

EXAM ADVICE AND GUIDANCE INCLUDING EXAMINERS' FEEDBACK AND EXAMINABLE DOCUMENTS

RELEVANT TO PAPERS P1 TO P7

An illustration of a hand with pink nail polish using a key to unlock a door handle. The door handle is ornate and yellow. The background shows a door frame and a window with yellow trim.

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ON PAGE 65

ALL YOU NEED TO KNOW FOR THE DECEMBER 2011 EXAMS

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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 Professional 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 Professional level exams taken in June 2011. This advice looks at overall performance in Papers P1 to P7, 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 P2, P6 (UK) and P7. 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, and how to gain those all-important professional marks. We also help you understand the intellectual levels of Professional 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.

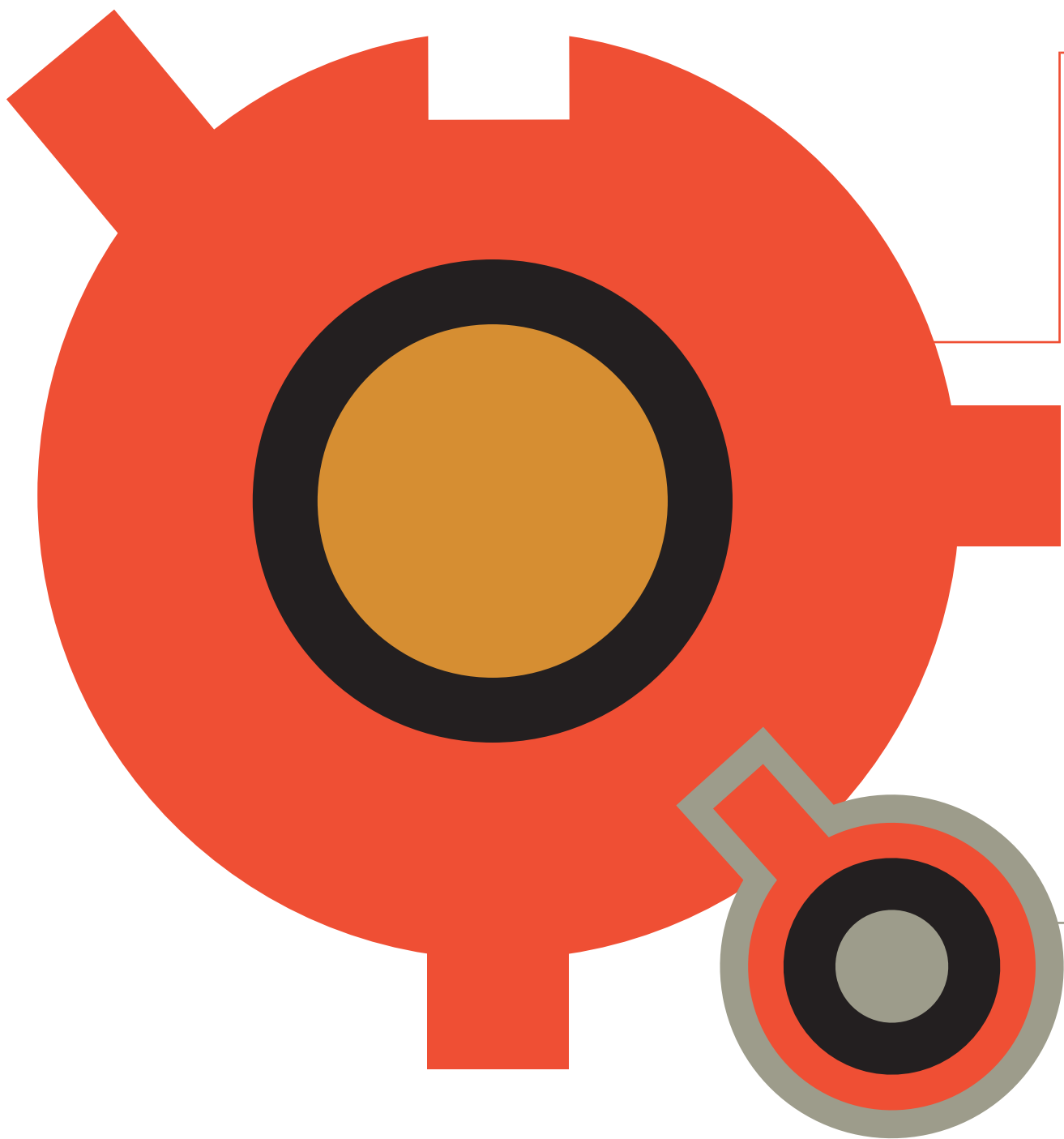
We've produced this magazine to be as helpful to you as possible in the lead up to the December 2011 exams. We have also produced two other tailored magazines for students taking Papers F4 to F9 and Foundations in Accountancy/Paper F1, F2 and F3 students. These can be accessed at www2.accaglobal.com/SA

I hope that you find this magazine useful in helping you prepare fully for the December 2011 Professional level exams.

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 63 of this issue

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

Answers to frequently-asked questions about ACCA's qualifications can be found at www2.accaglobal.com/learningproviders/tuition_provider/faq

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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?

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.

When preparing for **any** Professional level papers, particularly those such as Paper P7, which deal with current

issues, it is recommended to **read more widely** and beyond the *Study Guide*, making use of online resources such as those provided by ACCA.

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 at the **Professional level requires extensive study and practice.** Question spotting and the use of relatively short, intensive revision courses 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 as in the Professional level Essentials papers. 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.

PROFESSIONAL MARKS

Read the article on page 12 to find out more about how professional marks can be gained, and how they can make the difference between a fail and a pass.

Professional marks are available for the **clarity, format and presentation** of an answer. If an answer includes an explanation which is **confused, repetitive or non-existent**, then professional marks will not be awarded.

Quality of language contributes to the award of professional marks, so practise your writing style as well as your technical ability.

Professional marks are also awarded for presenting an answer in the **specific format required**, using language appropriate to that format (the language used in a letter, for example, could be very different from that used in a report).

Read specific exam feedback from the examiners for Papers P1 to P7 from page 15.





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PROFESSIONAL MARKS

There are professional marks available in all ACCA Qualification Professional level papers. Gaining these professional marks could make the difference between a pass and a fail.

Between four and six professional marks are included in each of the Professional level papers. These allow students to demonstrate – and examiners to assess – particular skills and capabilities which employers expect ACCA members to possess on qualification.

Professional marks will be awarded for capabilities and skills which are in addition to – and separate from – synthesis and evaluation, which are intellectual level 3 capabilities identified in the *Study Guides*. Professional marks are awarded for the overall quality of answers, and for effective professional communication skills. These will be determined by the strength of arguments, the use of logic, sensitivity to the intended target audience, and for structure and presentation. More specifically, they may be awarded for:

- ▣ introducing an answer clearly by ‘scene setting’ – laying out key objectives in the context of the specific requirements and the intended target audience
- ▣ showing the ability to form and support opinion and alternative viewpoints through the use of valid and reliable sources of evidence and through cogent argument and counter-argument
- ▣ generating ideas and combining or adapting theories and information, from diverse and abstract sources, to arrive at a solution or gain a new insight
- ▣ exercising professional judgment and an ethical approach to providing advice in line with:
 - relevant legislation, regulation, and standards
 - stakeholders’ interests
 - stated objectives
 - analysing and presenting information in the context of the views, perceptions, and anticipated reactions of the intended audience or different stakeholders

PROFESSIONAL MARKS ARE AWARDED FOR THE OVERALL QUALITY OF ANSWERS, AND FOR EFFECTIVE COMMUNICATION SKILLS. THESE WILL BE DETERMINED BY THE USE OF LOGIC, SENSITIVITY TO THE INTENDED TARGET AUDIENCE, FOR STRUCTURE AND PRESENTATION, AND THE STRENGTH OF ARGUMENTS.

- drawing together the main themes of an answer and appropriately selecting the main points of an argument to arrive at a valid and properly supported overall position on a question or requirement, which fairly reflects the content of the main body
- ▣ communicating effectively and efficiently including:
 - identifying the intended purpose of an answer or document
 - identifying its intended users and their needs
 - preparing and using the appropriate type of document in an answer
 - using a logical and appropriate answer structure or format
 - judging the tone or nature of background information and of technical language
 - assessing where and how much detail is required as appropriate
 - adopting clear, concise, and precise methods of presentation, both in verbal and numerical contexts.

Not all the above will be assessed in each paper, but they indicate the kind of capabilities that candidates might be required to demonstrate. It will be clearly indicated within the question requirements where professional marks are allocated in each paper.

In Professional level exams you might be asked for an answer in one of the following formats:

LETTER

A letter should start with the sender’s address details (put the company name and follow with ‘Address line 1, Address line 2’, etc below it) and the date. The letter should commence with ‘Dear XXXXX’ as specified in the requirements.

Throughout the text of the letter, write in the first person, using phrases such as ‘I’, ‘we’, ‘your board’, and ‘our company’ to personalise.

Keep the audience and their interests in mind throughout, and refer to them on occasions to make it clear how your answer is still clearly focused.

Conclude with a suitable sentence, thanking the reader for their interest or time. Use ‘Yours faithfully’ where the addressee is anonymous, such as ‘shareholders’. Use ‘Yours sincerely’ if the addressee is named.

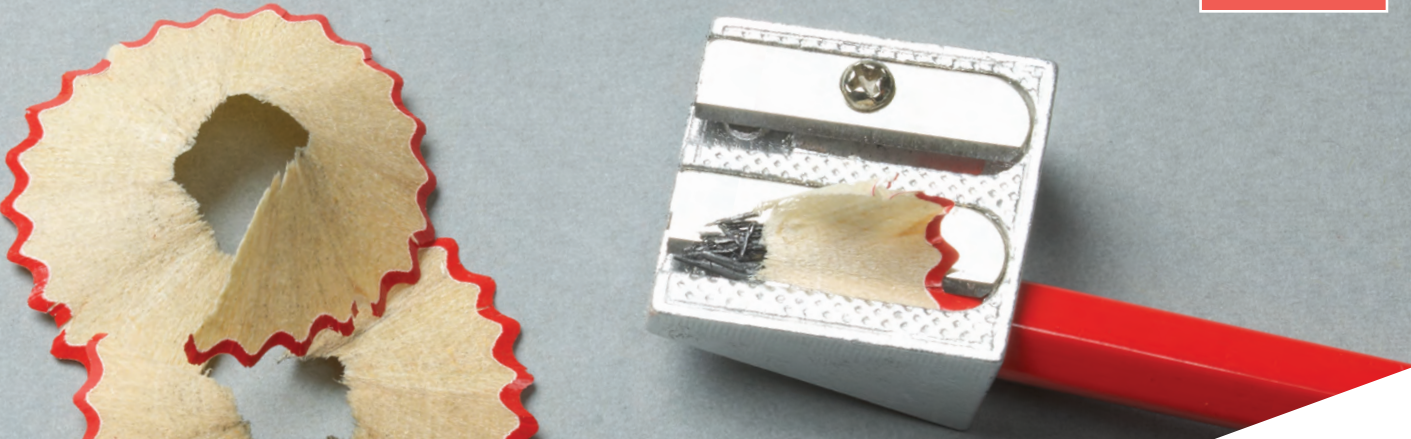
PRESENTATION

If you are required to write a presentation that should be delivered, ensure it can be read out. Writing for the spoken word takes practice, so try reading out your own answers. You will soon learn which phrases or sentence structures do not work when spoken. Again, write your answers in the first person. You may be required to write notes supporting a presentation, in which case you will need to use short sentences, focusing on key points.

Remember that the purpose is to support someone delivering a presentation, as they will have limited time to look at detailed text.

BRIEFING NOTES

These will be required to provide information to brief a board or committee, or external parties such as institutional shareholders, on a particular event or decision. They will need to be well structured, focusing on the key points at the start, with background information provided later. Briefing notes, along with management reporting narratives and press statements, should be written in the third person, referring to ‘the company’, ‘XYZ Ltd’ and ‘the board’, rather than ‘I’ or ‘we’.



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



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MANAGEMENT REPORTING NARRATIVE (SUCH AS ANNUAL REPORT)

The best way to gain a feel for management reporting narratives is to review the annual report of any major company. These can usually be found in the investor relations section of a corporate website. This narrative should be written in the third person (as described for briefing notes).

PRESS STATEMENT

A press statement consists of clear short paragraphs written in the third person. It is likely to have an opening paragraph, delivering the key message with background information and data provided in sections below. Reviewing the press section of a major company's website will provide examples.

MEMO

A memo is generally written to a particular person or persons (such as a board committee or the CEO). A memo format will need to be headed 'Memorandum' and have the To/From/Date/Subject information at the top.

The style of writing will be precise and factual, leaving little room for interpretation. It will be written in the first person, directly addressing the person at whom it is aimed ('you') and identifying the author as 'I'.

REPORT

The purpose of a report is usually to inform, occasionally providing recommendations or suggestions for future action. It will have a wider circulation than a memo and is hence more formal in style and wording. Like a memo, it will be written in the first person.

The initial structure of a report is similar to that of a memo, although the heading would be 'Report'. It is good practice to provide an introduction or 'Terms of Reference' section at the start, stating exactly what the report aims to cover, and to finish with a summary or conclusion. Use of headings and sub-headings will not only improve presentation but also add to the ease of reading by the audience of the report (and the marker of your exam).

STYLE TIPS TO HELP YOU EARN PROFESSIONAL MARKS

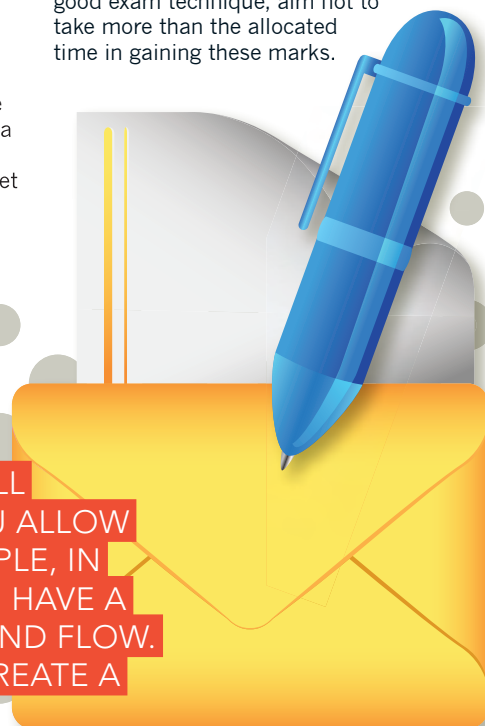
- ❑ Plan your answer before you start writing:
 - This will allow you to ensure you are clear about the format required, so that you include the relevant headings and introductory paragraphs.
 - Ordering the technical points of your answer in a logical manner will enhance their flow and persuasiveness.
 - Cover key points first, and group similar points together.
 - Establish who you are in the requirement, along with who your audience is, and be clear whether you are writing in the first ('I' or 'we') or third person ('it' or 'the company').
- ❑ Use headings, and space between your paragraphs. These will enhance your presentation marks and create a professional-looking answer.
- ❑ In most professional responses, bullet points are inappropriate, so avoid using them.
- ❑ Insert linking narratives between the sections of your answer, particularly if you are writing a speech or statement.

- ❑ Include an explanatory introduction or overview, and a summary to draw points together.
- ❑ Refer to your audience throughout the answer, keeping the answer personal to the intended reader and their interest.
- ❑ Ensure that your answer clearly presents the points required by the question, to earn the marks available for demonstrating persuasiveness and to enable your answer to sound convincing.
- ❑ Be prepared to answer the question from a perspective that may differ from your own, regardless of whether you agree with it or not. It's not about your opinions just use the facts of the scenario and the relevant theories.

EXAM TECHNIQUE

To reiterate, there are four to six professional marks in all Professional level papers. Do ensure that you allow sufficient time to gain these marks. For example, in a question with four professional marks you have a full 7.2 minutes to consider your structure and flow. Think how best to organise your work and create a logical document as requested. These professional marks may make the difference between passing and failing. As always with good exam technique, aim not to take more than the allocated time in gaining these marks.

THERE ARE FOUR TO SIX PROFESSIONAL MARKS IN ALL PROFESSIONAL LEVEL PAPERS. DO ENSURE THAT YOU ALLOW SUFFICIENT TIME TO GAIN THESE MARKS. FOR EXAMPLE, IN A QUESTION WITH FOUR PROFESSIONAL MARKS YOU HAVE A FULL 7.2 MINUTES TO CONSIDER YOUR STRUCTURE AND FLOW. THINK HOW BEST TO ORGANISE YOUR WORK AND CREATE A LOGICAL DOCUMENT AS REQUESTED.



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

16 PAPER P1, GOVERNANCE, RISK AND ETHICS

17 PAPER P2, CORPORATE REPORTING

19 PAPER P3, BUSINESS ANALYSIS

22 PAPER P4, ADVANCED FINANCIAL MANAGEMENT

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EXAM RESOURCES

Available at www.accaglobal.com/students/

TECHNICAL ARCHIVE ON THE ACCA WEBSITE

Access the technical article archive at www2.accaglobal.com/students/student_accountant/archive/

HOW TO PASS

Find *Syllabus* and *Study Guides*, past exam papers, examinable documents and examiner interviews at www2.accaglobal.com/students/pass/



EXAM FEEDBACK

PAPER P1

GOVERNANCE, RISK AND ETHICS

June 2011 was another successful exam for many Paper P1 candidates. As always, I congratulate successful candidates and their tutors. For those who did not pass this time, though, I hope the remarks in this report will be of help when preparing for a future Paper P1 exam.

The format and rubric of the June 2011 paper was the same as previous years. The paper was divided into two sections, with Section A comprising the compulsory Question 1 for 50 marks and Section B containing three 25-mark questions with candidates having to select two from the three. There was no widespread evidence that candidates were pressed for time.

In the paper itself, I examined some of the new content on risk that I introduced into the *Study Guide* for this and subsequent years. This was in Question 2 on dynamic risk, and on related and correlated risk. Also, in Question 3 Part (a), I examined content that I covered in an earlier technical article on governance differences between corporate and non-corporate forms of organisation. As in previous exam reports, I would remind candidates preparing for Paper P1 exams not only to ensure they have studied the entire Paper P1 *Study Guide* (and not 'question spotted'), but also to make themselves familiar with the content of technical articles on Paper P1. These are published in *Student Accountant* magazine and are also posted on the ACCA website.

SPECIFIC COMMENTS QUESTION 1

The case scenario in Question 1, as previously, was a detailed case to enable a number of areas of the *Study Guide* to be examined. The scenario concerned a number of issues associated with the development of a new model of car, the Bobo Foo, and it was a story loosely based in a real-life story of some years ago. In an attempt to produce a new car model quickly and cheaply, a design flaw was introduced that was potentially dangerous to users. When confronted

with a choice of what to do about it, the Bobo company chose to pay out compensation to affected users rather than retool the plant because, over the lifetime of the car's production, it was by far the cheaper option even although the company knew the car to be unsafe.

As usual, I used the scenario to examine a number of outcomes which not only sampled the *Study Guide* and also required candidates to answer at more than one intellectual level. Also as previously, the requirements were based heavily upon the case meaning that candidates had to study the case in some detail to gain marks.

Part (a) was an 'internal controls' question and contained two tasks. The first task was to explore the circumstances that led to the fuel tank problem on the Bobo Foo. The verb 'explore' was used here to enable candidates to have latitude in responding to this task. Many candidates were able to correctly pick out and explore the causes of the problem. These included cost pressures, a shortening of the usual development time, ignoring the outcome of a crash test and failure to challenge senior management on the issues associated with these problems. A careful study of the case enabled stronger candidates to gain the majority of the marks for this task.

The second task in Part (a) was to propose ('identify and explain') internal control measures capable of mitigating the fuel tank risk in future car development projects. This was less well done than the first task in Part (a). Again, a careful consideration of the specific problems at Bobo was the secret to gaining marks. Candidates who attempted to answer this using a memorised list of points from a study text or other notes were less well rewarded.

Part (b) was a Kohlberg question. This was the third time I have examined this and on each occasion, I have used people in the case to illustrate the different levels. In December 2007, the issue concerned a decision on how to react to the overestimation of a mineral and in June 2009, it concerned the level

of moral development of the 'rogue trader' Jack Mineta. In December 2007, the three levels were represented by the three people in the case but in this paper, two were conventional and one was pre-conventional. There was nobody at the post-conventional level. I think some candidates assumed there must have been a post-conventional person and Kathy Yao was the person most often, but incorrectly, associated with this level. Many candidates were able to get most of the first six marks for the 'explain' requirement but others became confused when allocating James Tsakos, Kathy Yao and Vernon Vim to the appropriate levels.

Part (c) was about annual and extraordinary general meetings, and asked about the value of an EGM for Bobo and its shareholders. Candidates were required to distinguish between AGMs and EGMs, and then explain the advantages of an EGM for Bobo in the case. The first part was done better than the second. To get marks on the 'advantages' part, candidates had to analyse the case to see why it was important for Mr Tsakos, Bobo's CEO, to face the shareholders in person.

Part (d) contained two parts and also had the four professional marks. The professional marks were allocated for the construction of a speech that Mr Tsakos was to give to the shareholders at the EGM. As usual, there was a full range of approaches to this including candidates who (wrongly) wrote their answers in the form of a letter, a memo or with no apparent structure at all. In terms of the substance of Part (d)(i), the chief executive was required to explain his roles as CEO in managing the issues described in the case. Some candidates did poorly on this, perhaps confused by the 'in managing the issues described in the case', but a well-prepared candidate, familiar with the usual roles of a chief executive, was able to do quite well if the roles were discussed in context.

Part (d)(ii) was about defending the company's decision to pursue the 'compensation option' over the 'universal recall' option but to do so from a 'pristine capitalist' perspective. This means that candidates had to argue from a particular ethical perspective. Lists of Gray, Owen and Adams's seven positions were not rewarded at all and those with the highest marks were usually those able to argue using the information in the case, for example arguing that the financial cost of the 'compensation option' was much less than the alternative and was thus greatly to the benefit of shareholder value.

AS IN PREVIOUS EXAM REPORTS, CANDIDATES PREPARING PAPER P1 EXAMS SHOULD NOT ONLY ENSURE THEY HAVE STUDIED THE ENTIRE PAPER P1 *STUDY GUIDE* (AND NOT 'QUESTION SPOTTED'), BUT ALSO TO MAKE THEMSELVES FAMILIAR WITH THE CONTENT OF TECHNICAL ARTICLES ON PAPER P1.

QUESTION 2

This question was mainly about risk. I used the question to examine some of the new *Study Guide* content on risk, namely the dynamic nature of risk and the idea of related risk. I cited six unspecified risks faced by YGT company and used letters A to F to identify them. Parts (a) and (c) were done quite well on the whole and Parts (b) and (d) were very variable.

There were two tasks in Part (a): to criticise Raz Dutta's beliefs (that risks 'didn't change much' and 'hardly ever materialised') and to explain why risks were dynamic. This question referred to new *Study Guide* section C1c and which I explained in the technical article I wrote on these *Study Guide* changes in May 2010. Many candidates were able to discuss the notion of risks arising as an organisation's environment changes but fewer were able to gain the 'criticise' marks which, in my view, were actually quite straightforward to get (see the published answer on the ACCA website).

Part (c) also drew on new *Study Guide* content: section C3h on related and correlated risk. I was pleased to see many candidates gaining the marks for explaining related risks, and many were also able to describe how risk E, an environmental risk, was positively correlated with risk F, a reputation risk. The point here was that in some cases, increased environmental losses can result in deterioration of a company's reputation (ie a rise in reputation risk) and because both risks rise and fall together, they can be said to be positively correlated as opposed to negatively correlated.

There was a lot of variation in the answer to Part (b) on TARA. I worded the case very carefully to make it clear where each of the four risks (A, B, C and D) fitted on the impact/likelihood risk assessment map. Once the risks were correctly plotted on the map, the risk strategies should have been clear. Candidates who were familiar with the way that risk strategies were plotted on the TARA map could usually get good marks on this question, often getting the full six marks. The areas of risk assessment and risk strategies are central to the risk element of the Paper P1 *Study Guide* and well-prepared candidates should know these areas well in preparation for Paper P1 exams.

Part (d) was poorly done by some candidates. As a fourth requirement, some candidates seem to have done this as a 'tag on' perhaps used to budgeting time for three requirements in Section B questions rather than four. It was worth

six marks, however, and illustrates why candidates should allocate their time for as many requirements as there are in a question (this was not a widespread problem but was evident in a few cases). Well-prepared candidates should be able to address the concept of risk awareness and how this is important as part of an overall risk management strategy.

QUESTION 3

The case in Question 3 was about a charity, HHO, registered in Laland. Horace Hoi was clearly a difficult character, living a lavish lifestyle on charitable proceeds gained from the charity, and at the same time reporting very misleading and highly selective financial information. The content drew partly upon a technical article I wrote in October 2010 (which is available on the ACCA website).

Part (a) drew partly upon the content of the October 2010 technical article (which itself was an expansion on content in *Study Guide* section A1f). There were two tasks in Part (a) and both were knowledge based, so should have been straightforward to candidates who were familiar with the relevant part of the *Study Guide* and who had read the relevant technical article. This part was done quite well by many of those who attempted Question 3.

Part (b) offered more of a challenge because after a relatively straightforward opening (to define transparency), a higher level verb ('construct') invited candidates to examine the case in detail and to pick out those things that were wrong at HHO and to use those issues to argue in favour of greater transparency. HHO had clearly used the legal framework in Laland to conceal transactions and to provide no effective external reporting. The result of the lax legal constraints in Laland was that Mr Hoi had accumulated substantial personal wealth, almost certainly from the donations of well-meaning donors concerned about animal suffering. There was plenty of ammunition in the case to construct an argument for greater transparency at HHO.

Part (c) brought together *Study Guide* content on audit committees and internal controls. There were clearly a number of internal control deficiencies at HHO and the question asked candidates to consider the roles of an audit committee (assuming they knew what these roles were) and how these might be applied to HHO's failings. A typical poor response to this was to list the roles of a risk committee without applying them meaningfully to the case.

QUESTION 4

This question was based around a discussion of the IFAC code of ethics (2009) and described the behaviour of an accountant, Ann Koo, who took a bribe when awarding supply contracts. It was not necessary to know about the IFAC code in advance as the case gave a quote from the code that was used as the basis for the requirements. The first part was about ethical threats, Part (b) was a 'criticise' question and Part (c) asked about insider dealing. In general, Part (a) was done well and Parts (b) and (c) were done less well.

The general ethical threats in Part (a) were usually correctly identified and described. A second task in Part (a) was to discuss how 'gifts' and 'hospitality' can give rise to specific ethical threats. This was less well done than the first task although most well-prepared candidates were able to show a connection between accepting gifts and one or more of the five ethical threats.

In order to achieve high marks on Part (b), candidates had to know about the 'public interest' and also to be able to scrutinise the case to study Ann's behaviour. In criticising her, an explanation was required of how her behaviour was inconsistent with her duty, as an accountant, to uphold the public interest. Overall, responses to this part were probably less than would be expected given the time budget for 10 marks. Many candidates made a few points but failed to adequately draw the crucial link between accepting a bribe and serving the public interest.

Part (c) was about insider dealing, which is sometimes called insider trading (from A3(e)(vii)). This was the first time I had examined this and, again, the quality of answers was variable. Most could correctly explain what the terms meant but some candidate answers petered out in a second paragraph where they struggled to develop the points about it being illegal and unethical.

**PAPER P2
CORPORATE REPORTING**

The paper consisted of four questions (Question 1 for 50 marks and three further questions of 25 marks each of which candidates had to choose two to answer). The performance of candidates was quite pleasing with good marks being achieved in all aspects of the paper. The approach to the paper is good with little evidence of time pressure, although some candidates are still failing to produce

answers of sufficient length and appear to be spending too much time on a single question. Candidates do not use the information in the scenario in order to develop their answers.

Question 1 is designed to test candidates' computational skills and brief explanations are often useful to the marker, but detailed discussion of the relevant standard is not normally required. Candidates often wasted time discussing a standard in detail when an application of the standard was required. It is important also to make sure that the answer is relevant to the question. In this exam there was evidence of students discussing standards at length that were not relevant to the question

SPECIFIC COMMENTS QUESTION 1

This question required candidates to discuss and apply the principles set out in IAS 21, *The Effects of Changes in Foreign Exchange Rates* in order to determine the functional currency of an entity. It then required candidates to prepare a consolidated statement of financial position of the group at 30 April 2011 showing the exchange difference arising on the translation of the entity's net assets. Candidates had to show how to deal with an acquisition of a further interest from the non-controlling interest for a cash consideration and the revaluation of an overseas property. Further a long-term bonus scheme for employees and a change in the residual value of property had to be dealt with by candidates.

The determination of the functional currency was dealt with well by candidates. The question set out all of the relevant detail for this determination but some candidates did not use this information and did not accrue marks as a result. The consolidation of the financial statements was again carried out well by candidates. There are alternative ways to arrive at the correct solution to this type of question and this was taken into account in the marking process. Candidates seemed to generally understand the method used to translate the financial statements of an overseas subsidiary. Some candidates used incorrect exchange rates to translate the statement of financial position of the subsidiary but most candidates managed to compute goodwill correctly using the full goodwill method. The cumulative bonus payable on the long-term bonus scheme was often incorrectly calculated

THE APPROACH TO PAPER P2 WAS GOOD WITH LITTLE EVIDENCE OF TIME PRESSURE, ALTHOUGH SOME CANDIDATES ARE STILL FAILING TO PRODUCE ANSWERS OF SUFFICIENT LENGTH AND APPEAR TO BE SPENDING TOO MUCH TIME ON A SINGLE QUESTION. CANDIDATES DO NOT USE THE INFORMATION IN THE SCENARIO IN ORDER TO DEVELOP THEIR ANSWERS.

with the main problem being the present value calculation.

Part (b) saw the company considering the acquisition of a service company which had contract-based customer relationships with well-known domestic and international companies. Candidates had to discuss the validity of the accounting treatment proposed by the entity and whether such proposed treatment raised any ethical issues. The main issue with the answers to this question was that candidates focused on the accounting treatment at the expense of the ethical considerations. The contract-based customer relationships were identifiable in accordance with IAS 38 and would probably have value. In order to be recognised separately, the identifiable assets, liabilities and contingent liabilities have to satisfy the probability and reliable measurement criteria of IFRS 3. For intangible assets acquired in business combinations the probability recognition criterion is always considered to be satisfied. Many candidates failed to reach this conclusion.

QUESTION 2

This question dealt with an entity that had recently made the transition to International Financial Reporting Standards (IFRS). In Part (a), candidates had to discuss the principles behind the use of deemed cost and whether estimates were a reliable form of evidence on which to base the fair value calculation of tangible assets to be then adopted as deemed cost. Part (b) required candidates to deal with the treatment of fishing rights acquired in a business combination that were included as part of goodwill and to discuss group accounting on transition to IFRS.

Part (c) required candidates to consider whether a database had an indefinite useful life when reconsidered annually for impairment and to discuss the reasons supporting the assessment of an indefinite useful life. The final

part required candidates to review two restructuring projects and whether the entity should recognise a provision in respect of the projects.

IFRS 1 is still very current in many parts of the world as countries move to the standards not only for large corporations but also for local government accounting. Hence, it is a very relevant exam topic. The treatment of deemed cost was not well answered by candidates. Assets carried at cost (eg property, plant and equipment) may be measured at their fair value at the date of the opening IFRS statement of financial position. Fair value becomes the 'deemed cost' going forward under the IFRS cost model. Deemed cost is an amount used as a surrogate for cost or depreciated cost at a given date. These points were not well understood.

In Part (b), candidates recognised that if an entity during the transition process to IFRS, decides to retrospectively apply IFRS 3 to a certain business combination, then it must apply that decision consistently to all business combinations. However, the key point often missed was that the decision to apply IFRS 3 cannot be made selectively.

Candidates answered Part (c) very well with the main omission being the fact that under IAS 1, *Presentation of Financial Statements* an entity should disclose accounting policies relevant to an understanding of its financial statements.

Part (d) was also answered well. Candidates were well versed in the principles behind how a constructive obligation to restructure arises under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

QUESTION 3

This question dealt with a series of practical situations that had arisen in corporate reports. Part (a) dealt with an entity that had defaulted on an interest payment on an issued bond loan repayable in 2015. The bondholders had issued a waiver postponing the interest payment until after the year

end. Candidates had to discuss the treatment of this loan. The loan should have been classified as short-term debt but many candidates came to a different conclusion. If candidates gave a rationale for their conclusions then due credit was given. Only a few candidates mentioned that according to IAS 1, *Presentation of Financial Statements*, a liability should be classified as current if it is due to be settled within 12 months after the date of the statement of financial position.

Part (b) dealt with the recognition of revenue (and the related costs) on a straight-line basis over a contract term, and the treatment of accounting estimates. Candidates understood well the nature of IAS 18, but few treated the change in accounting treatment as a correction of an error in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The previous policy applied was not in accordance with IAS 18, *Revenue*, which requires revenue arising from transactions involving the rendering of services to be recognised with reference to the stage of completion at the date of the statement of financial position.

Part (c) dealt with a two-tier board structure consisting of a management and a supervisory board and the provision of related party information in the annual accounts in an ambiguous way to prevent users of the financial statements from tracing remuneration information back to specific individuals. Many candidates realised that the exclusion of the remuneration of the non-executive directors from key management personnel disclosures did not comply with the requirements of IAS 24 and most scored well on this part of the question.

Part (d) required candidates to determine the nature of a pension plan which was accounted for as a defined benefit plan. The question detailed all the necessary criteria for the decision to be made. Candidates should realise that generally all of the information in the question is relevant in some way and should, therefore, use it accordingly. The pension arrangement did not meet the criteria as outlined in IAS 19, *Employee Benefits* for defined contribution accounting on the grounds that the risks, although potentially limited, remained with the entity. This conclusion was reached by a good proportion of candidates.

Question 4 Part (a)(i) required a discussion of the approach taken by IFRS 9 in measuring and classifying

financial assets and the main effect that IFRS 9 will have on accounting for financial assets. This question was well answered by those candidates who answered in accordance with IFRS 9. However, many chose to answer using IAS 39 which was not relevant in this context. The question produced some excellent scores.

Part (a)(ii) required a discussion of how a financial asset should be accounted for in the financial statements of an entity where there is restatement of financial information. This part of the question was again answered very well.

Part (b)(i) required candidates to discuss briefly the issues related to considering the effects of expected losses in dealing with impairment of financial assets and in Part (b)(ii) to calculate the impact on the financial statements if the entity anticipated the expected losses on the loan portfolio in a particular year. Part (b)(i) was quite well answered as candidates set out the principle that the expected loss model is more subjective in nature compared to the incurred loss model, since it relies significantly on the cash flow estimates prepared by the reporting entity which are inherently subjective. Part (b)(ii) was poorly answered as candidates could not apply the principles set out in Part (b)(i).

PAPER P3 BUSINESS ANALYSIS

The pass rate for the June 2011 Paper P3, Business Analysis exam was lower than for previous sessions. Questions 1a, 4a and 4b were relatively well answered. All other questions were less satisfactorily answered. Question 4 was the most popular of the optional questions. There was evidence of poor time management, probably caused by lengthy and over-elaborate answers to Question 1a.

One marking supervisor commented that 'poor performance has been compounded by some shockingly poor exam technique'. He went on to say 'that there is clear evidence of candidates running out of steam having spent far too long on their first question. There is evidence of good work in scripts that simply just do not cover enough ground to get a pass mark'. A surprising number of candidates chose to omit complete part questions, suggesting a lack of knowledge in certain areas of the syllabus. Many scripts showed evidence of a declining quality of handwriting, perhaps as the consequences of poor

time management began to be realised. There were fewer outstanding scripts compared to previous years. The content of the exam reflected recent changes in the syllabus to explicitly consider certain areas of management accounting. Although they have been dropped from the syllabus, Six Sigma and the V model still appeared in some answers, suggesting that some candidates were unfamiliar with the syllabus change.

SPECIFIC COMMENTS QUESTION 1

Question 1 was built around a niche car maker called EcoCar. The company is both small and relatively immature, built on the enthusiasm and expertise of three academics from MidShire University. It has recently been bought by a large car manufacturer who now wishes to undertake an external analysis (Part (a)) of the environment that EcoCar is operating in. It has also identified four weaknesses which it wishes to address. A possible strategy to address one of these weaknesses is outsourcing (Part (b)), while an analysis of the other three weaknesses provides the focus of the final part (Part (c)) of the question.

Question 1a asked candidates to analyse the external macro-environment and market place (industry) environment of EcoCar. Many candidates produced excellent answers that helped them pass the exam as a whole. Most used PESTEL and Five Forces and structured their answer well, leading to many getting all four professional marks on offer. However, specific comments have to be made about the way that many candidates addressed this part of the question.

- ▣ PESTEL is about the future and about external influences largely beyond the control of the organisation (EcoCar). Too many answers strayed into internal strengths (technology used by the company) and weaknesses (problems in budgeting). Furthermore, too many answers focused on issues that were relevant in the past. The existence of a skilled work force was significant when the company was established, but that was in the past. The problem now is finding skilled labour (due to retirement) and so labour pay rates have increased. This could have been identified within the Five Forces analysis, considering the power of suppliers. Too many answers included long, irrelevant social and political observations.

THERE WERE FEWER OUTSTANDING PAPER P3 SCRIPTS COMPARED TO PREVIOUS YEARS. THE CONTENT OF THE EXAM REFLECTED RECENT CHANGES IN THE SYLLABUS TO EXPLICITLY CONSIDER CERTAIN AREAS OF MANAGEMENT ACCOUNTING. ALTHOUGH THEY HAVE BEEN DROPPED FROM THE SYLLABUS, SIX SIGMA AND THE V MODEL STILL APPEARED IN SOME ANSWERS, SUGGESTING THAT SOME CANDIDATES WERE UNFAMILIAR WITH THE SYLLABUS CHANGE.

- Too many answers listed all the elements of PESTEL and Five Forces and then tried to find aspects of the case study to fit. When those aspects were missing, answers were simply made up. As a candidate, if you find yourself writing something like 'the case study scenario did not include much information on...', then you are probably going down an irrelevant path. There is no reason why a case study scenario should have all elements of the model under consideration, or that those elements should be equally weighted. This was certainly true in the EcoCar scenario.
- Finally, time management for this question appeared to be dreadful. It was only worth 16 marks (20 if you include the professional marks – although no professional marks are given for length) but many answers filled more than half the answer booklet. It seems likely that time pressures later on in the exam were mainly caused by over-answering this part of the question. For example, the examiner marked one script which gained full marks for this question. However, the answer also contained a further four pages of discussion of strengths and weaknesses and a repetition of earlier points, now explored within the context of Porter's Diamond. The candidate only just scraped a pass overall. Time management is particularly important when answering a question you like and recognise. The examiner is aware that many candidates felt that the paper was time pressured, but he believes that much of this was self-inflicted through poor time management.

Question 1b asked candidates to evaluate the financial and non-financial case for and against outsourcing the

EcoLite model. Many answers were too general, giving textbook answers which were largely irrelevant in the context of the case study scenario. Little credit could be given for answers that just listed the advantages and disadvantages of outsourcing. Context is critical here. For example; what effect will this decision have on regional sales which are currently boosted by consumers' pride in a locally produced product? Will 'green consumers' still want to buy from a company who have used a significant amount of non renewable energy to transport cars from the production plant to the primary market place? Some candidates tried to use the Harmon process/strategy grid when answering this question, but this was largely irrelevant in this context.

Many candidates also failed to exploit the financial data that was made available in the question scenario. Most recognised that outsourcing was financially attractive because the cost of outsourced production was cheaper than the variable cost of the EcoLite model. Most also suggested that the EcoLite was the best candidate for outsourcing as it produced the lowest contribution. However, this assertion failed to recognise the production time of each car. When this was taken into account the EcoPlus has a lower contribution per machine hour than the EcoLite, and its lower demand might make it a better candidate for outsourcing. Similarly, many candidates recognised the extent to which production capacity was a limiting factor. However, very few performed a calculation to show that even the optimal production mix only produced a modest profit and so this was a powerful argument for outsourcing to meet demand.

Furthermore, when EcoLite is taken out of the mix, the Lags Lane production plant makes a loss and has unused production hours, factors

that could undermine its long-term future and so could be used in the argument against outsourcing. Overall, marks were disappointingly low for this part question.

Question 1c focused on three syllabus areas: budgeting, human resource development and risk management. Many answers were too general and superficial (for example, 'get everyone together to have a meeting', 'improve the effectiveness of the training') and so failed to score the marks on offer. EcoCar is a company with a very limited and poor budgeting process and the concept of proper budgeting was the key to answering the first issue considered in this part question. Similarly, human resource development (succession planning, learning organisation, perceiving training as an investment rather than a cost) was the key to the second issue under consideration. The issue of risks and risk management was better answered, perhaps reflecting the overlap between Paper P3 and Paper P1 learning. It was their answer to this issue which lifted many candidates to a pass mark in this part question.

QUESTION 2

The scenario for Question 2 concerned a domineering manager (Barry Blunt) who questioned the business case and investment appraisal of two internal jobs. He criticised the approach used to financially evaluate internal projects (jobs) and he made certain assertions about payback, the discount rate, the IRR, intangible benefits and benefits realisation. In the first part of the question, candidates were asked to evaluate his assertions. This should have been very straightforward.

However, the question was relatively unpopular and was not particularly well answered. Perhaps its unpopularity was due to the second part of the question which asked candidates to discuss the principles, benefits and problems of introducing a matrix management structure into the company (8-Hats) described in the scenario. This required the application of knowledge first introduced in Paper F1. However, many candidates seemed unfamiliar with the term, often claiming that the approach currently used at 8-Hats (functional, distinct organisational silos) with all its attendant problems was, in fact, an example of matrix management.

Perhaps the problem with the first part of the question was that most of Barry Blunt's comments were wrong, borne out of ignorance and folly. The

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point has been made before; case study scenario characters are not always correct or virtuous. Some candidates tried to defend Barry's incorrect assumptions and conclusions and so scored few of the marks on offer. In general, the first part of this question was not well answered, with many candidates only offering definitions of the terms on offer, with a review of their general advantages and disadvantages. There was little attempt to apply answers to the tone and slant of Barry's comments.

QUESTION 3

This question described a process for handling questions for the certification programme of the Institute of Analytical Accountants (IAA). It asked candidates to identify a range of re-design options the IAA could consider for improving the question handling process and to evaluate the benefits for each option. The process was described in text, supported by a flow chart with defined swim lanes. This part of the question was satisfactorily answered by some candidates. They applied themselves to the scenario and generally came up with solutions that addressed the problem.

However, a significant number of candidates did not relate their answer to the scenario at all. They described general re-design principles and patterns and made, at best, fleeting reference to how these could be applied to the scenario. Such answers, many of which went on for several pages, could be given little credit. What is the point of the examiner developing a scenario, if the question can be answered with abstract textbook descriptions?

The second part of the question asked candidates to explain the advantage of fulfilling users' requirements using an off-the-shelf software package and to discuss the implications of this solution to process re-design at IAA. The first part of this question was relatively academic, with the usual advantages of cost savings, time savings and quality characteristics all scoring marks.

However, the question was also focused on the implications of the solution to process re-design at IAA, not to the IAA as an organisation. Too many candidates answered this part of the

question with long answers giving the general disadvantages of a package solution (erosion of competitive edge, problem of long-term lock-in) which were irrelevant to the actual question asked. Consequently marks on this part question (and indeed for the question as a whole) were relatively low.

QUESTION 4

Question 3 described a car retailer and asked candidates to evaluate how the principles of interactivity, intelligence, individualisation and independence of location might be applied in the e-marketing of the products and services of the company. The second part of the question asked candidates to explain the principles of e-procurement and evaluate its potential application to the enterprise. This second part (worth nine marks) was particularly well answered, although many candidates focused on the problems of procuring stationery and motor parts, rather than the actual cars themselves – the company's primary procurement activity. However, despite this narrow focus, many candidates scored seven marks or more for this part question.

The first part of the question was also relatively well answered, although the independence of location was something of a red herring. The scenario paints a picture of a company that stresses its physical location (café, children's play facility) and its commitment to it (long lease) in a commercial environment where the physical proximity of customer and supplier is important.

The better answers identified that the principle of independence of location was not particularly relevant to the case study organisation. This is an important point. Just as you must not assume that case study characters are correct or virtuous, you must also not assume that all academic assertions and principles are always relevant to the case study environment. However, overall, this was a popular and relatively well-answered question.

PAPER P4 ADVANCED FINANCIAL MANAGEMENT

The structure of the paper was similar

to past papers with two compulsory questions in Section A, consisting of 66 marks in total, and three 17-mark questions in Section B, of which candidates had to do two, for the remaining 34 marks.

The overall performance of candidates was satisfactory.

In Section A, Question 1 consisted of 36 marks and Question 2 consisted of 30 marks. Four professional marks were allocated to Question 1. Both questions required candidates to undertake computations and discussion. In Section B, Question 5 was wholly discursive, while Questions 3 and 4 consisted of a mixture of computational and discursive elements.

Excellent answers were obtained from candidates who applied their knowledge to the scenario given in the question. The presentation of such answers was good, with clear labelling and structure and workings. Successful candidates attempted all the parts of the questions and managed their time well between questions.

Like the previous sitting, there was evidence in this sitting of some candidates employing poor time management techniques and not answering all the parts of a question, or in a minority of cases not answering a question at all. A number of such candidates failed marginally even though the questions they had answered fully were of a pass standard. It is important to make a reasonable attempt at each question and each part of each question.

Candidates need to bear in mind that it is easier to obtain marks at the start of a question rather than towards the end of a question. It is imperative that candidates learn to manage their time effectively through practising past exam questions under timed and exam style conditions.

Some candidates were poorly prepared for the exam in terms of their knowledge and application. This was especially evident in Questions 1 and 2, and in the discursive parts of Questions 3 and 4. Candidates need to be aware that for Paper P4 it is expected that they develop their knowledge and the ability to apply that knowledge. In a number of cases, candidates failed to achieve a

A NUMBER OF PAPER P4 CANDIDATES WHO DID NOT ANSWER EVERY QUESTION FAILED marginally even though the questions they had answered fully were of a pass standard. It is important to make a reasonable attempt at each question and each part of each question.

pass mark due to lack of knowledge and not being able to apply that knowledge to the scenario in the question.

Paper P4 has a large syllabus and numerous technical areas. Candidates need to know the syllabus well in order to apply knowledge from it to the question scenario. A consistent, sustained study approach augmented by question practice and reading around the subject is much more likely to achieve success, as opposed to a last-minute intense study approach and attempting to question spot.

Poor performance was also evident where candidates did not read the content and requirements of questions fully. Answers need to be directed at the scenario in the question, general answers do not gain many marks.

SPECIFIC COMMENTS

QUESTION 1

The first four parts of Question 1 required candidates to evaluate whether a proposed acquisition was beneficial financially by valuing the target and then the combined company using free cash flows to firm. Candidates were then asked to discuss the limitations of the method used, the assessment whether the capital structure could be maintained or not, and the implications to the valuation method of the change in the capital structure.

The final part asked candidates to assess whether or not paying excess cash as dividends was a suitable defence tactic or not.

Part (i) was generally done quite well. Most candidates were able to present adequate free cash flows to firm figures both for the target and the combined company. However, common errors included: putting interest in the cash flows, which is incorrect as it is imputed in the WACC; making errors in the growth rate of sales revenue which needed to be estimated over a period of three years, not four; and errors in determining a suitable discount rate for the combined company using asset betas and combining these.

Good answers were given for Part (ii) with a number of candidates identifying a range of weaknesses of the valuation model used. For future revision, candidates should study the range of factors from the model answer, because in some candidate responses the discussion range was limited.

Parts (iii) and (iv) were answered less well. Many candidates were not able to calculate whether or not the capital structure could be maintained. It is not

enough to state this without adequate application to the question scenario. The answer of the implications of the change in the capital structure, to the valuation method used, was poor in most cases. Answers tended to discuss capital structure changes generally (not required) rather than the implication to the *valuation method*.

Part (v) was answered well when candidates focused on the particular defence tactic. Poor answers included other defence tactics, which was not required by the question.

QUESTION 2

Part (a) required candidates to use derivative products (forwards, futures and options) to hedge exchange rate risk of a dollar receipt and to advise the company on which product to employ. In Part (b), the candidates were asked to estimate additional finance required for an investment, given that the dollar income could be invested for two months. Here the candidates needed to estimate a future spot rate in six-months' time. Finally in Part (c) candidates assessed whether or not the project was worthwhile. Here, candidates had to convert the cash flows into euro by predicting future exchange rate based on expectations theory.

Overall this question was not done well. In Part (a) many candidates presented adequate calculations of the cash flows using different derivative products but failed to advise adequately. For example, although options are generally more expensive they do provide more flexibility. And forwards may be cheaper but they do carry a greater risk of default.

In some cases candidates had difficulty in calculating an estimate for the basis remaining and occasionally candidates tried to use money market hedges, although information was not provided in the question to employ this technique.

Part (b) was adequately done although few candidates calculated and employed a future spot rate to assess the future amount required.

Few attempts were made to calculate future spot rates based on purchasing power parity for Part (c) and some answers just discounted the project in the local currency rather than in euro.

QUESTION 3

This question was the least popular question of the optional questions.

Part (a) required candidates to estimate the Macaulay duration of two

bonds. This part was done adequately although very few candidates calculated the gross redemption yield and used this as the discount rate.

While most candidates knew the techniques of a duration computation, Part (b) asked candidates to discuss the usefulness of duration as a measure of risk (sensitivity). On the whole, this part was done less well, with few candidates demonstrating an understanding of duration in terms of bonds and interest rates, and even fewer discussed the limitations of duration, including its inability to deal with convexity and changes in the shape of the yield curve.

QUESTION 4

In Part (a) this question asked candidates to apply the Black-Scholes Option Pricing (BSOP) model to a real option. Most candidates were able to determine the value of the option inputting relevant figures into the BSOP formula, but few candidates were able to identify the correct P_a and P_e variables.

Part (b) asked candidates to discuss the results achieved in Part (a). Some candidates recognised that the value of the real option obtained in Part (a) is not an actual value, but rather it indicated the extent to which future uncertainty and volatility of returns makes it worthwhile to continue to monitor and nurture the project. That is, to identify that the value of a project that does not need a 'now or never' decision. However, a significant number of students did not identify and discuss real options but merely talked about financial options in a general sense.

QUESTION 5

This question was the most popular and probably the best answered of all the questions on the paper with many candidates gaining a high proportion of the marks for their answers. It asked candidates to consider the business reasons and ethical considerations of a new business venture. It also asked candidates to consider how negative issues may be mitigated.

Answers that gained fewer marks did not give many points or lacked adequate discussion because they were in note form. Some answers considered the issues but not how these could be mitigated. Repetition of the same point or points gained few or no additional marks.

Overall though, the majority of the candidate responses gained over half marks and some responses gained over 70% of the total marks for this question.

PAPER P5**ADVANCED PERFORMANCE MANAGEMENT**

In this report, my aim is to indicate areas of good and poor performance with the specific additional purpose of helping future candidates assess what is required of them.

The paper comprised two sections, A and B. Section A consisted of two compulsory questions for 60 marks in total. Section B consisted of three optional questions for 20 marks each from which candidates were required to answer two questions. (Candidates and tutors should be aware that this is in line with the broad plan for the allocation of marks on this paper but there is not an absolute rule that there will be 60 marks in Section A and 40 in Section B – see the *Study Guide* for the detailed rules on mark splits between sections and questions.)

In general, it was encouraging to see candidates applying good analytic reasoning and making more use of the detail provided in the scenario. Most exams require a balance of memory work and evaluation/analysis. As one goes through the levels this balance changes, from pure memory to more analysis. More candidates seem to be aware that if they come to this exam expecting to repeat memorised material, they will probably score only between 20% and 30%.

The basis of this paper is analysis and application. The candidate will need a foundation in the techniques of the syllabus but should focus more on evaluation of these techniques and consideration of their usefulness to the given scenario. This is not difficult to revise as it is a mindset that can easily be encouraged by considering past papers as an integral part of the revision process. Candidates need to be aware that performance management is an area which, at an advanced level, is dependent on situation and environment – as exemplified by the different focus of the balanced scorecards of the two organisations discussed in Question 2. A good, professional-level answer will go beyond the mere repetition of how a technique works and focus on relating it to the entity's specific environment.

Some candidates may be having a problem understanding 'evaluate' in a question requirement and I will attempt to throw further light on the use of this verb in Paper P5. To evaluate means to judge or determine the value, worth or quality of some object. Now, if that object is the performance of a company

then the answer can be expected to be descriptive but based on numerical measures (such as profit, present value or EVA™) but if that object is a performance system or a costing method or a remuneration package then a candidate is expected to weigh up the advantages and disadvantages of that method, say, possibly in comparison to other appropriate ways of doing things. It should also be noted that weighing up the advantages and disadvantages means more than simply listing them – it requires a final application of judgment as to what is appropriate in the given scenario.

There was a surprising split in candidates' performance between the two sections of the paper. While it was pleasing to see candidates performing well in both questions in Section A, the general performance in Section B was disappointing. A possible explanation of this is that candidates are question spotting and mainly studying those methods that are developed from Paper F5 knowledge in preference to the new methods and techniques that are introduced at Paper P5 (which comprise much of Section B at this diet). This is not a prioritisation of work that the syllabus would indicate or that I would recommend. It was clear from the answers that some candidates were attempting the Section B questions without an adequate basic knowledge of the topic.

A number of candidates seemed to write answers to the questions that they wished had been asked rather than the question that had actually been set and sadly, these answers were mostly irrelevant. Candidates should remember that in order to score marks, their answers need to be technically correct and relevant to the question asked. Therefore, reading the requirement carefully is vitally important to improving the chances of producing a passing answer. Examples of this appeared in this paper at Question 3(b) where the requirement asked 'Evaluate the existing performance management system at APX by applying the building block model' which was wrongly interpreted to mean 'Evaluate the existing performance of APX' – responses to this imagined question were often quite good but sadly, irrelevant and so scored poorly. Also, on Question 2(c), answers were given to the question as if it was regarding 'four different stakeholders' rather than 'four different external stakeholders'

– responses regarding internal stakeholders such as the trustees were, therefore, ignored in marking.

Some candidates continue to display their answers unprofessionally, with a lack of clear labelling to indicate which questions or question parts are being attempted. Also, many candidates would benefit by giving more thought to the presentation of their answers, eg with the use of subheadings and numbered points. This would not only improve the organisation of their answers but would also assist the marker.

SPECIFIC COMMENTS**SECTION A
QUESTION 1**

The question considered a coffee machine manufacturing business (JHK) which wanted advice on divisional performance measurement and its transfer pricing policy. Additionally, JHK was considering the impact of the introduction of a new executive information system (EIS).

Part (a) concerned the divisional performance of JHK. This part was generally well done with candidates displaying a good knowledge of the strengths and weaknesses of the different performance measures proposed. One disappointment was the lack of recognition of the different profit figures that could be used in calculations of these measures, in particular, candidates' failure to comment on the choice between controllable and uncontrollable costs in these divisional performance measures.

Part (b) asked about the transfer pricing policy between the two divisions of JHK. Generally, this part was fairly done although candidates were unwilling to back up their commentary with adequate supporting calculations.

Part (c) concerned the introduction of a new EIS at JHK. This part was generally well done. It was looking for comments about the impact of the new system on performance management not the specific difficulties in initial implementation of the system although some credit was given to such points.

There were four professional marks on offer in this question and happily, candidates are showing greater ability in this area with each diet. Some candidates however only wrote the report on Part (a) of the requirement when it was intended that the report covered all three parts of the question.

QUESTION 2

The question asked about the implementation of the balanced scorecard (BS) at a pharmaceutical company (PT) and also, its regulator (BDR).

Part (a) concerned the way in which BS generally helps an organisation to align its performance metrics with its corporate strategy. Most candidates adequately attempted it although answers often strayed into unnecessarily lengthy descriptions of the four perspectives of the balanced scorecard. The key to this question was showing how the use of the BS could assist in strategic alignment.

Part (b) asked for an evaluation of the specific performance measures at PT proposed in the question. One straightforward approach that was often overlooked in answering this part was to consider how each measure fitted with the corporate strategy of PT. The question had given considerable detail on the objectives and measures and this was very rarely used to its full extent. Nevertheless, candidates generally performed well on this part.

Part (c) concerned the analysis of four different external stakeholders at the public regulator, BDR. The question sought a description of the power and level of interest that each of the chosen stakeholders would have on the regulator. A model such as Mendelow's matrix was often used in the better answers, although it was not necessary for a good answer. Some candidates failed to show good critical thinking and concluded that every stakeholder that they had identified was powerful and highly influential with no sense of differentiation among them. This part also illustrated how inaccurate reading of the requirement wastes time, as discussions of the internal stakeholders of BDR and the stakeholders of PT were not relevant to this question.

Requirement (d) asked how the application of the balanced scorecard differed at PT and BDR (broadly, these represented the private and public sectors). Answers to this part could have been improved by using the analysis at Part (c) to realise that there were fundamental differences in the types and influence of stakeholders at the two organisations. The question required a response about how the approach differs at BDR from PT and some weaker candidates did not attempt a comparison of the two organisations often only presenting an application of BS at BDR (this gained a few marks).

PAPER P5 CANDIDATES NEED TO BE AWARE THAT PERFORMANCE MANAGEMENT IS AN AREA WHICH, AT AN ADVANCED LEVEL, IS DEPENDENT UPON SITUATION AND ENVIRONMENT – AS EXEMPLIFIED BY THE DIFFERENT FOCUS OF THE BALANCED SCORECARDS OF THE TWO ORGANISATIONS DISCUSSED IN QUESTION 2.

SECTION B

As noted above, the answers to the optional questions in Section B were often poor and unfortunately, the following discussion of them focuses mainly on the weaknesses that were demonstrated by candidates.

QUESTION 3

This question applied Fitzgerald and Moon's building block model to an accountancy practice (APX). The structure of the question was straightforward with firstly, a description of the model then an application of the model in evaluating APX's performance management system and finally, detailed improvements that would arise from that evaluation.

It was disappointing to note how many of the candidates who attempted this question, did not even know the names of the three building blocks. This demonstrated inadequate preparation for the exam. It had a knock-on impact on the remaining parts of the question as often only the dimensions aspect of the model was discussed.

Part (a) asked for a brief description of the model and often only the dimensions aspect was correctly identified. Within each of the building blocks, weak knowledge of the aspects emphasised by the model were demonstrated. For example, very few candidates appreciated the distinction between the upstream determinants of performance and the downstream results of performance within the dimensions block.

Part (b) requested an evaluation of APX's performance management system using the model. Many candidates offered an irrelevant assessment of APX's performance. To illustrate why this is irrelevant consider the analogous question 'evaluate the accounting system at company X' and then consider the response, 'Company X is performing well with profit increasing by 10% to \$100m in the last year'. The response does not

address the question which is about the system and not the performance. Many candidates only evaluated the performance measures with little comment given to the standards applied to these or the reward system at APX.

Part (c) sought suggestions for improvements for APX from the analysis in the previous parts. Better candidates had read the full requirement and so held back from offering improvements to the faults recognised in Part (b) until the answer to this part. Again, answers were limited due to the poor quality of responses to the earlier parts although some candidates offered valuable practical ideas to the management at APX.

QUESTION 4

The question concerned an entertainment company (ENT) with four divisions: restaurants, cafes, bars and dance clubs. The candidates were requested to use the BCG matrix to analyse the business then to evaluate this analysis as a management system and finally, to consider the reward packages described at ENT.

Part (a) concerned a BCG analysis of ENT and its use to evaluate ENT's performance. Many candidates did not know that the growth element of the analysis referred to the growth of the market sector and either ignored this element or calculated the growth of the division instead. This led to poor marks as half of the analysis was therefore missing and the conclusions compromised as a result. Also, some candidates chose to ignore most of the forecast numerical data and only calculate the current position of the company. This wasted an opportunity to score marks on the historical trends and also, the expected future position which is relevant if giving strategic advice.

Part (b) was also affected by this lack of knowledge of the method. However, there were a number of excellent answers in which, better candidates

THE MOST SIGNIFICANT ISSUES FOR WEAKER PAPER P6 (UK) CANDIDATES WERE A FAILURE TO TAKE ACCOUNT OF THE GUIDANCE GIVEN IN THE QUESTIONS AND A TENDENCY TO ADDRESS TECHNICAL AREAS IN GENERAL TERMS AS OPPOSED TO THE FACTS GIVEN IN THE QUESTIONS. IT IS STILL TRUE TO SAY THAT MANY CANDIDATES WOULD BENEFIT FROM THINKING MORE AND WRITING LESS.

demonstrated good confidence in exposing the weaknesses of the BCG model and suggesting possible alternative solutions to performance management at ENT.

Part (c) requested an evaluation of the divisional managers' remuneration package. The candidates were asked to consider the link with the current divisional performance system and also the BCG analysis. The answers to this part often represented the candidates' best work on this question although few displayed a clear grasp of the scenario. Better candidates noted the problem of applying a uniform package based on cost performance where they noted from the BCG analysis that some divisions showed growth or growth prospects that required a different style of management. They also commented on the lack of alignment of the divisional performance measure with the cost-based bonus element of the package.

QUESTION 5

The question tested candidates' knowledge of environmental accounting techniques and their application to environmental performance management in the context of an oil refinery (PLX).

Part (a) asked about the different cost categories that would aid transparency of environmental reporting. The article in *Student Accountant*, written by the previous examiner, provided widely accepted categories but reasonable suggestions by the candidates were accepted. Long lists (without discussion) of possible specific cost lines were given some, albeit limited, credit.

Part (b) concerned the three techniques mentioned in the scenario. Most candidates gave an answer on activity-based costing (ABC) though a number fell short of gaining full marks as they did not relate ABC to environmental reporting or the situation at PLX. Answers were generally poor

on input/output analysis with few candidates emphasising that it was based on the physical (rather than financial) quantities moving through the refining process. It was disappointing to see many candidates unable to explain how the lifecycle view might be relevant, especially as the next part of the question deals with this aspect.

Part (c) provided an opportunity to apply lifecycle costing to a product where the environment was significant. Many students scored the calculation marks on offer but then faltered when discussing the results. Little credit was gained by discussing the stage of the product lifecycle as the question asked about lifecycle costing.

PAPER P6 (UK) ADVANCED TAXATION

Performance in the June 2011 exam continued the positive trends from recent sittings; there were many good scripts and the vast majority of candidates attempted all of the parts of four questions. In addition, the majority of scripts were relatively concise and candidates demonstrated an impressive willingness in Question 1 to work right through to the end of a long question.

The most significant issues for weaker candidates were a failure to take account of the guidance given in the questions and a tendency to address technical areas in general terms as opposed to the facts given in the questions.

It is still true to say that many candidates would benefit from thinking more and writing less.

GENERAL COMMENTS

The exam was divided into Section A and Section B. Section A consisted of two compulsory questions for a total of 64 marks. In Section B candidates were required to answer two of the three questions worth 18 marks each.

In Section B, Questions 3 and 5 were equally popular; Question 4 was the most popular question.

Candidates should pay particular attention to the following in order to maximise their chances of success in the exam in the future.

1 Know your stuff

- ▣ Successful candidates are able to demonstrate sufficient, precise knowledge of the UK tax system. For example, it was clear that many weaker candidates did not know the conditions that needed to be satisfied in order for capital gains tax reliefs to be available in Question 1 or the precise rules regarding partial exemption and default surcharge in Question 2.
- ▣ This knowledge must be up to date. Candidates sitting the exam in December must familiarise themselves with the changes introduced by the recent Finance Acts as summarised in the Finance Act articles published in *Student Accountant* magazine and on the website.

2 Practise questions from past exams with the aim of adopting the style of the model answers

3 Address the requirement

- ▣ Read the requirement carefully – in the Section A questions the detailed tasks that you are to perform will be set out in one of the documents. It may be helpful to tick off the tasks as you address them. Marks are awarded for satisfying the requirements and not for other information – even if it is technically correct.
- ▣ The requirements of each question are carefully worded in order to provide you with guidance as regards the style and content of your answers. You should note the command words (calculate, explain etc), any matters which are not to be covered, and the precise issues you have been asked to address.
- ▣ You should also note any guidance given in the question or in any notes following the requirement regarding the approach you should take when answering the question.
- ▣ Pay attention to the number of marks available – this provides you with a clear indication of the amount of time you should spend on each question part.

4 Don't provide general explanations or long introductions

- ▣ If you are asked to calculate, there is no need to explain what you are going to do before you do it; just get on with it – only provide explanations when you are asked to.



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- ❑ Think before you write. Then write whatever is necessary to satisfy the requirement.
 - ❑ Apply your knowledge to the facts by reference to the requirement.
- 5 Think before you start, and manage your time**
- ❑ Ensure that you allow the correct amount of time for each question.
 - ❑ Think about the issues before you start, and identify a strategy to solve the problem set. If you are preparing to resit the exam, think about the number of additional marks you need and identify a strategy to earn them. For example:
 - Identify those areas of the syllabus where you are weakest and work to improve your knowledge in those areas.
 - Ask yourself whether you could improve the way you manage your time in the exam and whether you address all of the parts of all four questions, or whether you waste time addressing issues which have not been asked for.
 - Make sure that you earn the professional marks and that you are prepared to address the ethical issues that may be examined.

MARKS AVAILABLE IN RESPECT OF PROFESSIONAL SKILLS

Marks were available for professional skills in Questions 1 and 2. In order to earn these marks, candidates first had to satisfy the requirement in relation to the style and format of the document requested. Further marks were then available for providing clear explanations and coherent calculations.

On the whole, the performance of candidates in this area was good with the majority of candidates producing correctly formatted documents in a style that was easy to follow.

SPECIFIC COMMENTS QUESTION 1

Question 1 was a substantial question in two parts. Part (a) required candidates to prepare notes and calculations in connection with a number of proposals designed to increase the income of Farfisa, the daughter of a client, Calisia. Part (b) required an explanation of the manner in which Calisia's inheritance tax liability would be calculated on her death.

Part (a) was for 21 marks. With a question part of this size it was important for candidates to be clear as to what they had been asked to do and

how they were going to do it. It was very pleasing to see the majority of candidates taking a well-structured approach to this question and addressing all of the alternatives in a consistent manner. There were some very good answers to this question with some candidates scoring full marks.

The question centred on capital gains business reliefs and the taxation of various sources of income. The income tax elements were done well but candidates' knowledge of business reliefs was often not as good as it could have been. However, there was a clear indication that candidates were taking the right approach to capital gains tax in that they were considering the availability of reliefs every time a gain arose. This was very good to see and it now remains for candidates to improve their knowledge of the conditions that must be satisfied for the reliefs to be available.

The first task was to calculate the amount of additional income required by the client's daughter, Farfisa. This was a relatively simple task and many candidates scored full marks. Other candidates failed to identify that the proposed loan was for less than £5,000 such that it was an exempt benefit or were not careful enough in distinguishing taxable income (income less personal allowance) from post-tax income (income less tax).

Under the first alternative, the income was to be provided via a transfer of quoted shares. The majority of candidates were happy calculating the number of shares to be transferred but many failed to consider how the dividends would be taxed in the hands of Farfisa. Those who did address this point often considered the rate of tax but not the credit. The point that needed to be identified was that there would be no tax to pay on the dividend income because, as Farfisa would be a basic rate taxpayer, the tax liability would be covered by the tax credit.

Under the first alternative candidates then had to calculate the capital gain on the proposed gift of the shares. This is where some candidates began to have problems as they thought that gift relief would be available. However, the relief was not available because the shares were quoted and Calisia did not own at least 5% of the voting rights.

Under the second alternative candidates had to calculate the capital gains on the proposed sale of a building that was rented out as qualifying furnished holiday accommodation. Calculating the gain was simple; but

again there was the need to consider the availability of business reliefs. Many candidates failed to realise that entrepreneurs' relief would be available such that tax would only be taxed at 10%. A minority of candidates also had the problem here of distinguishing a taxable gain (proceeds less cost) from post-tax proceeds (proceeds less tax).

Under the third and fourth alternatives the rental property was to be gifted rather than sold. Candidates had to identify that gift relief would be available under both alternatives. It was then necessary to consider how the rental income received by Farfisa in respect of the property would be taxed. Under the third alternative the income would simply be taxed at 20%. But under the fourth alternative, rent a room relief would be available. These points were identified by the vast majority of candidates.

Candidates were also asked to consider stamp duty and stamp duty land tax and to prepare a summary of the capital gains tax liabilities under each of the alternatives. A minority of candidates did not carry out one or both of these tasks thus sacrificing some fairly easy marks.

Part (b) required candidates to prepare a comprehensive explanation of how Calisia's inheritance tax liability would be calculated; this was done well by many candidates.

This question was fairly unstructured, such that candidates had to think and impose their own structure in order to maximise their marks. Candidates who failed to do this often repeated themselves, did not cover sufficient aspects of the question and included irrelevant material in their answers. In particular, some candidates wasted time by writing about inheritance tax in general terms, including giving general advice on inheritance tax planning, or by preparing computations when they were told not to.

Candidates' knowledge of inheritance tax was often very good. The link between domicile and the taxation of overseas assets, the transfer of the husband's nil rate band, the treatment of the donation to the political party and the taxation of the client's home were identified and understood by the majority of candidates.

Business property relief was often explained well although, as always, there was a small minority of candidates who confused reliefs available in respect of capital gains tax with those available in respect of inheritance tax. It was important to provide some detail here (the requirement was for a comprehensive explanation) so a statement that 'business property relief would be

available' was, despite being true, insufficient to score. Candidates needed to address the assets that would qualify for the relief, the qualifying ownership period and the rate of relief; many candidates did not address as much as they could have.

In respect of the property situated overseas, the marks available for explaining the relief in respect of tax suffered overseas were missed by many candidates. Other marks that were often missed included the deduction available for the costs of administering the property situated overseas, the treatment of Calisia's home, the deduction available in respect of funeral costs and the need for the political party to qualify in order for the donation to be exempt.

QUESTION 2

Question 2 concerned the taxation of a company, Glenz Ltd, and was in two parts.

Part (a) concerned value added tax (VAT), corporation tax and National Insurance. Candidates' performance was pretty mixed with some very good scripts, some very poor ones and a range in between.

The VAT element required calculations and explanations of the company's VAT liabilities for two quarters. This was done well by those candidates who knew how to do it but, unfortunately, many candidates had little more than an awareness of the rules and did not know how to apply them to the facts. There is always a reasonable number of marks in the exam relating to VAT and changes introduced by the latest Finance Act are often examined so it should not have been surprising to see partial exemption being tested.

The corporation tax element required calculations and explanations of the company's corporation tax liability. This was done well by the majority of candidates. The question required an explanation of the number of associated companies (ie by reference to Petzold's control of Glenz Ltd and Clementi Ltd) and the consequent rate of tax payable by reference to the limits. Many candidates took these points for granted such that they did not score as well as they could have.

The information in the question relating to the two three-month periods resulted in a small minority of candidates preparing meaningless calculations of tax for each of the periods. This is something they would never have done in their preparation for the exam or ever seen in a textbook. A small minority of candidates recognised that the company was

marginal and proceeded to calculate the tax on the whole of the taxable profits at the marginal rate. This is not the way the marginal rate works; the marginal rate is only relevant in relation to the profits between the limits.

The National Insurance element was straightforward and done well by those who attempted it. The problem was that many candidates did not identify the need to carry out the calculations despite the clues in the question.

Part (b) concerned the company's cash flow position in relation to VAT, the treatment of a refund of corporation tax and the sale and leaseback of a warehouse.

The VAT element concerned the default surcharge penalty. Just as with the VAT element of Part (a), it was done very well by those who knew the rules and (inevitably) considerably less well by those who did not. As noted above, candidates would do well to recognise that VAT features in every exam.

The client was proposing to retain a recently received tax refund despite not knowing what it was for. Candidates were expected to recognise that this was not acceptable behaviour and the vast majority were able to do so. However, a minority of candidates did not do much more than that such that they failed to explain the implications of not returning the money in relation to both the client and its advisers.

The implications of the sale and leaseback were covered well by many candidates. In some ways this element was similar to Question 1 Part (b) in that candidates had to slow down and think in order to provide sufficient information. The question asked for a 'detailed explanation' of relief of the gain via rollover relief. This required candidates to consider the nature of potential replacement assets, the period in which the replacement assets needed to be acquired, the implications of reinvesting some, rather than all, of the proceeds and the manner in which the relief would be given. Very few candidates addressed all of these matters but it is likely that the vast majority of candidates knew something about all of them. When asked to write in detail, candidates must plan their answers such that they cover all of the relevant issues.

QUESTION 3

This question concerned a new unincorporated business. It was in two parts.

Part (a) concerned the choice of year end for the new business; it was answered

poorly by a majority of candidates but very well by the remainder.

The question was slightly unusual in that it required candidates to explain why something was true; namely that one year end rather than another would be likely to delay the first tax year in which the business makes a taxable profit. This required candidates to apply their technical knowledge to the facts of the question.

In order to answer this question, candidates needed to know the opening year rules for an unincorporated business. However, they also had to reach the conclusion set out in the question. The problem here was that many candidates did not pause and think about what they had been asked to do. Instead, they simply wrote about opening years in relation to overlap profits, utilisation of losses or tax payment dates.

Candidates who did well either thought before they began writing, such that they submitted very concise answers that neatly summarised the position, or explored the opening year rules for each of the year ends and reached the required conclusion.

Part (b) required a comparison of employing someone with going into partnership with them. There were lots of marks available, many of which were straightforward and, on the whole, this part was answered reasonably well. However, many candidates could have done considerably better if they had recognised all of the help that was provided to them in the question and had taken the time to consider whether or not they had addressed all of the relevant points.

Candidates' first impression on reading this question may have been favourable in that the technical area was one they were likely to be comfortable with (although the lack of numbers may have worried some). However, in order to maximise their marks candidates needed to follow the instructions given in the notes to the question. Note 1 required candidates' answers to be restricted to losses; this was ignored by many candidates. Note 2 provided a structure to what was otherwise an awkward open-ended question; unfortunately, this suggested structure was also ignored by many candidates.

Those candidates who ignored the notes lost marks for two reasons: they wasted time writing about matters that did not score (principally the taxation of profits) and they failed to address all of the relevant issues (as listed in note 2). For example, candidates wrote about how

Class 4 National Insurance contributions would be calculated when they should have written that no such contributions would be due until the business was profitable.

QUESTION 4

This question concerned inheritance tax and capital gains tax on the transfer of a property to a trust and the sale of shares and qualifying corporate bonds. The question was in three parts.

Part (a) required candidates to consider both the capital gains tax and inheritance tax implications of the transfer of a property to a discretionary trust. The inheritance tax implications were addressed very well by all but a tiny minority of candidates. The only common error was a failure to set out any assumptions made as required by the note to the question.

The capital gains tax element of this part was not answered well. The problem here was that most candidates did not think; instead they simply deducted the cost from the proceeds and addressed rates of tax. Some candidates then realised that gift relief was available and that, per the question, all available claims would be made. As a result, although they had wasted some time, they were still able to score full marks. Other candidates, however, did not address the gift relief point and consequently did not score any marks for the capital gains tax element of the question.

Part (b) concerned the sale of shares in respect of which EIS relief had been claimed. Almost all candidates identified the claw back of the relief if the shares were sold within three years of the acquisition. However, many stated that the whole of the relief obtained would be withdrawn as opposed to a proportion of it.

The implications of delaying the sale were not identified particularly well. Many candidates simply stated the opposite of what they had already written, ie that the relief obtained would not be withdrawn if the shares were held for three years. More thoughtful candidates considered other matters and recognised that delaying the sale delayed the receipt of the sales proceeds and that the value of the shares might change (for the better or the worse).

The final part of the question concerned the sale of shares and qualifying corporate bonds that had been acquired following a paper for paper exchange. This part was done well by those candidates who knew how to handle this type of transaction.

The first task was to recognise that the cost of the original shares needed to be apportioned between the new shares and the corporate bonds. Many candidates knew what they were doing here and were on the way to doing well in this part of the question.

However, there was often confusion as to the treatment of the sale of the corporate bonds. Many candidates who knew that corporate bonds are exempt from capital gains tax went on to calculate a gain on the sale and include it in the taxable capital gains for the year. Also, many candidates were not able to identify the gain on the original shares that was frozen at the time of the paper for paper exchange and then charged when the corporate bonds were sold.

QUESTION 5

This question concerned the acquisition of an overseas business, double tax relief and transfer pricing. It was in three parts.

Part (a) required candidates to explain the relief available in respect of the expected loss to be made by the business depending on whether it was established as a branch or a subsidiary of the UK company. This was an area where candidates had a certain amount of knowledge but, on the whole, did not score as well as they could have done because they wrote generally about branch versus subsidiary as opposed to addressing the particular facts and requirements of this question.

In particular, despite being asked to address loss relief, many candidates wrote about the taxation of profits. Many of those who did address losses did not address them as precisely as they could have done in the context of the question such that they did not consider the relevance of the tax rates provided.

Part (b) concerned group relief and the preservation of double tax relief. It required technical knowledge that almost all candidates had regarding double tax

relief being the lower of the UK tax and the overseas tax on the overseas income. However, it also required candidates to be able to work out how to ensure that sufficient overseas profits remained within the charge to tax such that relief in respect of the overseas tax was not wasted.

This task was carried out elegantly by a minority of candidates, but the majority struggled with the problem. Credit was available for approaching the question by reference to double tax relief but many candidates simply stated that group relief was restricted to the lower of the losses available and the profits subject to tax.

The final part of the question concerned transfer pricing and was done reasonably well by many candidates who had a good knowledge of the transfer pricing rules. However, only a small minority made reference to the relevance of the size of the companies in determining whether or not the rules would apply or to the possibility of reaching an agreement with HM Revenue & Customs.

The question also required candidates to explain how the prices charged between the group companies would affect the total tax paid by the group. In order to do this, candidates had to focus on the difference between the tax rate in the UK and that in Kuwata and the possibility of group profits being taxed at the lower rate. It was important here to address the situation from a group perspective rather than that of a particular company. However, the majority of candidates did not address this element of the question.

PAPER P7 ADVANCED AUDIT AND ASSURANCE

Candidates' performance in the June 2011 paper was disappointing. This was the first to be set in a new style (explained in examiner's articles in January 2011). Candidates did not appear to find the new style problematical. However, candidates' lack of ability to apply their knowledge to the scenarios provided continues to contribute to the low success rate for this paper. And, unfortunately, many candidates simply failed to answer the specific question that had been set.

The exam comprised two compulsory questions in Section A, and three questions in Section B of which two should be attempted. Both Section A questions were based on detailed scenarios, and contained several requirements covering different syllabus areas.

CANDIDATES' LACK OF ABILITY TO APPLY THEIR KNOWLEDGE TO THE SCENARIOS PROVIDED CONTINUES TO CONTRIBUTE TO THE LOW SUCCESS RATE FOR PAPER P7.

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Each optional 18-mark question in Section B included a short scenario, and several requirements. Of the Section B questions, Question 3 was the most popular, and Question 5 the least popular.

Similar factors as detailed in previous examiner's reports continue to contribute to the disappointing pass rate:

- failing to answer the specific question requirements
- not applying knowledge to question scenarios
- not explaining or developing points in enough detail
- lack of knowledge on certain syllabus areas
- illegible handwriting.

The rest of this report contains a discussion of each question, highlighting the requirements that were answered well, and the areas that need improvement.

SPECIFIC COMMENTS QUESTION 1

This question was for 37 marks and involved a property development company which was a long-standing audit client. The candidate was placed in the role of a newly assigned audit manager, whose first task in requirement Part (a)(i) was to explain the matters that needed to be considered, and the financial statement risks relating to two issues. The planned audit procedures in response to the risks identified were also required. This requirement was for 16 marks. Candidates responded well to the new style of question requirement, whereby the specific requirement was provided in an email from the audit partner. The wording of the requirement should have been familiar as has been used in many past questions.

Most candidates recognised the loss-making nature of the contract described in the scenario, and correctly calculated the loss, and the majority then went on to discuss the financial statement risk that profit would be overstated if the loss were not recognised in full. However, having gone this far, many candidates then went on to consider other potential accounting issues and different financial reporting standards, leading to confused answers and often contradictory advice. The most common example here was where a candidate having stated that the loss should be recognised in full ('to be prudent'), they then went on to argue the opposite point in the next sentence

– that according to revenue recognition principles only a part of the loss should now be recognised. No conclusion was provided and the contradictory comments clearly detract from the overall quality of an answer. Weaker candidates simply could not decide which financial reporting standard was most relevant, and applied several or all of the following to the contract in question: provisions (IAS 37), property, plant and equipment (IAS 16), development costs (IAS 38), inventories (IAS 2) and investment properties (IAS 40). It was common to see answers of this type stretching over many pages, when all that was needed was a succinct discussion of the loss-making contract in the context of IAS 11, which could be done in a few short paragraphs.

The other common problem was answers which focused on business risks rather than financial statement risks, leading to long discussions of cash availability, the company's reputation, and inevitably going concern problems.

The procedures recommended for the loss making contract were often too vague to score credit, eg many candidates recommended that the architect's plans should be obtained, but did not say what the auditor should do with them. Similarly, it was often recommended that the auditor should obtain the forecast of the development, but then failed to say what should be done with it. Candidates should note that obtaining a document is not in itself an audit procedure.

The second issue in Part (a)(i) dealt with a significant business segment which management planned to sell, which should have lead candidates to discuss whether the business segment should be classified as a discontinued operation/held-for-sale disposal group at the year end. Most candidates did correctly identify this issue and could properly apply the IFRS 5 criteria to justify their answer. However, the same problems as noted above for the loss making contract equally applied here – many candidates seemed unsure which was the relevant financial reporting standard, and went on to discuss disclosure as an event after the reporting date (IAS 10) and/or provisions (IAS 37). This wasted time and meant answers were overly long and largely irrelevant. Few candidates could recommend any procedures other than 'discuss with management' or 'review board minutes', which are relevant but must be explained to earn a mark. Again, some candidates continued their

obsession with going concern matters here, discussing at length whether it was the right decision to sell off the business segment, and advising management to reconsider.

The UK and IRL adapted papers contained a different second issue: an operating lease which had characteristics of an onerous contract. Many did identify the onerous contract but could say little more than that a provision should be made. Many also ignored the question and discussed the lease as if it were a finance lease, leading to irrelevant discussion as to whether the asset in question was impaired. Again, there were a lot of discussions of business risks (not asked for), plenty of criticism of management's decision to purchase a new warehouse, and advice to potentially minimise the losses incurred. Candidates really need to focus on audit issues – after all this is an audit paper, not a business strategy paper.

On the whole, the answers to Part (a)(i) were disappointing, with most lacking focus and containing a lot of irrelevant discussion. Candidates did not need to write a lot to score very well on this requirement, and it was a shame to see candidates wasting so much time on irrelevance. This shows how important it is to read the question carefully and to spend a little time thinking and clarifying the audit issues instead of rushing to put pen to paper as soon as possible.

The second task, in Part (a)(ii), required candidates to critically evaluate the audit planning that had been prepared by the previous audit manager, for 11 marks. It was pleasing to see most candidates score well on this requirement, especially given the wholly applied nature of the question and requirement. The ethical issues in particular were usually well explained, the quality control issues less so. Strong candidates tended to use a logical approach – working through the scenario to discuss each issue in turn. Weaker candidates talked generically about independence issues without really explaining the point, eg just stating 'familiarity is a problem', 'we must be independent', and there were many calls for the previous audit manager to be disciplined for her 'incompetence'. But on the whole this was one of the best answered requirements for many candidates.

There were two professional marks available in connection with Part (a). Most candidates attempted the briefing notes format by including an

appropriate heading and introduction. (Read the article on professional marks on page 12 for more information and advice on maximising your marks.)

Part (b) was for eight marks, and dealt with related parties. Part (b) (i) required candidates to explain the limitations which mean that auditors may not identify related parties and related party transactions, for four marks. On the whole answers were good, with most candidates able to explain that knowledge is confined to management, and that transactions at nil value are impossible to detect from accounting systems. Weaker answers found a variety of ways to say 'they are difficult to find out about' without actually explaining the limitations. Part (b)(ii) asked for audit procedures specific to related party transactions described in the scenario, for four marks. Answers were often disappointing here, as many candidates ignored the question requirement and just provided a rote-learned list of procedures to identify related party transactions in general, not focusing on the transactions in the scenario. Even those who did think about the scenario provided weak procedures, eg 'check the lease is market rate' – but not explaining how the auditor should do this.

QUESTION 2

This question was for 27 marks, and was largely based on going concern. Considering candidates' usual inclination to talk about going concern in any possible situation it was very disappointing that when given a question focusing on this topic that the answers were generally unsatisfactory.

The candidate was placed in a role as audit manager of a new client, with the first task in Part (a)(i) being to review draft extracts from financial statements and a cash flow forecast to identify and explain matters which may cast significant doubt on the company's ability to continue as a going concern. The majority of candidates seemed to ignore this instruction, providing an answer that did little more than work down the statement of financial position, calculating the materiality of each balance, and discussing the accounting treatment of each item, saying nothing about going concern. Only when turning to the cash flow forecast did these answers say anything about going concern, and then the comments were usually restricted to the likelihood of the company receiving a loan and a subsidy. Weaker candidates

tended to get confused when looking at the cash flow forecast and tried to apply financial reporting rules, eg by arguing that the income from the government grant should be deferred.

However, there were some good answers. These answers focused entirely on going concern matters, providing relevant calculations, eg the total amount of debt due to be paid in 12 months, and discussing ratios such as the current and quick ratios to provide discussion points. The best answers saw that the parent company would be unlikely to provide a further loan to its loss making subsidiary when it already has a loan advanced which is unlikely to be paid back, and that on this basis surely the company could not continue in operations.

The second task, in Part (a)(ii) was to recommend audit procedures to be carried out on the cash flow forecast. Most candidates could provide at least a few well explained procedures – the most common focusing on the loan from the parent company and the government grant. Weaker procedures were not well explained eg 'check the price of the financial asset' without saying how this could be done. Weaker answers provided procedures for the assets and liabilities on the draft statement of financial position, which was not asked for. Most candidates identified the extreme optimism of the cash flow forecast and that the closing cash position was negative, but not many candidates could recommend good procedures to verify the claims of management regarding cash receipts from customers, which was a key issue.

Finally, there were two professional marks available for Part (a). The majority of candidates attempted to achieve these marks by using an appropriate format but often no conclusion was provided.

Part (b) dealt with the impact of multiple going concern uncertainties on the auditor's report, for seven marks. Although some candidates scored well on this requirement, the majority again failed to answer the question as set, and discussed every conceivable auditor's report that could be issued for a client with going concern problems. The question stated that 'the use of the going concern assumption is appropriate', yet many candidates ignored this and spent a lot of time discussing what should happen if the use of the going concern assumption were not appropriate. Most candidates earned a few marks by discussing the

use of emphasis of matter paragraphs, but often the description of the paragraph was sketchy. Only a minority correctly focused their answers on the requirement for management to disclose significant uncertainties in the notes to the financial statements, and that the adequacy of these disclosures would drive the auditor's opinion on the financial statements. Overall answers were very disappointing.

The UK and IRL adapted papers contained a different Part (b), which dealt with a new syllabus topic – auditing aspects of insolvency. Specifically the requirement was to explain the procedures involved in placing a company into compulsory liquidation (four marks) and to explain the consequences for creditors, employees and shareholders (three marks). It was pleasing to see that most candidates had obviously studied this new topic and consequently scored well. There was sometimes confusion between compulsory and voluntary liquidation, and often the order of payment of assets in the event of liquidation was incorrect. However, most candidates made a satisfactory attempt at this requirement.

QUESTION 3

This was the most popular of the optional Section B questions, probably because 10 of the 18 marks available were related to audit acceptance and ethical issues – both of which are topics which candidates seem to be comfortable with. However, the remaining eight marks dealt with the requirements of ISA 510 on opening balances, and unfortunately candidates' obvious lack of knowledge of this syllabus area meant that for many this was actually a poor choice of question.

Part (a) involved a potential new audit client, and candidates were asked to identify and explain the matters that should be considered in deciding whether to accept the audit appointment. Candidates who had practised previous similar exam questions would have been well prepared, and there were many very good answers. Candidates were comfortable in discussing the specific ethical issues relevant to the scenario including self review, confidentiality and conflicts of interest, and it was good to see a good number of answers refer to the requirements of ISA 210 on audit pre-conditions, which had been the subject of a recent examiner's article.

Weaker answers were not made

specific to the scenario, and discussed general matters such as resourcing, fees and engagement letters. It was interesting to see so many candidates being overly critical of the client's part-qualified accountant, who was often accused of incompetence, lack of integrity, and even fraudulent activities. As all candidates taking this paper are themselves 'part-qualified' accountants maybe a little more insight into this person's role in the client's accounting function would be appropriate.

Part (b) dealt with opening balances and was poorly answered by the majority. Some candidates could explain the audit procedures required by ISA 510, but few could recommend more than a couple of specific procedures in relation to the opening balance of inventories as specified in the requirement. Many answers gave procedures for non-current assets, receivables and cash which were not asked for, and many forgot that the company in the question had not been audited before, leading to irrelevant discussion of 'previous auditor's working papers'. Many suggested impossible procedures, eg 're-perform last year's stock count' and very few picked up on the major issue of obsolescence given the company's inventories comprise calendars and diaries.

Unfortunately candidates seemed unable to think on their feet enough to recommend anything other than a pre-learnt list of audit procedures, and when faced with anything unique cannot provide an answer worthy of more than minimal marks.

QUESTION 4

This was the second most popular of the optional questions, and focused on due diligence. The scenario described a potential acquisition being planned by an audit client of your firm.

Part (a), for six marks, required an explanation of three benefits of an externally provided due diligence review to the audit client. This was usually reasonably well answered, though many answers were not made very specific to the scenario and tended to discuss the benefits of any due diligence review rather than an externally provided one. Also, a significant number of candidates provided more than three benefits, which was a waste of time.

Part (b), for 12 marks asked for additional information to be made available for the firm's due diligence review. Answers were often good, and the majority of candidates did not struggle to apply their knowledge to

the scenario, usually providing some very focussed answers dealing well with the specifics of the question scenario. Most answers seemed to use a logical approach – working through the information provided to generate answer points, and this meant that on the whole most of the key issues from the scenario were covered in the answer. A small proportion of answers also included irrelevant discussions of the type of report that would be provided to the client, or a discussion of ethical issues which were not asked for.

QUESTION 5

This was the least popular of the optional questions, focusing on audit reports and group audit issues. The scenario described a group audit in which the component auditors suggested a qualified audit opinion on a subsidiary's financial statements due to an alleged material misstatement concerning a provision.

Part (a), for 10 marks, asked candidates to identify and explain the matters that should be considered and the actions that should be taken by the group audit engagement team in forming an opinion on the consolidated financial statements. Most candidates gained marks by calculating the materiality of the provision to the group and to the individual financial statements of the subsidiary. However, few determined the materiality of the component itself to the group.

Candidates are usually happy to be critical of auditors in question scenarios, but in this case when it was actually appropriate to raise concerns over the evidence (or lack of it) obtained to support the qualified opinion, very few answers tackled this issue. However, some candidates did waste time criticising the extract audit report that had been provided – this was not asked for – and implied that candidates had not read the question requirement at all. Only the best candidates picked up on the fact that an adjustment could be made at group level to avoid any qualification in the consolidated financial statements, and that pressure could be put on the subsidiary's management to adjust in the individual financial statements as well.

Surprisingly few candidates provided any 'actions' at all, which was a shame as some relatively easy marks could have been gained by suggesting a detailed review of the component auditors working papers, requesting evidence from the subsidiary's management to

support their accounting treatment, or discussing the matter with those charged with governance.

Part (b) asked candidates to explain the principle audit procedures that should be performed on the consolidation process, for eight marks. Many candidates clearly knew the consolidation process very well, but had trouble expressing this knowledge in terms of audit procedures. Many answers simply described what should happen in a consolidation, and thought that by including the words 'check' or 'ensure' every so often that would be enough, eg 'check goodwill calculation', 'ensure all subsidiaries included but didn't actually say how these things should be done. However, despite these problems most answers were good enough to pass this requirement. Taking a step back to consider the effectiveness of controls over the whole process was rarely considered.

The UK and IRL Part (b) was different, and concerned a subsidiary that had been disposed of during the year. The requirement was to comment on the matters that should be considered and the evidence that should be found in a review of audit working papers. Candidates responded well to this, and most earned marks by calculating materiality, discussing the appropriate accounting treatment in the consolidated financial statements, and could provide several examples of relevant evidence.

Repeating a comment made in the previous examiner's report, answers to Question 5 Part (a) were unsatisfactory, given that audit reports is a regularly examined syllabus area.

CONCLUSION

As seen in previous sittings, what makes the difference between a pass and a fail script is usually the level of application skills which have been demonstrated. Candidates who answer the specific question requirement, and tailor their answers to the scenarios provided are likely to do well. At this sitting a large proportion of candidates simply failed to answer the actual question requirement, especially in Question 2 Part (a)(i).

UK and IRL candidates are reminded that the syllabus now examines International Financial Reporting Standards rather than UK and Irish accounting standards. Notes should not be made in answer booklets to markers about which accounting standards are being used in answering questions.