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RELEVANT TO PAPERS P1 TO P7



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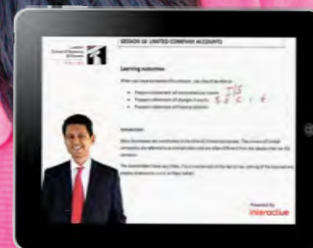


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# EDITOR'S CHOICE

## Welcome to the latest issue of *Student Accountant Essential Guide*

This issue is focused on exam-related information that you need to support your studies towards Papers P1 to P7.

We include examiner feedback from the Professional level exams taken in June 2012. This advice looks at overall performance in Papers P1 to P7 and outlines 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 the 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.



Exam technique and advice is also included to help you prepare. As well as articles on understanding what the examiner wants and how to maximise your marks when writing your answers, we also included advice from BPP Professional Education and Kaplan Financial on the key aspects of Papers P1 to P7.

The Noticeboard section includes the exam timetable for December 2012, exam rules and regulations that you need to be aware of, and details on entering for exams.

We've produced this magazine to be as helpful to you as possible in the lead up to the December 2012 exams. We have also produced two other tailored magazines for students taking Fundamentals level exams and the Foundation level exams. These can be accessed at [www.accaglobal.com/en/students/Accessing-Student-Accountant.html](http://www.accaglobal.com/en/students/Accessing-Student-Accountant.html).

I hope that you find this magazine useful in your exam preparation. Email me at [studentaccountant@accaglobal.com](mailto:studentaccountant@accaglobal.com) with your feedback on this issue.

**Victoria Morgan**  
Editor, *Student Accountant* magazine





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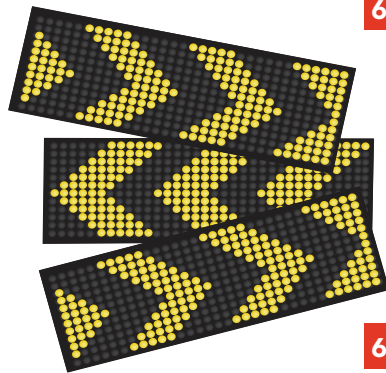
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#### PRACTICAL EXPERIENCE

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## STUDENT ACCOUNTANT

In addition to this twice-yearly printed issue, we also email an alert to a new issue of *Student Accountant* each month. To make sure we can continue to send you alerts and emagazines, make sure you update your consent levels in your *myACCA* account.



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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# READING AND PLANNING TIME

**Reading and planning time (RAPT) is a 15-minute time allowance given to all students taking three-hour exam papers.**

## WHAT CAN YOU DO IN RAPT?

This additional time, to be spent at the beginning of each three-hour exam, allows you to familiarise yourself with, and to navigate around, the exam paper. During RAPT, you can read and understand the questions on the paper and begin to plan your answers before you start writing in your answer books. You can also use calculators to make some preliminary numerical calculations.

RAPT begins when instruction is received from your centre supervisor. You must not open your question paper until advised to do so, and during RAPT you may only write or make notes on your question paper. You must not write anything in your answer booklets until advised to do so by the supervisor.

## HOW CAN YOU MAKE THE BEST USE OF RAPT?

RAPT gives you the opportunity to make sure you are clear about what the examiner is assessing. It also allows you valuable extra time for thinking

and planning. To use this additional 15 minutes most effectively:

- ▣ carefully read and understand all question requirements, making an informed choice about which optional questions to attempt where applicable
- ▣ read through and highlight relevant information and financial data, noting why it is included
- ▣ take note of the marks awarded for each question and the allocation of marks between different requirements within a question
- ▣ start to plan your answers, particularly for discursive questions
- ▣ think about the order in which to attempt questions
- ▣ make preliminary calculations.

## READING THE QUESTION REQUIREMENTS

You should use some of the RAPT to carefully read through the main requirements in each question. This is particularly important in exams where you need to decide which questions to answer.

Even where there is no choice of question, it is still important to read the question carefully so that you understand what the examiner is asking you to do. All too often, examiners' reports contain references to students who have answered questions they wanted to answer rather than the ones the examiner was asking. The best way

to avoid this is to use RAPT to ensure that you fully understand the verbs used by examiners. For example, if the examiner has asked you to compare and contrast two theories or techniques, they are not looking for a full description or explanation of each, but an explanation of the similarities or differences.

## READ AND HIGHLIGHT RELEVANT INFORMATION AND FINANCIAL DATA, NOTING WHY IT IS INCLUDED

RAPT allows you to have a first read through of all the information contained in each question. Having already carefully read the question requirements, you can now highlight any relevant information or data which you feel are of most relevance with reference to each question requirement. You can use calculators during RAPT, which allows you to make quick calculations of key financial or quantitative data contained within the exam paper.

Reading through the paper will allow you to familiarise yourself with – and find your way around – the exam paper. As a result, when you come to writing in your answer book, you will already have a good idea what is relevant information, where it is located, and possibly how to use it.

In case study or scenario questions, RAPT is a particularly good opportunity to familiarise yourself with the facts and data contained within the case study and to decide what information may be the most relevant. RAPT also allows you to gain an initial understanding of the main facts of a case study. This means that when you come to read it again during the exam, things will become much clearer, and more points will become apparent, as happens when watching a film or reading a book for the second time.

As would be expected, most ACCA exam questions contain financial data and information that must be considered and analysed. During RAPT, it is useful to think about why such information is included, with reference to the question requirements, and to consider which of this information or data is of particular relevance and how it might be needed to answer the questions.





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**RAPT IS AN ADDITIONAL 15 MINUTES WHICH IS TO BE SPENT AT THE BEGINNING OF EACH THREE-HOUR EXAM AND ALLOWS YOU TO FAMILIARISE YOURSELF WITH, AND TO NAVIGATE AROUND, THE EXAM PAPER**

#### TAKE NOTE OF THE MARK ALLOCATION BETWEEN DIFFERENT REQUIREMENTS WITHIN QUESTIONS

You should also use RAPT to help you plan your approach to answering the questions. This is particularly important when you are deciding which questions to attempt at the Professional level of the ACCA Qualification.

When you are first reading the question requirements, you should undertake a personal exam SWOT analysis – matching your own strengths and weaknesses to the opportunities available and, thereby, identify any potential threats to your performance within the exam paper.

Where you have a choice, you should identify those question requirements (and their specific parts) which offer you the best opportunity to earn marks. It is particularly important that your choice of questions enables you to give your best performance in the exam. When making your question choices you need to be aware of the mark allocation. A question could look very attractive if you see one or two requirements in areas you have studied and revised. However, if these requirements only attract a few marks – and the main requirement, which attracts the most marks is one which you feel unprepared for – it may be advisable to attempt another question.

By doing this you will make a more informed choice of question, where choice exists. Even where there is no choice, it is still important to assess which parts of which question requirements attract most marks and where you need to focus your attention.

#### START TO PLAN ANSWERS – PARTICULARLY FOR DISCURSIVE QUESTIONS

If time allows, after reading the paper, it is worth planning answers to certain questions, particularly to longer-form discursive questions. Start by trying to identify the relevant main themes within a question; normally relevant points can be classified under a few broad headings. There is usually insufficient time to identify specific points during RAPT, but it is very useful to identify

the main headings under which to put these points.

Identifying these headings or themes also acts as a way for you to structure your answers logically, for which some professional marks are available at the Professional level of the ACCA Qualification. It will also help to remind you about the types of points you should be making under each heading so that you can maximise the marks you can earn. For example, a Paper P1 exam question could contain the following requirement: 'Explain four roles of a non-executive director and how cross-directorships could undermine these roles.'

During RAPT, you could identify the four roles that you would need to explain, and quickly write these down as an aide-memoire. For example, you could identify the following roles:

- ▣ strategy
- ▣ scrutiny
- ▣ risk
- ▣ people.

When you answer this question in the exam you can develop these roles and expand on them before you go on to identify how cross-directorships could undermine these roles.

#### THINK ABOUT THE ORDER IN WHICH YOU SHOULD ATTEMPT THE QUESTIONS

You can answer questions in the order they are presented in the exam paper, but there may be good reasons why you shouldn't do this. For example:

- ▣ There is a question you believe you can answer well, that you have revised for thoroughly and therefore, by answering it first, you get yourself off to a good, confident start.

- ▣ There is a question which, if you don't answer it first, could worry and distract you during the exam, and may be more difficult to answer later on when you become more tired.
- ▣ You want to tackle the question with the highest mark allocation while you are at your freshest and most disciplined, both to ensure that you perform well and that you leave enough time to attempt all other questions.
- ▣ You prefer to start with a shorter question and leave a longer case study question until you have settled into the exam.
- ▣ There may be other reasons why you might want to tackle a paper in a particular order, so RAPT is the ideal time to make that decision and to decide on your exam strategy.

It is important that you always answer every part of a question before moving on to the next question – clearly labelling all parts of your answer. Ideally, you should answer all parts of a question in order, and there are two main reasons for this. First, there may well be a logical and progressive structure to the requirements of a question, and so answering these in the wrong order could put you at a disadvantage. Second, if your mind is engaged with the information contained within a particular question, and you leave it part way through to move on to another, you will need time to get to grips with that information again when you return to that question later. This is not a good idea.

#### SUMMARY

Making the best use of RAPT, rather than rushing ahead to write down as much as you can in the time allowed, will help you develop a better and more effective exam strategy. It will also help you develop a more relaxed, positive, and controlled approach.





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# EXPERT ADVICE

EXPERTS AT BPP PROFESSIONAL EDUCATION AND KAPLAN FINANCIAL SHARE THEIR EXAM ADVICE FOR PAPERS P1 TO P7



## PAPER P1

### BPP PROFESSIONAL EDUCATION

In order to pass Paper P1, candidates need to be able to assimilate a large amount of data presented in a compulsory scenario question before answering a series of requirements testing both the recall and application of relevant syllabus knowledge. The same blend of theory and application is required for the optional questions, although past paper experience suggests that there are only so many ways to test specific parts of the syllabus.

As well as demonstrating good knowledge recall and application, candidates will also be expected to display sound commercial awareness and common sense in equal measure – such skills come from a blend of question practice and an appreciation of current affairs.



### KAPLAN FINANCIAL

Although the Paper P1 syllabus contains five areas, it is important to understand that all of these, taken together, comprise a logical 'whole'. All areas are interconnected and, in total, the syllabus represents a set of issues essential to the understanding of how accounting – especially in a business context – contributes to, and is underpinned by, governance and ethics.

Although these have always been important to the accountancy profession, a number of recent corporate failures and scandals have highlighted the need for sound governance and ethical behaviour.

The content of the Paper P1 syllabus will help students explore and develop the following themes.

Part A of the syllabus focuses on corporate governance, responsibility, and accountability. This includes exploring aspects of, for example, the agency relationship between directors and shareholders, the meaning of governance, the role and types of directors, issues of responsibility, and the meaning and limits of accountability. It aims to introduce these important themes while also encouraging students to think about the ethical assumptions made by accountants collectively as a profession.

The next three parts of the syllabus – B, C and D – focus specifically on issues that have, in recent corporate failures, been the most problematic. These include internal control, the identification and assessment of risk, and controlling and mitigating risk. The Paper P1 syllabus singles these out for separate consideration because, although they are integral to corporate governance as a whole, they play a crucial part in an accountant's responsibility to act in the public interest and in the interests of shareholders.

Professional and business ethics is the final part of the syllabus (Part E). Ethics operates as a fundamental underpinning and emphasises the need for accountants to be aware of their responsibilities to investors, to society, and to the highest standards of professional probity and competence.

Paper P1 is a fascinating paper.

On the exam day you need to be prepared, so learn your models and theories. However, the most important skill is to be able to apply the knowledge learnt to the exam question, to show the marker that you have integrated your learning into the way you would act given a particular set of circumstances.

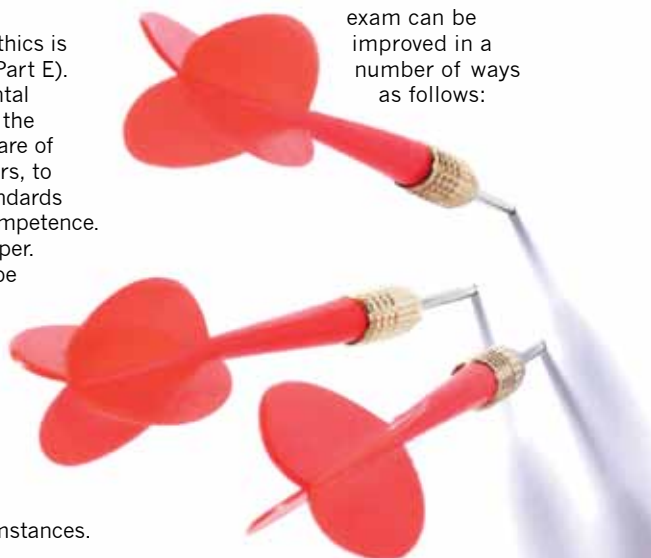
## PAPER P2

### BPP PROFESSIONAL EDUCATION

Paper P2 has a very large syllabus. So the key to a good pass here is having a good overall knowledge, without getting bogged down in the detail on a particular area. The compulsory question includes a consolidation, so a methodical approach here is essential as time pressure is high on that question. The compulsory question also includes an ethical part: the key here is to give practical solutions rather than just textbook ethical rules. Apart from the consolidation, most of the paper is written and candidates sometimes overlook that, so being able to explain accounting rules and particularly being able to apply them in scenario questions is important. Current issues are examined heavily, so you need to understand not just what changes have happened recently or are planned, but why the changes are being made and the effect of the changes.

### KAPLAN FINANCIAL

The Paper P2 exam is technically demanding and time-pressured; however, your chances of success in the exam can be improved in a number of ways as follows:





- ▣ Prepare well, and ensure that you have a sound understanding of key aspects of the syllabus – particularly new and recently revised reporting standards. The Paper P2 exam frequently includes technical content from new or recently revised reporting standards to ensure that students have current knowledge and understanding of corporate reporting. Ensure that you have an understanding of current developments in corporate reporting by reading relevant publications such as *Student Accountant* and review current developments in the IASB work plan via the IASB website at [www.ifrs.org](http://www.ifrs.org). Websites of the major accountancy firms also provide useful commentary on new and recently revised reporting standards, together with current developments.
- ▣ Practise questions to apply your knowledge – most Paper P2 questions are multi-topic and you should expect to have to deal with several accounting and technical issues within any one question. In addition, do not focus on computational elements only as most of the exam will be discursive, requiring you to discuss or explain relevant corporate reporting issues. Identify the question requirements and highlight key words within the requirements that should guide you in compiling your answer.
- ▣ Perform effectively under time pressure – apply time management strictly to your practice questions and, also, most importantly, in the exam itself. This should enable you to allow adequate time to attempt each of the questions in the exam. Remember that you are likely to earn more marks in the early stages of answering any question, so it is vital that you give yourself the best possible opportunity to do this in an exam.

## PAPER P3

### BPP PROFESSIONAL EDUCATION

The Paper P3 exam has a heavy emphasis on application skills. In

essence, you need to show ‘what you can do’ rather than ‘what you know’. For instance, if you are required to advise a retailer using the five forces, the owner of the business is not going to make more money by merely knowing what the five headings in the model mean. They will want to know how they can assess the strength of the forces that constrain their profitability and how they can combat those forces, for instance by using new technologies to build entry barriers or reduce customer power by locking them into loyalty schemes as seen by the UK retailer Tesco’s use of its Clubcard.

This insight should help you overcome one of the major student weaknesses: ‘Do not use theories inappropriately in a scattergun approach. Trying to reference too many theories led to some answers becoming too complicated, too long and too irrelevant’ – a point highlighted in many examiner reports.

### KAPLAN FINANCIAL

One of the biggest issues that students come up against in Paper P3 is the need to understand (or interpret) question requirements. Students are often expected to use a model from the syllabus as a structure for their answer. However, you are not normally told which model to use.

Students need to be able to ‘translate’ requirements in order to understand which model or technique the examiner is asking for. For example, if the question asks for the contextual features for change in an organisation, then using Balogun and Hope Hailey’s change kaleidoscope would be appropriate.

Students who fail to use a recognised model in their answer usually fail to have the correct structure and enough content in their answer to gain a pass. Other students who aim to throw as many models as they can think of into an answer tend to lack enough relevance to gain the marks required to pass.

So it is important that students can understand which model answers which requirements. There are two ways to improve this skill:

- ▣ The best way is to attempt past questions. Questions have asked for common exam models in the same way in previous exam sittings. The more familiar you are with the previous requirements, then the more likely you are to be able to interpret (or ‘translate’) the future requirements.
- ▣ Alternatively, you could create a list for yourself as you work through the study text and encounter the syllabus models. This list could have two columns – one for ‘The requirement asks for’ and another for ‘The model to use is’. So, for example, if the requirement asks for an environmental analysis, the model to use is the PESTEL framework.

When using the second approach, you may need to look at past exam questions to help you complete the list or get tutorial support.

## PAPER P4

### BPP PROFESSIONAL EDUCATION

In Paper P4 the examiner expects you to have an integrated understanding of the syllabus, including knowledge brought forward from Paper F9. Given the size of the syllabus, a sustained period of study is needed. It is a high-level finance and management paper and requires you to display analytical and evaluative skills, skills of judgment in considering alternatives, and the ability to produce clear and well-structured answers. It is important not to neglect the discursive parts of the syllabus as this is where many of the easier marks are. However, the questions are set in a practical business context and, therefore, analytical techniques and discussion need to be applied in relation to the context of the scenario in the question, and even related to the real world where applicable. These skills can be most effectively developed

## TOWARDS THE END OF YOUR STUDIES (ABOUT A MONTH BEFORE THE EXAM) START PRACTISING QUESTIONS UNDER STRICT EXAM CONDITIONS

by question practice using past exam papers. This will also allow you to improve your time management skills – regularly highlighted as being essential in achieving a pass.

### KAPLAN FINANCIAL

In order to give yourself a good chance of passing Paper P4, you should follow these four steps:

- ❑ Don't leave things until the last minute. As soon as you start your Paper P4 studies, you need to be working hard to make sure you understand the complex topics. Students who turn up to classes and don't supplement those classes with extra question practice and reading tend to struggle with the Paper P4 exam because a deep knowledge is required, as is an ability to apply that knowledge in exam questions. Ask your tutor for detailed guidance as to what specific extra questions and additional reading you should be doing between one Paper P4 class and the next.
- ❑ Read around the subject. The examiner likes to set very practical questions, which are often inspired by scenarios which he sees in the real world. For example, in these global recessionary times, there have been several questions concerning companies affected by the recession. You need to make sure that you read a quality business newspaper, to ensure that you develop an awareness of how real world companies are being affected by real world events, and how they are responding to those events.
- ❑ Read *Student Accountant* technical articles – they are useful to help supplement your studies.
- ❑ Practise plenty of real past exam questions to become familiar with the style of question and terminology used. The examiner changed from December 2009, so focus on past papers and answers since then.

### PAPER P5

#### BPP PROFESSIONAL EDUCATION

Paper P5 is entitled *Advanced Performance Management* and the focus is beyond mere measurement. Despite a choice of two from three in Section B, the compulsory marks are always approaching the maximum 70%. The paper requires interpretation skills and targeting of the requirements which

come from studying the examiner's past papers.

A critical approach is required and students are encouraged to challenge existing measures (using calculation and narrative) and propose new ones linked to the entity's goals. Reading financial and commercial press can increase awareness of different industries, their CSFs, KPIs and stakeholder demands, enabling a more confident response to examiner requirements.

Building on knowledge from Papers F5 and P3 and (to a lesser extent) Paper F9, successful students must be confident with the basic concepts. Refreshing these and particularly reworking some Paper F5 questions on ABC and budgeting techniques to build up calculation speed will release time for the dominant discussion elements of the paper.

### KAPLAN FINANCIAL

A combination of focused preparation and good exam technique will enable you to enjoy studying this paper and to achieve a good mark in the exam.

Before you start studying for Paper P5, ensure that your brought forward knowledge from Papers F5, F9 and P3 is in place. This is assumed knowledge and there will be little time to catch up on this once you start studying the Paper P5 material.

The Paper P5 syllabus is large so start working hard from day one, spreading your workload over a number of months. You will be expected to have the knowledge at your fingertips.

Even though it is important to be comfortable with the computations, remember that this is not just a calculations paper. In fact, the majority of the marks will be available for written requirements.

Avoid question spotting. The exam may test any part of the syllabus.

General business knowledge will help. Brush up in the current issues facing businesses. This will help you to apply your knowledge to the question scenario.

Question practice is key. The completion of a large number of exam questions is necessary; especially those from December 2010 onwards.

On the day of the exam you should use your reading time wisely:

- ❑ Have a thorough read of Section B to ensure that you choose the correct questions to answer.

- ❑ Read each question requirement and allocate your time. Then read back through the scenario, picking out the key bits of information.
- ❑ Start planning your answers.

When the writing time begins:

- ❑ Make short answer plans for all requirements.
- ❑ Remember to answer the question asked (not the one you wished had been asked).
- ❑ Answer all parts of the requirement. Consider the verb used and the mark allocation.
- ❑ Stick to your allocated time for each requirement and don't get bogged down with the calculations.
- ❑ Answer your best question first and your worst question last. Knowing that you have picked up some good marks early on will help to calm you down so that you are ready to tackle the tougher requirements.
- ❑ Use the scenario. You will only gain 20–30% of the available marks for repeated knowledge.

A rounded view of the whole subject is essential. Paper P5 is not just a number of disconnected topics. A single question will cover a number of syllabus areas.

### PAPER P6 (UK)

#### BPP PROFESSIONAL EDUCATION

In Paper P6, the examiner is looking for you to use the knowledge you gained in Paper F6 along with some more advanced topics, and apply this to the scenario that you are presented with. You will be required to consider all of the tax implications of the particular situation, and provide practical, relevant and reasoned advice to individuals and businesses, considering how to minimise and/or defer the tax payable. The paper is primarily written as you will be required to communicate your advice to the client, HMRC or other professionals.

### KAPLAN FINANCIAL

Paper P6 is a challenging exam as it involves both learning the tax rules and applying them.

Here are some key points to help you to achieve success in Paper P6:

- ❑ You must retain your Paper F6 knowledge, as the exam will not just test the new topics introduced at





Paper P6. A good knowledge of the basic rules and principles underpinning each of the taxes is vital if you want to pass Paper P6.

- ❑ Remember that any topic can come up anywhere in the exam, for any number of marks. This means that you cannot afford to leave out any areas in your studies, although you are not expected to know every single detailed rule.
- ❑ Make sure that your tax knowledge is up to date. The examiner likes to examine rules that are topical and have changed recently, although you are only expected to know about changes introduced up to and including Finance Act 2011 for the exams in 2012.
- ❑ Read the examiner's articles in *Student Accountant*. The examiner has written articles on many of the popular exam scenarios, and updates these every year to reflect the most recent tax rules.
- ❑ Before the exam, your preparation should involve a mixture of question practice and learning of rules; question practice alone is not enough to pass Paper P6. To test whether you know a subject area, try explaining it to a friend (possibly imaginary!) or writing it down in your own words. Approximately half of the marks in the exam will be for written answers.
- ❑ In the exam, use the 15 minutes of reading time to thoroughly review the optional questions. It is important to choose your optional questions wisely. You may be drawn to a question because you see a part of it that you can answer easily, but you should note the number of marks available. If the part that you like is only worth three of the 18 marks available, then obviously that section alone is not going to give you enough marks to pass. You need to assess the whole of each optional question before making your choice.
- ❑ Always answer the question set, particularly when attempting the big scenario questions; don't just write everything you know about that particular area of tax. Highlight the requirement within the question, keep looking back at it and tick off each part as you complete it. If the examiner asks you to come to a conclusion, do so – even if it is wrong, you will still be given credit if it is consistent with your analysis.
- ❑ As with all the exams, manage your time carefully, only write something down if you think it is relevant, keep moving, don't get bogged down and remember that you only need 50% to pass.

## PAPER P7

### BPP PROFESSIONAL EDUCATION

Paper P7 is a thorough test of syllabus knowledge obtained in previous exams, mostly Paper F8 and Paper P2, applied in a very specific series of contexts. While the Paper F8 exam is seen from the perspective of an audit team member, Paper P7 places the candidate in the position of being either audit manager or partner where the over-riding task is to manage risk of some sort, be that audit risk or something of a more commercial, litigious, ethical or reputational nature.

Candidates should use past paper questions to gain an understanding of how to answer the various questions likely to be seen on a Paper P7 exam paper: planning scenarios that focus on risk as well as other engagements; audit procedures required to address specific risks; ethical and professional issues related to running a successful practice; and reporting the auditor's conclusion to a variety of situations.

### KAPLAN FINANCIAL

There are three basic rules to studying Paper P7.

Make sure you have a broad knowledge of the topics on the syllabus. You do not need to have photographic recollection of every topic on the Paper P7 syllabus, but you must be familiar with all of the concepts. This can be aided significantly by:

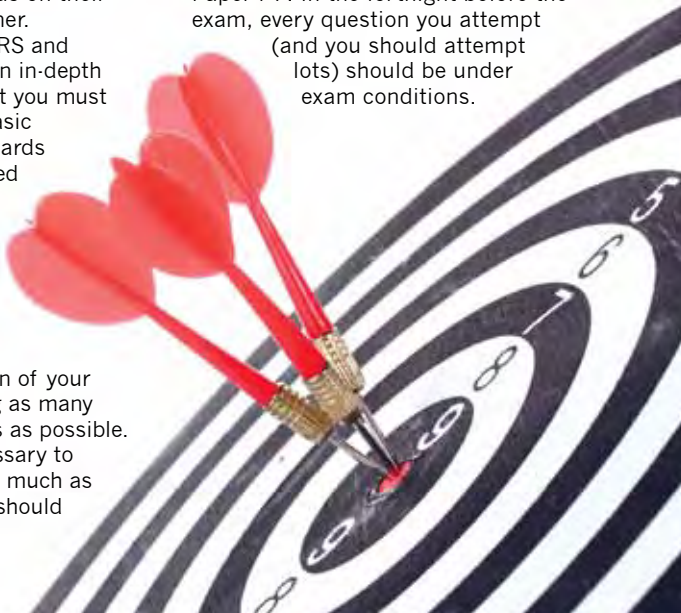
- ❑ Revising the main, underpinning elements of the Paper F8 syllabus in preparation for Paper P7 study (nature of assurance, ethics, risk, planning, audit procedures, completion and reporting). If you have revised these concepts prior to studying Paper P7, you will be able to focus on their application much sooner.
- ❑ Revising all relevant IFRS and IAS. You do not need an in-depth knowledge of these but you must be able to recall the basic principles of the standards (particularly those listed by the examiner in her article with regard to the importance of financial reporting standards to an auditor).

Practise the application of your knowledge by attempting as many exam-standard questions as possible. This is the key skill necessary to passing Paper P7 and as much as 70% of your study time should

be dedicated to this. Hints to help you improve your application skills:

- ❑ Before trying to attempt a question, try and think about who you are (in the question) and what objective you are trying to achieve. For example, are you an audit manager trying to plan an audit, or are you perhaps trying to agree the scope and terms of an assignment?
- ❑ Read the question and then make sure you understand it. You need to make sure you know how many elements there are to each question. You should also try and think about how the marks are split between the various elements.
- ❑ Briefly plan your answer and check this back to your question analysis: have you answered the question set, are you playing the specific role assigned to you in the question and have you made enough points to attack the marking scheme?
- ❑ Complete your answer. Do not rush this and do not 'bullet point' your answer. You must practise getting full marks by fully explaining your points. Do not look at the answers before you attempt your response – the answers will not be there in the exam, so get used to it.
- ❑ Review the model answer. Take the time to understand how the model answer answers the question and why it earns the marks on offer. Compare it to yours – is it very different and, if so, why?

Towards the end of your studies (about a month before the exam) start practising questions under strict exam conditions. Time management and good exam strategy is crucial for Paper P7. In the fortnight before the exam, every question you attempt (and you should attempt lots) should be under exam conditions.



# WRITING SKILLS

STEVE WILLIS SHARES AN APPROACH FOR DEALING WITH THE ADVANCED WRITING SKILLS REQUIRED IN PROFESSIONAL LEVEL EXAMS

Writing is critical skill in the Professional level exams and it will be difficult to pass without the right skills and using an effective approach. Writing business documents and demonstrating specific qualities, such as logical flow and persuasiveness, all under time pressure, are the challenges I will address.

## PROFESSIONAL LEVEL EXAMS: MORE CHALLENGING REQUIREMENTS

I will use an example from the December 2008 Paper P1 exam, 'Swan Hill' (Question 1(cii)) to take you through this approach.

*Draft a statement in the event that the board chooses the licensing option. It should make a convincing business case and put forward ethical arguments for the licensing option. The ethical arguments should be made from the wider stakeholder perspective.* 8 marks

*Professional marks for the persuasiveness and logical flow of arguments.* 2 marks

At the Professional level, tasks become more challenging: rather than just 'describing' or 'explaining', as you did in the Knowledge modules, you are asked to frame your answer in a particular business document. Additionally, you'll be asked to demonstrate specific qualities in your communication, and writing longer answers. Don't be surprised when you regularly encounter 12 and 15-mark writing tasks.

In the example above, Swan Hill, you're asked to write a statement that demonstrates 'persuasion' and 'logical flow'.

Here are the steps I suggest you follow when tackling such a question.

### First, understand the marks and break big questions into smaller requirements

A 15-mark written question is a daunting task. A good place to begin is to look for any possible ways to break a big question into smaller questions, and then sections. You can use the very helpful mind-mapping approach for this during your reading and planning time.



**A GOOD PLACE TO BEGIN IS TO LOOK FOR ANY POSSIBLE WAYS TO BREAK A BIG QUESTION INTO SMALLER QUESTIONS, AND THEN SECTIONS**

In the Swan Hill requirement, you are asked to write about two things: the business case and the ethical arguments. I use a mind map to break this down and think about a possible mark allocation.

As the question is eight marks, you can aim for four marks for each area. It's easier to plan two short, four-mark sections than one larger eight-mark answer.

### Next, continue brainstorming to plan the sections and paragraphs of your answer

First, think about the business case. You can address the factors of this decision that will help increase profits and cash flows for Swan Hill into the future.



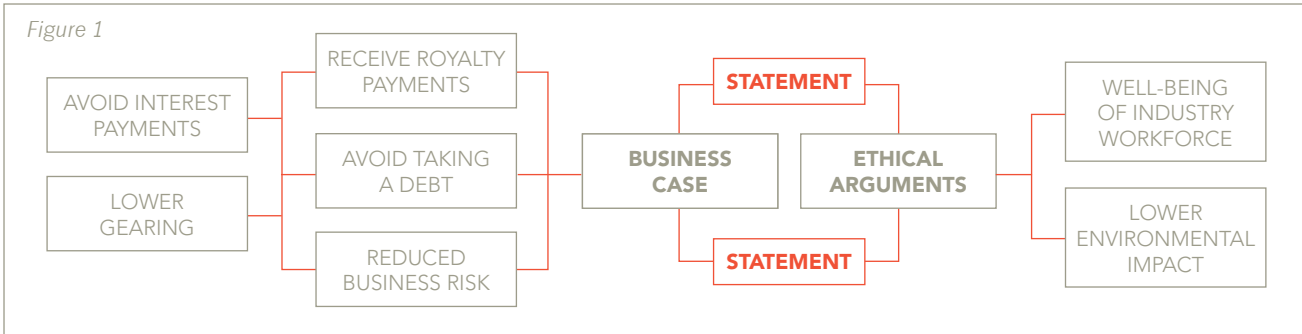
Receiving additional revenue, avoiding additional costs, and reducing both gearing and business risk are among the reasonable ideas you could write down.

To think about the ethical arguments from a 'wider stakeholder perspective', you need to first identify the obvious wider stakeholders in the story.

The industry's workforce and the environment are two examples you can find in the scenarios. You can then form one argument for each stakeholder identified.

Again, I'll continue using my mind map and my answer plan might look like Figure 1 (below):

IT'S IMPOSSIBLE TO ACHIEVE PERFECT ESSAY WRITING UNDER THE TIME PRESSURE AND STRESS OF EXAM CONDITIONS. REALISE AND ACCEPT THIS: AIM TO DO A GOOD JOB, NOT A PERFECT JOB



I identified two main sections: business case and ethical arguments.

I then found four ideas to write about under 'business case' and two ideas under 'ethical arguments'. Following the rule that one mark equals one idea, I've identified six marks. This is fine as we only need 50% of eight marks to pass.

Now, I have a clear answer plan and structure. I've identified my sections and paragraphs. I'll use 'point-explain-example' (see *Student Accountant*, November 2011, [www.accaglobal.com/en/student/publications/sa-archive/2011-archive/november-2011.html](http://www.accaglobal.com/en/student/publications/sa-archive/2011-archive/november-2011.html)) to write clear, concise paragraphs.

The difficult part: getting the professional marks. How do I demonstrate logical flow and persuasiveness? (Make sure you understand the requirement verbs – see page 6.)

**LOGICAL FLOW: USE LINKING WORDS**

With higher level requirements linking words help you demonstrate a logical flow. 'Firstly', 'secondly', 'however', 'in addition', 'on the other hand' and 'moreover' are examples of linking words and expressions that connect your ideas, and help you to demonstrate 'logical flow'.

Linking words help you critically assess, compare and contrast, make the case in favour of or accomplish any of the higher level writing tasks you encounter.

If English is not your first language and you would like to improve this area of your writing, there are many free resources on the internet. An excellent place to start is the English self-assessment test on ACCA's Virtual Learning Centre ([studentvirtuallearn.accaglobal.com](http://studentvirtuallearn.accaglobal.com)).

**PERSUASION: SEQUENCE YOUR IDEAS**

Sequence and prioritise your ideas: put your best ones first. This helps you build a strong argument and convince your reader to take your point of view. Communicate with confidence, and don't be afraid to take a position. Make sure your ideas are directly linked to the established facts in the question.

**Note:** It's impossible to achieve perfect essay writing under the time pressure and stress of exam





**IMPORTANT**

Take time to read the latest article on Professional marks available at [www.accaglobal.com/content/dam/acca/global/PDF-students/2012s/sa\\_aug12\\_p1-7\\_marks.pdf](http://www.accaglobal.com/content/dam/acca/global/PDF-students/2012s/sa_aug12_p1-7_marks.pdf)

conditions. Realise and accept this: aim to do a good job, not a perfect job, with your exam writing.

**STYLE: WHAT KIND OF DOCUMENT ARE YOU WRITING?**

Make your report look like a report, a letter look like a letter, and a written statement look like a written statement. Sarah Condon explains this very well in her article 'Professional marks' in the June/July 2009 issue of *Student Accountant* ([www.accaglobal.com/en/student/publications/sa-archive-2009-archive/june-2009.html](http://www.accaglobal.com/en/student/publications/sa-archive-2009-archive/june-2009.html)).

It's important to review actual examples of business writing to get a feel for this. For a 'written statement', you can find many examples in the published annual reports of listed companies on the internet.

**Putting it all together**

In the worked example (right), I put it all together. The brainstorm plan I created during reading and planning time has become my answer plan. I know what I am going to write about before I put my pen to the answer booklet.

I've written a short introductory paragraph, following the style of a chairman's statement in an annual report.

To show logical flow and persuasiveness, I use linking words and sequence my ideas putting the strongest ones first. I also link to the specifics of the question at every opportunity.

Finally, I follow time management and the rule 1 mark = 1.8 minutes of writing. I don't stay on one idea for too long. One mark per valid point is what I am looking for and I develop points only if they add to the strength of my argument or make my case more persuasive. I also keep my paragraphs short, keeping to two or three sentences per idea.

**Note:** you might not see headings used as often as I've done when you review examples of chairman's statements online. I include them to guide the marker and make navigating my exam booklet as easy as possible.

**Steve Willis is head of the ACCA programme at PwC Academy**

**WORKED EXAMPLE**

Fellow Shareholders,  
Recently, our world-class research laboratories made a major breakthrough, which will transform our industry. This breakthrough is a new technology with major strategic implications for us at Swan Hill. We have chosen to license this technology to our competitors, and I want to share our reasons behind choosing this strategy.

**BUSINESS CASE****Additional revenue**

The licensing approach is the best option to protect and grow our revenue streams in the medium and long term. The alternative, keeping the development a secret, may only be a short-term solution. Most importantly, the royalty payments we'll receive from licensing will be an important new source of revenue. This will enhance both our profits and cash flow.

**Reduced gearing**

Secondly, the licence option allows us to avoid taking on more debt. Reduced interest payments will help us grow cash reserves for future investments and to pay dividends. This reduced gearing also leads to lower financial risk for Swan Hill, enhancing the value of your investment in our company.

**Reduced business risk**

Finally, licensing the sink method will reduce our business risk in several ways. For one, our intellectual property will be protected by the courts in case it is leaked to our competitors. Also, the additional revenue from licensing helps us diversify our business.

**ETHICAL CASE**

We realise our new technology will have a big impact on our many stakeholders, and we are committed to acting in a socially responsible manner.

**Global labour force**

The well-being of our industry's global labour force is important to us. The licence option will allow Swan Hill to become a market leader, while letting the industry labour force and their communities continue to thrive. We think this is the fairest thing to do in the wider public interest.

**Preserving the environment**

Also, preserving the environment is a big priority for Swan Hill. By sharing the sink technology, we have the opportunity to reduce our entire industry's environmental or carbon footprint.

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YOUR AMBITION REALISED



# MAKING THE BEST

THE OPTIONS PAPERS ARE THE FINAL EXAM HURDLE BEFORE YOU CAN BECOME AN ACCA MEMBER. PETER REDFERN, ACCA QUALIFICATIONS MANAGER, EXPLAINS HOW CHOOSING OPTIONS PAPERS WHICH YOU ARE MOST COMFORTABLE WITH WILL, HOPEFULLY, IMPROVE YOUR CHANCES OF SUCCESS

To complete the ACCA Qualification exams at the Professional level you must complete three Essentials papers (P1, P2 and P3) and then complete two from four Options papers (P4, P5, P6 and P7).

The Options papers are specialised papers. They cover, in depth, the specialist areas of professional accountancy, namely: financial management, performance management, tax, and audit and assurance.

Our research has found that you will have a better chance of success if you have really got to grips with the fundamental concepts of these subjects. In addition, if you have gained experience in the workplace that relates to the Option paper you have chosen, it will really help you in your studies and in the exam.

Lastly, studying with an Approved Learning Partner for student tuition (ALP-st), and using the platinum and gold materials from our ALP content providers, will increase your chances of passing the Options papers.



THE FUNDAMENTALS

Our research proves that if you do well in the underpinning Fundamentals paper, you will have a better chance of passing the Options paper. This is backed up by what students, tutors and examiners tell us: if you have a good grasp of the fundamental knowledge of the Options paper you are taking, then you have a better chance of passing the Options paper.

It is important to remember that the Options papers take the subjects covered in the Fundamental papers to a more advanced level. This is set out below:

- Paper F9, *Financial Management* → Paper P4, *Advanced Financial Management*
- Paper F5, *Performance Management* → Paper P5, *Advanced Performance Management*
- Paper F6, *Taxation* → Paper P6, *Advanced Taxation*
- Paper F8, *Audit and Assurance* → Paper P7, *Advanced Audit and Assurance*

When you choose which Options papers to take, think about how well you did in the Fundamentals level papers. If

TABLE 1: THE OPTIONS PERFORMANCE OBJECTIVES

OPTIONS PAPER	RELEVANT OPTIONS PERFORMANCE OBJECTIVES
Paper P4	PO 15 and 16 on finance and financial management
Paper P5	PO 12, 13 and 14 on performance measurement and management accounting
Paper P6	PO 19 and 20 on taxation
Paper P7	PO 17 and 18 on audit and assurance and underpinned by PO 10 and 11 for financial reporting



# OPTIONS CHOICES

there was a subject you excelled at or felt most comfortable with, then that would be a good choice to take as your option. You may, of course, have been exempted from taking the Fundamentals level paper, or it may have been a long time since you studied these subjects. If this is the case, it is useful to look at the materials available for the Fundamentals level papers to help you refresh your knowledge.

In the table (page 16) we have identified the key areas of the Fundamentals level paper syllabuses that relate directly to each Options paper. Looking at this will help you see which areas of the Fundamentals level paper you need to have grasped to be successful in the Options papers. It will also show you that there may be some areas of the Fundamental papers that you are not required to demonstrate in the Options paper exam. It is also worth noting that along with the Fundamentals level papers, some of the areas covered in Paper P3 underpin Paper P5. Likewise, some areas of Paper P2 underpin Paper P7.

New materials available from Kaplan Publishing have been designed to help you understand or recall the relevant fundamental knowledge underpinning the Options papers. At half the price of exam entry the materials are a worthwhile investment, particularly while you are waiting for your results and before you begin studying for your Options papers.

## APPLYING YOUR EXPERIENCE

The ACCA exams are designed to be achievable even if you have no relevant experience. That said, one of the things most students, tutors and examiners say about the Options papers is that you may perform better if you have gained work experience relevant to the Options papers you are taking.

If you are currently working, remember to look at ACCA's practical experience requirements. You need to complete these requirements to gain the benefits of ACCA membership. They may also help you focus on gaining experience relevant to your Options

ONE OF THE BENEFITS OF MATCHING THE EXPERIENCE PERFORMANCE REQUIREMENTS TO THE OPTIONS PAPERS YOU ARE TAKING IS THAT IT MAY ASSIST YOUR WORKPLACE MENTOR OR SUPERVISOR IN GIVING YOU THE EXPERIENCE TO HELP YOUR STUDIES

papers. Part of the requirements is that you need to achieve 13 from 20 performance objectives. Like the ACCA Qualification exams, there are some performance objectives you need to take – known as the essentials performance objectives – and there are others where you get a choice of which ones to do – known as the options performance objectives. The options performance objectives cover some of the same areas as the Options papers (see Table 1).

One of the benefits of matching the experience performance requirements to the Options papers you are taking is that it may assist your workplace mentor or supervisor in giving you the experience to help your studies. It may also help your workplace mentor or supervisor answer questions you have about particular areas of the Options paper syllabuses that you are struggling with.

It is a great idea to be thinking about how your studies can be applied to your future career prospects. However, be careful. If there is an Options paper subject you find particularly hard, but you feel it would be better for your career prospects, you may be wiser to choose a different Options paper subject that better suits your ability. Remember, you can take the Options papers after you have qualified as part of continuing professional development (CPD).

Whether you have gained relevant experience or not, wider reading will also help you relate your studies to real-life situations that will, in turn, help you in the exams. Remember that the case studies used in the exams are often based on situations that have been in the news. Reading both the financial

press, the wider press and the corporate reports of multinational companies, and relating the stories to your studies, is a good way to prepare for the exams. It will help you understand the challenges real businesses face, such as ethical issues, environmental issues, strategic decisions, risk management and investment decisions. It will also help you familiarise yourself with the type of scenarios you will find in the exam.

There are a number of ways the ACCA Qualification can be studied, such as via a taught course or by self-study. Our research has found that if you study with one of our ALPs, you will stand a better chance of passing the Options papers. You can find out more about our ALPs via the ACCA website, which includes a searchable tuition provider directory. If there are no ALPs in your area, you may wish to consider distance learning using the materials from an Approved Learning Partner – content (ALP-c).

## CONCLUSION

The Options papers are the final exam hurdle you need to complete to qualify. It is important you make the right choice of which two Options papers to take. You will have a greater chance of success if you choose the Options papers based on what you feel most comfortable with, whether that is because you did well in the underpinning Fundamentals paper or you took the underpinning Fundamentals paper recently or because you have gained most work experience in that area. Lastly, you should consider studying with an ALP – st to give yourself the best chance of passing the Options papers.

# ESSENTIAL UNDERPINNING FOR OPTIONS PAPERS

## PAPER P4

Paper F9 to Paper P4 –  
essential knowledge

### D Investment appraisal

All subheadings

### E Business finance

- 1 Sources of, and raising, short-term finance
- 2 Sources of, and raising, long-term finance
- 4 Internal sources of finance and dividend policy
- 5 Gearing and capital structure considerations

### F Cost of capital

All subheadings

### G Business valuations

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

### H Risk management

All subheadings

Paper P3 to Paper P4 –  
essential knowledge

### G Financial analysis

- 2 Finance decisions to formulate and support business strategy
- 4 Financial implications of making strategic choices and of implementing strategic actions

## PAPER P5

Paper F5 to Paper P5 –  
essential knowledge

### A Specialist cost and management accounting techniques

All subheadings

### B Decision-making techniques

- 6 Dealing with risk and uncertainty in decision making

### C Budgeting

- 2 Budgetary systems
- 3 Types of budget
- 5 Behavioural aspects of budgeting

### D Standard costing and variances analysis

All subheadings excluding:

- 2 Basic variances and operating statements

### E Performance measurement and control

All subheadings

Paper P3 to Paper P5 –  
essential knowledge

### B Strategic position

- 2 Environmental issues affecting the strategic position of an organisation
- 3 Competitive forces affecting an organisation
- 4 Marketing and the value of goods and services
- 6 The expectations of stakeholders and the influence of ethics and culture

### B Strategic choices

- 1 The influence of corporate strategy on an organisation
- 3 Alternative directions and methods of development

### C Strategic action

- 1 Organising and enabling success

### G Financial analysis

- 3 The role of cost and management accounting in strategic planning and implementation

Paper P1 to Paper P5 –  
essential knowledge

### B Internal control and review

- 1 Management control systems in corporate governance

### C Identifying and assessing risk

- 1 Risk and the risk management process
- 2 Categories of risk
- 3 Identification, assessment and measurement of risk

### D Controlling risk

- 3 Risk avoidance, retention and modelling

## PAPER P6

Paper F6 (UK) to Paper P6 (UK) –  
essential knowledge

### B Income tax liabilities

- 2 Income from employment
  - h) Compute the amount of benefits assessable
- 3 Income from self-employment
  - e) Compute assessable profits on commencement and cessation
  - h) Relief for trading losses
- 5 The comprehensive computation of taxable income and income tax liability
  - b) Calculate the amount of personal allowance available generally, and for people aged 65 and above
  - c) Compute the amount of income tax payable
- 6 The use of exemptions and reliefs in deferring and minimising income tax liabilities
  - a) Explain and compute the relief given for contributions to personal pension schemes, using the rules applicable from 6 April 2011

### C Corporation tax liabilities

- 2 Taxable total profits
  - e) Explain the treatment of interest paid and received under the loan relationship rules
  - g) Understand how trading losses can be carried forward
  - h) Understand how trade losses can be claimed against income of the current or previous accounting periods
  - i) Recognise the factors that will influence the choice of loss relief claim
  - k) Explain how relief for a property business loss is given
- 3 The comprehensive computation of corporation tax liability
  - a) Compute the corporation tax liability and apply marginal relief
- 4 The effect of a group corporate structure for corporation tax purposes
  - a) Define an associated company and recognise the effect of being an associated company for corporation tax purposes

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- b) Define a 75% group, and recognise the reliefs that are available to members of such a group
- c) Define a 75% capital gains group, and recognise the reliefs that are available to members of such a group
- d) Compare the UK tax treatment of an overseas branch to an overseas subsidiary
- e) Calculate double taxation relief

#### **D Chargeable gains**

- 1 The scope of the taxation of capital gains
  - b) Explain how the residence and ordinary residence of an individual is determined
- 2 The basic principles of computing gains and losses
  - a) Compute capital gains for both individuals and companies
- 3 Gains and losses on the disposal of movable and immovable property
  - d) Compute the exemption where a principal private residence is disposed of
- 5 The computation of capital gains tax payable by individuals
  - a) Compute the amount of capital gains tax payable
- 6 The use of exemptions and reliefs in deferring and minimising the tax liabilities arising on the disposal of capital assets
  - a) Explain and apply entrepreneurs' relief as it applies to individuals
  - b) Explain and apply rollover relief as it applies to individuals and companies
  - c) Explain and apply holdover relief for the gift of business assets
  - d) Explain and apply the incorporation relief that is available upon the transfer of a business to a company

#### **E Inheritance tax**

- 2 The basic principles of computing transfers of value
  - a) State, explain and apply the

meaning of transfer of value, chargeable transfer and potentially exempt transfer

- b) Demonstrate the diminution in value principle
- c) Demonstrate the seven-year accumulation principle taking into account changes in the level of the nil rate band
- 3 The liabilities arising on chargeable lifetime transfers and on the death of an individual
  - a) Understand the tax implications of chargeable lifetime transfers and compute the relevant liabilities
  - b) Understand the tax implications of transfers within seven years of death and compute the relevant liabilities
  - c) Compute the tax liability on a death estate

#### **G Value added tax**

- 2 The VAT registration requirements
  - a) Recognise the circumstances in which a person must register for VAT
  - b) Explain the advantages of voluntary VAT registration
  - d) Explain how and when a person can deregister for VAT
  - e) Explain the conditions that must be met for two or more companies to be treated as a group for VAT purposes, and the consequences of being so treated
- 3 The computation of VAT liabilities
  - h) Explain the treatment of imports, exports and trade within the European Union
- 4 The effect of special schemes
  - a) Describe the cash accounting scheme, and recognise when it will be advantageous to use the scheme
  - b) Describe the annual accounting scheme, and recognise when it will be advantageous to use the scheme
  - c) Describe the flat rate scheme, and recognise when it will be advantageous to use the scheme

#### **PAPER P7**

Paper F8 to Paper P7 – essential knowledge

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

- 4 Professional ethics and ACCA's Code of Ethics and Conduct

#### **B Internal audit**

- 3 The scope of the internal audit function

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

- 2 Assessing the risks of material misstatement
- 3 Understanding the entity and its environment
- 4 Materiality, fraud, laws and regulations
- 5 Analytical procedures
- 6 Planning an audit

#### **D Internal control**

- 6 Communication on internal control

#### **E Audit evidence**

- 2 Audit procedures
- 3 The audit of specific items
- 6 The work of others

#### **F Review**

- 1 Subsequent events
- 2 Going concern
- 4 Audit finalisation and the final review

#### **G Reporting**

- 1 Audit reports

Paper P2 to Paper P7 – essential knowledge

#### **C Reporting the financial performance of entities**

- All subheadings excluding:
- 11 Reporting requirements of small and medium-sized entities (SMEs)

#### **D Financial statements of groups of entities**

All subheadings



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The influence of corporate governance regulations and the role of ethics was explored in 'Out of Control', an article in the July 2010 issue of

governance issues. While 'Up in the Air' (August 2010) delved into the social responsibility, policy and regulations governing 'no frills' airlines.

In the August 2012 issue, the article 'JP Morgan ... What went wrong?' investigated what is being heralded as 'the worst trading catastrophe ever', as losses at JP Morgan rise past initial predictions ([www.studentaccountantmagazine.com/August2012/page29.html](http://www.studentaccountantmagazine.com/August2012/page29.html)). A feature on banking highlights the effectiveness of laws introduced to monitor the size and activities of financial institutions and looks at the importance of risk management.

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*Student Accountant*, which looked at the Gulf of Mexico oil spill. A similar environmental disaster was analysed in 'Ashes to Ashes' in the June 2010 issue, which considered risk assessment in relation to the flight cancellations after the Icelandic volcano eruption.

We looked at what the takeover of Cadbury by US sweets giant Kraft really meant in 'Sweet Deal', in March 2010, and in the May 2010 issue we looked at the long-awaited launch of the Apple iPad and its impact on the computer industry in 'Launch iPad'.

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# IMPROVE YOUR 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.

**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 examiners' 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 like Paper P7 that 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**. Many candidates assume a specific theory won't come up in an exam because it was examined in the previous sitting. This assumption is wrong, and candidates who do this lose 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 examiners' 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 scenarios always include more points that 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 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

**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**





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cannot be understood. You need to practise handwriting and writing for a long time 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 the 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 that 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

Professional marks are available for the **clarity, format and presentation** of an answer. If an answer includes an explanation that is **confused, repetitive**

#### 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.

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.

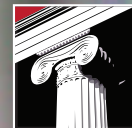
Professional marks are also awarded for presenting an answer in the **specific format required**, using language appropriate to that format. The language used in a letter, for example, could be very different from that used in a report. For more information on professional marks, access the article at [www.accaglobal.com/content/dam/acca/global/PDF-students/2012s/sa\\_aug12\\_p1-p7\\_marks.pdf](http://www.accaglobal.com/content/dam/acca/global/PDF-students/2012s/sa_aug12_p1-p7_marks.pdf) and the article on developing your writing skills on page 16.

Read specific exam feedback from the examiners for Papers P1 to P7 from page 30.



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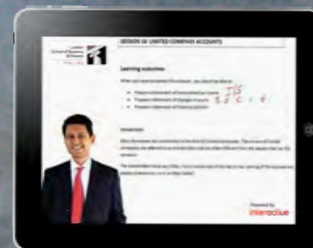


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# EXAM FEEDBACK

## PAPER P1 **PASS RATE: 53%** **GOVERNANCE, RISK AND ETHICS**

As in previous sittings, this paper included a compulsory multi-part question for 50 marks in Section A, followed by a choice of two from three 25-mark questions in Section B. I am pleased to report that many people passed the exam with some achieving excellent marks and, as usual, I congratulate all successful candidates and their tutors for all the hard work and commitment they put into the teaching and learning.

The paper was similar in tone and feel to previous sittings and there should not have been anything too surprising or difficult for well-prepared candidates to cope with.

### SPECIFIC COMMENTS QUESTION 1

The case in Section A concerned Hayho Company. In the scenario, Hayho is considering two possible foreign investments and both options have particular issues associated with them. These issues include different risk and internal control problems, and the fact that the projected returns on the two options are significantly different. The Jayland option would also involve dealing with its president, Mr Popo, who, as well as having a questionable record on human rights, also demanded a personal royalty from Hayho (effectively a bribe) if the company chose to invest in his country.

A further complicating factor was the presence of a human rights lobbying organisation called Watching Business (WB) that was already monitoring Hayho because of its past behaviour in another country (Arrland). WB was influential and was warning Hayho not to invest in Jayland because of the record of Mr Popo's government.

Part (a) asked about the risk profiles of the two options (Jayland and Pealand). Drawing upon the idea of risk appetite, candidates were required to explain risk appetite and then to demonstrate how different risk appetites might affect which option may be chosen. This task was done well by most candidates although some failed to explain risk appetite as a continuum, saying instead that risk appetite meant

risk seeking. In fact, companies and individuals can have either a high, low or medium risk appetite. In the scenario, the Jayland option was the higher risk (with a higher potential return) of the two and so would have been attractive to companies with a higher risk appetite or which were more risk-seeking.

Part (b) asked candidates to use the seven-step AAA model to examine the choice between Jayland and Pealand. A minority chose the wrong framework for this (employing, for example, the Tucker framework or the Gray, Owen and Adams continuum) but most were able to correctly identify the seven AAA questions. Not all of these were presented in the correct and logical order.

There were a range of approaches taken. The AAA framework is used to establish the ethical norms of the company and/or culture in which it operates, and to weigh the consequences of the two options, before finally selecting the option most in line with those norms and with the more favourable consequences. Some candidates failed to achieve higher marks here by producing only a shallow analysis of each stage or by confusing the things to consider under each question. But, overall, this question was done quite well by the majority of candidates.

There were two tasks in Part (c). The first, for four marks, was to describe the general purposes of an internal control system. This was bookwork and should have been straightforward to any well-prepared candidate. It was frustrating that many candidates failed to take into account the verb 'describe'. It was not enough to 'list' or produce a short bullet list. To score full marks for this first task, markers were looking for a brief description of each general purpose as asked for in the question.

The second task in Part (c) was to examine the case and to assess (to identify and say how important) the internal control challenges that Hayho would encounter if it chose the riskier Jayland option. The case contained several of these, based on what Emily Baa said about life in Jayland. Again, the verb was important here. It was not

enough just to pick the main challenges out and list them. To score the higher marks, candidates had to assess each in terms of how it would represent a challenge to Hayho. This was a more intellectually ambitious task than merely identifying them from the case and listing them.

The remainder of Question 1 was a two-part requirement and four professional marks were available for this section. Because of the situation at Hayho, the CEO, Helen Duomo, sought advice from Emily Baa who was familiar with Jayland. The requirement was to prepare briefing notes for Helen Duomo covering a range of important issues with regard to the choice between Jayland and Pealand.

Part (di) contained two tasks. The first of these was to discuss what accountability means and most candidates made a fair attempt at this. The more ambitious task was to discuss how the Mendelow framework can be used to predict the influence of the pressure group, Watching Business. Most candidates were able to show evidence of understanding of the Mendelow matrix (that power x interest = influence) but fewer were able to use this to show how the variables applied to WB. The point here was to use the evidence in the case to discuss the sources of power and interest specifically for WB and this was done with varying degrees of success.

Part (dii) also contained two tasks. The first was to briefly explain the agency relationship in the case (between Hayho and Quark Investments) and most candidates were able to attract some marks here. It was pleasing to see that most Paper P1 candidates had a good idea of what an agency relationship is. The second task was to explain, using evidence from the case, the particular reasons why Watching Business, as a prominent stakeholder, should be carefully considered by Hayho. This task was done poorly overall perhaps because it involved a detailed analysis of the case to establish the sources of WB's influence.

As in previous sittings, candidates' attempts to gain the four professional marks were patchy. Some made good attempts while others made no apparent attempt at all.

**CANDIDATE ATTEMPTS TO GAIN THE FOUR PROFESSIONAL MARKS WERE PATCHY. SOME MADE GOOD ATTEMPTS WHILE OTHERS MADE NO APPARENT ATTEMPT AT ALL**

### QUESTION 2

The scenario in Question 2 was about a recently retired chief executive, Mr Louse, who was giving a speech

on various aspects of corporate governance. Having enjoyed a long and successful career in business, he had a number of views that he presented in his speech.

He expressed views on the actual independence of non-executive committees and on risk committees. These subjects were asked about in Parts (a) and (b). Part (c) was about differences in risk management between large and small companies.

Part (a), about the independence of non-executive directors (NEDs), touched on a debate about whether NEDs should be fully independent of executives in order to bring more scrutiny, or familiar with the industry, in order to bring more relevant strategic expertise. It was disappointing to see that some candidates answered a question that was not set. Some produced the list of the roles of NEDs (strategic, risk, people and scrutiny) and some discussed regulation. Neither of these were correct approaches.

The first task in Part (a) was to define 'independence'. Because this is such an important concept in corporate governance, and one of the underpinning concepts in A1(d) of the *Study Guide*, I was pleased to see that most candidates were able to attempt this task. The second was about the debate on independence and this was less well done with a wide range of approaches being taken.

There were two tasks in Part (b). Candidates were first asked to describe the roles of a risk committee. The most common error with this was, as with Question 1, Part (c), to disobey the verb (which was 'describe'). It was clear that many candidates knew these roles but a short bullet list is not a description. The best way to answer a question such as this is to start with the single short sentence and then to expand that with a description to show the marker that the thing being described is fully understood. Where bookwork marks like these are available on a professional paper like Paper P1, it is essential that they are gained if a high mark overall is to be attained.

Other common errors in this task (as well as just producing a bullet list) included discussing the factors that determine whether the company should establish a risk committee, and also regulatory and listing rule issues with risk committees. Neither of these was asked for in the requirement.

The second task in Part (b) was to criticise (to say what is wrong)

with some comments that Mr Louse made in the case about the roles of risk committees in Zogs Company. This involved picking out the various comments and then showing how Mr Louse misunderstood risk committees. This involved discussing the true roles of risk committees and showing how risk committees were not in fact an inconvenience but rather an essential part of sound corporate governance. Some candidates were able to extract the quotations from the case, but were then unable to enter into a meaningful criticism of the views expressed. These answers received fewer marks than those able to include the criticisms.

Part (c) asked about whether risk mitigation systems were more important in larger companies than in small companies. The answer should have included points such as strategic and regulatory issues, but this part was the weakest for many candidates who attempted Question 2. Some sought to explain, often without using a meaningful argument, that large and small companies were the same with regard to risk systems, and such answers were not well rewarded.

### QUESTION 3

In Question 3, the case was about the progression of student accountants in an audit practice. One of the students, Polly Shah, was given permission to continue despite being rated as 'poor' in her appraisal. This was against normal practice and it emerged that managing partner, Jack Hu, was a friend of Polly Shah's family.

Part (a) was, accordingly, on conflicts of interest. There were two tasks: to define the term, and then to assess the consequences of Jack Hu's behaviour. Most candidates were able to make an attempt at a definition, but the second task was less well done. Rather than considering the consequences, some candidates continued writing about how conflicts of interest can occur and this was clearly not what the question was asking. It is important to realise that corruption and malpractice in business have serious consequences for a range of people and this question sought to explore some of these consequences. Some of the consequences affected Jack Hu himself, showing that bad practices such as those he demonstrated are often self-defeating as well as being a very bad example to others.

Part (b) was not well answered overall. It required candidates to consider the problems that had occurred at Jojo and

then to describe four ethical safeguards that might prevent a recurrence of the events described. Candidates who reflected on how the events arose in the first place, and how these might be addressed, received the best marks for this part. Again, short bullet points with little detail (ie no description) were not well rewarded.

The case raised issues about the performance of Jack Hu as a senior manager in the audit practice and these were examined in Part (c). In a public company, shareholders are collectively responsible for deciding whether they are satisfied with each director's performance in the job. In the case of a smaller partnership, where partners need to appraise each other, these issues can be a little more complicated.

Again, there were two tasks in Part (c): to explain the criteria used to measure the performance of individual directors (not of entire boards) and then to examine the particular circumstances at Jojo to discuss why individual performance measurement might be difficult there. This part was done poorly overall. Perhaps candidates had considered the performance of boards but not of individual directors of those boards.

### QUESTION 4

This was a question about a family business that decided to convert to a public company and it examined a number of issues around that theme. Part (a) asked about the differences in governance arrangement between a family business and a listed company, and then asked about how the family's ability to manage as they wished would change after the flotation. The first task was done quite well overall but candidates sometimes failed to recognise the importance of listing rules in the second task. In order to comply with listing rules and to fit in with the expectations of institutional investors, the management would have to change quite radically from that of a family business. These changes were what Gustav Lum was concerned about when he feared that the Lum family would 'lose the freedom' they had previously enjoyed.

Part (b) asked about induction programmes and continuing professional development for directors. A common error was to discuss the contents of an induction programme when the question specifically asked for an assessment of the benefits. A

common error was to treat the two under the same heading when in fact the two (induction and CPD) are quite different and serve different needs within a company.

I was surprised to see that many candidates struggled to achieve high marks in Part (c) on unitary and two-tier boards, despite this topic having been in previous Paper P1 exams. There was evidence that some candidates did not understand the roles of NEDs on the two types of boards nor how the two approaches might affect the control that the Lum family may have over the company after flotation.

Question 4 was about a common issue in corporate governance. Businesses do occasionally change their legal form, and such changes are almost always associated with governance changes.

## **PAPER P2** **PASS RATE: 49%** **CORPORATE REPORTING**

**The exam consisted of four questions: Question 1 for 50 marks and three further questions of 25 marks each, the latter of which candidates had to choose two to answer. The performance of candidates was generally good. Candidates performed well on Questions 1 and 2 and less well on Questions 3 and 4. The exam approach was good with little evidence of time pressure but, again, some candidates failed to produce answers of sufficient length and appeared to be spending too much time on Question 1. Question 1(a) is designed to test candidates' computational skills and very brief explanations may be useful to the marker, but many candidates entered into detailed discussion of the relevant standard, which costs time in the exam, and it is important for candidates to use their time effectively. Very few marks are allocated in Question 1(a) for detailed discussion. Candidates often wasted time discussing a standard in detail when an application of the standard was required.**

Candidates should read the question and formulate an answer in their mind. The answer should be based upon the detail of the question. Simply reading the requirement without application to the scenario does not gain marks. This exam focused on application of knowledge and it was application that often let candidates down. The application of knowledge requires some improvement and candidates do not use the information in the scenario in order to develop their answers. Often

the content of the scenario will help candidates answer the question as the scenario gives candidates direction in terms of their answers.

### **SPECIFIC COMMENTS** **QUESTION 1**

Part (a) required candidates to prepare a consolidated statement of financial position of a group in accordance with IFRS. The question required candidates to deal with the acquisition of a subsidiary, the acquisition of another subsidiary that was formerly an investment, a joint operation, the impairment of PPE, the factoring of debts and a deliberate manipulation of the financial statements. Candidates are very good at preparing group accounts using the full goodwill method but not quite as good at accounting for the acquisition of a subsidiary that was formerly an investment. The main issue was determining the fair value of the consideration as some candidates did not take into account the increase in the fair value of the equity interest. Most of the accounting for the various transactions was quite well attempted. Candidates' answers to the impairment of the PPE element of the question were often extremely accurate. However, the answers to the joint operation element of the question were quite poor. Candidates did not seem to have an understanding of the 'bookkeeping' for such an arrangement. Candidates often understood the relationship but could not account for it.

Part (bi) required candidates to describe the rules of IFRS 9, *Financial Instruments* relating to the de-recognition of a financial asset and how these rules affected the treatment of the portfolio of trade receivables accounted for in Part (a) of the question. Surprisingly few candidates seemed to know the de-recognition rules of IFRS 9 and often described the nature of a financial instrument, when a financial instrument should be recognised and the valuation methods utilised. Often this was correct but was not answering the question. The best way to demonstrate knowledge is in answering the question set on the exam paper, not the question in a candidate's mind. Most candidates recognised that, substantially, all the risks and rewards remained with the holding company and, therefore, the receivables should still be recognised.

Part (bii) required candidates to discuss the legitimacy of the holding company selling land just prior to the year-end in order to show a better liquidity position for the group and whether this transaction was consistent with an accountant's responsibilities to users of financial statements. The answer to this question was good. However, many candidates spent a disproportionate amount of time discussing the accounting treatment with little time spent on the ethical aspect of the transaction. This section of the paper is aimed at assessing the candidates' ethical viewpoints and it is imperative that candidates give it due regard.

### **QUESTION 2**

This question required candidates to comment on the accounting for four different transactions. Generally, the question was well answered. Part (a) dealt with a sale and lease back. The treatment of the finance lease and the nature of the transfer of substantially the entire risks and rewards incident to ownership were often correctly cited by candidates. Situations that would normally lead to a lease being classified as a finance lease were generally well understood, although many of the less common situations – such as the lease assets being of a specialised nature, such that only the lessee can use them without major modifications being made – were not cited. This was not an issue given the scenario but it is worth candidates remembering the full list of factors that determine a finance lease. Candidates recognised that the building is derecognised at its carrying amount and then reinstated at its fair value but often took the disposal gain entirely to profit or loss, instead of it being deferred over the new lease term.

Part (b) required candidates to discuss the new provisions of IAS 19, *Employee Benefits*. The question simply required an explanation of the accounting procedures in relation to recognition of actuarial gains and losses (remeasurements), recognition of past service cost, measurement of pension expense, and presentation in the financial statements. The only issue with this question was that many candidates quoted the previous version of IAS 19 in their answers, which led to long discussions of the 10% corridor

**SIMPLY READING THE REQUIREMENT WITHOUT APPLICATION TO THE SCENARIO DOES NOT GAIN MARKS**



method, which has now been deleted from the standard.

Part (c) dealt with cash-settled share-based payment transactions, which should be recognised over the period during which goods are received or services are rendered, and measured at the fair value of the liability. The fair value of the liability should be remeasured at each reporting date until settled with changes in fair value recognised in the statement of comprehensive income. The question also required a computation of the accounting treatment of a cash-settled transaction. This part of the question was not well answered as candidates often confused share-based transactions with cash-settled transactions.

Part (d) dealt with contingent liabilities in two ways. First, in the entity's financial statements where contingent liabilities are not recognised but are disclosed, and second in a business combination, where a contingent liability is recognised if it meets the definition of a liability and if it can be measured. Often, candidates were confused over the treatment of the two situations and stated that the treatment was the same in both scenarios.

Overall, the question was well answered.

### QUESTION 3

In Part (a), the answers to this question were varied in standard. The question should have been broken down by candidates into the key areas.

Fair value is defined in IFRS 13 (if IAS 40, *Investment Property* was used, candidates received due credit). The investment properties in the question were not being valued in accordance with the best possible method, which meant that goodwill recognised on the acquisition of an investment property through a business combination was different as compared to what it should be under IFRS 3, *Business Combination* valuation principles. This was the first element of the question.

Second, the methods for determining whether goodwill was impaired, and the amount it was impaired by, were not in accordance with IAS 36, *Impairment of Assets*. Thirdly, the recognition of deferred tax assets on losses carried forward was not in accordance with IAS 12, *Income Taxes* as the entity was notable to provide convincing evidence to ensure that they would be able to generate sufficient taxable profits

against which the unused tax losses could be offset.

Candidates did not seem to be able to identify the key issues. The nature of the technical knowledge in this question was not high but the need to apply that knowledge was crucial to a good answer.

In Part (b), the issue related to the application of the fair value option in IFRS 9, *Financial Instruments*. The option is used where such application would eliminate or significantly reduce a measurement or recognition inconsistency between the debt liabilities and the investment properties to which they were related in this question. Candidates did not generally understand the nature of this option and yet it is used often in practice, which means it is an important element of the syllabus.

In Part (c), the entity had classified B shares as equity instruments and this did not comply with IAS 32, *Financial Instruments: Presentation*. IAS 32, Paragraph 11, defines a financial liability but candidates could not recognise that the B shares in this question were in fact a liability rather than equity. The entity was obliged to pay an annual cumulative dividend on the B shares and did not have discretion over the distribution of such dividend. This in itself would lead one to think that the shares should be classified as a financial liability and not non-controlling interest. Unfortunately, few candidates realised this fact.

### QUESTION 4

This question required candidates to discuss the existing guidance in IAS 37 as regards the recognition and measurement of provisions, and why the IASB feels the need to replace this guidance. In addition, candidates were required to describe the new proposals that the IASB has outlined in an exposure draft in the area and describe the accounting treatment of certain events under IAS 37 and the possible outcomes of those events under the proposed amendments in the exposure draft. This question was not well answered, but if one looks at the nature of it, certain aspects arise.

First, there were several marks for simply spelling out current guidance, which is rote learning. Second, there are basic reasons why the IASB would wish to replace any standard. For example, consistency with US standards, fitness for purpose, inappropriateness in the current

business climate. Thus, candidates could have answered this part of the question with basic general knowledge of the standard-setting process.

Third, the level of knowledge required of the new proposals was in the nature of summary knowledge and not detailed knowledge, and a reading of Part (b) of the question would have given candidates an insight into the nature of those proposals. For example, net present value calculations and risk and probability adjustments.

Finally, Part (b) of the question required candidates to outline different ways in which a provision could be calculated under IAS 37 and the new ED. Again, there were aspects of the question that helped candidates.

The lesson, which should be learned by candidates, is that the scenario is important as it helps answer the question.

## PAPER P3 **PASS RATE: 49%** **BUSINESS ANALYSIS**

**Performance in this exam was not as good as in the previous sitting. Marks for the compulsory question (Question 1) were particularly affected by poor answers to Part (b) of this question – the creation of strategic options. Question 3 (project management) was the least popular optional question, and both this and Question 2 (software package procurement) were not particularly well answered. Question 4, which concerned the value chain and the supply chain, was not only very popular, but it was also, on the whole, very well answered.**

Candidates may perceive that there are time management issues with Paper P3, and certainly time has to be properly allocated and managed. However, a significant contributor to exam failure is the time wasted by candidates in copying out parts of the question and describing theory in great depth, when really application is what is required. This propensity to ignore the context of the questions particularly affected performance in Questions 1(b), 2(b) and 3(a).

When calculating values, candidates are reminded about assessing the plausibility of their answer. For example, one candidate claimed that  $200/850 = 0.94$ . It seems likely that they had made a mistake on their calculator, which a little mental arithmetic would have easily identified.

Finally, candidates must ensure that the answers are readable. What we cannot read, we cannot mark.

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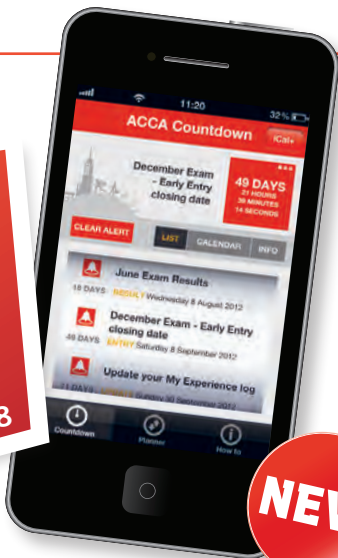


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