

A close-up photograph of a person's hand holding a black pen, writing on a document. The person is wearing a white shirt and a red tie. The background is blurred, showing a laptop and other papers on a desk.

A practical guide to writing assessments

Meeting ACCA's exemption accreditation criteria

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Introduction

This is a key document for writing ACCA exams. It gives the background to understand various elements that you need to consider when writing your own assessments.

Firstly, we'll look at the intellectual levels relevant to ACCA exams. Then we'll move on to give you some guidance around what the criteria mean from a practical perspective, including examples of questions. Finally, we'll cover other resources available to help you.

EXEMPTION ACCREDITATION AND CRITERIA

Why award exemption accreditation?

Exemption accreditation enables us to award a specific level of exemption from ACCA exams to graduates of an educational programme.

This makes sure that students who register with us can receive exemption from specific ACCA exams which match the knowledge and skills they gained from that programme.

Compare syllabus and assessments

Accreditation is awarded only to programmes whose syllabus and assessments closely match ours.

To assess for exemption from a specific ACCA Applied Knowledge or Applied Skills level exam, our Professional Qualifications Approvals team review the syllabus content and assessment methods for each module that is relevant to that exam.

To be considered towards exemption from an ACCA exam, a module – or group of modules – must have a comparable syllabus level of at least 80%.

Criteria – comparability of assessments

To compare exams, we consider five key aspects of a programme assessment:

- 1 The balance of practice and theory across your assessment needs to be appropriate to the ACCA exam being considered
- 2 The standard of the questions used in your assessment must be comparable to the ACCA exam
- 3 All significant areas of the syllabus need to be included within your assessment
- 4 No core topic areas can be avoided
- 5 The mark allocation across your assessment must also be comparable to the relevant ACCA exam.

We will look at each of these in more detail later on.



OBJECTIVES AND STRUCTURE OF ACCA EXAMS

IFAC learning outcomes

Because we're a member body of IFAC (the International Federation of Accountants), we have to apply the learning outcomes specified by IFAC in its qualification framework.

We use these to determine the breadth and content of our exams – and also how much knowledge and understanding students require. IFAC learning outcomes also influence the application skills that we expect our students to have. Some of these learning outcomes apply to a number of exams and others focus in detail on the principal subject areas that ACCA exams test.

So how do IFAC learning outcomes link to ACCA exams?

IFAC's Foundation level learning outcomes* require students to have more than just technical skills, right from the start of their studies. The necessity for students to have – and use – understanding to develop explanations and interpretations, which they can express clearly, is indicated on the following pages.

*IFAC's Foundation level must not be confused with ACCA's Foundation Level qualifications.

IFAC learning outcomes – foundation level

- Defining, explaining, summarising and interpreting underlying principles and theories
- Performing assigned tasks by using appropriate professional skills
- Recognising the importance of professional values, ethics and attitudes
- Providing information and explaining ideas in a clear manner.

These learning outcomes also emphasise the appropriate values, ethics and attitudes that a professional accountant must have. Sometimes the learning outcomes will be tested in exams by using scenarios.

At Foundation level the scenarios will be quite simple and there should be no ambiguity within the questions. This question from our Management Accounting exam tests students' ability to explain clearly how performance can be measured.

A balanced scorecard measures performance from four perspectives: customer satisfaction, growth, financial success and process efficiency.

Required

And this Accountant in Business question tests that students understand what it means to be a professional:

The following are desirable characteristics of professions and vocations:

- A** Acting in the public interest
- B** Highly skilled
- C** Ethical codes of conduct
- D** Governance by association
- E** Highly valued services
- F** Training requirement
- G** Process of certification
- H** Qualification by examination

Required

Select FOUR of the characteristics from the list above, which distinguish a profession from an occupation.

And finally here is an example of a simple scenario, again, taken from our Accountant in Business exam:

In a higher education teaching organisation an academic faculty is organised into courses and departments, where teaching staff report both to course programme managers and to subject specialists, depending on which course they teach and upon their particular subject specialism.

According to Charles Handy's four cultural stereotypes, which of the following describes the above type of organisational structure?

- A** Role
- B** Task
- C** Power
- D** Person

IFAC learning outcomes – intermediate level

- Independently applying, comparing and analysing underlying principles and theories
- Combining technical competence and professional skills
- Applying professional values, ethics and attitudes
- Presenting information and explaining ideas in a clear manner.

For Intermediate exams, IFAC expects students not only to know and understand theories and principles, but also to be able to apply them. Students must show they can think critically about technical issues.

At Intermediate level, students must demonstrate they're developing professional skills, including making recommendations that fulfil ethical requirements. They also need to show that they can communicate effectively with other accountants and non-accountants.

As an example, in our Financial Management exam students should be able to use the dividend growth model to calculate the value of a company. But they also need to understand how reliable the model is, and what the problems are with using it.

Discuss briefly the advantages and disadvantages of using the dividend growth model to value the shares of GWW Co.

Ethics is an important element of our Audit and Assurance exam. This example question tests students' ability to recognise ethical problems in a practical situation, and provide clear recommendations on how to deal with the problems.

The audit engagement partner for Hazard Co (Hazard), a listed company, has been in place for approximately eight years and her son has just accepted a job offer from Hazard as a sales manager. This role would entitle him to shares in Hazard as part of his remuneration package. Hazard's directors are considering establishing an internal audit department, and the finance director has asked the audit firm, Remy & Co about the differences between internal audit and external audit.

If the internal audit department is established, and Remy & Co is appointed as internal as well as external auditors, then Hazard has suggested that the external audit fee should be renegotiated with at least 20% of the fee being based on the profit after tax of the company as they feel this will align the interests of Remy & Co and Hazard.

Required

Explain the ethical threats which may affect the independence of Remy & Co in respect of the audit of Hazard Co.

For each threat explain how it might be reduced to an acceptable level.



IFAC learning outcomes – intermediate level

Financial accounting and reporting

- Apply accounting principles to transactions and other events
- Apply standards to transactions and other events
- Evaluate the appropriateness of accounting policies
- Prepare financial statements in accordance with standards
- Interpret financial statements and related disclosures
- Interpret reports that include non-financial data.

To demonstrate how IFAC's broad outcomes translate into detailed learning outcomes at the Intermediate stage, we'll look at two of the main areas that our exams cover.

The objectives relating to financial accounting and reporting require students not just to know what the accounting standards and guidance say, but to use them to determine how to account for specific transactions. Students must be able to use standards to decide whether the accounting policies used to prepare a set of accounts are valid.

Students must apply and synthesise their knowledge when they prepare a set of financial statements. They must also understand what insights the numbers and disclosures in financial statements provide about the business performance and financial position.

This is the broad IFAC outcome relating to interpretation of financial statements. We've broken it down into a number of more detailed outcomes in the study guide for our Financial Reporting exam.

IFAC

- Interpret financial statements and related disclosures.

ACCA FINANCIAL REPORTING STUDY GUIDE

- Define and compute relevant financial ratios
- Explain what aspects of performance specific ratios are intended to assess
- Analyse and interpret ratios to give an assessment of an entity's/group's performance and financial position in comparison with (i) previous period's financial statements, (ii) another similar entity/group for the same reporting period, (iii) industry average ratios
- Interpret financial statements to give advice from the perspectives of different stakeholders.



The detailed learning outcomes are then used as the basis for a Financial Reporting question that contains both calculation and discussion elements.

QUESTION

- Calculate the equivalent ratios for Yogi (i) for the year ended 31 March 2014, after excluding the contribution made by the division that has been sold; and (ii) for the year ended 31 March 2015, excluding the profit on the sale of the division. (7 marks)

Comment on the comparative financial performance and position of Yogi for the year ended 31 March 2015. (13 marks)

IFAC learning outcomes – intermediate level

Management accounting

- Apply techniques to support decision-making
- Apply appropriate quantitative techniques to analyse cost behaviour and cost drivers
- Analyse financial and non-financial data to provide relevant information for management decision-making
- Prepare reports to support decision-making
- Evaluate the performance of products and business segments.

We'll next look at management accounting, which is an important area for all levels of the ACCA Qualification.

At Intermediate level, the focus is firmly on management decision-making. The techniques students study are designed to help managers decide, for example, what the selling price of products should be and how much inventory to hold. Budgeting is another important area, so there's an emphasis on cost behaviour and drivers. As with financial accounting, students will be expected to analyse data to determine what it shows about the business.

The reports students produce for management accounting purposes should help management to make business decisions. That's why students will use different report formats for different purposes, and to communicate the insights that the information provides. Management accounting questions will often focus on interpreting the performance of specific divisions – or products – rather than the business as a whole.





Here is the broad IFAC outcome relating to decision-making. Our Performance Management study guide covers a number of decisions, including pricing, and these outcomes are taken from the section relating to pricing.

IFAC

- Apply techniques to support decision-making.

ACCA PERFORMANCE MANAGEMENT STUDY GUIDE

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

We then test these outcomes in questions like this one from our Performance Management exam.

QUESTION

Suggest possible pricing strategies for the two products which BBB sells and suggest one reason other than high prices for the current poor sales of the GC. (5 marks)

THE ACCA QUALIFICATION



So how do we incorporate these learning outcomes into the ACCA Qualification?

Let's begin with an overview of the ACCA Qualification. To qualify as an ACCA member, students must achieve a minimum standard in all three of the following elements:

- **13 exams, or the equivalent if exemptions are available**
- **Completion of an online ethics module**
- **Completion of three years' relevant work experience.**

ACCA exams are divided into three levels, Applied Knowledge, Applied Skills and Strategic Professional. Students may be exempt from all or part of the Applied Knowledge and Applied Skills levels depending on any prior qualification. Whether a student has exemptions or not, all students must sit – and pass – four papers at the Strategic Professional level.

Applied Knowledge

Accountant in Business (AB)

Management Accounting (MA)

Financial Accounting (FA)

Applied Skills

Corporate and Business Law (LW)

Performance Management (PM)

Taxation (TX)

Financial Reporting (FR)

Audit and Assurance (AA)

Financial Management (FM)

There are three exams at the Applied Knowledge level and six exams at the Applied Skills level.

The Applied Knowledge exams introduce students to the core areas of financial and management accounting.

The Applied Skills exams comprehensively cover the main technical areas that any accountant, regardless of their future career aspirations, must master.

Because we recognise differences in local legislation, we offer several variant papers for law and tax.



Our Strategic Professional level exams build upon the technical skills our students have already acquired through the Applied Knowledge or Applied Skills levels or an accredited programme. They explore more advanced professional skills, techniques and values used by the expert accountant acting in an advisory or consultancy role at a senior level.

The Strategic Professional level comprises Essentials and Options. All of our students have to complete the two Essentials exams.

Essentials (both)	Options (any 2 from 4)
Strategic Business Leader	Advanced Financial Management (AFM)
Strategic Business Reporting	Advanced Performance Management (APM)
	Advanced Taxation (ATX)
	Advanced Audit and Assurance (AAA)

There are four Options exams. These are directly underpinned and supported by their equivalent Applied Skills level exams. Our students select two out of four exams, and we advise them to choose the Options that relate to their chosen or anticipated field of work.

All of our Strategic Professional level exams assess the more advanced and sophisticated techniques that an accountant needs to specialise in these areas at work.

Papers	Structure of paper	Time available
AB, MA, FA and LW	All compulsory, with a combination of objective – test questions and multiple task questions	Two hours
PM, TX, FR, AA and FM	All compulsory with a combination of objective test questions, OT case questions and constructed response questions (Audit and Assurance OT case and CR only)	CBE – Three hours Paper based exams – Three hours and 15 minutes

Returning to the Applied Knowledge and Applied Skills levels, now we'll look in detail at the structures of the different exams.

This table summarises the examination structure and time available for each exam.

The AB, MA, FA and LW exams are two hours long. They contain a mixture of short objective test questions for one or two marks, and longer multiple task questions.

Exams PM, TX, FR, AA and FM are three hours long if a student is attempting by CBE and three hours and 15 minutes if they are sitting the paper based exam. They make use of a range of assessment methods.



Academic exams compared to ACCA exams

We'll now look very broadly at the key differences between academic exams for degrees and ACCA exams. Academic exams vary widely between institutions, so the differences we discuss may not apply in all instances.

Assessment method

For many degrees, exams will only be part of the methods of assessment. Student performance is monitored and judged on a mix of class participation, coursework, group work, presentations and exams.

For ACCA and other professional qualifications, exams are the only method of syllabus assessment.

Setting exams

Tutors in academic institutions get to know each student and their abilities. Likewise, students enter the final exam with a good idea of what their tutor/examiner is likely to expect.

ACCA exams are set by our examining team, with examiners supported by other question writers.

Academic exams are marked internally, possibly by students' tutors.

ACCA exams are marked by external markers.

Format

For degree-level exams, examiners may have wide discretion about the question formats they can use, and the marks allocated to each question.

For ACCA exams, our examining team must use one of the prescribed types of question. The balance of marks between different types of question is restricted, although this split does vary between different exams.

Question choice

Academic exams may have a wide choice of questions, reflecting the fact that students may not be able to study the complete syllabus.

ACCA exams have no choice of question at Applied Knowledge and Applied Skills levels: all questions are compulsory.

Skills

Academic exams test a wide variety of skills. Some exams, for example medicine, will test skills that relate strongly to students' future work. Other skills tested will not link so clearly to workplace situations that students will encounter. But some of the skills that a degree tests, for example research skills, will not be tested by ACCA exams.

ACCA exams are designed to prepare students for the business workplace. We test our students' abilities to apply their knowledge and skills in realistic situations.

SYLLABUS AND STUDY GUIDE

To help you to write exams which are comparable to ours, it's helpful to take a look at how ACCA exams are written.

The ACCA Qualification is based on learning outcomes specified by the International Federation of Accountants (IFAC). We use these to determine the breadth and content of our exams, as well as how much knowledge and understanding students require.

The syllabus sets out the overall objective of the exam. It's organised around the main capabilities, which are broken down into subject areas and:

- illustrates the flows and links between the main capabilities
- explains the structure of the exam, what the exam intends to assess, and how
- links the exam to other exams.

The study guide supports the syllabus and is the main document that students and learning and content providers use. The study guide breaks down the syllabus into detailed outcomes that could be assessed in exams.

These outcomes indicate what students have to demonstrate in exams and the broad intellectual level that exam questions on those outcomes will test. We've seen some examples of these already.

In this example we're using an extract from our Financial Management syllabus. It shows how the aim of the exam is achieved by students being able to demonstrate a number of capabilities.

AIM

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

MAIN CAPABILITIES

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

- A** Discuss the role and purpose of the financial management function
- B** Assess and discuss the impact of the economic environment on financial management

- C** Discuss and apply working capital management techniques
- D** Carry out effective investment appraisal
- E** Identify and evaluate alternative sources of business finance
- F** Discuss and apply principles of business and asset valuations
- G** Explain and apply risk management techniques in business.

Section D on investment appraisal is broken down into a number of detailed requirements in the study guide, which also state the intellectual level required for each objective. The intellectual levels are shown here in brackets after each requirement.

It's important that you understand these intellectual levels because they will determine the level your assessments need to be set at in order to be comparable to our exams. They also help you to determine the appropriate verb to be used in your assessment requirements.

1. INVESTMENT APPRAISAL TECHNIQUES

- a) Identify and calculate relevant cash flows for investment projects. [2]
- b) Calculate payback period and discuss the usefulness of payback as an investment appraisal method. [2]
- c) Calculate discounted payback and discuss its usefulness as an investment appraisal method. [2]
- d) Calculate return on capital employed (accounting rate of return) and discuss its usefulness as an investment appraisal method. [2]
- e) Calculate net present value and discuss its usefulness as an investment appraisal method. [2]
- f) Calculate internal rate of return and discuss its usefulness as an investment appraisal method. [2]
- g) Discuss the superiority of discounted cash flow (DCF) methods over non-DCF methods. [2]
- h) Discuss the relative merits of NPV and IRR. [2]

INTELLECTUAL LEVELS

The educational psychologist Benjamin Bloom identified six main levels called cognitive domains relating to study. At the lowest level, there is the recall of knowledge. The domains then increase in difficulty up to the evaluation of complex ideas and situations, used to help make decisions or provide recommendations.

We have grouped Bloom's six domains into three ascending levels of difficulty – level 1, level 2 and level 3 – and these are the levels stated in the study guide.

We'll now look at these in more detail.

Cognitive domains

Knowledge	Level 1
Comprehension	
Application	Level 2
Analysis	
Synthesis	Level 3
Evaluation	



Level 1 – knowledge and comprehension

- Recall
- Understanding
- Application.

What do we want from students at this level?

Level 1 knowledge and comprehension requires retention and recall of knowledge. But students are expected to be able to do more than just state knowledge or answer quiz questions on accountancy!

This level also requires the understanding of ideas, techniques and theories in accounting and business.

- **Students are expected to begin developing their application skills by using knowledge and techniques in situations that should be familiar.**
- **Students also need to begin linking information, understanding the concept of cause and effect in accountancy.**

Level 1 capabilities could be tested at all levels of ACCA's exam structure, but will be most common in exams Accountant in Business, Management Accounting and Financial Accounting. We will see some examples shortly.

Knowledge and comprehension

Verb	Meaning
Define	Give the meaning of
Explain	Make clear
Identify	Recognise or select
Describe	State the important features
Calculate	Reckon mathematically

These are some of the Level 1 verbs that we use in our study guides and exam questions.

As we've seen, Level 1 corresponds broadly to exams Accountant in Business, Management Accounting and Financial Accounting, which mostly consist of short questions. But even short questions can be used to test these capabilities. Students could be asked, for example, to choose the right explanation for something that's happened or select which features apply to a real-life situation.

Explain briefly the relationships between exchange rates and interest rates.

Movements in exchange rates can be related to changes in interest rates and to changes in inflation rates. The relationship between exchange rates and interest rates is called interest rate parity.

Interest rate parity holds that the relationship between the spot exchange rate and the forward exchange rate between two currencies can be linked to the relative nominal interest rates of the two countries. The forward rate can be found by multiplying the spot rate by the ratio of the interest rates of the two countries. The currency of the country with the higher nominal interest rate will be forecast to weaken against the currency of the country with the lower nominal interest rate. Both the spot rate and the forward rate are available in the current foreign exchange market, and the forward rate can be guaranteed by using a forward contract.

This is a good example of how the verb 'explain' can be used in the exam – requiring students to show that they understand why exchange rates change.

It's also a good example of a question that gets students to start considering cause and effect in financial relationships.



Level 2 – application and analysis

- Analysis
- Recognition and interpretation
- Conclusion.

What do we want from students at this level?

At Level 2 students need to develop their analysis skills further.

- They'll have to use concepts and theories to analyse unfamiliar situations
- Students will be expected to use their analysis to prepare reports and solve problems
- Students must also develop their comprehension skills and recognise patterns and trends in information that may not be very clear. They may also have to interpret the meaning of the trends they have identified and draw conclusions.

Level 2 capabilities could be tested in any exam, but exams Corporate and Business Law, Performance Management, Taxation, Financial Reporting, Audit and Assurance and Financial Management (the Applied Skills level) will be most focused on this level.

Verb	Meaning
Prepare	Make ready for use
Analyse	Give reasons for the current position
Contrast	Explain the differences between two items
Interpret	Translate into understandable or familiar terms

This table shows a selection of the Level 2 verbs that we use. They demonstrate that we're making more demands on our students. At this level, they will be required to prepare extracts or full statements, perhaps carrying out a number of calculations to be able to do so.

Our students must also show that they have developed their analytical skills, that they can give reasons why something has happened or distinguish between two viewpoints.

Level 2 verbs also require students to evidence that their communication skills are developing, particularly their ability to explain simple complex ideas to someone who doesn't have a financial background.

Prepare extracts from Pyramid's consolidated statement of financial position as at 30 September 2014 for:

- a) Consolidated goodwill; (6 marks)
- b) Property, plant and equipment; (3 marks)
- c) Equity (share capital and reserves); (7 marks)
- d) Non-controlling interests. (4 marks)

This is a longer question on financial accounting. Each extract requires our students to use figures from the scenario to perform further calculations.

It's also significant that the question requirement asks students to prepare extracts rather than a full consolidated statement of financial position. If the students were preparing a full statement, the question would have to allow time for completing the format and entering the easy figures.

Asking students to prepare extracts allows the examiner to focus on testing more complicated items in consolidated financial statements that can give students difficulty.

The following Audit and Assurance question may appear fairly straightforward. But it tests students' understanding of the core topics of what each type of auditor does and who they report to.

Distinguish between internal and external audit. (4 marks)

OBJECTIVE

The main objective of the external auditor is to express an opinion on the truth and fairness of the financial statements.

The main objective of internal audit is to improve a company's operations, by reviewing the efficiency and effectiveness of the company's internal controls.

REPORTING

External auditors report to the shareholders or members of the company. External audit reports are contained within the financial statements and hence are publicly available.

Internal auditors normally report to management or those charged with governance. Internal audit reports are not publicly available and are only intended to be seen by the addressee of the report. The reports are normally provided to the board of directors and those charged with governance such as the audit committee.





Level 3 – synthesis and evaluation

- Creation
- Assessment and evaluation
- Argument and judgement
- Recommendation.

Synthesis and evaluation represents the highest level of capabilities.

What do we want from students at this level?

Level 3 capabilities are predominantly tested in Strategic Professional level exams, but may be tested in some Applied Knowledge and Applied Skills level exams as well. Students may have to originate new ideas and insights they will be expected to:

- use their analysis skills to evaluate complex and unstructured information,
- develop their reasoning skills further, demonstrating that they can argue effectively and make well-founded judgements.

This level also stresses the key workplace skills of bringing all the supporting analysis together and using it as a basis for presenting valid recommendations in a professional manner.

Verb	Meaning
Assess	Determine the significance/ strengths/weaknesses
Evaluate	Determine the value of
Discuss	Examine by using arguments for and against
Recommend	Advise on the appropriate actions to be taken

The higher level skills that Level 3 verbs test are skills that students must have to be able to act as an adviser or consultant. They require understanding that strategies have strengths and weaknesses and the ability to assess the significance of a strategy or viewpoint. Students must show that they can provide clear and realistic professional advice.

Here we've reproduced a question scenario, requirement and, on the next page, the answer to part (b).

This question allows students to demonstrate their numerical skills and knowledge of variances, but these calculations are a means to an end.

Part (b) asks the student to show how the numerical analysis should be used by senior management to make an assessment of a production manager's performance. This is a high level workplace skill, although it's applied to a fairly straightforward situation.

Truffle Co makes high quality, hand-made chocolate truffles which it sells to a local retailer. All chocolates are made in batches of 16, to fit the standard boxes supplied by the retailer. The standard cost of labour for each batch is \$6.00 and the standard labour time for each batch is half an hour. In November, Truffle Co had budgeted production of 24,000 batches; actual production was only 20,500 batches. 12,000 labour hours were used to complete the work and there was no idle time. All workers were paid for their actual hours worked. The actual total labour cost for November was \$136,800. The production manager at Truffle Co has no input into the budgeting process.

At the end of October, the managing director decided to hold a meeting and offer staff the choice of either accepting a 5% pay cut or facing a certain number of redundancies. All staff subsequently agreed to accept the 5% pay cut with immediate effect. At the same time, the retailer requested that the truffles be made slightly softer. This change was implemented immediately and made the chocolates more difficult to shape. When recipe changes such as these are made, it takes time before the workers become used to working with the new ingredient mix, making the process 20% slower for at least the first month of the new operation. The standard costing system is only updated once a year in June and no changes are ever made to the system outside of this.

Required

- a) Calculate the following variances for Truffle Co:
 - (i) Labour rate planning variance
 - (ii) Labour rate operational variance
 - (iii) Labour efficiency planning variance
 - (iv) Labour efficiency operational variance.
(8 marks)
- b) Assess the performance of the production manager for the month of November.
(7 marks)

This is a suggested answer to part (b):

In order to assess the production manager's performance fairly, only the operational variances should be taken into account. This is because planning variances reflect differences which arise because of factors which are outside the control of the production manager.

LABOUR RATE

The operational variance for the labour rate was \$0, which means that the labour force were paid exactly what was agreed at the end of October: their reduced rate of \$11.40 per hour. The manager clearly did not have to pay anyone for overtime, for example, which would have been expected to push this rate up. The rate reduction was secured by the company and was not within the control of the production manager, so he cannot take credit for the favourable rate planning variance of \$7,200. The company is the source of this improvement.

LABOUR EFFICIENCY PLANNING

As regards labour efficiency, the planning variance is \$24,600 adverse. This is because the standard labour time per batch was not updated in November to reflect the fact that it would take longer to produce the truffles. The manager cannot be held responsible for this.

LABOUR EFFICIENCY OPERATIONAL

The operational variance, on the other hand, is once again something which the manager does have control of and should be held accountable for. In November, it is \$3,600 favourable, which reflects positively on him. When the recipe is changed, as it has been in November, the chocolates usually take 20% longer to make in the first month whilst the workers are getting used to handling the new ingredient mix. Actual results show that the workers took less than the 20% extra time which they were expected to take, hence the positive operational variance.

Overall, then, the manager has performed well, given the change in the recipe.

Significant points in this answer include the fact that students are expected to distinguish which variances the production manager is responsible for and interpret what the accounting information shows.

Here a zero operational variance suggests there was no need for overtime, implying good staff planning by the production manager.

Finally, here is part (b) of an Financial Management exam question:

Critically discuss if sensitivity analysis will assist Hraxin Co in assessing the risk of the investment project.

METHODS OF ANALYSIS

Sensitivity analysis assesses the extent to which the net present value (NPV) of an investment project responds to changes in project variables. Two methods are commonly used: one method determines the percentage change in a project variable which results in a negative NPV, while the other method determines the percentage change in NPV which results from a fixed percentage change in each project variable in turn. Whichever method is used, the critical project variables are identified as those to which the NPV is most sensitive.

RISK

Sensitivity analysis is usually studied in investment appraisal in relation to understanding how risk can be incorporated in the investment appraisal process. While sensitivity analysis can indicate the critical variables of an investment project, sensitivity analysis does not indicate the probability of a change in any critical variable. Selling price may be a critical variable, for example, but sensitivity analysis cannot say whether a change in selling price is likely to occur. In the appraisal of this project, the probabilities of different selling prices arising with related economic states have come from probability analysis, not sensitivity analysis.

USEFULNESS FOR HRAXIN CO

Sensitivity analysis will not therefore directly assist Hraxin Co in assessing the risk of the investment project. However, it does provide useful information which helps management to gain a deeper understanding of the investment project and which focuses management attention on aspects of the investment project where problems may arise.

Students have been asked in part (a) to carry out a net present value calculation and comment on the financial acceptability of a project. In part (b) shown here, students are then asked to critically discuss if sensitivity analysis will assist the company in assessing the risk of the project.

This means that while they should say something about the usefulness of sensitivity analysis, their answer should be weighted towards discussing the problems with it, most importantly its failure to incorporate probability. The discussion is also illustrated by using material in the question scenario.

Practical guidance

We're now going to provide some practical guidance which will help when you're writing assessments.

COMPARABILITY OF ASSESSMENTS – CRITERIA

As we have already seen, we must be satisfied that the exams which you set are comparable to equivalent ACCA exams. As a reminder, the criteria used by our Professional Qualifications Approvals team are shown below.

Key areas to be considered:

- balance of practice and theory
- standard of questions
- areas of syllabus
- syllabus coverage
- mark allocation.

You may find it useful at this stage to take a look at our specimen exams – these will provide you with a good idea of what the relevant ACCA exam looks like. We will be referring to these over the next few pages.

Specimen exams

A single specimen exam is available for each exam (although note that for Corporate and Business Law, Performance Management, Taxation, Financial Reporting, Audit and Assurance and Financial Reporting there is one for paper based exams and one for computer based exams). Specimen exams aim to replicate the style and difficulty of the real exam.

Specimen exams should give an idea of the types of question that we will ask in each section of the exam. They can indicate ways that different topic areas may be tested and, for exams with a calculation element, roughly what percentage of the marks will be available for calculations.

Each specimen exam contains short questions. These can be analysed to see the proportion of short questions that will just be straight questions, and the proportion that will include supporting detail that students have to consider. The specimen exams can also give an indication of how long question scenarios should be and whether questions may contain a single requirement or normally be split into a number of parts.

Specimen exams also indicate the types of question verbs that are most likely to be used in the exam and what students have to do to score marks. Remember that specimen exams do not cover the whole syllabus or show all the different ways that a topic could be tested.



Balance of practice and theory

Testing theory should be part of assessments, as our students are required to know important principles of:

- financial accounting
- management accounting
- tax
- law
- ethics.

But if we take Financial Reporting as an example, students have to go beyond knowing the theory, and be able to discuss and apply conceptual and regulatory frameworks. The word apply is vital here, as students should not see theory as purely abstract, but should be applying it in practice. The Financial Reporting syllabus emphasises the importance of accounting for real-life transactions in accordance with international accounting standards.

The scenarios included in questions must be realistic in order to test students' practical skills properly, although the situations at Applied Knowledge and Applied Skills levels will not contain a lot of complexities.

Assessments should also strike a balance between applying theory to real-life situations and testing purely practical skills. As an example, Financial Reporting requires students to interpret figures contained in financial statements and Audit and Assurance expects students to select the right audit tests to obtain the evidence that they require.

This is a good example of how a Financial Reporting short question can economically test students' ability, not only to recall theory, but to apply it to practical situations.

In a review of its provisions for the year ended 31 March 2015, Cumla's assistant accountant has suggested the following accounting treatments:

- 1 Making a provision for a constructive obligation of \$400,000; this being the sales value of goods expected to be returned by retail customers after the year end under the company's advertised 30-day returns policy
- 2 Make a \$200,000 provision for unforeseen liabilities arising after the year end
- 3 The partial reversal (as a credit to the statement of profit or loss) of the accumulated depreciation provision on an item of plant because the estimate of its remaining useful life has been increased by three years
- 4 Providing \$1 million for deferred tax at 25% relating to a \$4 million revaluation of property during March 2015 even though Cumla has no intention of selling the property in the near future.

Which of the above suggested treatments of provisions is/are permitted by IFRS?

This longer question from Audit and Assurance shows how students are expected to link the technical theory of the assertions that underpin financial statements with practical audit work. Again, it emphasises the need to apply the knowledge being examined.

- a) Identify and explain **FOUR** financial statement assertions relevant to classes of transactions and events for the year under audit; and
- b) for each identified assertion, describe a substantive procedure relevant to the audit of **REVENUE**.

Standard of questions

Ensuring that assessments contain questions that are of the right standard may be quite challenging.

Number of questions

In your assessment, the number of questions doesn't need to be identical to the equivalent ACCA exam. But remember that students have to do a lot of different things, in different areas to pass exams at the Fundamentals level. If an assessment has a small number of long questions with many marks for each requirement, it's unlikely to be at the same standard as the equivalent ACCA exam.

Number of objective test questions

All ACCA Applied Knowledge and Applied Skills level exams contain objective test questions. If your assessments use objective test questions, then the proportion of marks available for them must not be higher than in the equivalent ACCA exam.

Syllabus coverage

Assessments don't have to contain any short, objective test questions at all and may consist purely of longer questions. But if this is the case, you need to consider carefully that one advantage of using short questions is that they enable the syllabus to be covered widely.

We don't necessarily expect syllabus coverage to be as wide if an assessment uses only longer questions – but assessments must cover significant syllabus areas every time. In addition if they just cover significant syllabus areas, there will be a problem, as areas that are not highlighted as significant, may never be examined.

As a general guide most Applied Knowledge and Applied Skills syllabuses are broken up into around five or six main areas, and assessments should broadly try to examine something from every area.

Scenarios

The format of scenarios is another important aspect to consider. Many short questions in ACCA's specimen exams have brief scenarios, so short questions in assessments need to as well. The specimen exams give a good indication of the length and level of detail to be included in scenarios for longer questions.

Question requirements

For assessments to be of an equivalent standard to ACCA exams, it's vital that their question requirements are sufficiently demanding. This applies equally to short and long questions. Bear in mind that all short questions in our exams are linked to outcomes in our study guide, and these verbs will often be more complex than define or list. So for example, students may be given a choice of actions and asked to choose the right one.

For longer questions, the verbs used in your requirements should be equivalent to those used in ACCA exams. Exams Performance Management, Taxation, Financial Reporting, Audit and Assurance and Financial Management will use some verbs that relate to Levels 2 and 3 of ACCA's cognitive framework as we have already seen.

Remember that some exams have linked question parts. These require students to demonstrate higher skills by using calculations in the first part of the question as the basis for commentary or decision-making in the second part.

% calculations

An important decision for any exam where calculations are a significant element is what percentage of marks are available for calculations.

For assessments with short, objective-test questions – or longer questions – the proportion of calculation questions should be similar to the balance in the equivalent ACCA specimen exams.

The proportion of marks available for calculations can vary by question. But as a guide, if the specimen exam doesn't contain any longer questions that are purely numerical, then your assessment shouldn't either.

In ACCA exams it is likely that students will need to include some discussion about what the results of their calculations mean. It's generally acceptable for there to be one or more longer questions in an assessment that don't contain any calculations, as this can happen in most ACCA exams. But it's important to have a balance between numerical and discussion questions in each exam.



Syllabus coverage

Our syllabus and study guides give detailed guidance on the syllabus areas we consider to be significant.

For Applied Knowledge and Applied Skills exams, significant areas are always tested in longer questions. This will have an impact on the breadth and focus of assessment. For example:

- The Accountant in Business syllabus states that Section B of the exam will contain six four-mark multitask questions, each of which will examine one of the six main sections of the syllabus. This means that equivalent assessments must have a fairly even spread of questions over the syllabus
- The Management Accounting syllabus states that longer questions will be taken from the syllabus areas of budgeting, standard costing and performance measurement, so assessments must focus more on these areas.

Structure of exam

Our requirement that the structure of your assessment doesn't allow core topics to be omitted refers to whether your assessment uses optional questions. If all the questions in your assessment are compulsory, this won't be a problem.

Remember that every question in ACCA Applied Knowledge and Applied Skills exams is compulsory. If you're using optional questions, that differs from what we do, so we'll look carefully at whether you're using them appropriately.

Short optional questions

One of the main justifications for using short questions is to test whether students' knowledge of the syllabus is wide enough. If short questions are optional, students won't need to do questions on areas where they are weak. That's why in our exams, short questions are always compulsory – and they should be compulsory in your assessments as well.

Longer optional questions

Having a choice of longer questions is a more difficult area. A greater number of longer questions mean that an assessment can cover more topics in depth – but there is a maximum number of questions that students can do. Giving your students a free choice of long optional questions will certainly allow them to avoid core topics.

If your students are to be given some choice, remember that the model currently used for most ACCA Strategic Professional papers is: one compulsory question for 50% of the exam and a choice of 2 out of 3 optional questions.

This could be a possible format for an assessment, maybe having more than one compulsory question, with the compulsory questions covering areas highlighted by ACCA as significant for that exam. For example, our Financial Management syllabus states that the longest questions in the exam (ie the 20 mark questions) will come from the areas of:

- working capital management
- investment appraisal
- business finance.

So compulsory questions in an equivalent assessment should cover these areas.

Mark allocation

Lastly we'll look at the requirement that the mark allocation for individual questions is comparable to the ACCA exam. Here we'll focus on longer questions, as the mark allocation for short questions would generally be one or two marks.

To recap – one aspect of the standard of the assessment being comparable, is that the number of questions and the maximum number of marks per question are similar.

For individual questions, the breakdown into question parts is important. If longer ACCA questions are generally broken down into question parts, the questions in your assessments should also be split. So if the mark allocation between different question parts in ACCA's exam is fairly even, then the mark split in your equivalent assessment should be similar.

Our exams generally provide a lot of detail in their mark schemes to help markers and ensure a consistent standard of marking. This means that your assessment mark schemes need to have an equivalent level of detail. For example, specifying for a financial statement the marks awarded for each figure.

Mark schemes for written questions should highlight the points that will gain credit, though markers can be allowed some discretion if students make relevant points that the mark scheme doesn't cover.

Generally mark schemes at Applied Knowledge and Applied Skills level will give 1 or 2 marks per calculation or discussion point made. Below is an example of the mark scheme for a longer audit question.

Consider carefully the maximum marks given for a longer requirement, for example the total for an individual financial statement or for a written discussion.

b) AUDIT RISKS AND RESPONSES

(only 7 risks required)

\$5 million expenditure on production process	2
Inventory counts at 15 warehouses at year end	2
Treatment of owned v third party warehouses	2
New general ledger system introduced at the beginning of the year	2
Release of opening provision for allowance for receivables	2
Research and development expenditure	2
Damaged inventory	2
Sales returns	2
Management bonus based on asset values	2
Max 7 issues, 2 marks each	<u>14</u>

c) AUDIT STRATEGY DOCUMENT

Main characteristics of the audit	1
Reporting objectives of the audit and nature of communications required	1
Factors which are significant in directing the audit team's efforts	1
Results of preliminary engagement activities and whether knowledge gained on other engagements is relevant	1
Nature, timing and extent of resources necessary to perform the audit	1
Restricted to	<u>4</u>

And this marking scheme from Financial Reporting shows the level of detail required for calculation questions, with marks varying depending on what students have to do to obtain each figure.

Statement of financial position

▪ Property, plant and equipment	3
▪ Equity investments	1
▪ Inventory	½
▪ Trade receivables	½
▪ Bank	½
▪ Deferred tax	1
▪ Deferred revenue	1
▪ Environmental provision	1½
▪ 6% loan note	1½
▪ Trade payables	½
▪ Current tax payable	1

Plagiarism

Our specimen exams are a good guide to what we expect. But please remember that neither specimen nor past ACCA exam questions can be re-used as part of your internally assessed exams, or for exemption submission.

If our Professional Qualifications Approvals team identify plagiarism, eg real-life questions being used verbatim or with minor alterations, the application will be invalidated.

We're proud that universities refer to our exams as examples of good question writing practice and we accept there will be similarities in question styles. Here are some points to guide you:

- The types of calculations tested in assessments can be the same as in ACCA exams, but we expect the numbers used to be different
- Longer questions must not be replicated or have cosmetic changes, for example just changing names
- We expect your exam questions to have different requirements to ours and differently worded answers.



TYPES OF QUESTION

We'll now look at the types of question that can be used in assessments and discuss good and bad practice.

Objective test questions

USAGE

- Choosing an appropriate recommendation
- Identifying consequences of an action
- Matching an element in a framework with a practical situation
- Identifying relevant advantages/disadvantages
- Selecting correct technique for a situation

Objective test or short questions are used in all ACCA Applied Knowledge and Applied Skills levels exams.

It's a common myth that short questions can only test limited number of capabilities, for example the ability to carry out simple calculations. The questions that we use test a variety of capabilities, some at higher level. Here are some examples:

Multiple choice questions

Multiple choice questions are the most common type of objective test question used in accountancy exams. Students have to select one or more items from a list of options.

Multiple response questions

Multiple response questions are a kind of multiple choice question, except students need to select more than one answer from a number of given options. The question will specify how many answers need to be selected, but the system won't stop students from selecting more answers than this, so it's important that they read the question carefully.

Fill in the blank questions

Fill in the blank question types require students to type an answer into a box (usually numerical, but may be text). The unit of measurement will sit outside the box, and if there are specific rounding requirements these will be displayed.

Drag and drop questions

Drag and drop questions involve students dragging an answer and dropping it into place. Some questions could involve matching more than one answer to a response area and some questions may have more answer choices than response areas, which means not all available answer choices need to be used.

Drop down list questions

Drop down list question types require students to select one answer from a drop down list. Some of these questions may contain more than one drop down list and an answer has to be selected from each one.

Hot spot questions

For hot spot questions, students are required to select one point on an image as their answer.

Hot area questions

Hot area questions are similar to hot spot questions, but instead of selecting a specific point students are required to select one or more areas in an image.

The following multiple choice question from our Accountant in Business exam shows how, even though a scenario is only a couple of sentences long, it can be used to test students' ability to recommend an appropriate strategy.

Here, the student's recommendation has to fulfil the pluralist criteria of catering for the needs of more than one stakeholder group without seriously compromising the interests of any group. Setting aside a special area for families with children, while having an adults only section would achieve this.

Linh owns a busy restaurant. She has had complaints from regular customers about diners failing to control their noisy and unruly children, which is spoiling their dining experiences.

Which of the following courses of action would be regarded as a pluralist solution to this problem?

- A** Setting aside a separate section of the restaurant for families with children
- B** Not accepting bookings from families with children
- C** Advising customers that the restaurant is a family restaurant before they book
- D** Taking no action, assuming that those who complain will always be a minority

Here's a good example of a multiple choice calculation question taken from our Performance Management exam. It isn't just a question of number-crunching: students need to know which of the figures that they're given are used in the calculation. Each of the options uses a different combination of figures from the scenario to arrive at the answer.

A company manufactures a product which requires four hours per unit of machine time. Machine time is a bottleneck resource as there are only ten machines which are available for 12 hours per day, five days per week. The product has a selling price of \$130 per unit, direct material costs of \$50 per unit, labour costs of \$40 per unit and factory overhead costs of \$20 per unit. These costs are based on weekly production and sales of 150 units.

What is the throughput accounting ratio (to 2 decimal places)?

- A** 1.33
- B** 2.00
- C** 0.75
- D** 0.31



It's also possible to have two correct responses. This example has been adapted from one of our Financial Management questions.

Governments have a number of economic targets as part of their monetary policy.

Which **TWO** of the following targets relate predominantly to monetary policy?

- A** Increasing tax revenue
- B** Controlling the growth in the size of the money supply
- C** Reducing public expenditure
- D** Keeping interest rates low

Fill in the blank questions give students information, test their knowledge of different costing methods and their ability to interpret the figures supplied. This example comes from our Management Accounting exam.

Prancer Co uses standard 1 _____ costing. In the last month actual selling price was 2 _____ standard.

- 1** Marginal Absorption
- 2** Higher than Equal to Lower than

In this Management Accounting question, students will fill in the results of their calculations.

Calculate the following values if the computerised tracking system is implemented.

Incremental sales in Year 1	£\$
Savings in vehicle running costs in Year 1	\$
Present value of the maintenance costs over the life of the contract	\$

Multiple choice questions

Multiple choice questions (MCQs) are the questions we most frequently used in our exams.

Elements

- Most MCQs in ACCA exams provide details in short scenarios which students have to use
- All MCQs should have a question statement
- There will be one, or more, correct option(s)
- There will also be incorrect answers that are known as distractors.

Good practice

Use clear language

The language used in your questions should be clear and question scenarios should be easy to read. Remember – it's better to use several simple sentences rather than one long, complicated one.

Be brief

For similar reasons, scenario length should be kept to a minimum. Scenarios should not include information that is not required to answer the question. Good presentation of information can often help students, for example using tables or proformas to present information. Remember that MCQs have to be answered at some speed, so students must not be delayed by the detail of individual questions. Remember to consider for every question whether students will have enough time to read the scenario and work out the answer.

Add the theme

Question statements should make clear the theme of the question, to focus students' attention. Instead of asking 'Which of the following statements is correct?', it's better to say 'Which of the following statements about marginal costing is correct?'. Question statements should also be worded to contain words or phrases that apply to every answer option, to limit the number of words used in options and improve their clarity.

Don't be too obvious

It's very important that the correct answer doesn't clearly stand out from the distractors, as it could influence students to choose it. All answer options should be of similar length, grammatical structure and language. The content of all options should be similar. The correct answer should not include any part of the question wording if the distractors do not.

Be plausible

All distractors should be plausible. Often they will be incorrect responses that students would make if the question was asked without any options being supplied. These could be common misconceptions, likely errors or answers that sound convincing. In calculation questions, distractors should be plausible wrong answers, not random numbers. Distractors aren't necessarily incorrect statements – they could be correct statements that do not answer the question.

Be unambiguous

Your questions must have one or more unambiguously correct answer and one or more unambiguous distractor. This can be difficult in some subject areas. Sometimes details in the scenario will be needed to help make clear whether answers are right or wrong. Questions should never be phrased 'Which of the following do you think?' because in this context any answer could be regarded as correct. We recommend that you avoid using 'all/none of the above' as an option, as students are more likely to choose it.

Your assessment answer guidance must do more than state which letter is correct. At minimum, the correct answer should be stated if a question is straightforward. The majority of answers should include workings and justifications for all answer options.

Here is an extract from one of our Performance Management questions which also includes financial information about the buy-in price and the product costs.

A business makes two components which it uses to produce one of its products.

The business wishes to maximise contribution and is considering whether to continue making the components internally or buy in from outside.

Which components should the company buy in from outside in order to maximise its contribution?

- A** A only
- B** B only
- C** Both A and B
- D** Neither A nor B

The answer includes explanation of the decisions that would be made for both products.

ANSWER B, B ONLY

The marginal cost of making A is \$12 per unit and of making B is \$18 per unit. It is the marginal cost which is the relevant cost for the make or buy decision since the fixed costs will be incurred anyway. Therefore, it is cheaper to make A (\$12 marginal cost CF \$14 buy in cost) but it is cheaper to buy in B (\$17 buy in cost CF \$18 make cost).



Long questions

Several types of long questions are used in our Fundamentals exams:

- **General essay questions that aren't linked to a scenario can be used to test some higher level capabilities. For example, discussion of the advantages and disadvantages of an accounting technique**
- **Assessments will include mostly written questions that are linked to a realistic scenario, in order to fulfil our requirement for assessments to be practical**
- **Longer questions may require the production of a complete statement. For example an internal statement such as a budget that involves a number of calculations. They can also require computation of a single figure, for example a tax liability, where again students need to do a number of calculations to arrive at the final figure**
- **Financial analysis questions test students' ability to analyse and interpret financial information.**

Whatever the type of question, long questions will be made up of the elements listed here. As covered, occasionally you may have a long question that doesn't include a scenario but if the exam is to be of an appropriate standard, some questions must have scenarios.

Scenarios

Scenarios for longer questions should not be long or overly complicated. As with short questions, your language must be clear and sentence structure should be simple.

Scenarios must contain all the information that your students need to answer the question. A limited amount of background information can help establish a real-life context, but there shouldn't be too much as working through it will delay students. For some questions, it will be fine to have some information that students shouldn't need but may use if their approach is incorrect.

The scenarios must be believable practical situations. There may be fewer issues to consider than there would be in real-life, but your students should be able to believe that the issues the scenario covers could arise in real life. Scenarios will also be more plausible if they use common situations and believable sums of money.

Question requirements

The question requirements should leave your students in no doubt about what they need to do. The scope of the answer must be clear in order to minimise the risk of students producing irrelevant material. If a question contains two or more requirements, they should be clearly differentiated by using the word 'and' or presenting them on separate lines.

As with MCQs, your question requirements should be as succinct as possible. Extra detail can be included if necessary in the scenario, or in a paragraph above the requirements.

Your requirements must include a verb that is appropriate for the learning capabilities for the assessment. The verb will be very important in determining the scope and detail of the answer. For example if you use the verb 'identify', you would expect a brief statement of what the student recognises. The verb 'explain' will mean that the student needs to say more about what has been identified, showing why it is significant.

This is part of one of our Financial Management question where the details in the scenario mainly relate to the other part of the question, which is a series of calculations.

Discuss whether a change in dividend policy will affect the share price of DD Co.

Here our students are expected to explain the technical theory, Modigliani and Miller's dividend irrelevancy theory. But they also need to discuss the practical, real-world issues that mean that the level of dividends paid by a company like DD Co may affect its share price.

The following is a good example of a scenario question in Audit and Assurance. It's not enough to just list substantive audit procedures: students must suggest tests that will address the issues that the scenario highlights.

Balotelli Beach Hotel Co (Balotelli) operates a hotel providing accommodation, leisure facilities and restaurants. Its year end was 31 October 2014. You are the audit senior of Mario & Co and are currently preparing the audit programmes for the year end audit of Balotelli. You are reviewing the notes of last week's meeting between the audit manager and finance director where two material issues were discussed.

DEPRECIATION

Balotelli incurred significant capital expenditure during the year on updating the leisure facilities for the hotel. The finance director has proposed that the new leisure equipment should be depreciated over 10 years using the straight-line method.

FOOD POISONING

Balotelli's directors received correspondence in September from a group of customers who attended a wedding at the hotel. They have alleged that they suffered severe food poisoning from food eaten at the hotel and are claiming substantial damages. Balotelli's lawyers have received the claim and believe that the lawsuit against the company is unlikely to be successful.

Required

Describe substantive procedures to obtain sufficient and appropriate audit evidence in relation to the above two issues.

Here is a good example of an Taxation (UK) tax question. Students are meant to calculate a final figure for the chargeable estate but this figure will only be worth one mark. The other marks will be available for the figures in the calculation, requiring students to know the correct tax treatment of different assets under inheritance tax rules.

Opal Elder, aged 71, owns the following assets:

- 1 Two properties respectively valued at £374,000 and £442,000. The first property has an outstanding repayment mortgage of £160,000, and the second property has an outstanding endowment mortgage of £92,000**
- 2 Vintage motor cars valued at £172,000**
- 3 Investments in individual savings accounts (ISAs) valued at £47,000, savings certificates from NS&I (National Savings and Investments) valued at £36,000, and gilts valued at £69,000.**

Opal owes £22,400 in respect of a personal loan from a bank, and she has also verbally promised to pay legal fees of £4,600 incurred by her nephew.

Under the terms of her will, Opal has left all of her estate to her children. Opal's husband is still alive. On 14 August 2005, Opal made a gift of £100,000 to her daughter, and on 7 November 2015, she made a gift of £220,000 to her son. Both these figures are after deducting all available exemptions.

The nil rate band for the tax year 2005–06 is £275,000.

Required

Calculate Opal Elder's chargeable estate for inheritance tax purposes were she to die on 20 March 2016.



This is an example of a financial analysis question from Performance Management. Students were also given detailed financial results, plus other useful information including number of visitors, dividends paid and the rate of inflation. The answer goes through the financial results in detail, linking the sales to other information provided and using ratio calculations such as return on assets to provide perspectives on Thatcher International Park's performance.

Thatcher International Park (TIP) is a theme park and has for many years been a successful business, which has traded profitably. About three years ago, the directors decided to capitalise on their success and as a result they reduced the expenditure made on new thrill rides, reduced routine maintenance where possible (deciding instead to repair equipment when it broke down) and made a commitment to regularly increase admission prices. Once an admission price is paid, customers can use any of the facilities and rides for free. These steps increased profits considerably, enabling good dividends to be paid to the owners and bonuses to the directors. The last two years of financial results are as follows:

Required

Assess the financial performance of TIP using the information given above.

Note: There are 5 marks available for calculations and 10 marks available for discussion.

Answers

We recognise that students use model answers as an important revision tool and that's why we stress the importance of high quality model answers.

Your answers must clearly meet our requirements and not include irrelevant information, or superfluous features, such as introductions that do not address the question requirements. It may be tempting to include extra information on the topic being examined to help students. If answers do this, the background information must be clearly differentiated.

Headers and short paragraphs can help students see that answers are clearly structured and set them a good example. This approach will be helpful to markers of their assessments.

Answers should make good use of information given in the scenario. The answer must include enough references to the scenario to make clear that it is tailored to the circumstances that the scenario describes. The answer details must also be consistent with the scenario details, not only using the right numbers in calculations but also ensuring that names and facts are correct.

The length of answers link with the material they include. Very often, model answers will be longer than answers that any students would produce. Please try to keep the length of model answers realistic, as it can be disheartening for students to read answers that are much longer than they can possibly produce under exam conditions.

And of course answers must be right. Terminology and calculations must be correct, and answers must be internally consistent so that discussion parts refer back correctly to figures calculated earlier in the question.

Mark schemes

Remember that ACCA exams have very detailed mark schemes and assessments will be expected to have clear guidance for markers. This includes guidance on:

- **points that will get marks**
- **how many marks different elements of the answer will get and flexibility**
- **rewarding students who make valid points that aren't in the model answer.**

Markers must also be told what to do if students misinterpret a question or make a numerical mistake early in their answer that affects the rest of their calculations.

The marks shown in the mark scheme must match the marks shown in the question. The mark scheme should also make clear what marks are available for each of the question requirements. Model answers will normally score full marks and it should be easy to apply the mark scheme to these.

Mark schemes should add up, so the detailed mark breakdown should at least equal the total marks given for the question or question part. Sometimes the number of marks available in the detailed mark breakdown will exceed the total marks available. This should be fine, provided the mark scheme makes clear that the total is the maximum available.

The following is a good example of a well-presented answer on working capital management, with short paragraphs and clear headers.

WORKING CAPITAL POLICIES

Working capital policies can cover the level of investment in current assets, the way in which current assets are financed, and the procedures to follow in managing elements of working capital such as inventory, trade receivables, cash and trade payables. The twin objectives of working capital management are liquidity and profitability, and working capital policies support the achievement of these objectives. There are several factors which influence the formulation of working capital policies as follows:

Nature of the business

The nature of the business influences the formulation of working capital policy because it influences the size of the elements of working capital. A manufacturing company, for example, may have high levels of inventory and trade receivables, a service company may have low levels of inventory and high levels of trade receivables, and a supermarket chain may have high levels of inventory and low levels of trade receivables.

The operating cycle

The length of the operating cycle, together with the desired level of investment in current assets, will determine the amount of working capital finance needed. Working capital policies will therefore be formulated so as to optimise as much as possible the length of the operating cycle and its components, which are the inventory conversion period, the receivables conversion period and payables deferral period.

Risk appetite of company

A risk-averse company will tend to operate with higher levels of inventory and receivables than a company which is more risk-seeking. Similarly, a risk-averse company will seek to use long-term finance for permanent current assets and some of its fluctuating current assets (conservative policy), while a more risk-seeking company will seek to use short-term finance for fluctuating current assets as well as for a portion of the permanent current assets of the company (an aggressive policy).

ACCA resources

We produce lots of great resources designed to help students as well as tutors. Many of these resources are important when writing assessments for accreditation purposes and we will look at these briefly now.

Our specimen exams and syllabus and study guides will be vital resources for you. We also publish some of our past exam questions which you may find useful in understanding how we have examined specific syllabus areas in the past. But because they're not updated for changes in the syllabus or format of our exams, we don't recommend that you rely on these too heavily.

We always recommend that students and tutors use our Approved Content Provider question banks as these are updated for changes to the syllabus and format of our exams.

In addition to these, the examining team for each ACCA exam provides further useful information and insight on how they view the syllabus, what students find tricky and common mistakes that students make in exams. More specifically:

- **Our examiner approach articles discuss what the examiner is looking for in terms of exam performance, the main themes of the paper, how the exam is structured, advice on exam technique, tips on how to succeed and pitfalls to avoid**
- **Our examiners' reports give students constructive feedback about overall student performance. They also indicate the technical aspects that were examined, areas where students performed well or poorly and aspects of questions that appeared to cause difficulty**

- **Our 'five minutes with the examining team' video gives advice about what the examining team is looking for, and strategies that give a better chance of passing the exam.**

Although these have not been specifically designed for writers of assessments, we're confident that you'll find these very useful in terms of understanding more about ACCA's specific exams.

APPROVED CONTENT PROVIDER MATERIALS

We currently work with three providers who produce study texts and question banks. Materials produced by our Approved Content Providers have been quality assured by our examining team.

Website references have been included so that you know where to go if you want to find out more. Alternatively, please contact your local ACCA office and they will be pleased to introduce you to the local sales representatives for each of the Approved Content Providers.

We hope you have found this information helpful in understanding how to write assessments so that you can be successful in your application for exemption accreditation.

If you have further questions, please get in touch with your local ACCA office or alternatively contact our Learning Support team directly by emailing learningsupport@accaglobal.com



Contact ACCA office
learningsupport@accaglobal.com

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