

# Examiner's report

## F1/FAB Accountant in Business

### June 2012



#### General Comments

The paper comprised 50 objective test questions, each worth two marks. Each question required candidates to select one correct answer from four choices. The paper included either eight or nine questions from each of the six generic syllabus areas.

There were certain topics on which the performance of candidates was strong. It was clear that candidates had prepared well for questions relating to certain management theories, including Mendelow's stakeholder grid, Adair's functional (action-centred) leadership model, Fayol's functions of a manager and to a lesser extent, Vroom's motivation theory. Personal effectiveness and human resources management questions also saw relatively high pass rates, especially those relating to time management, conflict, health and safety, reward systems, communication and performance appraisal.

The performance of candidates was also strong in dealing with questions on outsourcing, money laundering and certain matters relating to corporate governance, including the objectives of not-for-profit organisations, the role of the company Secretary and agency theory.

The theories that posed the greatest level of difficulty were the stages of team development, learning processes, competency frameworks and the five forces model on competitive advantage.

Candidates generally dealt with questions on accounting and finance topics quite well, with the exception of matters relating to functions within the accounting department and the role of IFAC.

There were four questions on economics, one of which caused considerable problems. Surprisingly, candidates coped well with a question on quantitative easing, but the pass rate on a question on fiscal policy was much lower. The latter has seldom caused difficulty in the past.

The professionalism and ethics questions saw mixed outcomes. Candidates were able to deal with fiduciary responsibility and conflicts of interest. However, questions relating to corporate codes of ethics and sustainability caused greater difficulty.

The paper included 12 scenario-based questions, most of which required basic applications of knowledge. Although some of these questions saw low pass rates, there was no greater variation in performance than that for shorter questions. It is quite possible that the time needed to work the scenarios may affect the ability of candidates to complete all 50 questions, as many candidates did not answer all of the questions on the paper. It should be noted that two of the scenario questions had very high pass rates (these related to stakeholder theory and human resources management).

#### Sample Questions for Discussion

Question 14 required knowledge of best practices in corporate governance.

**The board of directors of TBF Company has decided to establish an audit committee for the first time. The committee will be made up of three independent non-executive directors. As the company has six non-executive directors, three will serve on the committee in the first year and the other three will then serve for the next year. Of the six non-executive directors, only one has a comprehensive knowledge of financial operations.**



The committee will meet every two months. One of the non-executive directors will also serve as the chairman of the company for the next year and it has been decided that he will also be the chairman of the audit committee for this period.

According to best practice in corporate governance, which of the following statements is correct in relation to the above arrangements?

- A It is inappropriate for the chairman of the company to be chairman of the audit committee at the same time
- B Whilst the audit committee should be made up of a majority of non-executive directors, it is undesirable that there will be no executive directors serving on it
- C The audit committee will not have the necessary competences to discharge its responsibilities over the full two year period
- D The non-executive directors should retire annually, so no arrangements should be put in place in relation to the composition of the audit committee for the second year

The correct answer is C.

The answer to this question could be deduced from the last two sentences in the first paragraph. As only one non-executive director had adequate knowledge of financial matters, but would only serve on the Audit Committee every other year, this would result in the committee having no financial expertise whatsoever. Candidates should know that one role of this committee is to challenge the accuracy and transparency of financial statements, while another is to ensure that there are adequate systems of internal controls in place. Neither of these roles can be discharged to an appropriate standard without the Audit Committee having the expertise to do so.

It is possible to arrive at the correct answer by deduction. As the Chairman is usually an independent non-executive director, there is nothing in law or best practice suggesting that he or she should not also concurrently serve as Chairman of the Audit Committee. Option B is clearly wrong, as it is desirable for the members of the Audit Committee to be independent, and executive directors cannot, by definition, be independent.

Most candidates knew that choice D was incorrect, though annual retirement by rotation is a feature of best practice under some corporate governance regimes.

The pass rate for this question was 17%.

Question 31 asked candidates to relate their knowledge of the outputs of the accounting department to marketing activities.

Which of the following reports prepared by the finance department would enable the organisation to assess the effectiveness of an increase in expenditure on after sales service?

- A Costs of defects reworked or written off due to failures in quality control
- B Revenues from cross-selling activities focused on existing customers
- C Costs of servicing, repairing and running vehicles driven by customer-facing engineers



## **D Revenues from sales of imperfect inventory and returned goods**

**The correct answer is B.**

Candidates must read the question carefully in order to arrive at the correct answer. Many may have assumed that the level of defects on after sales service costs were an indicator of effectiveness of increasing expenditure, while these were only measures relating to the effectiveness of quality controls. The costs of servicing, repairing and running vehicles driven by the engineers related to overheads rather than the effectiveness of after sales service.

By increasing expenditure on after sales service, existing customers should be more satisfied, which should result in future sales increasing to this group of customers, and a lower level of migration of existing customers to alternative suppliers or substitutes.

The pass rate for this question was 20%.

Question 48 tested the candidates' understanding of how information relating to sales, revenues and costs can assist the marketing department.

Jens has prepared a report detailing the sales, revenues and costs attributable to his company's products, broken down by cities, towns and regions, for the last 12 quarters. He already has figures for the estimated total market size for the same period. The company sells fast moving consumer goods and adopts an undifferentiated marketing strategy.

**Jens' report will enable the marketing department to complete which of the following?**

- A Carrying out a comprehensive analysis of the marketing environment**
- B Analysing buyer behaviour according to product features and benefits**
- C Identifying the position of the products on the product lifecycle**
- D Understanding which promotional methods have been most effective**

**The correct answer to the question was C.**

Many candidates chose option A, but this was clearly incorrect from the phrase 'marketing environment', as the figures produced by Jens related only to the company's own performance over time. The only external data mentioned in the statement was the total market size. It would therefore be impossible to carry out a comprehensive analysis based on Jens' work alone.

The product lifecycle is a useful marketing theory applied to analyse revenues (and sometimes profits) over time. Better candidates would have identified the fact that Jens produced figures relevant to 12 quarters, which would have led to the correct answer.

Options B could not be correct, as buyer behaviour could not be analysed from the information Jens produced. Likewise, the marketing department would not be able to determine which methods of promotion had been most effective without having financial information on the costs of each method of promotion and on consumer responses to each of them.

The question was answered correctly by 20% of candidates.



## CONCLUSIONS

The paper is broad in scope, so the challenge facing most candidates is that of accumulating sufficient knowledge across all subject areas to deal with the whole range of topics. As questions are spread evenly across the learning outcomes in the study guide, it is a high risk strategy to 'question spot' by focusing on some topics to the exclusion of others. It must be emphasised that candidates are not expected to have an in-depth knowledge, as one purpose of the paper is to introduce some disciplines and subjects that they will study in much greater depth as they progress through the ACCA Qualification.

A useful practice is to use the ACCA syllabus and study guide as a structure for the programme of study. Any subject included in the learning outcomes is examinable. It is not necessary at all for candidates to stray far beyond these outcomes, unless they do so out of personal interest, but even this may compromise their ability to cover the whole syllabus in the time available.

Very few questions can be answered by common sense alone. Questions relating to time management and other aspects of personal effectiveness may resemble issues that candidates encounter in daily work, but they will usually demand some investment in personal study as well as applications of general business knowledge.

Scenario questions are not designed to be more difficult than shorter questions, but they may take more time to answer. Candidates must manage their time in the examination room to give themselves a reasonable chance of attempting all questions. Many candidates do not do so. It is therefore necessary to strike a balance between the time taken to answer a scenario and the need to deal with the other questions. It should be apparent from the feedback on question 14 above that the correct answer may sometimes be identifiable from a short sentence or phrase. However, candidates should also realise that very few questions have redundant information, so it would be unwise to arrive at a conclusion before reading the questions very carefully.

Candidates should practice different question types. As well as the direct short questions and scenario questions discussed in this report, there are also questions that give typically 4-6 statements and ask candidates to decide which of these are correct. Such questions may, for example, give a choice of '1, 2 and 4 only', '3, 5 and 6 only' and so on. Again, these may take slightly longer than shorter questions. One useful technique is to eliminate the statements that are more obviously incorrect in order to reduce the number of possible correct answers. By practising these questions in advance, candidates will encounter fewer surprises in the examination itself.