



Examiner's report

AB/FAB Accountant in Business

Based on exams from January to June 2019

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 purpose of this report is to provide guidance on the performance of candidates in recent examination sessions. It identifies areas in which candidates have performed well, and also where questions have had lower pass rates.

The report gives examples of questions and topic areas which have tended to cause the most difficulties for candidates and which will help you prepare for future computer-based examinations.

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 examination is made up of 6 scenario-based, multi-task questions, each worth 4 marks. The time permitted to complete the examination is 2 hours.

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

Part A of the examination – objective test questions:

Candidates have dealt 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 (companies, cooperatives, NGOs);
- centralisation and decentralisation;
- stakeholders;
- roles and responsibilities in accounting and finance functions;
- money laundering;
- recruitment and selection;
- leadership styles;
- simpler theories, such as Porter's five forces, Maslow, Blake and Mouton;
- 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;
- newer organisational models (virtual, hollow and shared services organisations);
- more complex theories, such as Belbin, Schein;
- independence and threats to independence.

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

Some candidates have not completed a full set of part A answers. This is disappointing, as there is little evidence to suggest that the examination 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:

Which of the following describe an economy in stagnation?

- A Positive economic growth and rising prices
- B Positive economic growth and stable or falling prices
- C Zero or negative economic growth and rising prices
- D Zero or negative economic growth and stable or falling prices

The correct answer is D.

Stagnation occurs when the trade cycle, which maps national income over time, is falling to its lowest point. It is characterised by zero or negative economic growth, usually measured as the percentage change in gross domestic product and also by low or even levels of price inflation.

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** Neither Lynne nor Rodney should be members of the respective remuneration committees
- D** Neither Lynne nor Rodney should serve on any more than one standing committee

The correct answer is C.

Rodney as the chief executive officer and Lynne as the finance director would have their pay determined by a remuneration committee. This situation 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 and familiarity threat as either or both might be inclined to promote each other's financial interests as members of committees 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 on which each individual serves. However, there is no legal restriction, and no universally accepted best practice, so for many companies the size of the board will mean that some non-executive directors will have to be members of more than one committee.

Example 3:

Which TWO of the following are roles of the internal auditor in the evaluation of the accounting and internal control systems?

- A** Reviewing the design of internal controls
- B** Recommending control system improvements
- C** Reviewing the accuracy of business transactions
- D** Determining overall audit policy

The correct answers are A and B.

Just as an organisation changes over time to accommodate new working methods, the environment in which it operates changes too, resulting in some risks receding while others emerge. It is therefore important that the internal auditor reviews the design of controls and, where appropriate, recommends any changes considered to be necessary.

Another role within internal audit is to conduct substantive tests to ascertain the accuracy or otherwise of business transactions. However, this is not concerned with evaluating the internal control systems themselves, so option C is incorrect.

The overall audit policy is determined by the directors of the organisation. For larger companies the policy will be based on the recommendations of the audit committee to the board of directors, while in smaller companies this may be the responsibility of the board itself if there are no standing committees.

Example 4:

Which of the following is a feature of the forming stage of Tuckman's model of team development?

- A** High dependence on leader for guidance
- B** Team members vie for position as they try to establish themselves
- C** Roles and responsibilities are clear and accepted
- D** The team can stand on its own feet with no interference from the leader

The correct answer is A.

Tuckman's theory proposes that teams advance through various stages of development from when the team is first formed to when they become fully functioning. The four stages identified in the simplest version of the model are forming, storming, norming and performing. In more detailed versions of Tuckman's model, additional stages have been suggested, such as dorming and mourning.

Forming is the initial stage, and the characteristics of the team most associated with its members first coming together is that there will be a high level of dependence on the leader for guidance.

Vying for position as team members seek to establish themselves (option B) is typical of the storming stage, while acceptance of roles and responsibilities (option C) is associated with the norming stage. Performing is the last stage, and it is then that the team can stand on its own feet with no interference from the leader (option D).

Example 5:

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 6:

Which TWO of the following are purposes of the IFAC (IESBA) code of ethics?

- A To enable the development of high moral standards**
- B To indicate a minimum level of acceptable conduct**
- C To ensure that all accountants abide by relevant laws**
- D To enforce accounting standards and regulations**

The correct answers are A and B.

The purpose of the IFAC (IESBA) code is to establish standards of behaviour which are relevant to accountancy professionals, irrespective of the country in which they practice. The code sets down minimum expectations in relation to duties and best practices. As such, it has been used as a benchmark through which professional bodies have formulated their own codes, and in some cases have built on the principles contained therein.

Options C and D are incorrect because the code is not intended to be a compliance document, either in terms of laws and regulations or indeed enforcement of accounting standards. Better prepared candidates would eliminate option D because accounting standards are not supported by the rule of law unless adopted as such in individual countries.

Part B of the examination – multi-task questions:

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

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 to complete a phrase or sentence.

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 examination pose greater difficulty than those in part A of the examination, but for a typical candidate it is likely that the part B questions will take significantly longer to answer than the 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, the statement of profit or loss or the statement of cash flows;
- distinguishing between financial accounting and management accounting roles.

The following topics have caused difficulties for candidates:

Organisations:

Candidates have been quite well-prepared for 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, monopolistic competition 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 slightly more detailed scenarios. Two specific problem areas have been types of unemployment (particularly the differences between structural and frictional unemployment) 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 examination, but some candidates have difficulties in identifying best practices or deficiencies in corporate governance arrangements when presented with scenario questions.

Organisational culture:

Candidates have appeared to understand certain concepts and theories relating to culture, but questions on the theories of Edgar Schein and Geert Hofstede have caused some 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. A common misconception encountered with such questions is that candidates have often incorrectly identified the main purpose of internal audit to be the prevention and detection of fraud.

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 examination, testing many topics but not in as great a detail as examinations subsequently encountered on the ACCA student journey. Candidates should recognise that none of the topics examined in this examination require comprehensive knowledge, and that it is best practice when preparing for the examination to have a general understanding of as many topics as possible. As most candidates have limited time in which to prepare, it is counter-productive to drill down too deeply into some subject areas, to the exclusion of 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 theories and concepts considered to be more complicated, 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. 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 examination, but time management may be an issue for some. A good general rule is to divide the time spent on the two parts of the examination *pro rata*, with 76% of the time spent on part A questions and 24% of the time on part B questions. If well prepared, however, candidates may be able to deal with the examination in 'sweeps', by quickly going through the part A questions on which they are absolutely confident and then investing more of the available time on questions that they find more challenging.

It must be emphasised that this examination never contains trick questions, so quite often thinking too hard and too long about answers initially considered to be incorrect, may be counter-productive.