



# Examiner's report

## F1/FAB Accountant in Business

For CBE and Paper exams covering January to June 2017

### General Comments

Candidates were required to answer 52 questions in 2 hours. The paper was divided into 2 parts. The 46 questions in part A were worth either 1 mark or 2 marks and were objective test questions with one correct answer to be chosen from either 4 options (for 2 mark questions), or 2 or 3 options (for 1 mark questions). There were 6 questions in part B, each worth 4 marks. At least one section of each part B question was based on a scenario. Each question related to one of the generic syllabus areas.

The pass rate was satisfactory, with some candidates scoring very high marks. Some of the best prepared candidates passed the paper on the strength of their part A answers alone, but it should be noted that in some cases candidates who nearly achieved the pass mark on part A then made only a superficial attempt at the part B questions and scored few marks. This was particularly applicable in the case of a minority of scripts that fell well below pass standard. This would appear to be due to lack of preparation or under-estimating the level of the paper. Generally, those who did badly on part A of the paper also performed poorly on part B.

Nearly all candidates completed all of the questions in the time available, and candidates did not appear to be under time pressure. However, there was some evidence of pure guesswork on some questions, especially in part B. Whether or not this is due to poor time management is not known.

All questions in part B require both knowledge recall and applications of principles to the given scenario. Candidates excelled on some of the topics covered, while on others their performance was more variable.

### **Comments on Part A performance**

Generally, adequately-prepared candidates scored at least half of the available marks in part A of the paper, and the majority then went on to achieve a pass by a steady performance on the part B questions. Some candidates did much better by scoring very high marks in part A, which meant that they only had to secure a few marks in part B to achieve their pass. However, very few candidates achieved a pass on part A alone. Some failed the paper because they did not give sufficient attention to both parts of the paper. In very few cases, candidates left some questions unanswered. This is unfortunate, as even if the individual does not know the correct answer, it should be possible to eliminate the distractors that appear to be least plausible and arrive at an answer by a process of deduction.

The topics on which candidates performed best were:

Types of organisation (notably cooperatives).  
Corporate social responsibility.  
The roles within the accounting function of an organisation.  
Conflict.  
Performance appraisal.

The topics which candidates found more difficult were:

Micro-economics.  
Data protection.  
Corporate governance.  
International Accounting Standards.  
The role of the International Federation of Accountants (IFAC).  
Sustainability.

It should be noted that of the topics listed above, performance was not always consistent within the same topic group. For example, only one micro-economics question had a high pass rate, and on performance appraisal, the pass rate polarised as high and low on two different questions. This is not necessarily a negative observation, as candidates cannot realistically know every aspect of every subject.

Some questions in part A include very brief scenarios comprising 3-5 lines of text. Candidates appeared not to experience any greater difficulty with these scenario-based questions than shorter questions.

### Sample questions

Question 3 related to micro-economic theory:

**According to the theory of the firm, at which point is equilibrium established?**

- A  $AR = MC$
  - B  $AC = MC$
  - C  $MC = AC$
  - D  $MR = MC$
- (2 marks)**

The correct answer is D.

In micro-economic theory, all firms will continue to produce goods and services until the point at which marginal revenue equals marginal cost. Marginal revenue is the income derived from producing one extra unit, while marginal cost is the additional cost incurred by producing one extra unit. This principle is best understood by studying the graphical representations of the various models under the theory of the firm.

The pass rate for this question was 27%.

Question 8 related to corporate governance:

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

**(2 marks)**

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.

The pass rate for this question was 35%.

Question 17 related to the mission of the International Federation of Accountants (IFAC) and quoted the federation's mission statement:

'Our mission is to serve the public interest by continuing to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant.'

**Of which of the following organisations is the mission statement?**

- A IFAC
  - B ASB
  - C IASB
  - D ACCA
- (2 marks)**

The correct answer is A.

The mission statement of IFAC encapsulates the purposes of the organisation and what it sets out to achieve. The question requires some thought, because various elements of IFAC's mission also apply to the other three bodies listed. The best indications that IFAC is correct are the elements of the statement that allude to 'promoting adherence to high-quality professional standards' and 'speaking out on public interest issues'. The pass rate for this question was 26%.

### **Comments on part B performance**

Candidates performed quite well on some of the questions in part B. These included questions relating to SWOT analysis, the marketing mix, the product life cycle and certain aspects of the auditor's role.

Candidates were unsure about the benefits of a shared services organisation, and there was some evidence of guesswork on a part of a question relating to this subject.

There was some confusion in relation to internal audit and external audit. Candidates were asked to state whether statements applied to internal auditors, external auditors or both, and this requirement posed considerable difficulty.

Many candidates could not correctly identify Herzberg's hygiene factors and motivators, and in some cases thought that all of the hygiene factors were motivators and vice versa.

In relation to part F of the syllabus, which includes ethics and professional values, although candidates performed reasonably well on the part A questions, they found a part B requirement applicable to threats to independence very difficult, and there were many incorrect attempts.

### **Conclusions**

The high pass rate confirms that the majority of candidates prepared well for the examination and were proficient in many topics on the syllabus. There were very few questions in part A with extremely low pass rates, but at the other extreme there were several examples of questions which candidates found straightforward. This is not because the questions are 'easy': all questions set for this examination demand some formal study.

The paper is broad-based, so it is inevitable that candidates will have strong and weak areas. There are many theories to learn, and although these can be memorised to some extent, it is notable that in the June paper many candidates did not know the theories that appeared in the examination. A systematic programme of study should include all areas without drilling down to too much detail. For example, Herzberg's two factor theory was worth 3 marks in the June examination, but even if the candidate knows Herzberg's theory very well indeed, it could still only be worth a maximum of 3 marks.

The part of the syllabus on which students are often expected to perform best is part C, which covers accounting functions, controls, security and fraud. The observations in this report suggest that candidates must not be complacent even on areas on which they feel best prepared. A basic understanding of audit functions is fundamental, but this was one of the topics on which candidates were found wanting.

Candidates are advised to work through part F of the syllabus thoroughly. The basic ethical concepts are laden with jargon but quite simple. It is likely that candidates use words like 'trust', 'integrity' and 'independence' in the context of their work, but for F1 and FAB it is necessary to think about what they really mean, and to be prepared to apply them to scenarios as appropriate.

It is also important to understand the five threats to independence: self-interest, self-review, advocacy, familiarity and intimidation and be able to identify instances in which such threats materialise, for example in Q8 referred to earlier in this report. In addition to the set reading books and revision materials published by approved content providers, the codes published by IESBA (IFAC) and ACCA provide valuable and relevant insights.