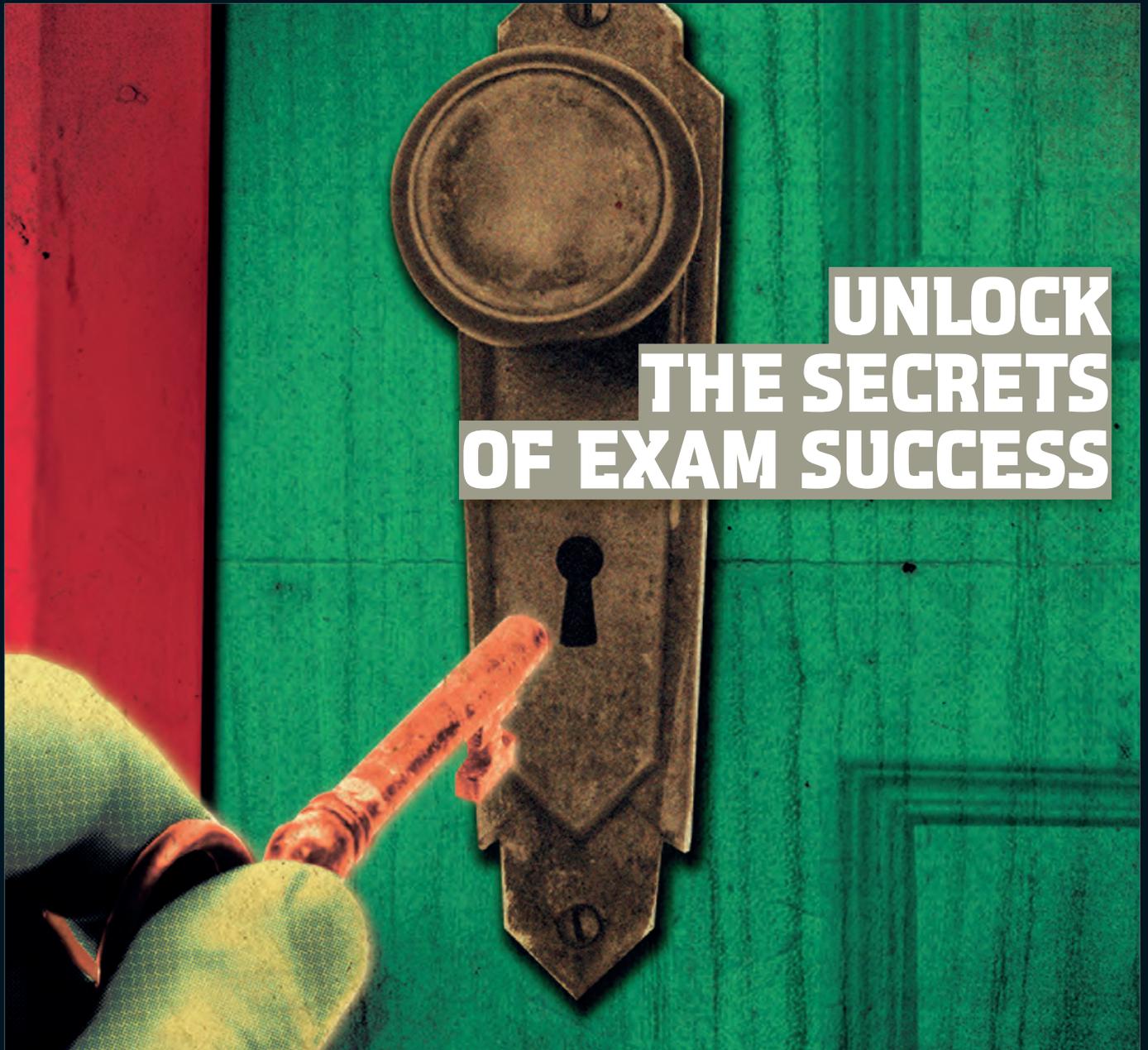


STUDENT ACCOUNTANT
OCTOBER 2011

SA

EXAM ADVICE AND GUIDANCE INCLUDING EXAMINERS' FEEDBACK AND EXAMINABLE DOCUMENTS

RELEVANT TO PAPERS F4 TO F9



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THE ESSENTIAL GUIDE

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EDITOR'S CHOICE



Welcome to this special issue of Student Accountant Essential Guide.

This issue is completely focused on exam-related information that you, as Fundamentals level students, require. It contains a range of tailored advice and information to help you get prepared for the December 2011 session.

We include examiner feedback from the Fundamentals level exams taken in June 2011. This advice looks at overall performance in Papers F4 to F9, outlining areas where candidates obtained both high and low marks. Reading the examiner feedback together with the past exam questions and answers from the latest exam session can help you identify where students have gone wrong in the past, and how to develop your answers to achieve the best marks possible – it is one of the key resources to use in exam preparation.

As well as examiner feedback, this issue contains examinable standards and information relevant to Papers F4, F6 (UK), F7 and F8. Use this information to guide your exam preparation and take note of the areas that you could be examined on.

We include essential information on making the most of reading and planning time which is included in all three-hour exams. We also help you understand the intellectual levels of Fundamentals level exams and how to take note of the verbs used in questions.

The Noticeboard section includes the exam timetable for December 2011 and exam rules and regulations.

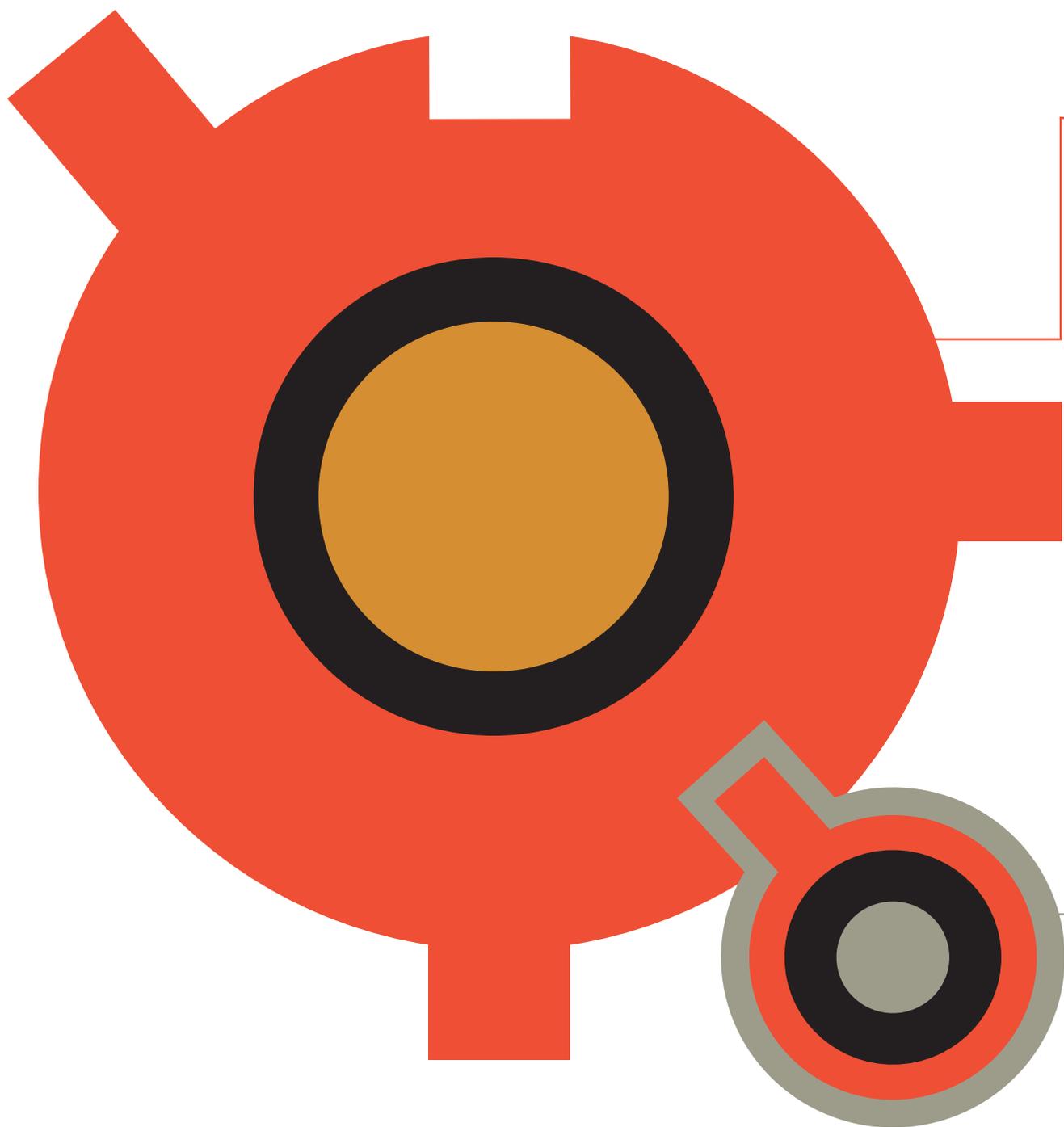
We've produced this magazine to be as helpful to you as possible in the lead up to the December 2011 exams. We have also produced two other tailored magazines for students taking Professional level exams and Foundations in Accountancy/Paper F1, F2 and F3 students. These can be accessed at www2.accaglobal.com/SA

I hope that you find this magazine useful in helping you prepare fully for Papers F4 to F9 in December 2011.

Email me at studentaccountant@accaglobal.com with your feedback on this issue.

Victoria Morgan
Editor, *Student Accountant*
magazine





KEY DATES FOR THE DECEMBER 2011 EXAM SESSION

Exams start **5 December 2011**

For a full list of the exam dates, go to page 61 of this issue



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Email us – studentaccountant@accaglobal.com – your details if you would like to be profiled in *Student Accountant*

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All technical content from *Student Accountant* is on ACCA's website at www2.accaglobal.com/students/student_accountant/archive

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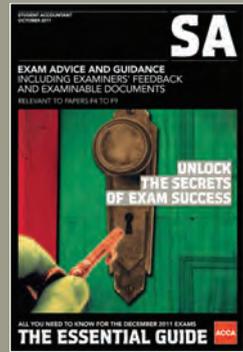
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PRACTICAL EXPERIENCE

Your PER return can be made at any time during the year. Why not log into your *myACCA* account to record your experience gained so far this year?



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STUDENT ACCOUNTANT

In addition to this twice-yearly printed issue, we also email an alert to a new issue of *Student Accountant* every two weeks. Make sure you're keeping up to date with the latest issue at www2.accaglobal.com/sa

EXAM TECHNIQUE

INTELLECTUAL LEVELS AND QUESTION VERBS

We take a look at the intellectual levels for the ACCA Qualification papers, which should help you know how to answer questions that you might be asked to do in an exam.

It is particularly important to consider

the question requirements carefully to make sure you understand exactly what is being asked, and whether each question part has to be answered in the context of the scenario or is more general. You also need to be sure that

you understand all the tasks that the question is asking you to perform.

The different levels of the ACCA Qualification each address different intellectual levels. See table below for further information.

INTELLECTUAL LEVELS

Knowledge and comprehension

Papers F1–F3

- ▣ retention and recall of knowledge
- ▣ understanding of major accounting and business ideas, techniques and theories
- ▣ use of knowledge and techniques in new but familiar situations
- ▣ recognition of fundamental cause and effect in accounting.

Application and analysis

Papers F4–F9

- ▣ analysis of unfamiliar situations to prepare reports and solve problems using relevant concepts and theories
- ▣ recognition of subtle or hidden information patterns and trends within financial and other information, and the ability to interpret these
- ▣ the ability to infer from given information and draw conclusions.

Evaluation and synthesis

Papers P1–P7

- ▣ generalisation, comparison and discrimination using complex and unstructured information
- ▣ assessment and evaluation of complex information
- ▣ use of reasoned argument to infer and make judgments
- ▣ presentation and justification of valid recommendations.

ACCA examiners have highlighted the lack of understanding of the requirements of question verbs as the most serious weakness in many candidates scripts. Given below are some common question verbs used in exams.

QUESTION VERBS

Analyse *Intellectual level 2, 3 Actual meaning* Break into separate parts and discuss, examine, or interpret each part *Key tips* Give reasons for the current situation or what has happened.

Apply *Intellectual level 2 Actual meaning* To put into action pertinently and/or relevantly *Key tips* Properly apply the scenario/case.

Assess *Intellectual level 3 Actual meaning* To judge the worth, importance, evaluate or estimate the nature, quality, ability, extent, or significance *Key tips* Determine the strengths/weaknesses/importance/significance/ability to contribute.

Calculate *Intellectual level 2, 3 Actual meaning* To ascertain by computation, to make an estimate of; evaluate, to perform a mathematical process *Key tips* Provide description along with numerical calculations.

Comment *Intellectual level 3 Actual meaning* To remark or express an opinion *Key tips* Your answer should include an explanation, illustration or criticism.

Compare *Intellectual level 2 Actual meaning* Examine two or more things to identify similarities and differences

Key tips Clearly explain the resemblances or differences.

Conclusion *Intellectual level 2, 3 Actual meaning* The result or outcome of an act or process or event, final arrangement or settlement *Key tips* End your answer well, with a clear decision.

Criticise *Intellectual level 3 Actual meaning* Present the weaknesses/problems; evaluate comparative worth Don't explain the situation. Instead, analyse it *Key tips* Criticism often involves analysis.

Define *Intellectual level 1 Actual meaning* Give the meaning; usually a meaning specific to the course or subject *Key tips* Explain the exact meaning because usually definitions are short.

Describe *Intellectual level 1, 2 Actual meaning* Give a detailed account or key features. List characteristics, qualities and parts *Key tips* Make a picture with words; identification is not sufficient.

Discuss *Intellectual level 3 Actual meaning* Consider and debate/argue about the pros and cons of an issue. Examine in-detail by using arguments in favour or against *Key tips* Write about any conflict, compare and contrast.

Evaluate *Intellectual level 3 Actual meaning* Determine the scenario in the light of the arguments for and against *Key tips* Mention evidence/case/point/issue to support evaluation.

Explain *Intellectual level 1, 2 Actual meaning* Make an idea clear. Show logically how a concept is developed.

Give the reason for an event *Key tips* Don't just provide a list of points, add in some explanation of the points you're discussing.

Illustrate *Intellectual level 2 Actual meaning* Give concrete examples. Explain clearly by using comparisons or examples *Key tips* Add in some description.

Interpret *Intellectual level 3 Actual meaning* Comment on, give examples, describe relationships *Key tips* Include explanation and evaluation.

List *Intellectual level 1 Actual meaning* List several ideas, aspects, events, things, qualities, reasons, etc *Key tips* Don't discuss, just make a list.

Outline *Intellectual level 2 Actual meaning* Describe main ideas, characteristics, or events *Key tips* Briefly explain the highlighted points.

Recommend *Intellectual level 3 Actual meaning* Advise the appropriate actions to pursue in terms the recipient will understand *Key tips* Give advice or counsel.

Relate *Intellectual level 2, 3 Actual meaning* Show the connections between ideas or events *Key tips* Relate to real time examples.

State *Intellectual level 2 Actual meaning* Explain precisely *Key tips* Focus on the exact point.

Summarise *Intellectual level 2 Actual meaning* Give a brief, condensed account Include conclusions. Avoid unnecessary details *Key tips* Remember to conclude your explanation.

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IMPROVING EXAM PERFORMANCE

Our twice-yearly examiner reports include not only technical guidance on how to answer specific questions, but also a wealth of advice on exam preparation and technique. Summarised here, this advice can be used to help improve your performance in future exam sessions.

USING RESOURCES

It is very important to only use the most up to date study materials. Older materials, perhaps borrowed from a friend or bought second hand, often refer to old rules, or to rates which are no longer examinable. This is particularly relevant to papers dealing with taxation, financial reporting, law and auditing.

Revise the entire syllabus, using the *Study Guide* to help you monitor progress. Don't focus your revision on favourite subjects, or 'core' topics, as this strategy rarely gives you the chance to earn enough marks to pass. By covering the entire syllabus, not only are you fully prepared for the exam, but you are also taking a mature approach, worthy of a professional accountant.

Practise using as many past papers as possible. For papers where legislation and standards are regularly updated, it is important to purchase revision or exam kits produced by the Approved Learning Partners – content who will have updated the original ACCA questions and answers for all such changes. Also review suggested answers, absorb examiner's comments in the examiners' reports on previous candidates' performances, available for each past paper, and read related articles in *Student Accountant*. In particular, look at the *Pilot Paper*, which is the best guide to question style and shows the split between numerical and non-numerical questions.

REVISION STRATEGIES

Don't question spot by analysing past papers. In a previous session, for example, many candidates clearly assumed a specific theory wouldn't come up because it had been examined the session before. This assumption was wrong, and so those candidates lost the opportunity to gain marks.

When reviewing past papers, **don't memorise model answers** in the hope of using them in the exam. As every paper is different, repeating old answers can never be appropriate – and markers will quickly spot when they are being used.

Don't question guess. Some candidates consider the technical articles in *Student Accountant*, and the examiner's reports, as a guide to the questions that will appear in the next exam session. They are not. Technical articles do cover future exam topics, but also deal with subjects less well covered in approved study texts, or provide an update to study material in the light of recent events.

Success **requires extensive study and practice.** Question spotting and short, intensive revision sessions are unlikely to be successful.

Don't rely on numerical ability alone, especially in the more advanced papers. At this level candidates must always demonstrate analytical and evaluative skills, shown by linking their theoretical learning to a specific case study.

EXAM TECHNIQUE – GENERAL ADVICE

In the exam centre, good technique can make a difference between a marginal pass and fail. Use past papers to practise your exam technique, as well as your technical skills, and pay particular attention to the **appropriate exam style for each paper.** For example, where a question is worth four marks,

brief succinct answers are all that are required.

Good time management is crucial, so use the mark scheme to guide your timing. Apportion the time you have available to the mark allocation for each section, each question, and each question part. This will give you a minute by minute breakdown of your ideal exam progress.

Good time management is especially important when scenarios are rich in detail. Such scenarios always include more points which could be made than the marks on offer, so a careful review of material is required, tailored to the mark allocation, along with a disciplined approach to time management.

Don't answer more questions than the paper asks you to – this is a waste of time and does not gain any more marks.

In discursive papers, be prepared to **explain and discuss.** Unless specifically asked for, simple statements in a list, for example, will rarely be enough to gain full marks.

Don't use the points raised by one question to answer another. It's very unlikely that separate exam questions are linked, but candidates often repeat points across questions as if there were a deliberate connection.

PRESENTATION

When writing in your answer booklet, **put the relevant question number at the top of each page** used to write the answer. Although candidates may answer exam questions in any order on the answer booklet they are strongly recommended to complete each part of a question in order and to keep all answers to parts of questions together in the booklet. This makes marking more manageable and reduces the scope for error or omission.

Don't use the same page in the answer booklet to answer several different questions – start the answer to each new question on a fresh page. Different parts to the same question can be continued on the same page.

Although possibly a sign of poor planning, **it is acceptable to start a question, move on to another, and then**

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GOOD TIME MANAGEMENT IS CRUCIAL, SO USE THE MARK SCHEME TO GUIDE YOUR TIMING. APPORTION THE TIME YOU HAVE AVAILABLE TO THE MARK ALLOCATION FOR EACH SECTION, EACH QUESTION, AND EACH QUESTION PART. THIS WILL GIVE YOU A MINUTE BY MINUTE BREAKDOWN OF YOUR IDEAL EXAM PROGRESS.

ADDITIONAL ADVICE FOR RE-SIT CANDIDATES

- Identify those **areas of the syllabus where you were weakest** – work to improve your knowledge of these areas.
- Review your time management** and see if it can be improved.

return to the first question later – just make sure that each answer is clearly labelled and starts on a new page.

Illegible handwriting can result in missed marks if a correct answer cannot be understood. As handwriting is rarely used now in business, you need to practise this skill so that your answers remain legible throughout the exam.

Don't write out the question at the start of your answer; this wastes valuable time and gains no marks. Likewise, **do not restate the scenario or facts from the question.**

When writing an answer, **avoid using elaborate headings** (in different colours or text styles, for example), which take time to create. **Clear headings are important**, but simple underlining is enough.

Take care with the **presentation of short as well as long answers**, paying attention to use of language and general structure.

QUESTION BY QUESTION

Read the question carefully and think before you write. Questions are often answered poorly or incorrectly because key words or instructions are ignored or misunderstood. For example, don't provide general lists when specific examples, perhaps related to a case study, are required. Always apply your knowledge to the facts by reference to the requirement.

Answer the question on the paper, not the one you want to see – this can often happen with questions on subjects which appear regularly, and which candidates have practised many times before.

Read the whole question before you begin your answer. Many candidates answer one part before realising that some of the points made were more relevant to other question parts. This results in wasted time, as information is repeated.

Questions are worded very carefully, so note the **command words or verbs used, the precise issues to be addressed, and guidance on the answer approach.** By paying attention to all these aspects, you have a much better chance of giving the right information in your answer, in the correct format, and written in the appropriate style. **Don't focus on one word;** pay attention to the wider requirements and make sure your answer reflects these.

When asked to provide a specific number of points, **don't make similar points just to reach the target number.** Rephrasing an earlier answer (such as writing both 'an inability to make profits' and 'making of losses') will only gain one mark.

Don't provide general explanations or long introductions – these are a waste of time.

Think carefully when asked to 'criticise' – you are being asked to show your knowledge of expectation or best practice (against which to measure the given example) and show that you have carefully analysed the case study or scenario used.

Pause before preparing calculations: consider any advice given in the question, review the requirement, and think about how to solve the problem before putting pen to paper.

When performing calculations, judge carefully when to detail workings.

For minor calculations, pages of unhelpful workings are time consuming to produce and difficult to mark. More complex calculations do require referenced workings, however, and marks can be lost if an incorrect figure is provided but no method shown, as a correct method can earn partial credit.

Read specific exam feedback from the examiners for Papers F4 to F9 from page 15.

PRACTISE USING AS MANY PAST PAPERS AS POSSIBLE. FOR PAPERS WHERE LEGISLATION AND STANDARDS ARE REGULARLY UPDATED, IT IS IMPORTANT TO PURCHASE REVISION OR EXAM KITS PRODUCED BY THE APPROVED LEARNING PARTNERS – CONTENT WHO WILL HAVE UPDATED THE ORIGINAL ACCA QUESTIONS AND ANSWERS.





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EXAM DAY PREPARATION

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Examination Attendance Dockets are dispatched three weeks before your first exam. The *Examination Attendance Docket* includes a timetable of all the exams you are entered for, and details the desk assigned to you for each paper. Importantly, it also gives the address of your exam centre. If you are not sure where the centre is, how to get there, or how long the journey may take, check out your route before the exam. Make allowances for rush hour traffic or other possible delays if your exam starts at a busy time of day. Try to arrive at the exam centre about 30 minutes before

the exam is due to start. This will give you time to relax and prepare yourself.

Bring your *Examination Attendance Docket* to your exam as it will be used to verify your attendance. You must sit at the desk shown on your docket. The supervisor will collect your *Examination Attendance Docket* during the exam, so please keep it available on your desk. If you have any other exams during the session, the *Examination Attendance Docket* will be returned to you. If it is your last (or only) exam, the supervisor will keep the *Examination Attendance Docket* for ACCA's records.

The *Examination Attendance Docket* also details important exam regulations and guidelines that you must abide by during the exams; read these carefully, and make sure you only take permitted equipment into the exam. The exam rules and regulations appear regularly in the Noticeboard section of *Student Accountant*.

Duplicate *Examination Attendance Dockets* can be downloaded via *myACCA*.

Also remember to take your *Student Registration Card* to each exam, as this will be checked in order to verify your identity.

WHEN YOU ARRIVE AT YOUR EXAM DESK

On your exam desk will be:

- ▣ a *Candidate Answer Booklet*
- ▣ the *Examination Question Paper*.

Check that you have the booklet, and the correct version of the exam paper, before the exam begins. If you have any queries, raise your hand and an invigilator will come to you.

EXAM REGULATIONS

Before your exam starts, the supervisor will make any announcements and go through the exam regulations.

If you have any queries once the exam starts – for example, if you want additional booklets or need to go to the bathroom – raise your hand. An invigilator will attend to you.

For security reasons, because ACCA holds exams worldwide, you must remain in the exam hall until the end of the exam. All papers – including your *Question Paper* and *Candidate Answer Booklets* – will be collected before you are allowed to leave.

READING AND PLANNING TIME

In a three-hour exam, candidates have 15-minutes' reading and planning time in addition to the three-hours' writing time. This time should be used to:

- ▣ read requirements carefully
- ▣ gain a better understanding of verbal and numerical data
- ▣ make notes

DON'T FORGET

- ✓ Submit an exam entry at any time
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OUR NEW EXAM ENTRY DATES

JUNE EXAMS

8 March	Early exam entry (online only)
8 April	Standard exam entry (online and paper)
8 May	Late exam entry (online only)

DECEMBER EXAMS

8 September	Early exam entry (online only)
8 October	Standard exam entry (online and paper)
8 November	Late exam entry (online only)



HOW WILL YOU REMEMBER?

www.accaglobal.com/dontforget

- carry out preliminary calculations
- decide on exam strategy.

See page 44 for more on reading and planning time.

HOW TO MAKE POINTS AND PRESENT ANSWERS

It seems obvious, but answers must be appropriate to the requirement in terms of form, length and depth.

Ideally, answer questions using clear and relatively short sentences, although answer length does depend on the instructional verbs used in the requirement.

For example, for requirements asking for a 'list', or a 'brief description', bullet points or brief points will be adequate. If 'explanation' is required, then fuller answers should be given; each valid point will normally attract a mark, depending on the mark allocation.

If a requirement asks for analysis or evaluation, then develop points logically, relevantly, and coherently, thereby gaining the additional marks available.

Set out answers so that the marker can clearly see the points being made. ACCA does not penalise candidates for poor grammar or style, especially in the Foundations in Accountancy and Fundamentals level exams, as long as points can be understood by the marker. However, by making points succinctly you can also earn marks more quickly and efficiently.

Avoid numbering the points made within an answer, unless the numbering relates to that used in the question (see above). Additional numbering can be very confusing for markers.

If a diagram, figure or table is needed to illustrate an answer (such as 'Porter's five forces', for example) then support it with a full explanation. This tells the marker that you understand the model, theory or concept being illustrated.

TIME MANAGEMENT

In an exam, effective time management is vital. If a candidate runs out of time, then some questions (or parts) will be left unfinished and marks lost.

The key to good time management is to divide the time allowed between the marks available. For example, in a three-hour exam allow 1.8 minutes per mark, and in a two-hour exam allow 1.33 minutes per mark. This allocation gives a rough guide as to how long to spend on a question or part. Candidates often waste time by:

- working on a requirement for longer than necessary because they wish to correct a mistake and amend all related follow-on figures
- feeling they have so much to say

THE GLOBAL PASS RATE FOR ANY EXAM IS VERY SENSITIVE TO THE PERFORMANCE OF MARGINAL CANDIDATES. IF THESE CANDIDATES GAIN AN EXTRA MARK, THEN NOT ONLY WILL THEY PASS, BUT THE GLOBAL PASS RATE WOULD BE HIGHER.

about a certain requirement that they 'dump' all their knowledge in the *Candidate Answer Booklet*

- persevering for too long with a question even though they are struggling.

Candidates can avoid these problems as follows:

- If you discover an error in a calculation or on a financial statement, only correct the initial error. Don't waste time making all the follow-through corrections. By leaving the original error uncorrected, the only mark(s) lost are those associated with that particular entry or calculation as ACCA uses a 'method' or 'own figure' marking policy. If the method adopted is correct, credit will always be given, despite incorrect numbers being used.
- Only make as many points as there are marks available. For example, if five marks are available for discussing a theory, only make five (or possibly six) separate points. If the total mark available is a round number, then the examiner usually awards one mark per relevant point made. So, in this situation, even making 10 relevant points will earn no more than the maximum five marks available, and so writing those additional points wastes time.
- If you are struggling to get to grips with a requirement, move on to the next requirement, or even question, leaving enough blank pages in your *Candidate Answer Booklet* to complete it later.

CONCLUSION

The global pass rate for any exam is very sensitive to the performance of marginal candidates. If these candidates gain an extra mark or two, then not only will they pass, but the global pass rate would be significantly higher.

The guidance in this article can really make a difference, so remember the following:

- find out where your exam centre is, and how to get there, leaving yourself plenty of time
- turn up to the exam on time and bring your *Examination Attendance Docket* with you
- bring the right equipment, including an appropriate calculator and pens with black ink
- complete the *Candidate Answer Booklet* properly
- use reading and planning time effectively
- keep all answers relating to question requirements together and in order and start each question on a new page
- start the answer to a new requirement in a new paragraph
- start each answer point on a new line
- write points concisely and clearly
- relate the length and depth of answers to the instructional verbs used
- correct only the original error in calculations or financial statements
- make only the number of points required for the marks available
- move on to another requirement if you are stuck.



FEEDBACK

EXAMINERS' FEEDBACK

From the June 2011 exam session

Examiners' feedback provides guidance on past ACCA exam performance and suggests ways in which students can achieve higher exam results

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EXAM FEEDBACK

PAPER F4 (GLO)

CORPORATE AND BUSINESS LAW

The performance in this paper was above satisfactory. While many candidates performed very well, it still has to be recognised that a significant number of candidates were less well prepared, and, unfortunately, did not meet the required standard to pass the exam. As has been stated repeatedly, it is an unfortunate fact that reports such as this one tend to focus on what went wrong, but we should initially congratulate those who did so well in passing the exam and the substantial number who performed exceptionally well.

The structure of the paper, as usual, consisted of 10 compulsory questions, each carrying 10 marks. Apart from the first question, each of the first seven questions was subdivided into smaller subsections and it is thought that this may have helped candidates to structure their answers. Although this structure may have had the consequence that candidates wrote more than necessary to gain the marks available it is felt, nonetheless, that the structure was advantageous on the whole. These first seven questions were essentially knowledge based, while the latter three were problem-based scenarios requiring both legal analysis and application of the appropriate law.

The number of candidates who did not attempt all of the questions remains lower than when the current syllabus and structure were initially introduced. This would appear to support the conclusion that candidates and tutors are coming to terms with the width of the syllabus.

Where candidates failed to attempt all of the questions, this appeared to be as a result of a general lack of knowledge in relation to particular questions, rather than based on any time pressure or structural difficulties in the questions. That being said it is still a fact that the last three problem scenario-based questions continue to provide grounds for concern. Too many candidates were let down by their performance in those questions, which continues to suggest a general lack of analysis and application skills, if not general knowledge.

WHERE CANDIDATES FAILED TO ATTEMPT ALL OF THE QUESTIONS, THIS APPEARED TO BE AS A RESULT OF A GENERAL LACK OF KNOWLEDGE IN RELATION TO PARTICULAR QUESTIONS, RATHER THAN BASED ON ANY TIME PRESSURE OR STRUCTURAL DIFFICULTIES IN THE QUESTIONS.

It also still remains the case that that some candidates are engaging in question spotting and as a result produce prepared, but inappropriate, answers to some questions.

SPECIFIC COMMENTS

QUESTION 1

This question was not actually split into two parts but was effectively so divided. The initial task required candidates to explain the difference between criminal and civil law and to demonstrate their understanding by providing examples of each category. Although this topic had never been examined previously, it was done particularly well, with a significant number of candidates scoring full marks. Some candidates did struggle with the need for statutory examples, but were awarded marks where they outlined the types of cases brought civilly compared to those which were criminal. Where candidates did not perform well this tended to be because they engaged in irrelevant discussion on the difference between common law and statute and/or the rules of legal interpretation.

The second element in the question required candidates to identify the courts that deal with civil law and criminal law. Again this was extremely well answered, with only a small number of candidates making mistakes.

QUESTION 2

This question required candidates to consider aspects of the UNCITRAL Model Law on International Commercial Arbitration relating to the way in which members of an arbitration panel are appointed and the way in which they reach their decisions. It was divided into three parts in an endeavour to structure candidates' responses and the performance in this aspect of the syllabus has improved.

That being said it was noticeable that Part (a) relating to the procedures for appointing the members of an arbitration panel, and carrying four marks, was better done than the other two elements of the question.

QUESTION 3

This question, based on the United Nations Convention for the International Sale of Goods (UNCISG), was split into two parts, each carrying five marks. Part (a) required candidates to explain the law relating to the making of binding contractual offers and Part (b) to the circumstances under which such offers may be terminated.

Both elements of the question were equally well done with many candidates gaining full marks. Clearly candidates and learning providers are confident in their knowledge of UNCISG. There were many fewer candidates attempting to answer the question through the misapplication of incompatible English law principles than have done previously.

QUESTION 4

This question was once again divided into two parts, each carrying five marks. Part (a) required candidates to explain the law relating to company promoters. Although not examined particularly frequently, it is a topic that seems to appeal to candidates and, on the whole, it was done fairly well, although perhaps not as well as it might have been done. While most candidates recognised that a promoter was a person who takes steps to form a company, some candidates wrote at great length about a promoter having a duty to 'promote a company' in terms of the marketing, advertising and generating of revenue, which demonstrated a misunderstanding of the question and terminology. Most candidates stated that a promoter had a duty to submit Form 10, the articles and memorandum of association, but a number failed to acknowledge promoters' fiduciary duties and the consequences of breaching those duties. Some answers gained their marks from their general knowledge of the procedure for registering companies, rather than any detailed awareness of the rules relating specifically to promoters, which again indicates a dangerous reliance on topic spotting.

One related point worth making in relation to this part of Question 4 was the number of candidates who wrote about pre-incorporation contracts, which was the topic specifically of Part (b). This would indicate that candidates had either not read the full question, or were regurgitating prepared answers. This meant that on many occasions candidates repeated what they had written in Part (a) in Part (b), a waste of time that a closer reading of the question, or a more confident knowledge of the topic, would have avoided.

In Part (b) most candidates were able to recognise that a pre-incorporation contract was one which was entered into prior to the formation of the company, almost but not quite a given. Some answers went a step further and explained the circumstances of such contracts, liability on them and how personal liability could be avoided. This was generally well done.

QUESTION 5

This question required candidates to consider the procedures relating to the issuing of shares to the public and the rules relating to the payment for shares issued. Part (a) related to payment at a premium and carried five marks, as did Part (b) which related to payments at a discount. Before considering each part in detail it should be noted that, although the question specifically located the issues in the context of the doctrine of capital maintenance, very few candidates referred to that issue, which could have been addressed in either element of the question. Invariably those who did consider capital maintenance gained very high, if not full, marks.

Part (a) was an accountancy focused question and it was expected that candidates would score quite highly. However, answers tended to be brief and merely too state that a share was an interest in a company, a premium was the difference between market value and nominal value, and did not go any further. Where, as was required, candidates gave examples of a share premium and explained the function of the share premium account and the fact that it was an undistributable reserve, marks were awarded.

In Part (b) most candidates explained that shares were issued at a discount if they were issued at less than market value. In many instances, detailed explanations of the difference between bonus issues and rights issues and the rights of existing shareholders then ensued. This was not relevant and showed a lack of understanding in this area around the terminology and the impact of issuing shares at a discount overall. In addition, it is an example of an ongoing problem that has been referred to in previous exam reports, namely the use of previous exam questions/answers as templates for immediately current exam questions. In this instance, the December 2010 exam had contained a question about share issues, focusing on rights and bonus issues. Clearly some candidates

for the June 2011 exam used the model answer for the December 2010 exam as the basis for their answer this question, totally erroneously.

QUESTION 6

This question required candidates to explain three specific aspects of corporate governance

Part (a), for three marks, required an explanation of what was actually meant by the term 'corporate governance'. Answers were mixed. Most candidates scored at least one mark by stating that corporate governance was a set of rules and regulations, which advised how companies should operate. Some answers explained the need for rules relating to corporate governance in the context of recent corporate scandals and crises. Some mentioned the various committees that led to the current code, which showed a sound understanding of the history of the corporate governance rules.

Part (b), also for three marks, required some substantive knowledge of the current code of corporate governance. Quite a few candidates omitted this part of the question. For those who did attempt it, answers were either accurate and very well informed or guessed at what the governance code was designed to do, often repeating the rules and regulations point from Part (a).

Part (c), for four marks, required a consideration of the role of non-executive directors (NED) in the context of corporate governance. On the whole it tended to be very well done, with most candidates able to explain the role of the NED. However, some candidates chose to interpret this question as being about the different types of directors and their duties. It would once again seem that candidates had prepared for a question that had appeared in a previous exam paper and consequently a lot of time was wasted making irrelevant points for those candidates who adopted this approach.

QUESTION 7

This question relating to the transport documentation required candidates to explain specific aspects of 'bills of lading' with particular regard to their role in the passage of risk in relation to goods under carriage. Both parts carried five marks. The first part of required candidates to discuss generally the meaning of the term bill of lading. The second part required a consideration of the function of bills of lading in the passage of risk for goods.

On the whole the question was dealt with in an adequate way, but with the general aspect being better done than the second part.

QUESTION 8

This was the first of the three analysis/application questions. It required an understanding of, and an ability to apply, the rules relating to early delivery and delivery of excess goods under Article 52 of the UN Convention for the International Sale of Goods (UNCISG). By and large the question was dealt with well, and even those candidates who did not have a detailed grasp of the provisions on UNCISG were able to garner marks from an almost 'common sense' working out of first principles from the market context of the question.

Those candidates who actually were aware of the precise provision of the Convention scored very highly in this question.

QUESTION 9

This question focused on director's authority and whether the informal chief executive had the authority to enter into a contract. It required knowledge of, and application of, the rules relating to the powers of agents generally and the powers of directors as agents, specifically. The better answers made reference to the foregoing and in particular cited the authority of *Freeman and Lockyer v Buckhurst Park Properties (Mangal) Ltd* in support of their analysis. The very best also cited *Hely-Hutchinson v Brayhead Ltd*.

While some quality answers were produced, a significant number of candidates thought that the scenario involved a pre-incorporation contract and that Hope was a promoter – even though the question was extremely clear that the company had been formed some 12 months ago. The adoption of such an approach is an instance of a technical weakness that has been commented in previous exam reports; the use of topics which appear in the first seven questions to answer the problems in the final three scenario questions. It is extremely unlikely that there will be any significant overlap between the two sections of the paper and candidates should be aware of this.

Some candidates also interpreted the question to be about directors' duties in general and so a lot of time was wasted describing the statutory duties which a director has. However, once again, this area is clearly what those candidates

had prepared for on the basis of recent past papers.

QUESTION 10

This question focused on limited liability of shareholders and the payments due in winding up of a company. While the majority of candidates recognised this, there were a lot of answers which discussed the procedure for winding up, the difference between a voluntary and compulsory winding up and the fact that this was a partnership and not a limited liability company. Some candidates also went down the route of wrongful and fraudulent trading and 'lifting the veil of incorporation'. This question did cause a few problems but as in other questions within this exam, candidates often chose to write about what they wanted, rather than the actual question set.

Some quality answers were produced though, which recognised the differences in priority between fixed and floating charges and the impact of a personal guarantee.

PAPER F5

PERFORMANCE MANAGEMENT

This was my second paper as the examiner and the first paper after the minor syllabus changes. The structure of the paper remained the same as in previous sittings – five questions worth 20 marks each. While this paper did not include a purely written question, Question 4 included a purely narrative requirement worth 10 marks. The paper was 57% computational and 43% narrative.

The pass rate on this paper was slightly lower than the previous sitting. It was clear from marking that Question 1 seemed to pose a particular problem for candidates, with the majority being unable to construct an accurate payoff table. Similarly, while many candidates were able to produce the flexed budget required for Question 3, most were not able to tackle the discursive elements of this question. On the whole, Question 2 was the best answered, although few candidates were able to calculate an optimum price and quantity for the product in this question.

While there were a notable amount of really high marks (in the 70s and 80s) but there was also a significant amount of really low marks (many less than 20%). It looked like some candidates yet again had not revised some of the key areas. Paper F5, by its nature, is a fairly challenging paper. It is a paper that requires a significant level

WHILE THERE WERE A NOTABLE AMOUNT OF REALLY HIGH MARKS (IN THE 70s AND 80s) FOR PAPER F5, THERE WAS ALSO A SIGNIFICANT AMOUNT OF REALLY LOW MARKS (MANY LESS THAN 20%). IT LOOKED LIKE SOME CANDIDATES YET AGAIN HAD NOT REVISED SOME OF THE KEY AREAS.

of work in order to pass it. It relies on learning/revising a substantial number of management accounting techniques and then also being able to explain them and understand the impact of their results on the business. If you want to pass it, put some work in and use all of the resources available to you – past exam papers, *Student Accountant* technical articles, past examiner's reports etc, all of which are available on the ACCA's website.

SPECIFIC COMMENTS

QUESTION 1

This question covered decision making under conditions of uncertainty. Part (a) required the construction of a pay-off table. This should have been easy but only about 5% of candidates got this completely correct. A vast number of candidates applied the probabilities to the profit figures before including the amounts in the table. Many tables were not clearly labelled and few candidates grasped the fact that any unsold bags of cement produces a loss of \$4.50 in total (\$4 buy in cost and \$0.50 disposal cost). Part (b)(i) and (ii) were fairly well attempted (identifying the level of production using maximin and maximax) but even then, most correct answers were not justified as requested and only therefore scored half marks. It didn't matter whether justification had been given by either words or numbers but usually, there was neither. The requirement to calculate the expected value in Part (b)(iii) was worth the most marks and it was really surprising to see that 90% of candidates could not do this. They seemed to think that the expected value could be calculated by working out the expected demand level (by applying the probabilities to the three demand levels) and then applying this to an expected profit figure. They were confusing the scenario given, where a decision has to be about how much of a product to supply given three alternative levels of supply, to a scenario where there is only supply level available (eg a one off event) but there are two sets of uncertainties (eg different demand levels and different profit levels.) In the latter situation, the

expected value can be calculated by working out the expected demand and the expected profit, but where there are three potential supply levels, there will be three expected values to calculate, with the highest then being selected. Candidates are clearly confused in this area and need to study it further.

The discursive part of this question was answered well in relation to maximin and poorly in relation to expected value, again because of the fundamental misunderstanding described above.

QUESTION 2

This question covered pricing and learning curves. The requirement to calculate the optimum price and quantity in Part (a) was new to the syllabus in June 2011 and about half of candidates seemed not to have revised it and could not attempt it. Many candidates managed to score one or two marks for establishing the demand function. It was pleasing to see some good attempts at Part (a)(ii) which tested the ability to adjust the labour cost for the learning effect. Quite a few answers were perfect. The most common mistake was including the fixed cost in the cost of the air conditioning unit when it was the marginal cost which was being tested. At this level it is expected that candidates will have a good understanding of what 'marginal' means

Part (b) was really well answered, with most candidates being able to describe both pricing strategies and suggest a suitable one. A good, logical approach was adopted by most: explain market skimming, explain penetration pricing and then explain which one would be most appropriate for Heat Co.

QUESTION 3

Part (a) required the preparation of a fairly simple flexed budget. Many candidates answered this well and easily scored nine out of the 12 marks available, tripping up only on the staff wages and energy costs calculations. There were some candidates who had no idea what a flexed budget was but these

were definitely in the minority. When you prepare a flexed budget, its format should replicate the original budget that it relates to. So, for example, if the original budget totals up variable costs, so should the flexed budget. This makes it easier to compare like with like. Some candidates did not do this but again, they were in the minority and, on the whole, the answers were good.

In Part (b) candidates were provided with the sales mix contribution variance and the sales quantity contribution variance and asked to describe each of them and identify why they had arisen. Many candidates confused the sales mix with the materials mix and talked about the latter. Also, many candidates could not describe the quantity variance or identify why it had arisen. There is clearly a lack of understanding about variances, with candidates perhaps learning formulae in order to churn out calculations but not really understanding what the variances mean to a business. This area needs more work by the majority of students.

Part (c) contained the higher skill marks on the paper. Only a few candidates were able to show that planning and operational variances needed to be calculated so that the manager would only be assessed on results that were within his control.

QUESTION 4

Part (a) was a purely written requirement asking candidates to describe the balanced scorecard approach to performance management. Although it was asked in the context of a company, Brace Co, the question was generic in nature. There were some good answers to this, although the structure of answers could have been better. It is really hard to mark a question like this where candidates' answers are just a 'sea of words', ie one or two sides of tightly written text with no headings and often not even any paragraphs. Given that there are four perspectives contained within the balanced scorecard approach, it was appropriate to give a short introduction and then say a little bit about each perspective under its heading. By this stage, candidates need to start writing more professionally, otherwise they are going to be ill-prepared for the Professional level papers, where marks will be specifically allocated for professional writing and well-formatted answers. Although professional marks are not available at this level, candidates should realise that

it's far easier to earn more marks where the candidate clearly separates out the points he or she is making.

Part (b) asked for calculations of residual income and return on investment and commentary on the results. About half of candidates scored full marks on the calculations but some had no idea how to calculate ROI/RI. As for the commentary, most answers were poor, illustrating that there is little understanding of what these figures actually mean.

QUESTION 5

Finally, throughput accounting. In this question, throughput was tested in a service centre context rather than the usual traditional manufacturing context. While I accept that this may have unnerved some candidates, we all need to learn to move with the times and be capable of using management accounting techniques in environments other than traditional manufacturing ones. The service sector is of critical importance in many countries and throughput accounting is used in it, hence the question. Candidates were told that 'hospital costs' were comparable to 'factory costs' in a manufacturing environment in order to help them.

Answers to Part (a) were very mixed. There were quite a few totally correct ones and most candidates managed to score some of the six marks. More problematic was Part (b). Calculating the optimum product mix is simple key factor analysis, regardless of whether the calculations are based on maximising throughput, as in this case, or maximising contribution. It is a technique which all trainee accountants should be familiar with. Clearly, not much revision of this area had taken place because answers were fairly poor.

Part (c) was more about a common sense approach to numbers than anything else and most candidates scored two or three marks. It was necessary to identify the fact that there was enough spare capacity for all staff except the surgeon to perform the additional 696 procedures. Then, a basic calculation showing the extra throughput less the extra costs needed to be performed. No complex calculations were needed and most candidates managed a basic one. It was reassuring to see a degree of common sense in answers, although few identified that the recovery specialist's surplus hours needed to be worked out in order to be sure that enough

spare capacity was available for this staff member.

PAPER F6 (UK) TAXATION

Candidates performed very well at this session, and it was pleasing to see how well the first Paper F6 inheritance tax question was answered. One particular problem at this sitting was that candidates wasted quite a bit of time where something should have been obvious without having to produce detailed calculations, and also where more calculations were done than was necessary because the requirements were not read properly. This is where the reading time should be put to good use.

SPECIFIC COMMENTS QUESTION 1

In Part (a)(i) candidates had to calculate a taxpayer's tax adjusted trading profit. Then in Part (a)(ii) they had to calculate the income tax payable by the taxpayer for the tax year 2010–11. The taxpayer had received director's remuneration (including two bonuses), dividends, interest on the maturity of a savings certificate issued by National Savings & Investments, and interest from government stocks (gilts). Her income was sufficiently high to lose any entitlement to the personal allowance. In Part (a)(iii) candidates had to calculate the amount of income tax that would be due for payment by the taxpayer on 31 January 2012, and advise her of the consequences if this amount was not paid until 31 August 2012. Part (b) was concerned with introducing a new person into the taxpayer's business either as an employee or as a partner. On the assumption that the new person was taken on as an employee, in Part (b)(i) candidates had to calculate the total amount of National Insurance Contributions (NIC) that would be paid by the taxpayer and the new person. Then on the assumption that the new person was taken on as a partner, in Part (b)(ii) candidates had to firstly calculate his trading income assessments for the tax years 2010–11 and 2011–12, and then calculate the total amount of NIC that would be paid by the taxpayer and the new person, if any, in respect of his trading income assessment for the tax year 2010–11.

Parts (a)(i), (a)(ii) and (b)(i) were generally well answered, but candidates had more difficulty with the other sections. In Part (a)(i) the only consistent problem was the revenue

received in respect of a previously written off impairment loss. Most candidates did not appreciate that no adjustment was necessary. In Part (a)(ii) it was often not appreciated that one of the bonuses was treated as being received in the previous tax year, and often bonuses were included or excluded without any explanation as to why. It should have been obvious that with income of over £250,000 no personal allowance was available, yet many candidates wasted time by showing a calculation for this. Many candidates simply ignored Part (a)(iii), and very few appreciated that both the balancing payment for 2010–11 and the first payment on account for 2011–12 were due on 31 January 2012. In Part (b)(i) it was pleasing to see several candidates correctly restricted NIC to the four months of employment. Although there were also many good answers to Part (b)(ii), there were also a lot of candidates who wasted time by doing NIC calculations for both the taxpayer and the new person, or NIC calculations for both years, instead of just the one required.

QUESTION 2

In Part (a) candidates had to calculate a company's corporation tax liability. This involved the computation of loan stock interest payable, capital allowances (based on items debited to a capital expenditure account), industrial buildings allowance, a property business profit, interest income and a chargeable gain. Part (b) required candidates to calculate the final quarterly instalment payment that would have to be made by the company, and to state when this would be due.

This question was generally well answered, and there were many very good answers. In Part (a), there was no need to have separate computations for the trading profit and for taxable total profits, since it was quite straightforward to combine everything into one computation. The accruals

for the interest payable and interest income often caused problems, and many candidates did not appreciate that no adjustment to the trading profit was necessary in respect of any of the items debited to the capital expenditure account. The writing down allowance for a motor car with private use was often restricted, despite such an adjustment only being relevant for an unincorporated business. The calculations for industrial buildings allowance, the property business profit and the chargeable gain were often made much more difficult than they actually were. Although most candidates correctly calculated the final quarterly instalment in Part (b), the due date was generally not known.

QUESTION 3

This question was concerned with four shareholders of an unquoted trading company that was taken over. Under the terms of the takeover the shareholders either received a cash payment or shares in the acquirer company. In Part (a), candidates were required to state why three of the shareholders did not meet the qualifying conditions for entrepreneurs' relief. In Part (b), candidates were required to calculate the capital gains tax liabilities of each of the four shareholders. The first shareholder took the cash alternative, qualified for entrepreneurs' relief, and had also made a chargeable gain from an investment property. The second shareholder took the share alternative and then subsequently made a gift of part of the new shareholding. The third shareholder took the cash alternative, had part of their basic rate tax band available, and had made a contribution into a personal pension scheme. The fourth shareholder took the share alternative, subsequently sold part of the new shareholding, with the remaining shares being bequeathed on the shareholder's death.

Answers to this question either tended to be very good or quite poor, with many

candidates making the calculations far more complicated than they actually were. In Part (a), many candidates simply reproduced the qualifying conditions for entrepreneurs' relief, without relating them to the information given for each of the three shareholders. In Part (b), a number of candidates included taxable income as part of their calculations, and the annual exempt amount was often omitted. For the fourth shareholder, it should have been obvious that with sales proceeds of just £6,600 there would be no capital gains tax liability, yet the vast majority of candidates wasted time attempting to calculate a liability. Similarly, there was little awareness that the transfer on death was an exempt disposal.

QUESTION 4

Part (a) required candidates to explain from what date a business was required to be registered for VAT based on the historical test. In Part (b), candidates were required to state the four additional pieces of information that the business would have to show on its sales invoices in order for them to be valid for VAT purposes. Part (c) required candidates to explain when and how the business should account for VAT in respect of the supply of services received from VAT registered businesses situated elsewhere within the European Union. In Part (d), candidates had to advise the business as to the maximum amount of penalty that would likely be charged by HM Revenue & Customs in respect of the underpayment of VAT, and by how much this penalty would be reduced as a result of a subsequent unprompted disclosure. The underpayment arose as a result of incorrectly treating a standard rated supply as zero-rated. In Part (e)(i), candidates had to advise the business as to how and when it would have to submit VAT returns and pay the related VAT if using the normal quarterly basis. Then in Part (e)(ii) they had to advise the business as to when it would have to pay VAT and submit its VAT return if using the annual accounting scheme.

With the exception of Part (b), this question was generally answered quite poorly. In Part (a), most candidates did not appreciate that the zero-rated supplies had to be included when calculating taxable supplies for registration purposes. Part (b) was well answered, although many candidates wasted time by stating more than four additional pieces of information. For example, common sense should mean

ONE PARTICULAR PROBLEM AT THE PAPER F6 (UK) SITTING WAS THAT CANDIDATES WASTED QUITE A BIT OF TIME WHERE SOMETHING SHOULD HAVE BEEN OBVIOUS WITHOUT HAVING TO PRODUCE DETAILED CALCULATIONS, AND ALSO WHERE MORE CALCULATIONS WERE DONE THAN WAS NECESSARY BECAUSE THE REQUIREMENTS WERE NOT READ PROPERLY.

THERE ARE STILL SOME EXAM TECHNIQUE ISSUES THAT NEED TO BE IMPROVED WHICH, ON THEIR OWN, I FEEL CONFIDENT WOULD HAVE LIFTED MANY MARGINAL FAILS INTO THE PASS CATEGORY. WHAT IS IMPORTANT ABOUT THIS STATEMENT IS THAT MANY CANDIDATES ARE FAILING BECAUSE OF TECHNIQUE RATHER THAN KNOWLEDGE OR ABILITY.

that the business could not possibly state the VAT registration number of the customer. Many candidates simply ignored Part (c), but marks were awarded for any sensible answer such as 'input VAT and output VAT would contra out'. In Part (d), too many candidates simply reproduced the penalty table without relating it to the facts given. Again, marks were awarded for any sensible conclusion. There was little of knowledge of the new online filing requirement for quarterly returns in Part (e), although the annual accounting scheme aspects were answered much better.

QUESTION 5

In Part (a), candidates had to explain why it is important to differentiate between potentially exempt transfers and chargeable lifetime transfers for inheritance tax purposes. Part (b) required candidates to calculate the amount of inheritance tax that was payable as a result of the taxpayer's death. The taxpayer had made a potentially exempt transfer and chargeable lifetime transfer within seven years of death. Then in Part (c), candidates had to state by when the personal representatives would have to pay the inheritance tax due in respect of the taxpayer's estate.

This question was extremely well answered, with a high number of perfect answers. In Part (a), a number of candidates wrote far too much for what should have been a short answer. In Part (b) the only consistent problem was that the gross figure for the chargeable lifetime transfer was often taken as the tax plus the chargeable portion of the transfer, rather than the tax plus the total net transfer. In Part (c), many candidates stated that tax had to be paid within six months of death rather than six months after the end of the month of death.

PAPER F7 FINANCIAL REPORTING

The I am disappointed to report that, after a much improved performance in December 2010, the pass rates for

the June 2011 session have reversed significantly. The main cause of the decline seems to be a return of the bad habit of candidates trying to pass on the first three questions.

Once again, Questions 4 and 5 were not attempted by a large number of candidates. The topics of these two questions were far from being on the periphery of the syllabus. Question 4 was on the IASB's Framework, discontinued operations and earnings per share (EPS), which have all been examined many times in past papers, as too has the subject matter of Question 5, construction contracts. I am at a loss to explain why these topics are answered so poorly, or not at all.

Most commentators believed this to be a fair paper for which a well-prepared candidate could readily attain a pass mark within the time constraints of the exam.

True to past performances, the best-answered questions were the consolidation in Question 1 and financial statements preparation in Question 2. Answers to Question 3 were also generally good, particularly the statement of cash flows and ratio calculations.

There are still some exam technique issues that need to be improved which, on their own, I feel confident would have lifted many marginal fails into the pass category. What is important about this statement is that many candidates are failing because of technique rather than knowledge or ability. I find it difficult to believe that a candidate who achieves scores of around 18 to 20 out of 25 in both Questions 1 and 2 does not have the ability to pass the paper; this happens all too frequently.

A common theme of poor technique was wasting time. This is caused by number of factors:

- ▣ Giving an answer to a question that was not asked. Question 1 specifically stated that consolidated goodwill should NOT be calculated. Amazingly a significant number of candidates did calculate goodwill; it was often the very first thing they did.

- ▣ Conversely, not answering a question that was asked. Question 4 required candidates to explain the predictive role of financial statements within the aspect of 'relevance' of the IASB's Framework. Many candidates wrote everything they knew about relevance (and reliability and the other qualitative characteristics) without any reference to a predictive role.

More minor aspects of technique were: unnecessary and very detailed workings, repetition and writing down the definitions of ratios which was not asked for. Some candidates who did this did not even calculate the ratios.

Other technique aspects were a lack of workings for some (complex) figures. Please be aware that markers cannot allocate any marks to an incorrect figure unless they can see how the figure has been arrived at.

Poor handwriting and an inability to clearly express oneself continue to be particular problem for discussion answers.

The composition and topics of the questions was such that on this diet there was very little difference between the International paper (the primary paper) and all other variant papers, so these comments generally apply to all streams.

SPECIFIC COMMENTS

QUESTION 1

This required the preparation of a consolidated statement of comprehensive income in Part (a)(i) and the equity section of the statement of financial position in Part (a)(ii). This was followed by a short written section on the effect on goodwill (and its impairment) of the alternative ways of calculating non-controlling interests. Part (a)(i) included a fair value adjustment for a revaluation of the subsidiary's property, and eliminating intra-group sales together with unrealised profits on plant and inventory.

Pleasingly, the majority of candidates showed a good knowledge of consolidation techniques which led to many good scores. However,

for low-scoring candidates the main problem areas were:

- ▣ Many candidates eliminated the cost (\$30m) of the intra-group sales from cost of sales; it should be the selling price (\$40m) that is eliminated as this is the 'cost' of the purchases to the subsidiary.
- ▣ A failure to adjust (correctly) for the additional depreciation to the plant caused by it being transferred at a value above its cost and the unrealised profit on the transfer.

Although most candidates did calculate the non-controlling interest (NCI) in the profit for the year, few carried on this principle to calculate the NCI in the total comprehensive income. There was also some confusion between the principle of the NCI calculation in the income statement and in the statement of financial position (part of the equity in Part (a)(i)).

A surprising number of candidates did not adjust for the share exchange when calculating the share capital and share premium (share capital only in SGP paper).

Very few candidates correctly calculated the 'other equity reserve'. In most cases, candidates just added together the figures for this reserve at 1 April 2010 (the beginning of the year). This meant two errors; the pre-acquisition balance on the subsidiary's reserve should not appear at all in the consolidated reserve (it would be part of the goodwill calculation if it had been required) and the group's share of current year's movement in the reserve (as shown in the comprehensive income statement) was completely ignored. Similar errors were made in calculations for the land revaluation reserve.

As already mentioned, many candidates unnecessarily calculated consolidated goodwill, no marks were awarded for this as it was specifically stated as not being required. Also when calculating the NCI in the equity section of the statement of financial position, many candidates worked this by calculating the NCI's share of capital and reserves, often getting hopelessly lost. A much simpler method, as this was the year in which the controlling interest had been acquired, was to add the fair value of the NCI at the date of acquisition (\$100m as given in the question) to the NCI in the statement of comprehensive income (which should have already been calculated in Part (a)(i)).

Poorly prepared candidates failed

to time apportion (for six months) the subsidiary's results and a lesser number proportionally consolidated (at 75%) the subsidiary's results.

The written section of Part (b) was very disappointing. About half of the candidates gave no answer at all and of those who did, a lot missed point of the question. Instead of explaining the effect the two treatments (of valuing NCI) have on goodwill and its impairment, many candidates simply described what the two treatments were (rather than their effect). UK and IRL papers had an alternative section on the requirement to produce group financial statements which was generally well answered where attempted, but again it was often ignored.

QUESTION 2

This question was a traditional preparation of financial statements (including a statement of changes in equity) from a trial balance, combined with several adjustments including: the issue of a convertible loan note, a revaluation of land and buildings, an inventory adjustment calculation, factored receivables and accounting for current and deferred taxation.

This was the best scoring question on the paper and attempted by nearly all candidates. Most candidates are well practised in knowing the format of the financial statements and as usual the problem areas were with the required adjustments. Even where candidates did not get all the adjustments fully correct, many marks were still earned for the method of their workings.

The frequent problem areas were:

STATEMENT OF COMPREHENSIVE INCOME

The question required an adjustment to the given value of closing inventory because it was counted several days after the year end. A number of candidates got the movement of these adjustments the wrong way round and reduced the year end inventory rather than increasing it. Surprisingly many candidates adjusted the sales revenue for one of the inventory adjustments despite the question clearly indicating this was not necessary. Some candidates incorrectly stated that this was an event after the reporting date and so no adjustments were required.

The administrative expenses required the reversal of financing/administration costs of factored debtors because the risk of collection had not been transferred to the factor. Many

candidates correctly recognised this, but failed to realise that they then had to recognise a receivables allowance (doubtful debt provision).

Many candidates had difficulty with the finance cost of the convertible loan, common errors were: using a discount rate of 8% instead of the effective rate of 10%, double counting the finance costs by adding the effective finance cost to the finance cost that had been paid or just taking the interest paid as the finance cost with no reference to the nature of the financial instrument.

The gain on the revaluation of the property to be included in other comprehensive income was generally well done (although many candidates just included the land element). However, most candidates included the deferred tax on this gain as part of year's income tax expense rather than as part of other comprehensive income.

STATEMENT OF CHANGES IN EQUITY (SOCIE)

When attempted this was generally very well done with many candidates gaining full marks. Where errors did occur they were mainly not including the equity component of the convertible loan and not adjusting the opening retained earnings for the dividend that had been paid during the year. As a point of reassurance, if a candidate makes an error in an earlier calculation (say of the dividend or the revaluation surplus) then they are not penalised again in the SOCIE; an incorrect figure will be marked as correct under the principle of 'method marking' (or 'own figure rule').

STATEMENT OF FINANCIAL POSITION (SOPP)

This was again generally well done with most errors being due to the knock-on effect of errors made in the statement of comprehensive income which were also not penalised under method marking, this particularly applied to non-current assets, inventory, receivables and the convertible loan note. There is still some confusion over the deferred and current tax figures that should appear in the SOPP. A very common error was not including the liability to the factor (Easyfinance) as a current liability and a careless, but common, error was the inclusion of the bank overdraft as a current asset.

QUESTION 3

This question was an integrated statement of cash flows and interpretation question with candidates

being directed to addressing an issue raised by a shareholder concerning an increase in revenue not being matched by an increase in profit.

As usual the statement of cash flows proved popular and was well answered by most candidates, the only recurring errors were: failure to take account of an asset held-for-sale when calculating the cash flow for non-current asset expenditure and, very frequently, omitting to calculate the dividend paid by investigating the movement of retained earnings.

Answers to the interpretation were more mixed. Five marks were available for calculating relevant ratios (which gives some measure of how many should have been calculated) and again many candidates scored well on these (often the maximum). The assessment of the performance of the company was less well answered. Weaker candidates did not attempt to explain why the revenue had gone up by 48% whereas profit for the year had increased by only 20%. Surprisingly, some candidates correctly calculated that the gross profit margin had increased (by 2%) and then said this partly explained the anomaly; obviously not realising that an increase in gross margin would have led to a proportionate increase in profit rather than the decrease actually reported. The operating margin was down very slightly, but did not account for the relative decline in profit. The real explanation of why the profit had decreased was due to higher finance costs (due to a new loan) and a much higher rate of taxation. Other aspects of performance were attempted reasonably well, many candidates observed the increase in tangible and intangible non-current assets suggesting acquisition/expansion and that this had been financed by additional borrowings which had increased gearing.

Comments on the current and quick ratios were common, but few recognised the impact that the non-current asset held-for-sale had on the liquidity. In this type of question many candidates become obsessed with calculating ratios for inventory, receivables and payables. In some cases these were the only ratios calculated although in this scenario they were not particularly important issues to support an answer to the question.

Overall, many candidates made intelligent comments about what the ratios they had calculated might indicate. However, there were too many candidates who merely reported that a ratio had gone up or down, which

does not amount to an assessment of performance.

QUESTION 4

The introductory section (Part (a)) of this question was related to the Framework's characteristic of 'relevance' and how the predictive role of financial statements enhances relevance. Candidates were asked to give examples of how the presentation of historical financial statements can assist users to assess future performance (the predictive role). The majority of candidates did not attempt this section and those who did had very little idea of what the question was about. Many of the answers gave the impression that the candidate thought it was a discussion of historical cost accounts (which is not the same as historical reporting). Also, most candidates missed the clue of Part (b); simply mentioning the two examples in Part (b) (discontinued operations and diluted EPS) would have gained two marks alone. Some other relevant disclosures would be:

- ▣ Non-current assets held-for-sale (these will not generate future profits).
- ▣ Separately disclosed material (sometimes called extraordinary) items; these are basically unusual often one-off or non-recurring gains or losses.
- ▣ Comparative results; these establish past trends of performance which may be used to predict future performance.

Part (b)(i) was a short section requiring candidates to estimate the next year's profit of a company based on its current year's results, which included discontinued operations. Most candidates scored well, the main mistake was not pro-rating the current year's newly acquired operations (of eight months) for a full year.

Part (b)(ii) required a diluted EPS calculation on continuing operations allowing for convertible loan stock and directors' share options for the current and comparative year. A surprisingly common mistake was for candidates to use the figures they had calculated in Part (b)(i), which were a prediction of 2012's earnings, as the basis of the EPS calculation of 2011. That aside, many good candidates did correctly allow for the interest adjustment (net of tax) for the convertibles and correctly calculated the number of shares on conversion. The treatment of the share options was less well understood; many candidates

just used the number of shares covered by the options, without reducing it by the number of shares that the proceeds of the option would theoretically buy, and very few weighted the option for the six months that it had been granted. Many candidates prepared a basic EPS calculation for both years and others got very confused in their determination to include the effects on EPS of a rights issue at below market price; neither were part of the question.

The most disappointing aspect of the question was the large number of candidates who did not attempt it (especially Part (a)).

QUESTION 5

This question focused on the regularly examined area of construction contracts. It was a fairly standard question requiring candidates to produce extracts from the financial statements on the second year's progress of the contract; the first year's results were given in the question.

Candidates who gave this question serious attention scored quite well. In the income statement most candidates calculated the total estimated profit and percentage of completion correctly, but did not take into account the previous year's results when reporting the current year's results, in other words they produced an accumulated income statement (for 2011 plus 2010). Many also tried to calculate a cost of sales when it should have simply been a balancing figure (of revenue less profit). Some candidates chose to calculate the percentage of completion based on a cost formula rather than work completed/contract price as specified in the question.

Common errors in the statement of financial position were not including amounts for the contract plant or contract receivables and then, in the note of the amounts due from customers, candidates often deducted the progress payments received rather than the progress billings.

CONCLUSION

Overall this was a disappointing performance after December 2010's very good pass rate. However, it was encouraging to see the solid performance on Questions 1 and 2 and a good understanding of cash flows. It seems to be the recurring problem of a lack of syllabus coverage that is preventing many marginal candidates from achieving a pass.

As usual, many of the above

comments on the individual questions focus on where candidates made errors. This is intended to guide candidates in their future studies and to highlight poor techniques with a view to improving future performance. This may appear to give an overly pessimistic view of candidates' performance. This is not the intention and should not detract from the efforts of many candidates who performed well.

PAPER F8 AUDIT AND ASSURANCE

The vast majority of candidates attempted all five questions in the paper, and there was little evidence of time pressure. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

As in previous exam sessions, a small minority of candidates answered Question 1 last and their answers were often incomplete. As Question 1 is the case study and represents 30 of the available marks, leaving this question until last can be a risky strategy, as many answers presented were incomplete or appeared rushed.

Candidates performed particularly well on Questions 1b, 1c, 2b, 3a, 4b, 4c and 5b. The questions candidates found most challenging were Questions 1a, 1d, 2a, 3b, 5a and 5c. This is mainly due to candidates not understanding core syllabus areas well enough, a lack of technical knowledge and also due to a failure to read question requirements carefully. Question 5a on misstatements tested knowledge of ISA 450, *Evaluation of Misstatements Identified During the Audit*. This was one of the new ISAs issued as part of the Clarity Project and has been in the Paper F8 *Study Guide* since 2010; and hence as a new topic area should have been prioritised by candidates.

A number of common issues arose in candidate's answers:

- ❑ Failing to read the question requirement clearly and, therefore, providing irrelevant answers which scored few if any marks.
- ❑ Poor time management between questions, some candidates wrote far too much for some questions and this put them under time pressure to finish remaining questions.
- ❑ Not learning lessons from earlier examiner's reports and hence making the same mistakes, especially in relation to audit risk.

THE VAST MAJORITY OF CANDIDATES ATTEMPTED ALL FIVE QUESTIONS IN PAPER F8, AND THERE WAS LITTLE EVIDENCE OF TIME PRESSURE. WHERE QUESTIONS WERE LEFT UNANSWERED BY CANDIDATES, THIS APPEARED TO BE DUE TO A LACK OF KNOWLEDGE OR POOR EXAM TECHNIQUE, AS OPPOSED TO TIME PRESSURE.

- ❑ Providing more than the required number of points.
- ❑ Illegible handwriting and poor layout of answers.

SPECIFIC COMMENTS QUESTION 1

This 30-mark question was based on a toy manufacturer, Tinkerbell Toys Co (Tinkerbell), and tested candidates' knowledge of tests of controls, substantive procedures for receivables and revenue and fraud.

Part (a) for 12 marks required candidates to recommend six tests of controls for the sales cycle of Tinkerbell as well as the objective for each test.

Most candidates performed inadequately on this part of the question. The main problems encountered were that candidates struggled to differentiate between tests of control and substantive tests and hence often provided long lists of substantive procedures, which scored no marks. In addition a significant minority of candidates did not read the question carefully, and instead of providing tests of controls, gave control procedures management should adopt. This scored no marks.

The approach candidates should have taken was to first identify from the scenario the controls present for Tinkerbell, they then should have considered how these controls could be confirmed by the auditor. In addition candidates' explanations of tests were vague such as 'check that credit limits are set for all new customers'. This procedure does not explain how the auditor would actually confirm that the control for new customer credit limits operates effectively. Tests that start with 'check' are unlikely to score many marks as they do not explain how the auditor would actually check the control. Future candidates should practise generating tests; both substantive and tests of controls, which do not start with the word 'check'.

The second part of this requirement was to explain the objective of the test

of control provided. Again, this was not answered well. A common answer was to state that the objective was 'to ensure that the control is operating effectively'. This was far too vague. All tests of controls are looking to verify that controls are operating effectively. Instead, candidates should have considered the aim of the specific control being tested. Therefore, the objective of a test over credit limits is 'to ensure that orders are not accepted for poor credit risks'.

As noted in previous examiner's reports candidates are often confused with the differences between tests of controls and substantive tests. Both are methods for obtaining evidence and are key elements of the Paper F8 syllabus. Future candidates must ensure that they understand when tests of controls are required and when substantive procedures are needed. They need to learn the difference between them and should practise questions requiring the generation of both types of procedures.

In addition, the question asked for six tests of controls and objectives, however many candidates provided much more than the required six points. It was not uncommon to see answers which had eight to 10 points. While it is understandable that candidates wish to ensure that they gain credit for six relevant points, this approach can lead to time pressure and subsequent questions can suffer. A significant number of candidates presented their answers in a columnar format and this seemed to help them to produce concise and relevant answers.

Part (b) for eight marks required substantive procedures the auditor should perform on year-end receivables. This was answered well by many candidates. Candidates were able to provide variety in their procedures including both tests of detail and analytical review tests. The most common mistakes made by some candidates were:

- ❑ Providing tests of control rather than substantive procedures.

- ❑ Providing substantive procedures for revenue rather than receivables.
- ❑ Not generating enough tests for eight marks; it is one mark per valid procedure.
- ❑ Describing the process for a receivables circularisation at length. This was not part of the question requirement.

The requirement verb was to 'describe' so sufficient detail was required to score the one mark available per test. Candidates are reminded that substantive procedures is a core topic area and they must be able to produce relevant detailed procedures. Answers such as 'confirm credit notes are recorded in the correct period' are far too vague as it does not explain how to gain comfort that credit notes are recorded correctly. In addition answers such as 'ensure cut-off of receivables is correct' are objectives rather than substantive procedures.

Part (c) for six marks required an identification and explanation of controls that Tinkerbell should adopt to reduce the risk of fraud occurring again, as well as an explanation of how this control would mitigate the fraud risk. This question was answered well by most candidates, with some scoring full marks. The scenario provided details of a 'teeming and lading fraud' which had occurred during the year and candidates needed to think practically about how Tinkerbell could reduce the risk of this occurring again. Candidates were able to use the scenario to generate practical controls such as 'review of bank reconciliations' and 'segregation of duties between the roles of processing cash receipts and preparation of bank reconciliations'.

However, candidates' performance on the second requirement to describe how the control would mitigate the risk of fraud occurring again was mixed. The main problem was that answers were not specific enough, frequently vague answers such as 'this will reduce the

risk of fraud and error occurring' were given. This did not score any marks as it does not explain how the control will actually reduce the risk. For example, the review of bank reconciliations will reduce the risk as any unreconciled balances, even if small, will be identified and investigated.

A small minority of candidates failed to read the question properly and so provided weaknesses and then controls to address these, rather than controls and explanations of how these reduce risk.

Many candidates presented their answers in a columnar format and again this seemed to help them to produce clear and concise answers which covered both parts of the requirement.

Part (d) for four marks required substantive procedures the auditor should perform on Tinkerbell's revenue. This requirement was not answered well. Some candidates confused this requirement with that of Part (b), which required receivables tests, and so provided the same tests again. In addition, a significant number of candidates provided procedures to confirm bank and cash rather than revenue. Perhaps they confused cash receipts with revenue and so thought that if they confirmed cash receipts this would confirm revenue.

Those candidates who performed well were able to provide a good mixture of analytical procedures such as 'compare revenue to prior year or to budget' and 'review monthly sales against prior year' and also detailed tests such as confirming cut-off of sales.

QUESTION 2

This 10-mark question covered the topics of narrative notes, internal control questionnaires and engagement letters.

Part (a), for six marks, required candidates to describe the advantages and disadvantages of narrative notes and internal control questionnaires (ICQs) as methods for documenting the system. Candidates' performance

was unsatisfactory on this question, with a number of candidates not even attempting it. A significant minority of candidates did not understand the question requirement fully, and so instead of providing advantages and disadvantages for notes and then for ICQs, they provided answers which were of a general nature and just covered advantages and disadvantages of documenting the internal control system. It is possible that these candidates did not carefully read the scenario paragraph preceding the requirement. This paragraph laid out that there were various methods available for documenting internal controls and it identified notes and ICQs, the requirement then followed on with the advantages and disadvantages of these two methods. Candidates must take the time to read and understand any scenario paragraphs; these are intended to help candidates understand the question requirements.

Those candidates who understood the requirement often made the following mistakes:

- ❑ Lack of detail, the requirement was to 'describe' and often candidates provided bullet point notes. This is not a sufficient level of detail to be awarded the one mark available per point.
- ❑ Some candidates were confused as to who prepared the systems documentation, thinking that ICQs were produced by management, and so identified irrelevant advantages and disadvantages.
- ❑ Providing definitions and explanations of what notes and ICQs are, rather than answering the question requirement. Definitions will not score marks unless they are a specific part of the question requirement.
- ❑ Listing points in relation to internal control evaluation questionnaires (ICEQs) rather than ICQs. This is another method for documenting systems but was not part of the question requirement and hence scored no marks.

Part (b)(i), for one mark, required the purpose of an engagement letter and Part (b)(ii), for three marks, required six matters that should be included in an audit engagement letter. This question was answered well by most candidates with many scoring full marks. In addition the verbs of 'state' for Part (b)(i) and 'list' in Part (b)(ii) were addressed by most candidates and answers were generally succinct.

PAPER F8 CANDIDATES ARE REMINDED THAT SUBSTANTIVE PROCEDURES IS A CORE TOPIC AREA AND THEY MUST BE ABLE TO PRODUCE RELEVANT DETAILED PROCEDURES. ANSWERS SUCH AS 'CONFIRM CREDIT NOTES ARE RECORDED IN THE CORRECT PERIOD' ARE FAR TOO VAGUE AS IT DOES NOT EXPLAIN HOW TO GAIN COMFORT THAT CREDIT NOTES ARE RECORDED CORRECTLY.

Where candidates did not score full marks this tended to be because in Part (b)(i) they repeated points from Part (b)(ii) or simply stated that 'the engagement letter is a contract' and in Part (b)(ii) they gave irrelevant points such as date, signature of auditor and company's year end.

QUESTION 3

This 20-mark question was based on Donald Co, which operated an airline business. The question tested the areas of risk identification and procedures for obtaining evidence.

Part (a)(i), for five marks, required five procedures, other than external confirmation, for obtaining evidence and then Part (a)(ii), for five marks, required an example of each procedure relevant to the audit of purchases and expenses. This question was unrelated to the scenario and was knowledge-based, and candidates performed satisfactorily.

Where candidates did not score full marks this was because they failed to read the question properly. The scenario clearly excluded the procedure of external confirmation, however, a significant minority of candidates gave confirmations as a procedure, which scored no marks. Some saw the word 'confirmation' and then proceeded to provide a lengthy answer only relating to this procedure. Candidates must read the question carefully.

In addition, some candidates confused procedures for obtaining evidence with financial statement assertions and so gave answers which focused on completeness, valuation and existence. A number of candidates provided example procedures which were not related to purchases and expenses, but instead focused on inventory, payables or non-current assets. Again this was due to a failure to read the question requirement.

Part (b), for 10 marks, required a description of the audit risks and responses for Donald Co. Many candidates performed inadequately on this part of the question. As stated in previous examiner's reports, audit risk is a key element of the Paper F8 syllabus and candidates must understand it. This is the third session in a row where audit risk has been tested and where most candidates' performance has been unsatisfactory.

A number of candidates wasted valuable time by describing the audit risk model along with definitions of audit risk, inherent risk, control and detection risk. This generated no marks

as it was not part of the requirement. Candidates are reminded that they must answer the question asked as opposed to the one they wish had been asked.

The main area where candidates continue to lose marks is that they do not actually understand what audit risk relates to. They provided answers which considered the risks the business would face or 'business risks', which are outside the scope of the syllabus. Audit risks must be related to the risk arising in the audit of the financial statements and should include the financial statement assertion impacted. If candidates did not do this then they would have struggled to pass this part of the question as there were no marks available for business risks.

For those candidates who were able to identify audit risks, they mainly focused on going concern and the risk of bad debts arising from irrecoverable receivables. However, the scenario did contain a number of other audit risks, such as existence of the planes at the year end and the capital v revenue treatment of the \$15m spent on refurbishment. Not many candidates identified other risks, which was unsatisfactory. The issue of the call centre closing and hence the workforce being made redundant was misunderstood by many. These candidates felt that this must mean that the company was having going concern issues, but there was no indication of this in the scenario. The risk related to the completeness of the redundancy provision.

Even if the audit risks were explained many candidates failed to provide a relevant response to the audit risk, most chose to give a response that management would adopt rather than the auditor. For example, in relation to the risk of valuation of receivables, as Donald Co had a number of receivables who were struggling to pay, many candidates suggested that management needed to chase these outstanding customers. This is not a response that the auditor would adopt, as they would be focused on testing valuation through after date cash receipts or reviewing the aged receivables ledger. In addition some responses were impractical, such as asking the bank to confirm to the auditors whether they would grant Donald the \$25m loan. The bank is not going to provide this type of information to the auditor especially if they have not yet told Donald. Also, some responses were too vague such as 'increase substantive testing' without making it

clear how, or in what area, this would be addressed.

Future candidates must take note audit risk is and will continue to be an important element of the syllabus and must be understood, and they would do well to practise audit risk questions.

QUESTION 4

This 20-mark question was based on the audit firm NAB & Co (NAB) and its clients Goofy Co and Mickey Co and tested candidates' knowledge of managing conflicts of interest, outsourcing internal audit and ethical threats.

Part (a), for four marks, required an explanation of the safeguards NAB should implement to manage the potential conflict of interest between their two competing clients. Candidates performed satisfactorily on this part of the question. Most candidates were able to identify safeguards such as separate audit teams and informing both parties and, therefore, scored half of the available marks. However, many candidates then provided procedures which were a repeat of separate teams, such as separate engagement partners. In addition, some candidates listed general ethical safeguards rather than focusing on the specific requirement of conflicts of interest.

Part (b), for 10 marks, required the advantages and disadvantages to both NAB and Goofy Co of outsourcing their internal audit department. Candidates performed well on this question. Most candidates structured their answers to consider advantages and disadvantages for each of the two entities separately and this helped to generate a sufficient number of points. It was pleasing to see that many candidates used the small scenario provided to make their answers relevant, as this was not a general requirement, but one applied to Goofy Co and NAB.

Where candidates did not score as well, this was mainly due to a failure to provide sufficient depth to their answers. A common advantage given was 'outsourcing saves costs'. This does not discuss with enough detail how Goofy Co would save costs and as such would not score the one mark available. Often candidates then went on to have as a disadvantage 'outsourcing costs more money' again with little explanation of how this can occur. A 'discuss' requirement is relatively detailed and an answer of just a few words will not be sufficient.

Part (c) for six marks required an

explanation of the ethical threats with respect to the audit of Goofy Co and how these threats may be reduced. This question was answered well by most candidates, and many scored full marks. Candidates were able to clearly identify from the scenario the ethical issues impacting the audit of Goofy Co. Some candidates did not explain the threats in sufficient detail, sometimes just identifying the issue and not explaining how this was an ethical threat. For example, many identified the issue of the engagement partner having been in place for six years, however if they did not then go on to explain that this was a familiarity threat, or they gave an incorrect threat such as self interest, they would have only gained half a mark rather than one mark.

The second part of this question required methods for reducing the threats. Candidates' performance was generally satisfactory although some answers tended to be quite brief. In addition, some candidates confused the issue of contingent fees with undue fee dependence and so focused on ways to reduce the proportion of fees from Goofy Co.

In addition many candidates provided more points than were necessary. The requirement was for six marks and had two elements to it: the marking guide awarded one mark per threat and one mark per method for reducing risk, so three threats and methods were required for full marks. Yet some candidates listed up to five threats and methods, this then put them under time pressure and led to later questions being impacted.

QUESTION 5

This 20-mark question was based on Minnie Co and tested candidates' knowledge of misstatements, placing reliance on the work of an expert and audit reports.

Part (a), for four marks, required an explanation of the term 'misstatement' and a description of the auditor's responsibility in relation to misstatements. This question was unrelated to the scenario, and was not answered well by many candidates. Most candidates were able to gain one mark by explaining that a misstatement was an error, however they could not then explain the auditor's responsibility.

ISA 450, *Evaluation of Misstatements Identified During the Audit* provides guidance on this area. This is a relatively new ISA and was issued as part of the Clarity Project. As this ISA had

not yet been tested this is an area which should have been prioritised by candidates. However, many candidates clearly had not studied this area at all. They therefore provided answers which focused on the auditor's responsibilities to provide an opinion on the truth and fairness of the financial statements or to detect material misstatements. In addition, a minority of candidates produced answers which focused on materiality.

Part (b) for four marks required a description of the factors that should be considered when placing reliance on the work of the independent valuer. Candidates performed well on this question. Many were able to score over half marks by identifying points such as professional qualifications, experience and independence.

The requirement verb was to 'describe' and sufficient detail was required to score the one mark available per test; some answers were a little brief. Candidates are reminded to look carefully at the verb at the beginning of the question requirement, as this should help them to understand the level of detail required for their answers.

Part (c) for 12 marks required a discussion of three issues in the scenario as well as a description of the impact on the audit report if these issues remain unresolved. Candidates' performance was unsatisfactory on this question.

Each of the three issues had a maximum of four marks available and in order to score well candidates needed to consider the following in their answer:

- ▣ A description of the audit issue; such as incorrectly depreciating land, or lack of evidence to support wages or contingent liability disclosure.
- ▣ A calculation of whether the issue was material or not, using the financial information provided in the scenario.
- ▣ An explanation of the type of audit report required.
- ▣ A description of the impact on the audit report.

A significant minority of candidates stated that it was acceptable to depreciate land, and the issue was that it should have been charged for the prior year as well. This demonstrates a fundamental lack of accounting knowledge.

In relation to the materiality calculation, some candidates stated the issue was material but without using the financial information provided. What was required was a calculation,

for example, the land depreciation was \$0.7m and so represented 7% of profit before tax, and then an explanation of whether this was material or not. The benchmark from ISA 320, *Materiality in Planning and Performing an Audit* of 5% of profit before tax was taken as being material.

With regards to the type of audit report required, many candidates provided a scattergun approach of suggesting every possible audit report option. Candidates often hedge their bets by saying 'if management will make an amendment then we will give an unmodified opinion, however, if they do not make the adjustment then we will give a qualified except for opinion'. Giving every possible audit report option will not allow candidates to score well.

Many candidates used terms such as 'except for', 'modified' or 'qualified' but the accompanying sentences demonstrated that candidates did not actually understand what these terms meant. In addition, a significant proportion of candidates do not understand when an 'emphasis of matter' paragraph is relevant, and seemed to think that it was an alternative to an 'except for' qualification. Candidates are also reminded that since the clarified ISAs have been issued the old terminology of 'disagreement' is no longer relevant and instead should refer to 'material misstatement'.

In relation to the impact on the audit report, many candidates were unable to describe how the opinion paragraph would change and that a basis for qualified opinion paragraph was necessary for issues (i) and (ii).

In addition, a significant proportion of candidates provided procedures the auditor would undertake in order to understand or resolve the issues. For example, alternative procedures for verifying wages were given, or the steps to take in contacting lawyers in relation to the lawsuit. While valid procedures, they did not score any marks as they were not part of the question requirement. Once again, candidates must answer the question asked and not the one they wish had been asked.

Future candidates are once again reminded that audit reports are the only output of a statutory audit and, as such, an understanding of how an audit report can be modified and in which circumstances is considered very important for this exam.

PAPER F9**FINANCIAL MANAGEMENT**

This paper tested many areas of the syllabus and a consideration of performance on a question by question basis is given below.

Successful candidates answered all four compulsory questions and had prepared well for the exam. Candidates who were not successful tended to have omitted answers to some parts of the questions, and showed in their answers that there were some parts of the Paper F9 syllabus that they needed to study further. Since many areas of the syllabus are covered in each exam paper, concentrating on one or two parts of the syllabus and not giving much attention to other parts will decrease the likelihood of success.

SPECIFIC COMMENTS
QUESTION 1

In general, candidates tended to gain good marks in Part (a), while doing less well in Parts (b) and (c).

Part (a) asked candidates to calculate the net present value (NPV) of a new confectionery line using a nominal terms approach, allowing for inflation and taxation.

Some candidates said that, because the same rate of inflation was applied to selling price, variable cost and fixed cost, inflation could be ignored and their answers used a real terms approach. This ignores the stated requirement to use a nominal terms approach and is also not correct in this case, as profit tax was payable in arrears. A nominal terms approach discounts nominal (inflated) cash flows with a nominal cost of capital, which was given in the question. Some answers made the mistake of either inflating or deflating the provided nominal cost of capital.

Some answers did not defer the tax liabilities, or the tax benefits on the capital allowances available on the cost of equipment, or both, although the question required this. A small number of candidates calculated capital allowances and tax benefits on the initial investment in working capital, instead of on the initial investment in machinery, but working capital investment does not

attract capital allowances. Although the question said that a balancing allowance would be claimed in the fourth year of production, some candidates did not calculate this.

When including working capital effects in investment appraisal, there are three key elements to consider: initial investment; incremental investment; and recovery of investment. Most answers included the initial investment, although a small number of answers incorrectly chose to inflate this by one year, or to locate it incorrectly in year 1 rather than in year 0. Many answers included incremental investment, although in some cases this was not incremental, but cumulative, or calculated incorrectly. The recovery of the investment was sometimes omitted, or included but not inflated, even though incremental investment had been included prior to recovery.

Almost all answers correctly located the discount factors from the tables provided in the exam paper, although as mentioned earlier a few answers used a discount rate that was different from the one provided in the question. In a very small number of answers, annuity factors were used instead of discount factors.

Almost all answers calculated a net present value. Although the question required that the candidate advise on the financial acceptability of the proposed investment, some answers did not do this, or made a casual comment that did not gain full marks.

Part (b) asked candidates to comment on the proposed use of a four-year time-horizon, and to discuss a value that could be placed on cash flows arising after this period, using a perpetuity approach.

The question stated that the new confectionery line would be popular for many years, that sales would continue after the fourth year and that a four-year time-horizon was proposed because cash flows after the fourth year were too uncertain. Candidates were expected to comment that limiting the NPV analysis to four years meant that cash flows after the fourth year had not been included in the analysis, so the

NPV would be understated. Candidates were also expected to comment that including in the NPV analysis cash flows expected to occur after the fourth year, such as the balancing allowance and working capital recovery, would overstate the NPV. Using a limited time-horizon could therefore lead to sub-optimal investment decisions if these decisions were based on the calculated NPV.

Many answers showed a lack of awareness of these points. While it is true that cash flows after the fourth year were uncertain, an estimate of their value could still have been included using a perpetuity approach, which is what candidates were asked to consider. Previous examiner reports have commented that many candidates struggle to use a perpetuity approach correctly and answers to this question showed that this continues to be true. Please study the suggested answer for a fuller discussion of the value that could be placed on the cash flows after the fourth year.

In Part (c), candidates were required to discuss three ways of incorporating risk into the investment appraisal process.

Many candidates lost marks by not reading the question correctly and discussing the nature of different kinds of risk, rather than how risk could be incorporated in the investment appraisal process. Better answers discussed ways of incorporating risk into investment appraisal that were covered in the syllabus, such as sensitivity analysis, probability analysis, and the capital asset pricing model.

QUESTION 2

In general, as with Question 1, candidates tended to gain good marks in Part (a), while doing less well in Parts (b) and (c).

Part (a) asked for the calculation of the market value after-tax weighted average cost of capital (WACC) before and after a new issue of bonds.

Many candidates gained full marks for the two WACC calculations and most students were able to gain some credit by some of the subsidiary calculations.

SUCCESSFUL PAPER F9 CANDIDATES ANSWERED ALL FOUR COMPULSORY QUESTIONS AND HAD PREPARED WELL FOR THE EXAM. CANDIDATES WHO WERE NOT SUCCESSFUL TENDED TO HAVE OMITTED ANSWERS TO SOME PARTS OF THE QUESTIONS, AND SHOWED IN THEIR ANSWERS THAT THERE WERE SOME PARTS OF THE SYLLABUS THAT THEY NEEDED TO STUDY FURTHER.

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Some students ignored the market value of existing bonds given in the question and calculated a market value based on the present value of future interest payments and redemption at par (nominal value). This was not actually possible, since the question provided neither the interest rate nor the maturity of the existing bonds. Some answers ignored the after-tax cost of debt given in the question and calculated a new (incorrect) after-tax cost of debt. For example, some answers treated existing bonds as irredeemable and used the after-tax cost of debt provided as a before-tax interest rate. This implies learning a WACC calculation method without understanding the underlying principles, leading to an attempt to make the information provided fit the calculation method learned.

A surprising number of candidates could not calculate the dividend growth rate, whether on a geometric or an arithmetic basis. Both methods were acceptable. There were also a significant number of errors in calculating the cost of equity using the dividend growth model. Alarm bells should sound if the calculated cost of equity is less than the cost of debt, or if the calculated cost of equity is quite large. A glance through past exam papers will show that a realistic approach has been used, with the cost of equity lying between say 5% and 15%. Alarm bells should also sound if the calculated WACC is greater than the highest cost of capital being averaged, or less than the lowest cost of capital being averaged, since logically an average value must lie between the highest and lowest values being averaged.

The cost of debt of the new bond issue could be found through linear interpolation. The correct way to treat taxation here is to use the after-tax interest payment in the interpolation calculation, with the redemption value being unaffected by profit tax. Many candidates were able to use linear interpolation correctly.

Following the calculation of the revised WACC, some comment was required on findings. If the calculations had been similar to those in the suggested answer, a decrease in WACC had been found. Better answers noted that this decrease rested on assumptions such as that the cost of equity had not increased, despite the rise in financial risk, and that the share price had not changed.

In Part (b), candidates were asked to identify and discuss briefly the

factors that influence the market price of bonds.

Some of these factors are the interest rate, how often interest is paid, the number of years to redemption, the redemption value and the cost of debt. These factors are all considered by the bond valuation model, which was used earlier to find the after-tax cost of debt by linear interpolation. Once again, as with the WACC calculation method mentioned above, many candidates showed that they did not understand the principles underlying a calculation method, in this case the bond valuation model, and did not discuss these factors. Instead, candidates discussed factors relating to the risk of the issuing company (which would affect the cost of debt), such as level of financial risk, profitability and credit rating, and general market factors (which would affect the cost of debt), such as liquidity, economic outlook and market efficiency. Answers could also gain credit by looking at factors such as convertibility and theories relating to the term structure of interest rates. Given that marks could have been gained in so many different ways, it was surprising that some candidates chose not to answer this question at all.

Part (c) asked for a discussion of the suggestion that issuing bonds will decrease WACC and increase the market value of a company.

Better answers to this question looked at capital structure theory, including the traditional view, the views of Miller and Modigliani, the market imperfections view and pecking order theory. Other answers gained credit by using a practical perspective, noting that issuing debt without having an investment purpose was poor financial management and that the shareholder response to increased financial risk could not be ignored. Weaker answers struggled to discuss the relationship between WACC, company market value, the cost of equity, the cost of debt and taxation, perhaps discussing instead the different ways of valuing a company, which was not required by the question.

QUESTION 3

In general, as with Question 1, candidates tended to gain good marks in Part (a), while doing less well in Parts (b) and (c).

Part (a) required candidates to analyse and discuss the recent financial performance and current financial position of a company, to comment on the achievement of the

objective of maximising shareholder wealth, on proposals to pay or not to pay a dividend, and on a proposal to raise debt finance. The order of these requirements gave a structure to the expected answer that was adopted by almost all answers.

The first part of the requirement refers to analysis and better answers started from this point, analysing the financial information provided and calculating a range of appropriate accounting ratios. The recent financial performance and current financial position were certainly poor, and many answers gained credit for showing this, for example by making comparisons with the average sector information provided.

Appropriate accounting ratios for looking at shareholder wealth maximisation would be dividend yield and total shareholder return. Although shareholder wealth had decreased demonstrably in the period under consideration, it was not clear whether there had been a failure to meet the objective of maximising shareholder wealth. It was possible that the managers had done an excellent job in difficult conditions.

Many answers discussed shareholder expectations as a way of choosing whether to pay the same dividend as in the previous year or to pay no dividend at all. Very few answers recognised that, given the current share price and provided cost of equity, shareholders appeared to be expecting the same dividend as in the previous year. Better answers recognised the decrease in retained earnings that would arise if the same dividend were paid, with potential liquidity and financing problems as a result. Some candidates brought dividend theory into their discussion, commenting on the dividend relevance and irrelevance perspectives, and gained some credit for this.

Some candidates failed to see the statement that the company wanted to raise \$50m in order to support existing business, as they suggested that the cash had to be invested in a new project to increase profitability and shareholder wealth. The fact that the company wanted to raise an amount of cash equal to twice the current profit before interest and tax was recognised by better answers, which looked at gearing, interest cover, and the increasing overdraft of the company in order to conclude that raising debt finance was unlikely to be possible.

In Part (b), candidates were asked

to discuss equity, and sale and leaseback as ways to meet the funding requirement of a company.

Discussions of equity finance were often quite sketchy, with little understanding being shown of the different ways in which \$50m of equity could be raised. Some answers mistakenly said that the \$50m of equity finance could be taken from the \$88.5m of retained earnings, but this suggestion fails to recognise that retained earnings are not cash. Better answers referred to rights issue, public offer or placing, noting that the company's recent financial performance and current financial position suggested that it was unlikely that equity finance would be available.

Answers that discussed sale and leaseback as a source of finance were often limited to explaining that this involved the sale of a non-current asset (usually a building) to a third party, coupled with leasing the asset back for a long period of time. Better answers were able to indicate some of the significant drawbacks that might arise from using this source of finance, such as the loss of non-current assets to offer as security for debt finance and commitment to a long-term lease with regular reviews of lease payments.

Part (c) required an explanation of the nature of a scrip (share) dividend, and its advantages and disadvantages to a company.

Many candidates gained few marks on this question because they did not understand the nature of a scrip dividend. Most study texts explain that it is a share dividend that is offered as an alternative to a cash dividend. This means that shareholders choose whether to accept the offered shares or take a cash dividend. Many answers were based on the incorrect belief that if a scrip dividend were offered, a cash dividend was not available. Many answers were also based on the incorrect belief that a scrip dividend was the same as a bonus issue. Another reason why many answers gained few marks on this question was that they discussed advantages and disadvantages of a scrip dividend to the shareholder, whereas the question asked for advantages and disadvantages to the company.

QUESTION 4

Many candidates gained full marks in answering Part (a)(ii), reasonable marks on Parts (b)(i) and (ii), but in many cases gave weak answers to Part (a)(i).

Part (a)(i) asked for a brief explanation of the relationship between exchange rates and interest rates, and between exchange rates and inflation rates.

If a candidate was not aware of interest rate parity (IRP) and purchasing power parity (PPP), the answer offered was often very general in nature, discussing exchange rates, interest rates and exchange rates from a macroeconomic perspective. Some answers lost valuable time by explaining what an exchange rate was, what an interest rate was and what an inflation rate was, but this was not required. Better answers showed familiarity with the IRP and PPP formulae in the formula sheet and discussed correctly how the forward rate could be in equilibrium with the spot rate (IRP), and how the expected future spot rate could be in equilibrium with the current spot rate (PPP).

A number of candidates offered numerical examples to illustrate their discussion, but these used up valuable time and were not required by the question.

Part (a)(ii) required candidates to evaluate a forward market hedge compared to a money market hedge.

Many answers gained full marks here, providing the calculations required by the question that are given in the suggested answer. Where mistakes were made, they usually related to selecting the wrong forward rate, or to using incorrect interest rates in the money market hedge because of mistakenly hedging an expected future cost (the peso interest payment) with a dollar deposit. The peso cost needed hedging with a peso deposit in order to remove exchange rate risk. A small number of answers incorrectly treated the 5m peso interest payment as a capital amount and calculated an interest payment using one of the borrowing rates provided in the question.

In Part (b)(i), candidates were asked to discuss the factors that influence the formation of working capital policy.

The answers to this question offered a wide range in terms of quality and in terms of relating the answer to the question asked. Some candidates, in response to the word 'policy', spent a long time describing working capital financing policy, the nature of permanent and fluctuating current assets, the relative costs of short- and long-term financing and so on, while failing to discuss working capital investment policy. Other candidates

focused on the phrase 'working capital' and explained the meaning of inventory, receivables and payables, without explaining how these elements of the working capital cycle influenced working capital policy. Better answers discussed factors such as the nature of the business, the constraint imposed by the terms of trade of competitors, the attitude to risk of the managers of the company, and so on.

Part (b)(ii) required candidates to calculate the financial acceptability of an early settlement discount and a bulk purchase discount.

A number of students lost valuable time here with economic order quantity calculations, which were not required by the question and which were completely unnecessary. The two offered discounts needed to be compared with the current costs of the company.

Better answers compared the benefit of the early settlement discount with the cost of paying 60 days earlier. These two values could be calculated directly from the information provided. Alternatively, the early settlement discount equivalent annual interest rate could be calculated and shown to be less than the company's cost of short-term borrowing. Weaker answers tried to evaluate the benefit and cost on a monthly basis, or on an order basis, and became confused as a result of trying to change annual data provided to the alternative basis being used. That said, some candidates did successfully use an order basis of evaluation. Some answers made the mistake of basing the cost of the early settlement discount on the revised level of trade payables, rather than on the difference between the current and revised levels of trade receivables, ie the cost related to paying 60 days earlier than currently.

One way to evaluate the financial benefit of the bulk purchase discount was to calculate the cost of the current ordering policy and compare it with the cost of the revised ordering policy, an approach used by the suggested answer and by many candidates attempting this question. An alternative approach that was equally effective was to calculate and net off the increase in holding cost, the saving in ordering cost and the saving in material cost. One error made by some candidates was to calculate the annual holding cost from annual demand, rather than from average inventory.

EXAM SUPPORT

EXAMINERS' APPROACH AND EXAMINERS' ANALYSIS INTERVIEWS

ACCAGlobal is committed to providing support to all its students. As part of this support, a range of materials – in a variety of media to reach as many students as possible – is available specifically to address the ACCA Qualification exams. Information from ACCA's examiners including examiner reports, examiner interviews and a wide variety of technical articles are available in a range of different media on the ACCAGlobal website.

The two sets of examiner interviews are available on www.accaglobal.com and are extremely valuable resources. Each set of interviews can help you prepare for your exams in different ways and, when used in conjunction with the paper resources available, they can make a big difference to your studies.

EXAMINERS' APPROACH INTERVIEWS

The examiners' approach interviews are very useful when you are undertaking a particular paper for the first time, giving you a real insight into what examiners are looking for in terms of exam performance. They cover the main themes of each paper and give information on the style of the exams and how they are structured. They also advise on exam technique, with tips on how to succeed and potential pitfalls to avoid.

The examiners' approach interviews complement the examiners' approach articles, which were written to give guidance on how to tackle each exam paper. These resources contain similar information but the difference in delivery method can be a useful advantage when studying and may give you a better chance of absorbing the examiners' advice. The examiners' approach interviews also contain useful links to other relevant resources for your exam.

ACCAGlobal is committed to providing support to all its students. Examiner reports, examiner interviews, exam notes (which provide guidance on examinable material including relevant accounting and auditing documents and a wide variety of technical articles) are available in a range of different media on the ACCAGlobal website at www.accaglobal.com/students/accaglobal/exams

EXAMINERS' ANALYSIS INTERVIEWS

The examiners' analysis interviews build on the examiners' approach interviews. They highlight where students are performing well, where students are performing less well, and give advice on how students can improve performance in problem areas.

It's never too soon to start listening to the examiners' analysis interviews, but they would probably be most useful once you have covered the syllabus and are starting to think about the detail of a paper and how to apply what you have learned in the exam.

They are designed to give guidance around which areas of the syllabus students have been struggling with in recent exam sittings and how students can tackle the difficulties others have been having. The analysis interviews are closely related to the examiners' reports, which are published after each exam session. They bring together the examiners' reports from the first three sessions of the ACCA Qualification, illustrating that some mistakes are being repeated consistently and highlighting critical areas of the syllabus to focus on. Remember, this does not mean one of those areas will

necessarily be examinable in the next session.

The ACCAGlobal website features examiner interviews recently at this year's Learning Providers' Conference. It is still very important to make use of the individual examiners' reports available in this issue of the *Essential Guide* and on the ACCAGlobal website, as well as listening to the analysis interviews. After you have worked through a practice question, refer to the relevant examiner's report and you will find an analysis of that question, what the examiner is looking for in a good answer, typical answers given by students, why they might not be relevant and so on.

All of these resources and others such as the *Syllabus* and *Study Guide*, past papers, examinable documents and technical articles can be accessed at www2.accaglobal.com/students/accaglobal/exams/

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