taxation paper and introduces candidates to additional capital taxes in the form of inheritance tax, stamp duty and stamp duty land tax. As this is an optional paper, aimed at those requiring/desiring more than basic tax knowledge for their future professional lives, the syllabus also extends the knowledge of income tax, corporation tax and capital gains, to encompass, further overseas aspects of taxation, the taxation of trusts and additional exemptions and reliefs.

Computations will normally only be required in support of explanations or advice and not in isolation.

Candidates are not expected to concentrate on the computational aspects of taxation. Instead this paper seeks to develop candidates' skills of analysis, interpretation and communication. Candidates are expected to be able to use established tax planning methods and consider current issues in taxation.

## DETAILED SYLLABUS:

### **A Knowledge and understanding of the UK tax system through the study of further capital taxes, together with more advanced topics within the taxes studied previously.**

1. Income and income tax liabilities in situations involving further overseas aspects and in relation to trusts, and the application of additional exemptions and reliefs.
2. Corporation tax liabilities in situations involving further overseas and group aspects and in relation to special types of company, and the

application of additional exemptions and reliefs.

3. Chargeable gains and capital gains tax liabilities in situations involving further overseas aspects and in relation to closely related persons and trusts, and the application of additional exemptions and reliefs.
4. Inheritance tax
5. Stamp duty and stamp duty land tax
6. National Insurance, value added tax and tax administration

### **B The importance of taxation to personal and corporate financial management**

1. The principles underlying personal financial management.
2. How an individual's personal financial objectives may differ depending on their circumstances and expectations.
3. The common forms of personal finance and investment products in a given set of circumstances, including ethical considerations.
4. How a business' financial objectives may differ depending on its circumstances and the business environment.
5. How taxation can affect the financial decisions made by businesses (corporate and unincorporated) and by individuals.
6. Other considerations, personal and commercial, which might affect a financial decision.

### **C The impact of relevant taxes on various situations and courses of action, including the interaction of taxes**

1. Taxes applicable to a given situation or course of action and their impact.

2. Alternative ways of achieving personal or business outcomes may lead to different tax consequences.
3. Tax advantages and/or disadvantages of alternative courses of action.
4. Statutory obligations imposed in a given situation, including any time limits for action and the implications of non-compliance.
5. Other non-tax factors that should be considered.

**D Minimising and/or deferring tax liabilities by the use of standard tax planning measures**

1. Types of investment and other expenditure that will result in a reduction in tax liabilities for an individual and/or a business.
2. Legitimate tax planning measures, by which the tax liabilities arising from a particular situation or course of action can be mitigated.
3. The appropriateness of such investment, expenditure or measures, given a particular taxpayer's circumstances or stated objectives.
4. The mitigation of tax in the manner recommended, by reference to numerical analysis and/or reasoned argument.
5. Ethical and professional issues arising from the giving of tax planning advice.
6. Current issues in taxation.

**E Communicating with clients, HM Revenue and Customs and other professionals**

1. Communication of advice, recommendations and information in the required format.
2. Presentation of written information, in language appropriate to the purpose of the communication and the intended recipient.
3. Conclusions reached with relevant supporting computations.
4. Assumptions made or limitations in the analysis provided, together with any inadequacies in the information available and/or additional information required to provide a fuller analysis.

## **APPROACH TO EXAMINING THE SYLLABUS**

The paper consists of two sections:

Section A consists of two compulsory questions for a total of between 50 and 70 marks. Marks may not be allocated evenly between the two questions.

Section B consists of three questions, two of which must be answered. Each question will have the same number of marks, ranging from 15 marks each to 25 marks each.

Questions will be scenario based and will normally involve consideration of more than one tax, together with some elements of planning and the interaction of taxes. Computations will normally only be required in support of explanations or advice and not in isolation.

The examination is a three hour paper, with 15 minutes additional reading and planning time.

Tax rates, allowances and information on certain reliefs will be given in the examination paper.



# Study Guide

## A APPLY FURTHER KNOWLEDGE AND UNDERSTANDING OF THE UK TAX SYSTEM THROUGH THE STUDY OF FURTHER CAPITAL TAXES, TOGETHER WITH MORE ADVANCED TOPICS WITHIN THE TAXES STUDIED PREVIOUSLY

### 1. Income and income tax liabilities in situations involving further overseas aspects and in relation to trusts, and the application of exemptions and reliefs

- a) The contents of the Paper F6 study guide for income tax, under headings: <sup>[2]</sup>
- B1 The scope of income tax
  - B2 Income from employment
  - B3 Income from self employment
  - B4 Property and investment income
  - B5 The comprehensive computation of taxable income and the income tax liability
  - B6 The use of exemptions and reliefs in deferring and minimising income tax liabilities

The following additional material is also examinable:

- b) The scope of income tax: <sup>[3]</sup>
- Explain and apply the concepts of residence, ordinary residence and domicile and advise on the relevance to income tax
  - Advise on the availability of the remittance basis to UK resident individuals <sup>[2]</sup>
  - Advise on the tax position of individuals coming to and leaving the UK
  - Determine the income tax treatment of overseas income
  - Understand the relevance of the OECD model double tax treaty to given situations
  - Calculate and advise on the double taxation relief available to individuals
- c) Income from employment: <sup>[3]</sup>
- Advise on the tax treatment of share option and share incentive schemes
  - Advise on the tax treatment of lump sum receipts
  - Advise on the overseas aspects of income from employment, including travelling and subsistence expenses

- Identify personal service companies and advise on the tax consequences of providing services via a personal service company
- d) Income from self employment:
- Recognise the tax treatment of overseas travelling expenses <sup>[3]</sup>
  - Advise on the allocation of the annual investment allowance between related businesses
  - Identify the enhanced capital allowances available in respect of expenditure on green technologies <sup>[2]</sup>
  - Recognise the tax treatment of the investment income of a partnership <sup>[2]</sup>
- e) Property and investment income: <sup>[3]</sup>
- Assess the tax implications of pre-owned assets
  - Recognise income subject to the accrued income scheme
  - Advise on the tax implications of jointly held assets
  - Income from trusts and settlements: Understand the income tax position of trust beneficiaries
- f) The comprehensive computation of taxable income and the income tax liability: <sup>[3]</sup>
- Advise on the income tax position of the income of minor children
- g) The use of exemptions and reliefs in deferring and minimising income tax liabilities:
- Understand and apply the rules relating to investments in the enterprise investment scheme <sup>[3]</sup>
  - Understand and apply the rules relating to investments in venture capital trusts <sup>[3]</sup>
  - Explain the conditions that need to be satisfied for pension schemes to be registered by HM Revenue and Customs <sup>[2]</sup>

### Excluded topics

#### *The scope of income tax:*

- *Details of specific anti-avoidance provisions, except as stated in the study guide.*

#### *Income from employment:*

- *Explanation of the PAYE system.*

- The calculation of a car benefit where emission figures are not available.

*Income from self employment:*

- The 100% first year allowance for renovating business premises in disadvantaged areas and flats above shops.
- Capital allowances for industrial buildings, agricultural buildings, patents, scientific research and know how.
- Enterprise zones.
- The allocation of notional profits and losses for a partnership.
- Farmers averaging of profits.
- The averaging of profits for authors and creative artists.
- Details of specific anti-avoidance provisions, except as stated in the study guide.

*Property and investment income:*

- The deduction for expenditure by landlords on energy-saving items

*Income from trusts and settlements:*

- The computation of income tax payable by trustees.
- Overseas aspects.

*The comprehensive computation of taxable income and the income tax liability:*

- The blind person's allowance and the married couple's age allowance.
- Tax credits
- Maintenance payments
- Charitable donations.
- Social security benefits apart from the State Retirement Pension.

**2. Corporation tax liabilities in situations involving further overseas and group aspects and in relation to special types of company, and the application of additional exemptions and reliefs**

- a) The contents of the Paper F6 study guide, for corporation tax, under headings:<sup>[2]</sup>
- C1 The scope of corporation tax
  - C2 Taxable total profits
  - C3 The comprehensive computation of corporation tax liability

- C4 The effect of a group structure for corporation tax purposes
- C5 The use of exemptions and reliefs in deferring and minimising corporation tax liabilities

The following additional material is also examinable:

- b) The scope of corporation tax:<sup>[3]</sup>
- Identify and calculate corporation tax for companies with investment business.
  - Close companies:
    - Apply the definition of a close company to given situations
    - Conclude on the tax implications of a company being a close company or a close investment holding company
  - Identify and evaluate the significance of accounting periods on administration or winding up
  - Conclude on the tax treatment of returns to shareholders after winding up has commenced
  - Advise on the tax implications of a purchase by a company of its own shares
  - Identify personal service companies and advise on the tax consequences of services being provided via a personal service company
- c) Taxable total profits:<sup>[3]</sup>
- Identify qualifying research and development expenditure, both capital and revenue, and determine the amount of relief by reference to the size of the individual company/group
  - Identify the enhanced capital allowances available in respect of expenditure on green technologies, including the tax credit available in the case of a loss making company
  - Determine the tax treatment of non trading deficits on loan relationships
  - Recognise the alternative tax treatments of intangible assets and conclude on the best treatment for a given company
  - Advise on the impact of the transfer pricing and thin capitalisation rules on companies
  - Advise on the restriction on the use of losses on a change in ownership of a company

- d) The comprehensive calculation of the corporation tax liability: <sup>[3]</sup>
    - i) Assess the impact of the OECD model double tax treaty on corporation tax
    - ii) Evaluate the meaning and implications of a permanent establishment
    - iii) Identify and advise on the tax implications of controlled foreign companies
    - iv) Advise on the tax position of overseas companies trading in the UK
  - e) The effect of a group structure for corporation tax purposes: <sup>[3]</sup>
    - i) Advise on the allocation of the annual investment allowance between group or related companies
    - ii) Advise on the tax consequences of a transfer of intangible assets
    - iii) Advise on the tax consequences of a transfer of a trade and assets where there is common control
    - iv) Understand the meaning of consortium owned company and consortium member <sup>[2]</sup>
    - v) Advise on the operation of consortium relief
    - vi) Determine pre-entry gains and losses and understand their tax treatment
    - vii) Determine the degrouping charge where a company leaves a group within six years of receiving an asset by way of a no gain/no loss transfer
    - viii) Determine the effects of the anti-avoidance provisions, where arrangements exist for a company to leave a group
    - ix) Advise on the relief for trading losses incurred by an overseas subsidiary
  - f) The use of exemptions and reliefs in deferring and minimising corporation tax liabilities:
    - Corporation tax rates for companies in the process of winding up.
    - Relief for overseas tax as an expense.
    - Detailed knowledge of specific double taxation agreements.
    - Migration of a UK resident company.
    - Mixer companies.
    - Detailed computational questions on the carry back and carry forward of unrelieved foreign tax.
    - Quarterly accounting for income tax.
- 3. Chargeable gains and capital gains tax liabilities in situations involving further overseas aspects and in relation to closely related persons and trusts together with the application of additional exemptions and reliefs**
- a) The contents of the Paper F6 study guide for chargeable gains under headings: <sup>[2]</sup>
    - D1 The scope of the taxation of capital gains
    - D2 The basic principles of computing gains and losses
    - D3 Gains and losses on the disposal of movable and immovable property
    - D4 Gains and losses on the disposal of shares and securities
    - D5 The computation of capital gains tax payable by individuals
    - D6 The use of exemptions and reliefs in deferring and minimising tax liabilities arising on the disposal of capital assets

The following additional material is also examinable:

- b) The scope of the taxation of capital gains: <sup>[3]</sup>
  - i) Determine the tax implications of independent taxation and transfers between spouses
  - ii) Identify the concepts of residence, ordinary residence and domicile and determine their relevance to capital gains tax
  - iii) Advise on the availability of the remittance basis to non-UK domiciled individuals <sup>[2]</sup>
  - iv) Determine the UK taxation of foreign gains, including double taxation relief
  - v) Conclude on the capital gains tax position of individuals coming to and leaving the UK

No additional material at this level.

### Excluded topics

*The scope of corporation tax:*

- *Details of specific anti-avoidance provisions, except as stated in the Study Guide.*

*The comprehensive calculation of the corporation tax liability:*

- vi) Identify the occasions when a capital gain would arise on a partner in a partnership
- c) Capital gains tax and trusts:
- i) Advise on the capital gains tax implications of transfers of property into trust.<sup>[3]</sup>
  - ii) Advise on the capital gains tax implications of property passing absolutely from a trust to a beneficiary.<sup>[2]</sup>
- d) The basic principles of computing gains and losses:<sup>[3]</sup>
- i) Identify connected persons for capital gains tax purposes and advise on the tax implications of transfers between connected persons
  - ii) Advise on the impact of dates of disposal and conditional contracts
  - iii) Evaluate the use of capital losses in the year of death
- e) Gains and losses on the disposal of movable and immovable property:<sup>[3]</sup>
- i) Advise on the tax implications of a part disposal, including small part disposals of land
  - ii) Determine the gain on the disposal of leases and wasting assets
  - iii) Establish the tax effect of appropriations to and from trading stock
  - iv) Establish the tax effect of capital sums received in respect of the loss, damage or destruction of an asset
  - v) Advise on the tax effect of making negligible value claims
  - vi) Determine when capital gains tax can be paid by instalments and evaluate when this would be advantageous to taxpayers
- f) Gains and losses on the disposal of shares and securities:<sup>[3]</sup>
- i) Extend the explanation of the treatment of rights issues to include the small part disposal rules applicable to rights issues
  - ii) Determine the application of the substantial shareholdings exemption
  - iii) Define a qualifying corporate bond (QCB), and understand what makes a corporate bond non-qualifying. Understand the capital gains tax implications of the disposal of QCBs in exchange for cash or shares
  - iv) Apply the rules relating to reorganisations, reconstructions and amalgamations and

advise on the most tax efficient options available in given circumstances

v) Establish the relief for capital losses on shares in unquoted trading companies<sup>[3]</sup>

- g) The use of exemptions and reliefs in deferring and minimising tax liabilities arising on the disposal of capital assets:<sup>[3]</sup>
- i) Understand and apply enterprise investment scheme reinvestment relief
  - ii) Advise on the availability of entrepreneurs' relief in relation to associated disposals
  - iii) Understand the capital gains tax implications of the variation of wills

### Excluded topics

*The scope of the taxation of capital gains:*

- *Detailed knowledge of the statements of practice on partnership capital gains.*

*Capital gains tax and trusts:*

- *Overseas aspects of capital gains tax and trusts*
- *The computation of capital gains tax payable by trustees*
- *Transfers of property to or from trustees prior to 22 March 2006*
- *Knowledge of situations where property is transferred between trusts or where the terms or nature of the trust is altered.*
- *Knowledge of situations where property within a trust with an immediate post-death interest passes to the spouse or civil partner of the settlor on the death of the life tenant.*
- *Knowledge of the special rules concerning trusts for the disabled, trusts for bereaved minors, transitional serial interest trusts and age 18 to 25 trusts.*

*The basic principles of computing gains and losses:*

- *Assets held at 31 March 1982.*
- *Relief for losses on loans made to traders.*

*Gains and losses on the disposal of movable and immovable property:*

- *Chattels where the cost or proceeds are less than £6,000.*
- *Sets of chattels in relation to the chattels exemption.*
- *The grant of a lease or sub-lease out of either a freehold, long lease or short lease.*

*Gains and losses on the disposal of shares and securities:*

- *Computation of cost and indexed cost within the s.104 TCGA 1992 share pool*

#### 4. Inheritance tax

*Note: From June 2011 some aspects of inheritance tax (IHT) are examinable at paper F6 (UK). However, the paper P6 (UK) syllabus will not change to reflect this until June 2013. This is intended to allow the majority of those students who have not covered IHT at paper F6 (UK) to finish their exam training.*

- a) The scope of inheritance tax: <sup>[2]</sup>
  - i) Identify and explain the persons chargeable
  - ii) Explain the concepts of domicile and deemed domicile and understand the application of these concepts to inheritance tax
- b) The basic principles for computing transfers of value: <sup>[3]</sup>
  - i) State, explain and apply the meaning of transfers of value, chargeable transfers and potentially exempt transfers
  - ii) Demonstrate the fall in value principle
  - iii) Demonstrate the seven year accumulation principle taking into account changes in the level of the nil rate band.
  - iv) Identify excluded property <sup>[2]</sup>
  - v) Identify and advise on the tax implications of the location of assets
  - vi) Identify and advise on gifts with reservation of benefit
  - vii) Identify and advise on the tax implications of associated operations
- c) The liabilities arising on chargeable lifetime transfers and death transfers by individuals: <sup>[3]</sup>
  - i) Advise on the tax implications of chargeable lifetime transfers
    - ii) Advise on the tax implications of transfers within seven years of death
    - iii) Compute the death estate <sup>[2]</sup>
    - iv) Advise on the relief for the fall in value of lifetime gifts
    - v) Advise on the operation of quick succession relief
    - vi) Advise on the operation of double tax relief for inheritance tax
    - vii) Advise on the inheritance tax effects and advantages of the variation of wills
- d) Computing transfers of value: <sup>[3]</sup>
  - i) Advise on the principles of valuation
  - ii) Advise on the availability of business property relief and agricultural property relief
  - iii) Identify exempt transfers <sup>[2]</sup>
- e) The liabilities arising in respect of transfers to and from trusts and on property within trusts: <sup>[3]</sup>
  - i) Define a trust <sup>[2]</sup>
  - ii) Distinguish between different types of trust
  - iii) Advise on the inheritance tax implications of transfers of property into trust
  - iv) Advise on the inheritance tax implications of property passing absolutely from a trust to a beneficiary <sup>[2]</sup>
  - v) Identify the occasions on which inheritance tax is payable by trustees
- f) The use of exemptions and reliefs in deferring and minimising inheritance tax liabilities: <sup>[3]</sup>
  - i) Advise on the use of reliefs and exemptions to minimise inheritance tax liabilities, as mentioned in the sections above
- g) The system by which inheritance tax is administered, including the instalment option for the payment of tax:
  - i) Identify those responsible for the payment of inheritance tax. <sup>[2]</sup>
  - ii) Identify the occasions on which inheritance tax may be paid by instalments. <sup>[2]</sup>
  - iii) Advise on the due dates, interest and penalties for inheritance tax purposes. <sup>[3]</sup>

#### Excluded topics

*The scope of inheritance tax:*

- *Pre 18 March 1986 lifetime transfers*

- *Transfers of value by close companies*

*The liabilities arising on chargeable lifetime transfers and on death:*

- *Double grossing up on death*
- *Post mortem reliefs*
- *Relief on relevant business property and agricultural property given as exempt legacies*
- *Detailed knowledge of the double charges legislation*

*Computing transfers of value:*

- *Valuation of an annuity or an interest in possession where the trust interest is subject to an annuity*
- *Woodlands relief*  
*Conditional exemption for heritage property*

*Inheritance tax and trusts:*

- *IHT aspects of discretionary trusts prior to 27 March 1974*
- *Computation of ten year charges and exit charges*
- *Overseas aspects of inheritance tax and trusts*
- *The conditions that had to be satisfied for a trust to be an accumulation and maintenance trust*
- *Knowledge of situations where property is transferred between trusts or where the terms or nature of the trust is altered.*
- *Knowledge of situations where property within a trust with an immediate post-death interest passes to the spouse or civil partner of the settlor on the death of the life tenant.*
- *Knowledge of the special rules concerning trusts for the disabled, trusts for bereaved minors, transitional serial interest trusts and age 18 to 25 trusts.*

## **5. Stamp duties (stamp duty and stamp duty land tax)**

- a) The scope of stamp duty and stamp duty land tax:<sup>[3]</sup>
- i) Identify the property in respect of which stamp duty and stamp duty land tax is payable.

- b) Identify and advise on the liabilities arising on documented transfers.<sup>[3]</sup>

- i) Advise on the stamp duties payable on transfers of shares and securities
- ii) Advise on the stamp duties payable on transfers of land

- c) The use of exemptions and reliefs in deferring and minimising stamp duties:<sup>[3]</sup>

- i) Identify transfers involving no consideration
- ii) Advise on group transactions

- d) Understand and explain the systems by which stamp duties are administered.<sup>[2]</sup>

### **Excluded topics**

*The scope of stamp duty and stamp duty land tax:*

- *Leases*

*The liabilities arising on documented transfers:*

- *The contingency principle*

*The systems by which stamp duties are administered:*

- *Detailed rules on interest and penalties*

## **6. National insurance, value added tax, tax administration and the UK tax system:**

- a) The contents of the Paper F6 study guide for national insurance under headings:<sup>[2]</sup>
- F1 The scope of national insurance
  - F2 Class 1 and class 1A contributions for employed persons
  - F3 Class 2 and class 4 contributions for self-employed persons

No additional material at this level.

- b) The contents of the Paper F6 study guide for value added tax (VAT) under headings:

- G1 The scope of value added tax (VAT)
- G2 The VAT registration requirements:
- G3 The computation of VAT liabilities:
- G4 The effect of special schemes

The following additional material is also examinable:

- i) Advise on the impact of the disaggregation of business activities for VAT purposes <sup>[3]</sup>
- ii) Advise on the impact of divisional registration <sup>[3]</sup>
- iii) Advise on the VAT implications of the supply of land and buildings in the UK
- iv) Advise on the VAT implications of partial exemption
- v) Advise on the application of the capital goods scheme

c) The contents of the Paper F6 study guide for the obligations of taxpayers and/or their agents under headings:

- H1 The systems for self assessment and the making of returns
- H2 The time limits for the submission of information, claims and payment of tax, including payments on account
- H3 The procedures relating to compliance checks, appeals and disputes
- H4 Penalties for non-compliance

No additional material at this level

d) The contents of the Paper F6 study guide for the UK tax system under headings:

- A1 The overall function and purpose of taxation in a modern economy
- A2 Different types of taxes
- A3 Principal sources of revenue law and practice
- A4 Tax avoidance and tax evasion

### Excluded topics

*National insurance:*

- *The calculation of directors' national insurance on a month by month basis*
- *Contracted out contributions*
- *The offset of trading losses against non-trading income and capital gains*

*Value added tax:*

- *The determination of the tax point*
- *The contents of a valid VAT invoice*
- *Do it yourself builders*
- *Second hand goods scheme*
- *Retailers' schemes*

- *Schemes for farmers*

## **B THE IMPORTANCE OF TAXATION TO PERSONAL AND CORPORATE FINANCIAL MANAGEMENT**

### **1. The principles underlying personal financial management**

- a) Calculate the receipts from a transaction, net of tax and compare the results of alternative scenarios and advise on the most tax efficient course of action.<sup>[3]</sup>

### **2. How an individual's personal financial objectives may differ depending on their circumstances and expectations**

- a) Understand and apply the effect of age, family commitments, aspirations and the economy on personal financial objectives.<sup>[3]</sup>

### **3. The common forms of personal finance and investment products in a given set of circumstances, including ethical considerations**

- a) Understand and be able to compare and contrast the tax treatment of the sources of finance available to individuals.<sup>[3]</sup>

- b) Understand and be able to compare and contrast the tax treatment of investment products: <sup>[3]</sup>

- i) Deposit based investments
- ii) Fixed interest securities
- iii) Packaged investments
- iv) Collective investments
- v) Equities
- vi) Enterprise investment scheme
- vii) Venture capital trusts
- viii) Fixed interest securities

### **4. How a business' financial objectives may differ depending on its circumstances and the business environment**

- a) Understand and be able to explain the effect of profitability, future plans, actions of competitors and the economy on a business' financial objectives.<sup>[3]</sup>

**5. How taxation can affect the financial decisions made by businesses (corporate and unincorporated) and by individuals**

- a) Understand and explain the tax implications of the effect of the raising of equity and loan finance.<sup>[3]</sup>
  - b) Explain the tax differences between decisions to lease, use hire purchase or purchase outright.<sup>[3]</sup>
  - c) Understand and explain the impact of taxation on the cash flows of a business.<sup>[3]</sup>
- 6. Other considerations, personal and commercial, which might affect a financial decision.**<sup>[3]</sup>

**C THE IMPACT OF RELEVANT TAXES ON VARIOUS SITUATIONS AND COURSES OF ACTION, INCLUDING THE INTERACTION OF TAXES**

- 1. Identifying and advising on the taxes applicable to a given course of action and their impact.**<sup>[3]</sup>
- 2. Identifying and understanding that the alternative ways of achieving personal or business outcomes may lead to different tax consequences.**<sup>[3]</sup>
- 3. Assessing the tax advantages and disadvantages of alternative courses of action.**<sup>[3]</sup>
- 4. Understanding the statutory obligations imposed in a given situation, including any time limits for action and advising on the implications of non-compliance.**<sup>[3]</sup>

**D MINIMISING AND/OR DEFERRING TAX LIABILITIES BY THE USE OF STANDARD TAX PLANNING MEASURES**

- 1. Identifying and advising on the types of investment and other expenditure that will result in a reduction in tax liabilities for an individual and/or a business.**<sup>[3]</sup>

- 2. Advising on legitimate tax planning measures, by which the tax liabilities arising from a particular situation or course of action can be mitigated.**<sup>[3]</sup>

- 3. Advising on the appropriateness of such investment, expenditure or measures given a particular taxpayer's circumstances or stated objectives.**<sup>[3]</sup>

- 4. Advise on the mitigation of tax in the manner recommended by reference to numerical analysis and/or reasoned argument.**<sup>[3]</sup>

- 5. Be aware of the ethical and professional issues arising from the giving of tax planning advice.**<sup>[3]</sup>

- 6. Be aware of and give advice on current issues in taxation.**<sup>[3]</sup>

**E COMMUNICATING WITH CLIENTS, HM REVENUE AND CUSTOMS AND OTHER PROFESSIONALS IN AN APPROPRIATE MANNER**

- 1. Communication of advice, recommendations and information in the required format:**<sup>[3]</sup>

For example the use of:

- Reports
- Letters
- Memoranda
- Meeting notes

- 2. Presentation of written information, in language appropriate to the purpose of the communication and the intended recipient.**<sup>[3]</sup>

- 3. Communicating conclusions reached, together, where necessary with relevant supporting computations.**<sup>[3]</sup>

- 4. Stating and explaining assumptions made or limitations in the analysis provided; together with any inadequacies in the information available and/or additional information required to provide a fuller analysis.**<sup>[3]</sup>

- 5. Identifying and explaining other, non-tax, factors that should be considered.**<sup>[3]</sup>



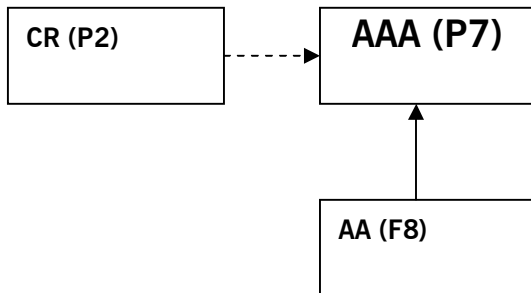
## SUMMARY OF CHANGES TO PAPER P6 (UK)

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

### Amendments to P6 (UK)

<b>Section and subject area</b>	<b>Amendment</b>
A1 – <i>Excluded topics</i>	Industrial buildings allowances have been added to the excluded topics list

# Advanced Audit and Assurance (INT) (P7)



## AIM

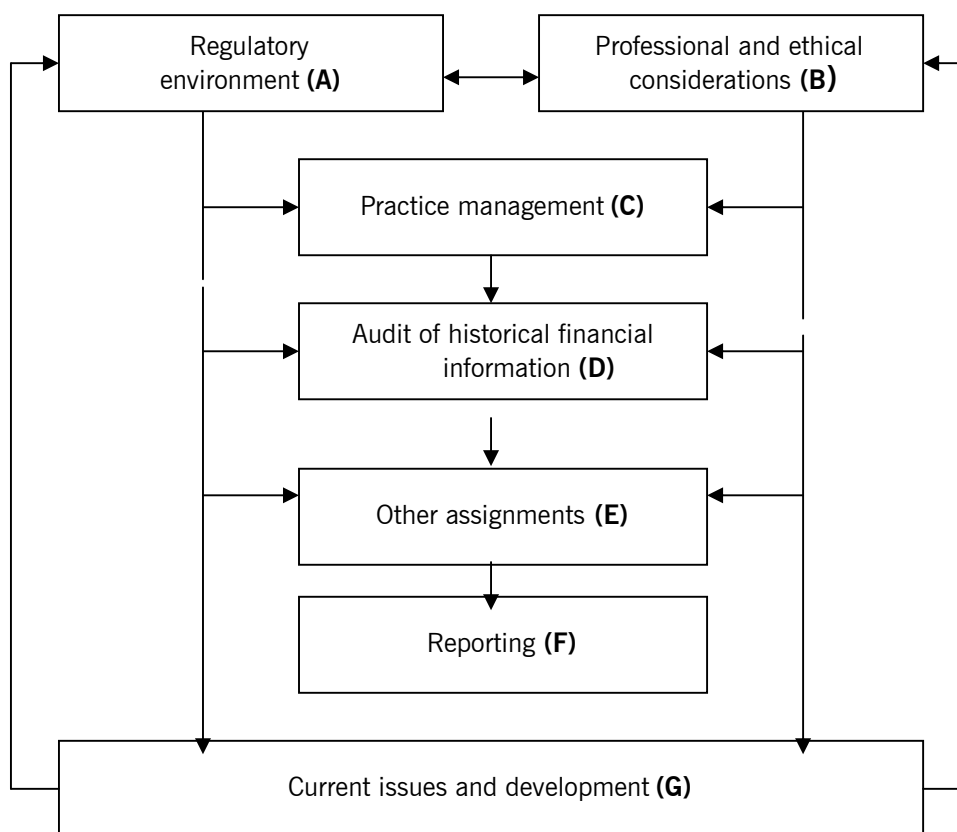
To analyse, evaluate and conclude on the assurance engagement and other audit and assurance issues in the context of best practice and current developments.

## MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

- A** Recognise the legal and regulatory environment and its impact on audit and assurance practice
- B** Demonstrate the ability to work effectively on an assurance or other service engagement within a professional and ethical framework
- C** Assess and recommend appropriate quality control policies and procedures in practice management and recognise the auditor's position in relation to the acceptance and retention of professional appointments
- D** Identify and formulate the work required to meet the objectives of audit assignments and apply the International Standards on Auditing
- E** Identify and formulate the work required to meet the objectives of non-audit assignments
- F** Evaluate findings and the results of work performed and draft suitable reports on assignments
- G** Understand the current issues and developments relating to the provision of audit-related and assurance service

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

The Advanced Audit and Assurance syllabus is essentially divided into seven areas.

The syllabus starts with the legal and regulatory environment including money laundering, and professional and ethical considerations, including the Code of Ethics and professional liability. This then leads into procedures in practice management, including quality control and the acceptance and retention of professional engagements.

The syllabus then covers the audit of financial statements, including planning, evidence and review. It then covers other assignments including prospective financial information, and other assurance assignments, as well as the reporting of these assignments.

The final section covers current issues and developments relating to the provision of audit-related and assurance services.

## **DETAILED SYLLABUS**

### **A Regulatory Environment**

1. International regulatory frameworks for audit and assurance services
2. Money laundering
3. Laws and regulations

### **B Professional and Ethical Considerations**

1. Code of Ethics for Professional Accountants
2. Fraud and error
3. Professional liability

### **C Practice Management**

1. Quality control
2. Advertising, publicity, obtaining professional work and fees
3. Tendering

4. Professional appointments

### **D Audit of historical financial information**

1. The audit of historical financial information including;
  - i) Planning, materiality and assessing the risk of misstatement
  - ii) Evidence
  - iii) Evaluation and review
2. Group audits

### **E Other assignments**

1. Audit-related services
2. Assurance services
3. Prospective financial information
4. Forensic audits
5. Internal audit
6. Outsourcing

### **F Reporting**

1. Auditor's reports
2. Reports to those charged with governance and management
3. Other reports

### **G Current Issues and Developments**

1. Professional and ethical
2. Information technology
3. Transnational audits
4. Social and environmental auditing
5. Other current issues

## **APPROACH TO EXAMINING THE SYLLABUS**

The examination is a three hour paper constructed in two sections. Questions in both sections will be largely discursive. However, candidates will be expected, for example, to be able to assess materiality and calculate relevant ratios where appropriate.

Section A questions will be based on 'case study' type questions. That is not to say that they will be particularly long, rather that they will provide a setting within a range of topics, issues and requirements can be addressed. Different types of question will be encountered in Section B and will tend to be more focussed on specific topics, for example 'auditor's reports', 'quality control' and topics of ISAs which are not examinable in Paper F8, *Audit and Assurance*. (This does not preclude these topics from appearing in Section A). Current issues will be examined across a number of questions.

Section A: 2 compulsory questions 50-70 marks

Section B: Choice of 2 from 3 questions 30-50 marks  
100

# Study Guide

## A REGULATORY ENVIRONMENT

### 1. International regulatory frameworks for audit and assurance services

- a) Explain the need for laws, regulations, standards and other guidance relating to audit, assurance and related services.<sup>[2]</sup>
- b) Outline and explain the need for the legal and professional framework including:<sup>[2]</sup>
  - i) public oversight to an audit and assurance practice
  - ii) the role of audit committees and impact on audit and assurance practice.

### 2. Money laundering

- a) Define 'money laundering'.<sup>[1]</sup>
- b) Explain how international efforts seek to combat money laundering.<sup>[2]</sup>
- c) Explain the scope of criminal offences of money laundering and how professional accountants may be protected from criminal and civil liability.<sup>[2]</sup>
- d) Explain the need for ethical guidance in this area.<sup>[2]</sup>
- e) Describe how accountants meet their obligations to help prevent and detect money laundering including record keeping and reporting of suspicion to the appropriate regulatory body.<sup>[2]</sup>
- f) Explain the importance of customer due diligence (CDD).<sup>[2]</sup>
- g) Recognise potentially suspicious transactions and assess their impact on reporting duties.<sup>[2]</sup>
- h) Describe, with reasons, the basic elements of an anti-money laundering program.<sup>[2]</sup>

### 3. Laws and regulations

- a) Compare and contrast the respective responsibilities of management and auditors concerning compliance with laws and

regulations in an audit of financial statements.<sup>[2]</sup>

- b) Describe the auditors considerations of compliance with laws and regulations and plan audit procedures when possible non-compliance is discovered.<sup>[2]</sup>
- c) Discuss how and to whom non-compliance should be reported.<sup>[2]</sup>
- d) Recognise when withdrawal from an engagement is necessary.<sup>[2]</sup>

## B PROFESSIONAL AND ETHICAL CONSIDERATIONS

### 1. Code of Ethics for Professional Accountants

- a) Explain the fundamental principles and the conceptual framework approach.<sup>[1]</sup>
- b) Identify, evaluate and respond to threats to compliance with the fundamental principles.<sup>[3]</sup>
- c) Discuss and evaluate the effectiveness of available safeguards.<sup>[3]</sup>
- d) Recognise and advise on conflicts in the application of fundamental principles.<sup>[3]</sup>

### 2. Fraud and error

- a) Define and clearly distinguish between the terms 'error', 'irregularity', 'fraud' and 'misstatement'.<sup>[2]</sup>
- b) Compare and contrast the respective responsibilities of management and auditors for fraud and error.<sup>[2]</sup>
- c) Describe the matters to be considered and procedures to be carried out to investigate actual and/or potential misstatements in a given situation.<sup>[2]</sup>
- d) Explain how, why, when and to whom fraud and error should be reported and the circumstances in which an auditor should withdraw from an engagement.<sup>[2]</sup>

- e) Discuss the current and possible future role of auditors in preventing, detecting and reporting error and fraud.<sup>[2]</sup>

### **3. Professional liability**

- a) Recognise circumstances in which professional accountants may have legal liability.<sup>[2]</sup>
- b) Describe the factors to determine whether or not an auditor is negligent in given situations.<sup>[2]</sup>
- c) Explain the other criteria for legal liability to be recognised (including 'due professional care' and 'proximity') and apply them to given situations.<sup>[2]</sup>
- d) Compare and contrast liability to client with liability to third parties.<sup>[3]</sup>
- e) Evaluate the practicability and effectiveness of ways in which liability may be restricted.<sup>[3]</sup>
- f) Discuss liability limitation agreements.<sup>[2]</sup>
- g) Discuss and appraise the principal causes of audit failure and other factors that contribute to the 'expectation gap' (e.g. responsibilities for fraud and error).<sup>[3]</sup>
- h) Recommend ways in which the expectation gap might be bridged.<sup>[2]</sup>

## **C PRACTICE MANAGEMENT**

### **1. Quality control**

- a) Explain the principles and purpose of quality control of audit and other assurance engagements.<sup>[1]</sup>
- b) Describe the elements of a system of quality control relevant to a given firm.<sup>[2]</sup>
- c) Select and justify quality control procedures that are applicable to a given audit engagement.<sup>[3]</sup>
- d) Assess whether an engagement has been planned and performed in accordance with professional standards and whether reports issued are appropriate in the circumstances.<sup>[3]</sup>

### **2. Advertising, publicity, obtaining professional work and fees**

- a) Recognise situations in which specified advertisements are acceptable.<sup>[2]</sup>
- b) Discuss the restrictions on practice descriptions, the use of the ACCA logo and the names of practising firms.<sup>[2]</sup>
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- d) Outline the determinants of fee-setting and justify the bases on which fees and commissions may and may not be charged for services.<sup>[3]</sup>
- e) Discuss the ethical and other professional problems, for example, lowballing, involved in establishing and negotiating fees for a specified assignment.<sup>[3]</sup>

### **3. Tendering**

- a) Discuss the reasons why entities change their auditors/professional accountants.<sup>[2]</sup>
- b) Recognise and explain the matters to be considered when a firm is invited to submit a proposal or fee quote for an audit or other professional engagement.<sup>[2]</sup>
- c) Identify the information to be included in a proposal.<sup>[2]</sup>

### **4. Professional appointments**

- a) Explain the matters to be considered and the procedures that an audit firm/professional accountant should carry out before accepting a specified new client/engagement including:<sup>[3]</sup>
  - i) client acceptance
  - ii) engagement acceptance
  - iii) establish whether the preconditions for an audit are present
  - iv) agreeing the terms of engagement.
- b) Recognise the key issues that underlie the agreement of the scope and terms of an engagement with a client.<sup>[2]</sup>

## **D AUDIT OF HISTORICAL FINANCIAL INFORMATION**

### **1(i) Planning, materiality and assessing the risk of misstatement**

- a) Define materiality and performance materiality and demonstrate how it should be applied in financial reporting and auditing.<sup>[2]</sup>
- b) Identify and explain business risks for a given assignment.<sup>[3]</sup>
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- f) Explain how the result of planning procedures determines the relevant audit strategy.<sup>[2]</sup>
- g) Explain the planning procedures specific to an initial audit engagement.

### **1(ii) Evidence**

- a) Identify and describe audit procedures to obtain sufficient audit evidence from identified sources.<sup>[2]</sup>
- b) Identify and evaluate the audit evidence expected to be available to
  - i) support the financial statement assertions and accounting treatments (including fair values)
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- c) Apply analytical procedures to financial and non-financial data.<sup>[2]</sup>
- d) Explain the specific audit problems and procedures concerning related parties and related party transactions.<sup>[2]</sup>
- e) Recognise circumstances that may indicate the existence of unidentified related parties and select appropriate audit procedures.<sup>[2]</sup>

- f) Evaluate the use of written management representations to support other audit evidence.<sup>[2]</sup>
- g) Recognise when it is justifiable to place reliance on the work of an expert (e.g. a surveyor employed by the audit client).<sup>[2]</sup>
- h) Assess the appropriateness and sufficiency of the work of internal auditors and the extent to which reliance can be placed on it.<sup>[2]</sup>

### **1(iii) Evaluation and review**

- a) Evaluate the matters (e.g. materiality, risk, relevant accounting standards, audit evidence) relating to:<sup>[3]</sup>
  - i) inventory and construction contracts
  - ii) standard costing systems
  - iii) statement of cash flows
  - iv) changes in accounting policy
  - v) taxation (including deferred tax)
  - vi) segmental reporting
  - vii) non-current assets
  - viii) fair value
  - ix) leases
  - x) revenue recognition
  - xi) employee benefits
  - xii) government grants
  - xiii) related parties
  - xiv) earnings per share
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  - xvi) provisions, contingent liabilities and contingent assets
  - xvii) intangible assets
  - xviii) financial instruments
  - xix) investment properties
  - xx) share-based payment transactions
  - xxi) business combinations
  - xxii) assets held for sale and discontinued operations
  - xxiii) events after the end of the reporting period
  - xxiv) the effects of foreign exchange rates
  - xxv) borrowing costs.
- b) Explain the use of analytical procedures in evaluation and review.<sup>[3]</sup>
- c) Explain how the auditor's responsibilities for corresponding figures, comparative financial statements, and 'other information', are discharged.<sup>[3]</sup>

- d) Apply the further considerations and audit procedures relevant to initial engagements.<sup>[2]</sup>
- e) Discuss the courses of action available to an auditor if an inconsistency or misstatement of fact exists in relation to other information.<sup>[2]</sup>
- f) Specify audit procedures designed to identify subsequent events that may require adjustment to, or disclosure in, the financial statements of a given entity.<sup>[2]</sup>
- g) Identify and explain indicators that the going concern basis may be in doubt and recognise mitigating factors.<sup>[2]</sup>
- h) Recommend audit procedures, or evaluate the evidence that might be expected to be available and assess the appropriateness of the going concern basis in given situations.<sup>[3]</sup>
- i) Assess the adequacy of disclosures in financial statements relating to going concern and explain the implications for the auditor's report with regard to the going concern basis.<sup>[3]</sup>

## 2. Group audits

- a) Recognise the specific matters to be considered before accepting appointment as principal auditor to a group in a given situation.<sup>[3]</sup>
- b) identify and explain the matters specific to planning an audit of group financial statements including assessment of group and component materiality, the impact of non-coterminous year ends within a group, and changes in group structure.
- c) Justify the situations where a joint audit would be appropriate.<sup>[2]</sup>
- d) Recognise the audit problems and describe audit procedures specific to a business combination, including goodwill, accounting policies, inter-company trading, the classification of investments, equity accounting for associates, changes in group structure, and accounting for a foreign subsidiary.<sup>[3]</sup>

- e) Identify and explain the audit risks, and necessary audit procedures relevant to the consolidation process.<sup>[3]</sup>
- f) Identify and describe the matters to be considered and the procedures to be performed at the planning stage, when a principal auditor considers the use of the work of component auditors.<sup>[3]</sup>
- g) Consider how the principal auditor should evaluate the audit work performed by a component auditor.<sup>[2]</sup>
- h) Explain the implications for the auditor's report on the financial statements of an entity where the opinion on a component is qualified or otherwise modified in a given situation.<sup>[2]</sup>

## E OTHER ASSIGNMENTS

### 1. Audit-related services

- a) Describe the nature of audit-related services, the circumstances in which they might be required and the comparative levels of assurance provided by professional accountants and distinguish between:<sup>[2]</sup>
  - i) audit-related services and an audit of historical financial statements
  - ii) an attestation engagement and a direct reporting engagement.<sup>[2]</sup>
- b) Plan review engagements, for example:<sup>[2]</sup>
  - i) a review of interim financial information
  - ii) a 'due diligence' assignment (when acquiring a company, business or other assets).
- c) Explain the importance of enquiry and analytical procedures in review engagements and apply these procedures.<sup>[2]</sup>

### 2. Assurance services

- a) Describe the main categories of assurance services that audit firms can provide and assess the benefits of providing these services to management and external users.<sup>[3]</sup>
- b) Justify a level of assurance (reasonable, high, moderate, limited, negative) for an engagement depending on the subject matter evaluated, the



criteria used, the procedures applied and the quality and quantity of evidence obtained.<sup>[3]</sup>

- c) Recognise the ways in which different types of risk (e.g. strategic, operating, information) may be identified and analysed and assess how management should respond to risk.<sup>[3]</sup>

### **3. Prospective financial information**

- a) Define 'prospective financial information' (PFI) and distinguish between a 'forecast', a 'projection', a 'hypothetical illustration' and a 'target'.<sup>[1]</sup>
- b) Explain the principles of useful PFI.<sup>[1]</sup>
- c) Identify and describe the matters to be considered before accepting a specified engagement to report on PFI.<sup>[2]</sup>
- d) Discuss the level of assurance that the auditor may provide and explain the other factors to be considered in determining the nature, timing and extent of examination procedures.<sup>[1]</sup>
- e) Describe examination procedures to verify forecasts and projections.<sup>[2]</sup>
- f) Compare the content of a report on an examination of PFI with reports made in providing audit-related services.<sup>[2]</sup>

### **4. Forensic audits**

- a) Define the terms 'forensic accounting', 'forensic investigation' and 'forensic audit'.<sup>[1]</sup>
- b) Describe the major applications of forensic auditing (e.g. fraud, negligence, insurance claims) and analyse the role of the forensic auditor as an expert witness.<sup>[2]</sup>
- c) Apply the fundamental ethical principles to professional accountants engaged in forensic audit assignments.<sup>[2]</sup>
- d) Plan a forensic audit engagement.<sup>[2]</sup>
- e) Select investigative procedures and evaluate evidence appropriate to determining the loss in a given situation.<sup>[3]</sup>

### **5. Internal audit**

- a) Evaluate the potential impact of an internal audit department on the planning and performance of the external audit.<sup>[2]</sup>
- b) Explain the benefits and potential drawbacks of outsourcing internal audit.<sup>[2]</sup>
- c) Consider the ethical implications of the external auditor providing an internal audit service to a client.<sup>[2]</sup>

### **6. Outsourcing**

- a) Explain the different approaches to 'outsourcing' and compare with 'insourcing'.<sup>[2]</sup>
- b) Discuss and conclude on the advantages and disadvantages of outsourcing finance and accounting functions.<sup>[3]</sup>
- c) Recognise and evaluate the impact of outsourced functions on the conduct of an audit.<sup>[3]</sup>

## **F REPORTING**

### **1 Auditor's reports**

- a) Critically appraise the form and content of an auditor's report in a given situation.<sup>[3]</sup>
- b) Recognise and evaluate the factors to be taken into account when forming an audit opinion in a given situation and justify audit opinions that are consistent with the results of audit procedures.<sup>[3]</sup>
- c) Assess whether or not a proposed audit opinion is appropriate.<sup>[3]</sup>
- d) Advise on the actions which may be taken by the auditor in the event that a modified audit report is issued.
- e) Recognise when the use of an emphasis of matter paragraph and other matter paragraph would be appropriate.<sup>[3]</sup>

## **2. Reports to those charged with governance and management**

- a) Critically assess the quality of a report to those charged with governance and management. <sup>[3]</sup>
- b) Advise on the content of reports to those charged with governance and management in a given situation. <sup>[3]</sup>

## **3. Other reports**

- a) Analyse the form and content of the professional accountant's report for an assurance engagement as compared with an auditor's report. <sup>[2]</sup>
- b) Discuss the content of a report on examination of prospective financial information. <sup>[2]</sup>
- c) Discuss the effectiveness of the 'negative assurance' form of reporting and evaluate situations in which it may be appropriate to express a reservation or deny a conclusion. <sup>[3]</sup>

## **G CURRENT ISSUES AND DEVELOPMENTS**

Discuss the relative merits and the consequences of different standpoints taken in current debates and express opinions supported by reasoned arguments.

### **1. Professional and ethical**

- a) Discuss the relative advantages of an ethical framework and a rulebook. <sup>[2]</sup>
- b) Identify and assess relevant emerging ethical issues and evaluate the safeguards available. <sup>[3]</sup>
- c) Discuss IFAC developments. <sup>[2]</sup>

### **2. Information technology**

- a) Describe recent trends in IT and their current and potential impact on auditors (e.g. the audit implications of 'cyberincidents' and other risks). <sup>[2]</sup>
- b) Explain how IT may be used to assist auditors and discuss the problems that may be encountered in automating the audit process. <sup>[2]</sup>

## **3. Transnational audits**

- a) Define 'transnational audits' and explain the role of the Transnational Audit Committee (TAC) of IFAC. <sup>[1]</sup>
- b) Discuss how transnational audits may differ from other audits of historical financial information (e.g. in terms of applicable financial reporting and auditing standards, listing requirements and corporate governance requirements). <sup>[2]</sup>

## **4. Social and environmental auditing**

- a) Plan an engagement to provide assurance on performance measures and sustainability indicators. <sup>[2]</sup>
- b) Describe the difficulties in measuring and reporting on economic, environmental and social performance and give examples of performance measures and sustainability indicators. <sup>[2]</sup>
- c) Explain the auditor's main considerations in respect of social and environmental matters and how they impact on entities and their financial statements (e.g. impairment of assets, provisions and contingent liabilities). <sup>[2]</sup>
- d) Describe substantive procedures to detect potential misstatements in respect of socio-environmental matters. <sup>[2]</sup>
- e) Discuss the form and content of an independent verification statement (e.g. on an environmental management system (EMS) and a report to society). <sup>[2]</sup>

## **5. Other current issues**

- a) Explain current developments in auditing standards including the need for new and revised standards and evaluate their impact on the conduct of audits. <sup>[3]</sup>
- b) Discuss other current legal, ethical, other professional and practical matters that affect accountants, auditors, their employers and the profession. <sup>[3]</sup>

## SUMMARY OF CHANGES TO P7

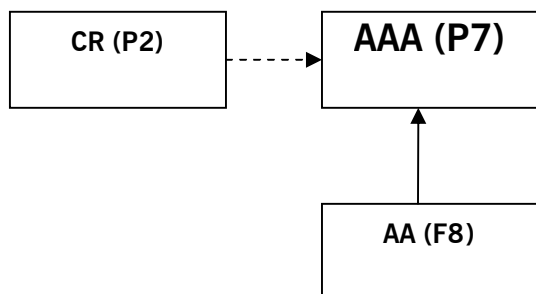
ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

The main areas to be added to the syllabus are shown in Table 1 below:

**Table 1 – Additions to P7**

<b>Section and subject area</b>	<b>Syllabus content</b>
D1(i)d), g) Assignments	Planning an audit
D2b) Assignments	Group audit planning issues
D2d) Assignments	Audit impact of changes in group structure
F1a) Reporting	Appraisal of auditor's report
F1d) Reporting	Actions which may be taken by the auditor where a modified report is issued

# Advanced Audit and Assurance (UK) (P7)



## AIM

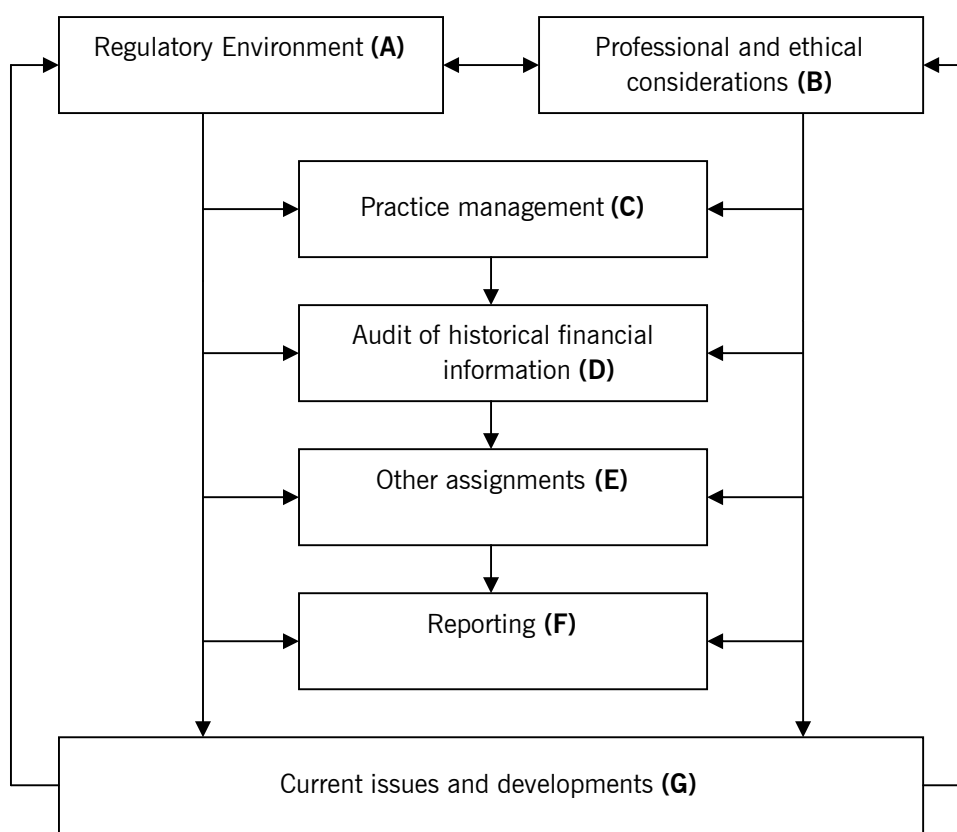
To analyse, evaluate and conclude on the assurance engagement and other audit and assurance issues in the context of best practice and current developments.

## MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

- A** Recognise the legal and regulatory environment and its impact on audit and assurance practice
- B** Demonstrate the ability to work effectively on an assurance or other service engagement within a professional and ethical framework
- C** Assess and recommend appropriate quality control policies and procedures in practice management and recognise the auditor's position in relation to the acceptance and retention of professional appointments
- D** Identify and formulate the work required to meet the objectives of audit assignments and apply the International Standards on Auditing (UK and Ireland)
- E** Identify and formulate the work required to meet the objectives of non-audit assignments
- F** Evaluate findings and the results of work performed and draft suitable reports on assignments
- G** Understand the current issues and developments relating to the provision of audit-related and assurance services

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

The Advanced Audit and Assurance syllabus is essentially divided into seven areas.

The syllabus starts with the legal and regulatory environment including money laundering, and professional and ethical considerations, including the Code of Ethics and professional liability. This then leads into procedures in practice management, including quality control and the acceptance and retention of professional engagements.

The syllabus then covers the audit of financial statements, including planning, evidence and review. It then covers other assignments including prospective financial information, and other assurance assignments, as well as the reporting of these assignments.

The final section covers current issues and developments relating to the provision of audit-related and assurance services.

## **DETAILED SYLLABUS**

### **A Regulatory Environment**

1. International regulatory frameworks for audit and assurance services
2. Money laundering
3. Laws and regulations

### **B Professional and Ethical Considerations**

1. Code of Ethics and Conduct
2. Fraud and error
3. Professional liability

### **C Practice Management**

1. Quality control
2. Advertising, publicity, obtaining professional work and fees
3. Tendering
4. Professional appointments

### **D Audit of historical financial information**

1. The audit of historical financial information including;
  - i) Planning, materiality and assessing the risk of misstatement
  - ii) Evidence
  - iii) Evaluation and review
2. Group audits

### **E Other assignments**

1. Audit-related services
2. Assurance services
3. Prospective financial information
4. Forensic audits
5. Internal audit
6. Outsourcing
7. Auditing aspects of insolvency (and similar procedures)

### **F Reporting**

1. Auditor's reports
2. Reports to those charged with governance and management
3. Other reports

### **G Current Issues and Developments**

1. Professional and ethical
2. Information technology
3. Transnational audits
4. Social and environmental auditing
5. Other current issues

## **APPROACH TO EXAMINING THE SYLLABUS**

The examination is a three hour paper constructed in two sections. Questions in both sections will be almost largely. However, candidates will be expected, for example, to be able to assess materiality and calculate relevant ratios where appropriate.

Section A questions will be based on 'case study' type questions. That is not to say that they will be particularly long, rather that they will provide a setting within a range of topics, issues and requirements can be addressed. Different types of question will be encountered in Section B and will tend to be more focussed on specific topics, for example 'auditor's reports', 'quality control' and topics of ISAs (UK and Ireland) which are not examinable in Paper F8, *Audit and Assurance*. (This does not preclude these topics from appearing in Section A). Current issues will be examined across a number of questions.

### **Number of marks**

Section A: 2 compulsory questions 50-70 marks

Section B: Choice of 2 from 3 questions 30-50 marks  
100

# Study Guide

## A REGULATORY ENVIRONMENT

### 1. International regulatory frameworks for audit and assurance services

- a) Explain the need for laws, regulations, standards and other guidance relating to audit, assurance and related services.<sup>[2]</sup>
- b) Outline and explain the legal and professional framework including:<sup>[2]</sup>
  - i) public oversight to an audit and assurance practice
  - ii) the role of audit committees and impact on audit and assurance practice.

### 2. Money laundering

- a) Define 'money laundering'.<sup>[1]</sup>
- b) Explain how international efforts seek to combat money laundering.<sup>[2]</sup>
- c) Explain the scope of criminal offences of money laundering and how professional accountants may be protected from criminal and civil liability.<sup>[2]</sup>
- d) Explain the need for ethical guidance in this area.<sup>[2]</sup>
- e) Describe how accountants meet their obligations to help prevent and detect money laundering including record keeping and reporting of suspicion to the appropriate regulatory body.<sup>[2]</sup>
- f) Explain the importance of 'know your customer' (KYC) information.<sup>[2]</sup>
- g) Recognise potentially suspicious transactions and assess their impact on reporting duties.<sup>[2]</sup>
- h) Describe, with reasons, the basic elements of an anti-money laundering program.<sup>[2]</sup>

### 3. Laws and regulations

- a) Compare and contrast the respective responsibilities of management and auditors

concerning compliance with laws and regulations in an audit of financial statements.<sup>[2]</sup>

- b) Describe the auditors' considerations of compliance with laws and regulations and plan audit procedures when possible non-compliance is discovered.<sup>[2]</sup>
- c) Discuss how and to whom non-compliance should be reported.<sup>[2]</sup>
- d) Recognise when withdrawal from an engagement is necessary.<sup>[2]</sup>

## B PROFESSIONAL AND ETHICAL CONSIDERATIONS

### 1. Code of Ethics and Conduct

- a) Explain the fundamental principles and the conceptual framework approach.<sup>[1]</sup>
- b) Identify, evaluate and respond to threats to compliance with the fundamental principles.<sup>[3]</sup>
- c) Discuss and evaluate the effectiveness of available safeguards.<sup>[3]</sup>
- d) Recognise and advise on conflicts in the application of fundamental principles.<sup>[3]</sup>

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  - xxiv) the effects of foreign exchange rates
  - xxv) borrowing costs.
- b) Explain the use of analytical procedures in evaluation and review.<sup>[3]</sup>
- c) Explain how the auditor's responsibilities for corresponding figures, comparative financial statements, and 'other information', are discharged.<sup>[3]</sup>

- d) Apply the further considerations and audit procedures relevant to initial engagements.<sup>[2]</sup>
- e) Discuss the courses of action available to an auditor if an inconsistency or misstatement of fact exists in relation to other information.<sup>[2]</sup>
- f) Specify audit procedures designed to identify subsequent events that may require adjustment to, or disclosure in, the financial statements of a given entity.<sup>[2]</sup>
- g) Identify and explain indicators that the going concern basis may be in doubt and recognise mitigating factors.<sup>[2]</sup>
- h) Recommend audit procedures, or evaluate the evidence that might be expected to be available and assess the appropriateness of the going concern basis in given situations.<sup>[3]</sup>
- i) Assess the adequacy of disclosures in financial statements relating to going concern and explain the implications for the auditor's report with regard to the going concern basis.<sup>[3]</sup>

## 2. Group audits

- a) Recognise the specific matters to be considered before accepting appointment as principal auditor to a group in a given situation.<sup>[3]</sup>
- b) Identify and explain the matters specific to planning an audit or group financial statements including assessment of group and component materiality, the impact of non-coterminous year ends within a group, and changes in group structure.
- c) Justify the situations where a joint audit would be appropriate.<sup>[2]</sup>
- d) Recognise the audit problems and describe audit procedures specific to a business combination, including goodwill, accounting policies, inter-company trading, the classification of investments, equity accounting for associates, changes in group structure and accounting for a foreign subsidiary.<sup>[3]</sup>

- e) Identify and explain the audit risks, and necessary audit procedures relevant to the consolidation process.<sup>[3]</sup>
- f) Identify and describe the matters to be considered and the procedures to be performed at the planning stage, when a principal auditor considers the use of the work of component auditors.<sup>[3]</sup>
- g) Consider how the principal auditor should evaluate the audit work performed by a component auditor.<sup>[2]</sup>
- h) Explain the implications for the auditor's report on the financial statements of an entity where the opinion on a component is qualified or otherwise modified in a given situation.<sup>[2]</sup>

## E OTHER ASSIGNMENTS

### 1 Audit-related services

- a) Describe the nature of audit-related services and the comparative levels of assurance provided by professional accountants and distinguish between:<sup>[2]</sup>
  - i) audit-related services and an audit of historical financial statements
  - ii) an attestation engagement and a direct reporting engagement.<sup>[2]</sup>
- b) Plan review engagements, for example:<sup>[2]</sup>
  - i) a review of interim financial information
  - ii) a 'due diligence' assignment (when acquiring a company, business or other assets).
- c) Explain the importance of enquiry and analytical procedures in review engagements and apply these procedures.<sup>[2]</sup>

### 2. Assurance services

- a) Describe the main categories of assurance services that audit firms can provide and assess the benefits of providing these services to management and external users.<sup>[3]</sup>
- b) Justify a level of assurance (reasonable, high, moderate, limited, negative) for an engagement depending on the subject matter evaluated, the

criteria used, the procedures applied and the quality and quantity of evidence obtained.<sup>[3]</sup>

- c) Recognise the ways in which different types of risk (e.g. strategic, operating, information) may be identified and analysed and assess how management should respond to risk.<sup>[3]</sup>

### 3. Prospective financial information

- a) Define 'prospective financial information' (PFI) and distinguish between a 'forecast', a 'projection', a 'hypothetical illustration' and a 'target'.<sup>[1]</sup>
- b) Explain the principles of useful PFI.<sup>[1]</sup>
- c) Identify and describe the matters to be considered before accepting a specified engagement to report on PFI.<sup>[2]</sup>
- d) Discuss the level of assurance that the auditor may provide and explain the other factors to be considered in determining the nature, timing and extent of examination procedures.<sup>[1]</sup>
- e) Describe examination procedures to verify forecasts and projections.<sup>[2]</sup>
- f) Compare the content of a report on an examination of PFI with reports made in providing audit-related services.<sup>[2]</sup>

### 4. Forensic audits

- a) Define the terms 'forensic accounting', 'forensic investigation' and 'forensic audit'.<sup>[1]</sup>
- b) Describe the major applications of forensic auditing (e.g. fraud, negligence, insurance claims) and analyse the role of the forensic auditor as an expert witness.<sup>[2]</sup>
- c) Apply the fundamental ethical principles to professional accountants engaged in forensic audit assignments.<sup>[2]</sup>
- d) Plan a forensic audit engagement.<sup>[2]</sup>
- e) Select investigative procedures and evaluate evidence appropriate to determining the loss in a given situation.<sup>[3]</sup>

### 5. Internal audit

- a) Evaluate the potential impact of an internal audit department on the planning and performance of the external audit.<sup>[2]</sup>
- b) Explain the benefits and potential drawbacks of outsourcing internal audit.<sup>[2]</sup>
- c) Consider the ethical implications of the external auditor providing an internal audit service to a client.<sup>[2]</sup>

### 6. Outsourcing

- a) Explain the different approaches to 'outsourcing' and compare with 'insourcing'.<sup>[2]</sup>
- b) Discuss and conclude on the advantages and disadvantages of outsourcing finance and accounting functions.<sup>[3]</sup>
- c) Recognise and evaluate the impact of outsourced functions on the conduct of an audit.<sup>[3]</sup>

### 7. Auditing aspects of insolvency (and similar procedures)

- a) Explain the meaning of, and describe the procedures involved in placing a company into voluntary or compulsory liquidation or administration.<sup>[2]</sup>
- b) Explain the consequences of liquidation or administration for a company and its stakeholders.<sup>[2]</sup>
- c) Advise on the differences between fraudulent and wrongful trading and the consequences for the company directors.<sup>[2]</sup>
- d) Examine the financial position of a company and determine whether it is insolvent.<sup>[2]</sup>
- e) Identify the circumstances where administration could be adopted as an alternative to liquidation, and explain the benefits of administration compared to liquidation.<sup>[2]</sup>
- f) Explain and apply the priority for the allocation of company assets.<sup>[2]</sup>

## **F REPORTING**

### **1 Auditor's reports**

- a) Critically appraise the form and content of an auditor's report in a given situation.<sup>[3]</sup>
- b) Recognise and evaluate the factors to be taken into account when forming an audit opinion in a given situation and justify audit opinions that are consistent with the results of audit procedures.<sup>[3]</sup>
- c) Assess whether or not a proposed audit opinion is appropriate.<sup>[3]</sup>
- d) Advise on the actions which may be taken by the auditor in the event that a modified audit report is issued.<sup>[3]</sup>
- e) Recognise when the use of an emphasis of matter paragraph and other matter paragraph would be appropriate.<sup>[3]</sup>

### **2. Reports to those charged with governance and management**

- a) Critically assess the quality of a report to those charged with governance and management.<sup>[3]</sup>
- b) Advise on the content of reports to those charged with governance and management in a given situation.<sup>[3]</sup>

### **3. Other reports**

- a) Analyse the form and content of the professional accountant's report for an assurance engagement as compared with an auditor's report.<sup>[2]</sup>
- b) Discuss the content of a report on examination of prospective financial information.<sup>[2]</sup>
- c) Discuss the effectiveness of the 'negative assurance' form of reporting and evaluate situations in which it may be appropriate to express a reservation or deny a conclusion.<sup>[3]</sup>

## **G CURRENT ISSUES AND DEVELOPMENTS**

Discuss the relative merits and the consequences of different standpoints taken in current debates and express opinions supported by reasoned arguments.

### **1. Professional and ethical**

- a) Discuss the relative advantages of an ethical framework and a rulebook.<sup>[2]</sup>
- b) Identify and assess relevant emerging ethical issues and evaluate the safeguards available.<sup>[3]</sup>
- c) Discuss IFAC and APB developments.<sup>[2]</sup>

### **2. Information technology**

- a) Describe recent trends in IT and their current and potential impact on auditors (e.g. the audit implications of 'cyberincidents' and other risks).<sup>[2]</sup>
- b) Explain how IT may be used to assist auditors and discuss the problems that may be encountered in automating the audit process.<sup>[2]</sup>

### **3. Transnational audits**

- a) Define 'transnational audits' and explain the role of the Transnational Audit Committee (TAC) of IFAC.<sup>[1]</sup>
- b) Discuss how transnational audits may differ from other audits of historical financial information (e.g. in terms of applicable financial reporting and auditing standards, listing requirements and corporate governance requirements).<sup>[2]</sup>

### **4. Social and environmental auditing**

- a) Plan an engagement to provide assurance on performance measures and sustainability indicators.<sup>[2]</sup>
- b) Describe the difficulties in measuring and reporting on economic, environmental and social performance and give examples of performance measures and sustainability indicators.<sup>[2]</sup>

- c) Explain the auditor's main considerations in respect of social and environmental matters and how they impact on entities and their financial statements (e.g. impairment of assets, provisions and contingent liabilities).<sup>[2]</sup>
- d) Describe substantive procedures to detect potential misstatements in respect of socio-environmental matters.<sup>[2]</sup>
- e) Discuss the form and content of an independent verification statement (e.g. on an environmental management system (EMS) and a report to society).<sup>[2]</sup>

#### **5. Other current issues**

- a) Explain current developments in auditing standards including the need for new and revised standards and evaluate their impact on the conduct of audits.<sup>[3]</sup>
- b) Discuss other current legal, ethical, other professional and practical matters that affect accountants, auditors, their employers and the profession.<sup>[3]</sup>

## SUMMARY OF CHANGES TO P7

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

The main areas to be added to the syllabus are shown in Table 1 below:

**Table 1 – Additions to P7**

<b>Section and subject area</b>	<b>Syllabus content</b>
D1(i)d), g) Assignments	Planning an audit
D2b) Assignments	Group audit planning issues
D2d) Assignments	Audit impact of changes in group structure
F1a) Reporting	Appraisal of auditor's report
F1d) Reporting	Actions which may be taken by the auditor where a modified report is issued
G1c) Current issues	Current APB developments
E 7a), b), c), d), e), f) Other assignments	Auditing aspects of insolvency