



# Examiner's report

## AB/FAB Accountant in Business

### Key themes from examiner reports 2015 - 2018

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

#### General Comments

The examination comprises two parts. The first part requires candidates to answer 46 objective test questions, worth either 1 mark or 2 marks. The second part of the paper is made up of 6 scenario-based, multi-task questions, each worth 4 marks. The time permitted to complete the paper is 2 hours.

It is important to note that while this report focused on areas of difficulty, the pass rate for the paper has been satisfactory since its inception, with the majority of candidates demonstrating a reasonable command of examinable subjects.

#### Part A of the paper – objective test questions:

Candidates deal with the short objective test questions in part A quite well. Topics on which questions have had consistently high pass rates have included:

types of business organisation;  
centralisation and decentralisation;  
stakeholders;  
roles in accounting and finance functions;  
money laundering;  
recruitment;  
leadership styles;  
communications;  
conflict;  
training;  
time management.

Of the six syllabus areas, performance has been most consistent for questions drawn from part C, 'Accounting and reporting systems, controls and compliance'.

None of the six parts of the syllabus appear to be disproportionately difficult, as questions with lower pass rates have been quite evenly spread across a wide range of topics. The lowest pass rates have occurred on questions relating to:

- micro-economics
- information systems
- internal control
- public oversight board
- the role of an external auditor
- corporate governance
- duty of disclosure of non-executive directors

- culture
- newer organisational models (virtual, hollow and shared services organisations)
- independence and threats to independence

Among the questions in which candidate perform badly, there is some evidence of guesswork, which may be attributable to lack of breadth in study or time management issues. This is often indicated by an even spread of responses across the key (correct answer) and distractors (Incorrect answers).

Some candidates do not complete a full set of part A answers. This is disappointing, as there is little evidence to suggest that the paper is time pressured, and even ill-prepared candidates should be able to eliminate one or two distractors from the choices offered, and then if necessary take an informed or reasoned guess.

#### **Sample part A questions for discussion:**

This section of the report gives one example of a part A question from each of the six syllabus areas.

#### **Example 1:**

Southland is an emerging nation with a healthy economy. However, its government is concerned that unemployment has risen from 3% to 5% of the working population. A recent study by Southland's central bank has revealed that there are many unfilled vacancies in growing industries, but the workers who are making themselves available for work or becoming unemployed have the wrong skills, or are located in the wrong regions, to meet the immediate demand for labour in areas of economic growth.

#### **Which type of unemployment does Southland demonstrate?**

- A** Structural
- B** Cyclical
- C** Seasonal
- D** Frictional

The correct answer is D.

The scenario states that Southland is a healthy economy, yet unemployment has been rising. There is no evidence in the narrative that the unemployment has arisen due to fluctuations in national income, so this should help to rule out cyclical unemployment. The scenario does not give any suggestion that the rise in unemployment can be attributable to seasonal factors. Therefore, candidates should have been drawn to A or D as the most plausible answers.

Structural unemployment is most often caused by a downward shift in demand for the goods and services produced by industries on which an economy heavily depends. When economic conditions are severe, such as during the great depression of the 1930s, this can lead to many thousands of people losing their jobs, with a chronic shortage of vacancies. By contrast, frictional

unemployment is typified by unfilled vacancies being available, but with unemployed persons not being in the right place, or immediately possessing the right skills, to take up those vacancies.

**Example 2:**

Lynne is the finance director of ABC Company and a non-executive director of DEF Company. She serves on the remuneration committee and the risk committee of DEF Company.

Rodney is the chief executive officer of DEF Company and a non-executive director of ABC Company. He is a member of ABC Company's audit committee and remuneration committee.

**Which of the following statements is correct in relation to recognised best practice in corporate governance?**

- A** Lynne should not be a member of the risk committee as she is a non-executive director and will know nothing about operational risks
- B** Rodney should not be a non-executive director of any company as he is DEF Company's chief executive officer
- C** Either Lynne or Rodney should not be a member of the respective remuneration committee
- D** Neither Lynne nor Rodney should serve on any more than one standing committee

The correct answer is C.

As Rodney is the chief executive officer and Lynne is the finance director, this should preclude them from serving as members of each other's company's remuneration committees. The reason for this is that the situation becomes a 'cross directorship' where objectivity is threatened and there is a potential self-interest threat as both might be inclined to promote each other's financial interests as members of boards responsible for considering director remuneration.

Distractor A is incorrect because all board committees should include non-executive directors, and some committees should be composed entirely of non-executive directors. Distractor B is incorrect because a chief executive officer is not prohibited from serving as a non-executive director of another company, and this is borne out in practice in many large companies. Distractor D is the most difficult to eliminate, as some companies do try to spread the workload of directors by restricting the number of committees that each individual serves. However, there is no restriction, and for many companies the size of the board will mean that non-executive directors will have to be chosen for more than one committee.

**Example 3:**

**Which of the following is a purpose of internal control?**

- A** To provide reasonable assurance that the company can achieve its objectives
- B** To ensure that all operational accounting data is totally accurate
- C** To eliminate all risks arising from fraud and other criminal acts
- D** To validate the financial statements of the company as a true and fair view

The correct answer is A.

Choice B must be incorrect, as there is no such thing as a perfect control system. No matter how robust and comprehensive, no control system can prevent human errors, deliberate circumvention of controls or deficiencies brought about by change over time. This also confirms that choice C must be incorrect, as control systems cannot eliminate risks entirely. Over time, new risks emerge just as existing risks may recede. Choice D summarises the purpose of external audit. Even though pursuit of an objective to ensure that the financial statements give a 'true and fair view' may be a goal of internal controls, they can only be validated by independent, external appraisal.

#### **Example 4:**

Harald is the head of recruitment and selection of MXM Company. One of his tasks is to select three area managers. At present there are 12 trainee managers, all of whom were originally recruited in anticipation that they would be promoted to area manager jobs. Harald believes that nine of these managers will apply for the positions. Harald's general manager insists that the selection process must be rigorous, testing not only the technical knowledge of the applicants but also their presentation skills and ability to negotiate.

**Which of the following would be the most appropriate method of selection?**

- A Proficiency test**
- B Panel interview**
- C Work sampling**
- D Assessment centre**

The correct answer is D.

Choices A, B and C can all serve some of the purposes that were set out by Harald's manager. Proficiency tests can be used to assess knowledge and also some skills, but would be impractical for testing presentation and negotiation skills. It would also be complicated to arrange panel interviews that would assess interactive skills. Work sampling would offer few opportunities to assess the future knowledge and skills required, though it could help to form a view on competences developed so far.

By contrast, an assessment centre can test a broad spectrum of knowledge and skills. Assessment centres are often used when it is necessary to form a comprehensive view of candidates across a wide range of competences.

#### **Example 5:**

Javed manages a team in which individuals with strong personalities often have heated disagreements, which can lead to open conflict and disruption of work processes. Javed called the team together and explained to them that the outputs of the team should take priority and that every individual team member should try to put their personal feelings aside for the benefit of the company. He persuaded them that they would be better off by modifying their behaviour, as the

team's effort was more important in meeting the objectives of the organisation, than the personal agendas of each person in it.

**Which of the following is Javed's approach to addressing conflict?**

- A Integration
  - B Compromise
  - C Denial
  - D Dominance
- (2 marks)**

The correct answer is A.

The four options from which candidates could select their answer are different ways in which a manager may respond to a conflict situation in a team.

The correct answer is implied in the scenario, in that the manager is urging team members to put their feelings aside for the benefit of the team. In other words, Javed is seeking greater integration in relation to their goals and objectives.

The other choices can be dismissed: compromise suggests a consensus approach, which will clearly not work with strong personalities who may be unprepared to give way to one another. Denial is not dealing with conflict at all, but hoping it will go away. Dominance is more assertive, but goes further than Javed's approach.

**Example 6:**

**Which of the following should be included in a corporate code of ethics?**

- A A detailed description of all of the commercial objectives of the company
- B The consequences for employees of violating the standards of behaviour expected of them
- C A summary of the responsibilities of the individual directors of the company
- D A list of laws and regulations with which the company will comply

A corporate code of ethics typically opens with a statement of values, mission and core objectives of a company, but it would never include a detailed description of all of the commercial objectives as laid down by its board of directors. The strategic plan would most certainly include such a statement.

The details of responsibilities of individual directors are often set out in the directors' report and financial statements published by larger companies, and indeed may be a corporate governance requirement for listed companies. However, the corporate code of ethics would not normally drill down to personal responsibilities of individual directors, as the code itself would be expected to be relevant irrespective of future changes in the composition of the board.

Although the corporate code may allude to specific laws and regulations, it would not be expected to include all of these.

The correct answer is B. Many organisations now acknowledge that in order for a corporate code of ethics to be effective, it is necessary to combine statements of minimum standards with explicit preventative actions that the company is prepared to take when violations occur.

### **Part B of the paper – multi-task questions:**

Each of the multi-task questions is taken from one part of the syllabus, with no overlap between syllabus areas within any individual question.

Part B requirements may be set out in different ways, including:

- choosing more than one correct response (for example, two correct answers from up to six options)
- matching a set of definitions or descriptions to the words they represent
- clicking on the correct response in a graph or diagram
- selecting the correct words or phrases from a drop down list

Many, but not all, of the multi-task questions are scenario-based. Some requirements test knowledge of specific topics, while others ask candidates to apply their understanding to arrive at the correct answers.

There is no evidence to suggest that questions in this part of the paper pose greater difficulty than those in part A of the paper, but for a typical candidate it is likely that the part B questions will take longer to answer than part A questions due to more reading being involved.

Candidates have performed well on several topics, including the following:

- types of organisation and matching organisational types to descriptions;
- characteristics of companies;
- SWOT analysis, distinguishing between strengths and opportunities, and between weaknesses and threats;
- identifying elements of the marketing mix relevant to activities and functions;
- content of financial statements such as the statement of financial position and the statement of profit or loss.

The following topics have caused difficulties for candidates:

#### *Organisations:*

As stated above, candidates have been quite comfortable with many questions on organisations, but some of the contemporary concepts relating to organisations such as modular, hollow and shared services organisations have seen lower-than-average pass rates. For example, when presented with a scenario which described an organisation making a transition from a functional structure to a shared services approach, many candidates could not identify the benefits that would be achieved.

#### *Micro-economics:*

The main area of difficulty has been the theory of the firm, in particular distinguishing between the different types of competition, such as perfect competition, oligopoly and monopoly.

#### *Macro-economics:*

Candidates appear to have few difficulties with part A questions on macro-economics, but encounter problems when dealing with some macro-economic issues in the context of scenarios. Two specific problem areas have been types of unemployment (structural, frictional, etc) and supply side policies.

#### *Marketing:*

Candidates have been quite proficient in understanding the elements of the marketing mix, including the extended marketing mix, but have sometimes found difficulty in identifying the correct stage of the product life cycle from a description of a company and its products.

#### *Corporate governance:*

This topic is examined at an introductory level in this paper, but some candidates have difficulties in identifying best practices or deficiencies in governance arrangements when presented with scenario questions.

#### *Organisational culture:*

Candidates have appeared to understand certain concepts and theories relating to culture, but questions on Schein and Hofstede have caused problems.

#### *Leadership and motivation:*

Candidates often select correct answers in respect of simpler models, such as Maslow's hierarchy of needs, but encounter more difficulty with Herzberg's two factor theory, McGregor's theory X and Y, and Vroom's expectancy theory.

#### *Accounting and finance:*

Questions on topics in part C of the syllabus have the highest pass rate. However, candidates have experienced difficulties in distinguishing between internal audit and external audit functions, and identifying activities or attributes common to both.

#### *Team roles:*

Candidates sometimes find difficulty matching Belbin's team role typologies to descriptions given in a scenario. Tuckman's team development theory has been less problematic.

#### *Ethics:*

Candidates have often encountered problems in dealing with questions on some of the basic concepts listed in part F of the syllabus. These include the fundamental principles set down in the IESBA code of ethics (integrity, objectivity, professional competence, confidentiality and professional behaviour), and organisational values which promote ethical behaviour, such as openness, trust, honesty, respect, empowerment and accountability. It should be noted that some non-scenario questions which ask candidates to match descriptions to words or phrases have had poorer pass rates than scenario-based questions which require applications of ethical values. Candidates have performed poorly on questions relating to threats to independence.

### **Conclusions:**

With the majority of candidates achieving a pass, it is clear that these candidates are able to take on board sufficient knowledge across what is a very broad syllabus, as well as being able to apply their knowledge to scenarios.

'Accountant in Business' is a gateway paper, testing many topics but at a relatively shallow level. Candidates should recognise that none of the topics examined in this paper require a detailed or comprehensive knowledge, and that it is best practice to have a general understanding of as many topics as possible. As many candidates have limited time in which to prepare, it may be counter-productive to drill down too deeply into some subject areas, thereby giving too little attention to others. It is understood that very few candidates will be equally proficient across all areas of the syllabus, but the student who invests a reasonable amount of time in meaningful preparation should pass.

For a typical candidate, it is wise to spend a little more time on more complicated theories and concepts, as well as those which include more information. For example, when dealing with organisational culture, questions on Handy's theory pose less difficulty than those on Schein's theory, because for the average candidate the latter is more difficult to grasp than the former. But in turn, candidates may find organisational culture more difficult than other organisational theories, implying that study time should be adjusted accordingly.

Candidates are unlikely to be under time pressure when sitting this paper, but time management may be an issue for some. If well prepared, candidates may be able to deal with the paper in 'sweeps', by quickly going through questions on which they are absolutely confident and then investing more of the available time on questions that they find more challenging. In this respect, it is also important to stress that this paper never contains trick questions, so quite often thinking too hard and too long about answers initially considered to be incorrect, may be counter-productive.