

SPECIFIC COMMENTS**QUESTION 1**

This question required candidates to assess three proposals for a company facing financial difficulties and discussing the impact of the proposals on the main stakeholders. Part (i) asked candidates to estimate the return the debt holders and the shareholders would receive if the company ceased trading and closed down. Part (ii) asked candidates to estimate the income position and the value of the company in the event of a financial restructure. Part (iii) asked candidates to estimate the additional finance required and the value of the company in the event of a management buy-out. Part (iv) asked the candidates to discuss the impact of each of these proposals on the company's main stakeholder groups. Corporate restructuring and reorganisation, from which the key elements of this question were drawn, is a key area of the syllabus.

Parts (i) and (iv) were generally done well, with many candidates achieving high marks for both parts. In Part (iv) a number of marks were available for discussion of the impact on the stakeholders where it was not necessary to have access to the answers from Parts (ii) and (iii), and many answers handled this part well. In Part (i), most candidates looked at the funds available to the debt holders after redundancy payments. However, a surprising number of candidates ranked the debt holders and shareholders at the same level for any residual repayments, which is not correct.

Parts (ii) and (iii) were done less well. In Part (ii) many candidates did assess the income position but could not then translate that into cash flows and determine an estimate of the value. In Part (iii) there was confusion about how to calculate the additional finance needed and the value of the company, and many answers could not determine the likely size of the reduced operation. A sizable minority of candidates did not attempt Parts (ii) or (iii) or both at all.

QUESTION 2

This question, in Part (a), required candidates to evaluate the value of a project using a base case net present value (NPV) and then consider the impact of financial side effects using adjusted present value (APV). It was also possible to address the question using NPV by making substantial changes to the weighted average cost of capital and discounting the cash flows using this.

However, this was a more complex and less transparent approach compared to APV, which was the preferred method. Part (b) required a discussion of the method used and an explanation of the assumptions made.

Overall the computational aspects of Part (a) were done well with many candidates gaining a high proportion of marks. Common errors occurred in calculating the working capital requirement where many answers got the timing wrong and when calculating the tax shield and value of the subsidy for the APV. In a number of answers candidates thought the tax shield was the discounted interest rate and this is incorrect. Many candidates derived the cost of equity using geared and ungeared betas, whereas using the Modigliani and Miller (MM) formula would have been less time consuming.

The answers which achieved high marks in Part (b) gave a detailed discussion of the method used and explanation of the assumptions made. Weaker answers tried to answer this part in brief note form and these did not gain many marks. Many answers did not discuss the link between APV and MM, which was surprising. Generally this part was not done as well as Part (a).

QUESTION 3

This question was a popular question but performance varied between good and quite poor.

In Part (a) this question required candidates to calculate the number of put options needed to hedge an underlying position, by calculating the hedge ratio using $N(-d1)$. Part (a) also asked candidates to explain the numerical answer. Part (a) was either done well with candidates calculating the delta and then applying it correctly; or it was done poorly where candidates went onto calculating the value of a call and a put option for the given variables, and these were not required. Very few candidates explained the numerical answer. Candidates need to be aware that some question parts may have more than a single requirement and all the requirements need to be addressed correctly in order to achieve full marks.

Part (b) asked candidates to discuss the position held by each manager with respect to risk and the implications of this. Some reasonable points were made but in many cases these lacked depth or substance. An article appeared in *Student Accountant* recently, which looked at why risk should or should not be managed.

QUESTION 4

Part (a) asked candidates to calculate the dividend capacity of a company which received dividends from its international subsidiaries. A proposal was put forward which would change the level of dividends received due to a change in the tax payable (in fact the dividends reduced because more profits were being made by the subsidiary in a high tax country and the higher taxes resulted in lower dividends). Part (b) asked for a comment on the result and the actions the company would need to take if the dividend capacity was not sufficient to pay the desired amount of dividends.

This question was the least popular of the optional Section B questions. It required a logical and systematic approach because a lot was being asked from the candidates especially in answering Part (a) of the question.

Good attempts at Part (a) achieved high marks but sometimes the answers were not appropriately structured and this resulted in mixed-up or jumbled answers. Few appropriate answers were received for Part (b) and mostly these reflected the disorganised approach to Part (a).

QUESTION 5

This question was the most popular and probably the best answered of all the questions on the paper with many candidates gaining a high proportion of the marks for their answers. It asked candidates to consider whether or not a joint venture was the viable option, how the drawbacks of a joint venture could be mitigated and additional information required.

Answers that gained fewer marks did not give many points or lacked adequate discussion because they were in note form. Sometimes points were repeated in various formats and these did not get additional marks. Overall though, many answers gained over half marks and some cases over 70% of the total marks for this question.

**PAPER P5
ADVANCED PERFORMANCE
MANAGEMENT**

I would like to offer my congratulations to all of those candidates who achieved a pass at this diet and my commiserations to those who did not.

The exam paper comprised two sections, A and B. Section A consisted of two compulsory questions for 60 marks in total. Section B consisted of



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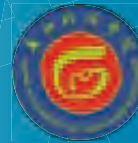
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three optional questions for 20 marks each from which candidates were required to answer two questions.

It was pleasing to see a large number of candidates providing good answers to every question they attempted and consequently achieving high marks.

Sadly, the exam revealed a large number of candidates who were either inadequately prepared or failed to read the question requirements carefully. The performance in this diet was poorer compared to previous diets partly to be due to an inability of some candidates to be flexible in their approach to the exam. As a Professional level paper, candidates cannot expect there to be one standard answer to all questions on a given topic. The exam is intended to make the candidate apply their knowledge to a given scenario and that scenario will always present new challenges.

As in previous diets, in general, candidates are demonstrating good skill at description but are weaker on analysis. This is a lesson that has gone unlearned from previous diets. An example of this was in Question 4(b) where an analysis of a given table of data was required. This is a core skill for any commercially valuable accountant much like being able to read a set of accounts. Therefore, these should be straightforward marks as this skill is building on those tested at previous levels in the ACCA Qualification. It is apparent that many candidates believe that because the basic application of this skill has been tested at a lower level, it is thus excluded from later diets. This is wrong.

At the Professional level, you can expect skills and knowledge obtained at previous levels to be tested but in a more complex and realistic scenario. Candidates should remember that the exam is intended to be a test of their ability to 'add value' in their work. They can demonstrate that ability by doing things that those they are reporting to cannot – picking out the nuggets of gold from the pile of dirt. Thus, good characteristics to develop in the interpretation of questions are the strength of will to maintain focus on the overall objectives, the keen-sight to identify the driving factors of performance and the breadth of knowledge to be able to suggest methods of performance improvement.

Presentation of answers continues to show improvement and more candidates are obtaining higher professional marks as a result. One area that could still be improved is the use of subheadings to

break up long answers and in particular, making sure that question subparts are all clearly indicated. Candidates should also note that bullet point answers often do not give sufficient detail to earn good marks.

As usual, the exam presented a challenge in the efficient use of candidates' time. However, well-prepared candidates found this no issue in providing good, complete answers to all questions. It was noticeable that those candidates who failed to complete all of the questions were ones who did not have a clear grasp of the question requirements and the basic knowledge required. As a result they spent considerable time writing irrelevant or vague answers that gained few marks.

SPECIFIC COMMENTS QUESTION 1

The question requested sections of a report on the identification and linking of critical success factors (CSFs) to key performance indicators (KPIs) and the subsequent impact of these choices on the information systems of a film production company (FP).

In general, answers to requirement (a) were weak with few of candidates gaining maximum marks by ensuring that their example metrics were relevant to FP. The problems were due to a lack of knowledge of the definition of monitoring and building CSFs and a lack of familiarity in using CSFs.

This became more apparent in responses to requirement (b) which was poorly attempted. This part asked for the information used in setting CSFs and then, using their reading of the scenario and general business knowledge, suggestions of suitable CSFs. Many candidates were unable to address this part of the question due to lack of knowledge of the definition of a CSF and devoted their answer purely to KPIs, as a result scoring no marks. Those candidates who read the question requirement and responded to it were quickly rewarded.

Requirement (c) was generally well answered with many candidates getting seven or eight marks out of 10. The best answers were those that used the question requirement to give a methodical structure to their answer. Those candidates who did not score well tended to provide bullet point lists of many KPIs when the question asked for four. Candidates should look at the total marks available for the question part and realise that they are expected

to develop points about each KPI suggested, not simply identify them.

Requirement (d) was generally adequately attempted. The better answers clearly linked the KPIs to changes that would be required in the design and use of the information systems mentioned. Thus, they could demonstrate knowledge of how such systems operate and the use to which the information produced is subsequently put.

There were two professional marks available for this question and these were given under the headings: use of subheadings, professional language and clarity. Candidates should note that they were asked for sections and not the full report. Therefore, the standard report header, introductions and conclusions were not required except as appropriate to each section itself. (No harm was done if these were produced but mostly they wasted time.)

QUESTION 2

This question presented data on a manufacturer (RL) that provided laptops for use in dangerous environments.

In Part (a), candidates were asked to evaluate a traditional costing method with an activity-based costing (ABC) one. Calculations of the result of using both these methods were possible and expected. There were significant variations in the overall quality of answers to this question. Those candidates who could correctly calculate the relevant costs scored well as they could then provide specific evidence for their recommendations about the two methods. Indeed, a good number scored 12 or more marks out of 15. Those who then continued the calculations to consider the main commercial implications of the two methods on the pricing at RL often scored full marks. Sadly, a number of candidates did not appear to know how to use the ABC method which should be considered a basic technique for a management accountant.

In Part (b), candidates were asked to explain a 'beyond budgeting' approach and evaluate its use at RL. This part was generally well attempted although candidates often were sketchy on the details of implementation of this approach. It was pleasing to see many candidates analysing the environment for RL as competitive and innovative and applying these as criteria for judgment about whether the beyond budgeting approach suited the company. This is a good example of making the answer specific to the scenario.

QUESTION 3

This question requested a discussion and evaluation of the use of value-based approaches to performance management at a chain of gift shops (LOL).

Requirement (a) requested an explanation of value-based management (VBM) and how it aids management focus. Candidates often scored a pass but not full marks on this part. There were often lengthy and irrelevant discussions about non-financial factors which suggest incomplete knowledge of VBM.

Requirement (b) asked for an evaluation of LOL's performance using EVA, EPS growth and the share price. It was also typically passed but few candidates scored nine marks or more out of 12. The assessment of the numerical work was often lacking. Candidates infrequently compared the change in share price of LOL to the market and sector performance – which demonstrated that the company was doing well in a falling market. Some candidates could not perform the EVA computation which was surprising as this is a key performance measure and the scenario offered few of the possible technical adjustments. Having performed the calculation of EVA, a significant minority then failed to note that it was positive choosing to focus on the fact that it had fallen from the previous year. This again showed weak understanding of such a key concept.

Requirement (c) was the most difficult part of the question and was generally poorly done, probably as a result of the failure to explain VBM which was illustrated in Part (a).

QUESTION 4

Question 4 is set in a telecommunications company which has set targets for the reduction of its environmental footprint. The question asks for the factors in the business environment that will affect this strategy, an evaluation of its current performance in reaching the target and suggestions

for further data which could measure the effectiveness of certain initiatives mentioned in the question.

Part (a) was generally well done although a number of good candidates ignored the request for illustrative performance indicators.

Part (b) was an analysis of a table of raw data which showed up basic weaknesses in some candidates' skill set. It was well answered by only a minority of candidates.

Many candidates wasted their time by limiting their comments to only writing out lists of statements such as 'Commercial Fleet Diesel use has fallen from 105.4 to 70.1' or even 'Commercial Fleet Diesel use has gone down'. First, this is stating the obvious to anyone who read the table but also, this is far too detailed for most reporting purposes.

An appropriate plan of attack for this part might have been:

- ▣ consider the 'big picture' – whether the overall target for emission reduction be met
- ▣ break down the data into smaller but meaningful (and manageable) chunks – road, rail and air transport, and
- ▣ discuss the individual lines of the data table focusing on the data that explains the overall picture of emission changes, for example, the switch from petrol to diesel powered motor vehicles is complete in commercial vehicles and has led to large reductions in emissions but such a change may be more difficult in company cars as employees may resist such a change.

Good candidates analysed the numerical data given in the scenario. They created information from the data given and provided the reader of their answer with new insight into the key factors driving the reduction in emissions.

Part (c) was often poorly done as a result of the failure to address the requirement which asked for the data to be related to the reduction initiatives mentioned in the scenario. Many

candidates got a mark for general suggestions of further useful data but few related this to the reduction initiatives.

QUESTION 5

The question was about using different models for predicting corporate failure related to a manufacturer of battery packs (RMB).

Part (a) required a general discussion of the strengths and weaknesses of both qualitative and quantitative models. This was generally done well although some candidates tried to structure their answer as the strengths and weaknesses of models in general which would not be a helpful method in real life, where a comparison of the models is likely to be more useful.

Part (b) asked for comments on an analyst's spreadsheet which provided the data and results of a Z-score calculation. Answers to this part were generally good although many candidates restricted their comment on the Z-score to repeating the comment given in the question (RMB is 'at risk of failure within two years') when the data given was requiring a more analytical answer about which factors within the model were driving the score down and so leading to this prediction. A minority of candidates restricted their comments to the company's statements of income and financial position when the question required comment about the spreadsheet data and consequently their answers lacked relevance.

Part (c) asked for the application of qualitative-type models to failure prediction at RMB. This was generally well done with many candidates making good use of the Argenti model and the factors mentioned in the scenario. Unfortunately, some candidates ignored the word 'qualitative' in the requirement and wasted time writing about quantitative factors.

Part (d) was poorly answered with many candidates ignoring the requirement to assess the results of previous answers and only picking up marks for suggesting additional data to gather.

**PAPER P6 (UK)
ADVANCED TAXATION**

There were many very good scripts and it was pleasing to note that the vast majority of candidates attempted all of the parts of four questions. In addition, there was a good amount of answers that were brief and to the point. The most significant issue

IT WAS NOTICEABLE THAT THOSE PAPER P5 CANDIDATES WHO FAILED TO COMPLETE ALL OF THE QUESTIONS WERE ONES WHO DID NOT HAVE A CLEAR GRASP OF THE QUESTION REQUIREMENTS AND THE BASIC KNOWLEDGE REQUIRED. AS A RESULT THEY SPENT CONSIDERABLE TIME WRITING IRRELEVANT OR VAGUE ANSWERS THAT GAINED FEW MARKS.

ON THE WHOLE, THE PERFORMANCE OF CANDIDATES' KNOWLEDGE OF PROFESSIONAL SKILLS FOR QUESTIONS 1 AND 2 WAS GOOD WITH THE MAJORITY OF CANDIDATES PRODUCING CORRECTLY FORMATTED DOCUMENTS IN A STYLE THAT WAS EASY TO FOLLOW. HOWEVER, MANY CANDIDATES FAILED TO MAINTAIN THE CORRECT STYLE OF A DOCUMENT THROUGHOUT THEIR ANSWER.

for weaker candidates was a tendency to address issues that were not asked for, thus wasting valuable time. Many candidates would benefit from thinking more and writing less.

GENERAL PAPER COMMENTS

The exam was divided into Section A and Section B. Section A consisted of two compulsory questions for a total of 66 marks. In Section B candidates were required to answer two of the three questions worth 17 marks each.

In Section B, Questions 3 and 4 were equally popular; Question 5 was the least popular.

Candidates should pay particular attention to the following in order to maximise their chances of success in the exam in the future:

1 Know your stuff

- ▣ Successful candidates are able to demonstrate sufficient, precise knowledge of the UK tax system. For example, it was clear that many weaker candidates did not know the conditions that needed to be satisfied in order for capital gains tax reliefs to be available in Question 4 or the precise rules regarding the remittance basis in Question 2.
- ▣ This knowledge must be up to date. Candidates sitting the exam in 2011 must familiarise themselves with the changes introduced by the recent Finance Acts as summarised in the Finance Act articles published in *Student Accountant* and on the ACCA website.

2 Practise questions from past exams with the aim of adopting the style of the model answers

3 Address the requirement

- ▣ Read the requirement carefully – in the Section A questions the detailed tasks that you are to perform will be set out in one of the documents. It may be helpful to tick off the tasks as you address them. Marks are awarded for satisfying the requirements and not for other information even if it is technically correct.

- ▣ The requirements of each question are carefully worded in order to provide you with guidance as regards the style and content of your answers. You should note the command words (calculate, explain, etc), any matters which are not to be covered, and the precise issues you have been asked to address.
- ▣ You should also note any guidance given in the question regarding the approach you should take when answering the question.
- ▣ Pay attention to the number of marks available – this provides you with a clear indication of the amount of time you should spend on each question part.

4 Don't provide general explanations or long introductions

- ▣ If you are asked to calculate, there is no need to explain what you are going to do before you do it; only provide explanations when you are asked to.
- ▣ Think before you write. Then write whatever is necessary to satisfy the requirement.
- ▣ Apply your knowledge to the facts by reference to the requirement.

5 Think before you start and manage your time

- ▣ Ensure that you allow the correct amount of time for each question.
- ▣ Think about the issues before you start and identify a strategy to solve the problem set. If you are preparing to resit the exam, think about the number of additional marks you need and identify a strategy to earn them. For example:
 - Identify those areas of the syllabus where you are weakest and work to improve your knowledge in those areas.
 - Ask yourself whether you could improve the way you manage your time in the exam and whether you address all of the parts of all four questions or whether you waste time addressing issues which have not been asked for.
 - Make sure that you earn the professional skills marks and that you are prepared to address the ethical issues that may be examined.

MARKS AVAILABLE IN RESPECT OF PROFESSIONAL SKILLS

Marks were available for professional skills in Questions 1 and 2. In order to earn these marks candidates first had to satisfy the requirement in relation to the format of the document requested. Further marks were then available for providing clear explanations and coherent calculations.

On the whole, the performance of candidates in this area was good with the majority of candidates producing correctly formatted documents in a style that was easy to follow. However, many candidates failed to maintain the correct style of a document throughout their answer such that, for example, the letters written in response to Question 2 often referred to the client correctly as 'you' to begin with but then reverted to using the client's name later in the answer.

SPECIFIC COMMENTS QUESTION 1

Question 1 was a substantial question in two parts. Part (a) required candidates to write a report concerning a number of issues relating to a group of companies. Part (b) required a summary of the information to be obtained and the action that needs to be taken before becoming tax advisers to a new client.

Part (a) was in three parts and, on the whole, was done well by many candidates. The vast majority of candidates prepared their answer in the correct report format although a minority wasted time producing a long and unnecessary introduction.

Part (i) required candidates to explain the alternative reliefs available in respect of a company's trading losses, the tax treatment of a loss arising on the sale of a company and the upper and lower limits for all of the companies for the purposes of calculating the rate of corporation tax.

Candidates' knowledge of the reliefs available in respect of trading losses was often very good but many let themselves down by addressing the issue in the abstract rather than in relation to the companies in the question. This resulted in detailed

explanations of reliefs that were simply not applicable (in particular the offset of losses against current and previous years' profits) such that candidates than had too little time to explain the relevant points properly.

As always, candidates benefited if they paused to allow themselves to identify the issues within the question. There was to be a change of ownership of the loss making company and an apparent major change in the manner in which it would carry on its activities going forward. Accordingly, it is likely that it would be unable to carry forward its losses beyond the date of the change of ownership. There were also arrangements in force for the company to be sold such that it would leave the group relief group prior to the legal transfer of the shares. Many candidates spotted both of these points but those that did not need to think about how they would do things differently such that they would spot them in the future. Finally, a surprising number of candidates thought, incorrectly, that Knuckle Ltd was a member of the group relief group.

The capital loss on the sale of the company was not available for offset due to the substantial shareholding exemption. Somewhat surprisingly, many candidates missed this and, of those that spotted the point, many thought that whilst a gain would not be subject to tax, a loss would still be allowable.

For the final element of this part of the question candidates were asked to explain the upper and lower limits of the companies. Many candidates simply stated the number of associates and the consequent limits; but that was not an explanation. What was needed were the reasons for the limits being what they were including references to the companies being controlled by the same person and the effect of companies joining and leaving the group. The limits were not the same for each of the companies. Candidates needed to consider each of the companies and apply their knowledge of the rules to that company's particular circumstances.

Part (ii) concerned the planned disposal of a number of buildings. The capital gains were reasonably straightforward with just an added complication of a gain rolled over into the cost of one of the buildings. However, many candidates missed the fact that one of the buildings would be transferred at no gain, no loss as

the vendor and the purchaser were in a capital gains group. Others made errors in connection with the indexation allowance (increasing a capital loss with indexation or applying the indexation factor to the unindexed gain rather than the cost) and the treatment of the held over gain. There was a sense here that some candidates had switched off in that some of the errors were very basic and were perhaps an indication of not paying sufficient attention as opposed to a lack of knowledge.

Candidates were told in the question that there was a pre-entry element to the capital loss arising on the sale of one of the buildings. The calculation of the pre-entry element was done reasonably well by many candidates but only a small minority had a clear understanding of the manner in which the pre-entry element could be used.

A minority of candidates wasted time on this part of the question explaining, often in some detail, how the gains and losses should be offset. This was not part of the requirements and there was insufficient information in the question to arrive at sensible conclusions. Candidates will always benefit from taking the time to read each requirement carefully and then taking care not to deviate from the tasks set.

The VAT and stamp duty land tax elements were handled well by many candidates. Those who did not do so well need to apply their knowledge to the facts as opposed to simply writing what they know. For example, the prices at which the buildings were to be sold meant that, where duty was payable, the rate would be 3%. Yet some candidates answered in the abstract and gave the various rates of duty for all possible prices that could be charged. Only a small number of candidates considered the possibility of there being a VAT group; slightly more identified that there would be no stamp duty land tax on the property transferred within the group.

Part (iii) concerned the VAT implications of selling goods overseas. There were many excellent answers to this part that, whilst being brief, often scored almost full marks. Weaker candidates either had not learned the rules or confused their terminology using the phrase 'no VAT will be charged' as opposed to 'zero rated'; the two terms do not mean the same thing.

The majority of candidates scored well in Part (b). Many took the sensible approach of starting the question with this part in order to ensure that they had sufficient time available to prepare

an appropriate answer. A minority had not taken the time to learn this area of the syllabus with the result that they were unable to obtain some very straightforward marks.

QUESTION 2

Question 2 concerned the taxation of individuals and was in two parts.

Part (i) concerned inheritance tax and, in particular, the relevance of domicile to an individual's tax position. The level of knowledge here was good with some very strong, thorough answers. However, many candidates who scored well for this part of the question often did so in an inefficient manner which may have left them short of time for the remainder of the exam. As always, there was a need to pause; this time in order to determine the best way to say what needed to be said. Weaker candidates simply kept writing, often repeating themselves, until they finally got to where they wanted to be. Stronger candidates wrote short, precise phrases which earned all of the marks despite using very few words. Candidates should practise explaining areas of taxation making sure that their explanations are concise and clear.

There was a need to address the position of both the mother and the daughter but many candidates simply addressed 'inheritance tax' rather than the situation of the individuals. Candidates will be more successful in the exam if they think in terms of providing advice to individuals and companies rather than addressing technical issues as this will help them to stick to the point and to satisfy the questions' requirements.

A substantial minority of candidates produced muddled explanations confusing the importance of domicile with residence and ordinary residence. This confusion was also evident in answers to Part (ii). The three factors of residence, ordinary residence and domicile all have various implications depending on the taxes concerned and candidates need to know where to start such that they can then avoid writing about all of the factors at once.

A somewhat surprising error, made by a significant minority of candidates, was to state that the inheritance tax position on the death of Sushi's mother depended on the domicile status of Sushi as opposed to that of her mother. It is, of course, the status of the person whose estate has fallen in value that is relevant.

A final comment on this part of the

question is that many candidates wasted time calculating inheritance tax, despite not having sufficient information, whilst others provided a considerable amount of detail regarding the taxation implications of making a potentially exempt transfer, despite being specifically told not to in the question.

Part (ii) concerned overseas income and the remittance basis. The performance of candidates for this part was mixed. To begin with there was much confusion regarding the conditions that must be satisfied in order for the remittance basis to be available with candidates mixing up domicile, residence and ordinary residence with the seven out of nine years rule (and the 17 out of 20 years rule in respect of inheritance tax deemed domicile). The application of the £2,000 rule was also misunderstood by many. There is no doubt that there is plenty to be confused about in this area but that is why candidates need to learn it rather than acquire a hopeful understanding of it.

Candidates were asked to explain the meaning of 'remittance' and the 'remittance basis'. Most candidates attempted to do this, which was very encouraging, but few had much knowledge beyond the absolute basics. Similarly, most candidates were aware of the £30,000 remittance basis charge but a significant number were confused as to the situation in which the charge would be levied.

On the plus side, the vast majority of candidates provided a conclusion (as requested) and many produced neat and reasonably accurate calculations.

QUESTION 3

This question concerned the purchase by a company of its own shares and the provision of a benefit to a shareholder in a close company. It was in three parts.

Part (a) required candidates to explain whether two of the conditions necessary to enable the amount received to be treated as capital were satisfied. Many candidates answered this part well but others, with similar knowledge levels, did not perform well because they failed to answer the question. Rather than addressing the two particular conditions set out in the question, this latter group attempted to address all of the conditions despite the majority of them being irrelevant.

Candidates had a good knowledge of the five-year rule and the 30% rule but were much less comfortable with the condition relating to the shareholder's interest in the company following

the purchase. The rules require the shareholder's interest to be no more than 75% of the interest prior to the purchase – this is not the same as the shareholder selling 25% of his shares because the shares sold are cancelled thus reducing the number of issued shares.

Only a minority of candidates were aware that the ownership period of the husband could be added to that of the wife. Even fewer knew that the usual five-year ownership period is reduced to three where the shares are inherited.

Part (b) required calculations of the after tax proceeds depending on the tax treatment of the sum received. This part was answered well by the vast majority of candidates. The only point that many candidates missed was the availability of entrepreneurs' relief. It was particularly pleasing to see the majority of candidates correctly identify the after tax proceeds as the amount received less the tax liability (as opposed to the taxable amount less the tax liability).

The final part of the question was more difficult and, unsurprisingly, caused more problems. The question concerned the loan of a motorcycle to a shareholder in a close company who was not an employee. Candidates had no problem recognising that the company was a close company but many then decided that this was a loan to a participator as opposed to the loan of an asset.

Another relatively common error was to state, correctly, that the benefit would be treated as a distribution but to then give an incorrect tax rate of 40%. Candidates would benefit from slowing down and ensuring that they apply their basic tax knowledge correctly in the exam.

QUESTION 4

This question concerned the capital gains tax and inheritance tax implications of the destruction of an asset and the exchange of assets between two individuals together with the penalties that may be charged in respect of an error in a tax return. The question was in three parts.

Part (a) required candidates to consider both the capital gains tax and inheritance tax implications of the destruction of an asset and the exchange of one asset for another. This required some clear thinking as to who was disposing of what together with the ability not to confuse the two capital taxes. This part of the question was answered reasonably well by many

candidates. However, some candidates would have benefited from addressing each of the taxes separately under clear headings as this would have helped them to organise their thoughts and prevent confusion.

The calculations of the capital gains were done well as were the implications of the potentially exempt transfer. However, the deferral of the gain on the asset destroyed was usually dealt with, incorrectly, by reference to business asset rollover relief.

The reliefs available in respect of capital gains involve a fairly tricky bunch of rules and definitions. Candidates would be well advised to learn the conditions that must be satisfied in order for each of the reliefs to be available.

Part (b) was very small but still required thought; it involved the disposal of a boat. For one of the two available marks candidates simply had to state that a boat is an exempt asset for the purposes of capital gains tax. However, the vast majority did not pause for thought and instead talked about the capital loss that would occur on disposal.

The final part of the question tested candidates' knowledge of the penalties that may be charged in respect of an error in a tax return. This is a current issue as the rules have changed recently but a minority of candidates were not aware of the new rules. Candidates should ensure that they keep up to date with the changes to the tax system and that they read the Finance Act articles published in *Student Accountant*.

QUESTION 5

This question concerned VAT, and in particular partial exemption, together with the rules relating to personal service companies. It was in three parts.

Part (a) required candidates to determine the cost of buying in services from three possible suppliers. Candidates were told that the purchasing company was partially exempt for the purposes of VAT and the vast majority realised that the key to the question was the impact of irrecoverable VAT on the cost.

There were minor errors in determining the percentage of input tax that could be recovered involving the need to include the zero rated supplies on the top and bottom of the fraction and also the requirement to round up the fraction to the nearest whole percentage; more care here could have earned some candidates an extra mark.

A more common error was a failure to realise that the purchasing company would need to account for output tax on the purchase of the services from overseas thus increasing the cost by the amount of irrecoverable VAT. Having said that, this was a tricky point and it was very pleasing that a large number of candidates identified this issue.

The calculation of the maximum salary that could be paid such that the total cost would be no more than the cheapest service provider was done well with the majority of candidates identifying the need to include employer's National Insurance contributions in their calculations.

Part (b) required three examples of specific contractual arrangements that would indicate an employer/employee relationship. This was a simple test of knowledge and was done well by most candidates. Having said that, candidates were asked to give examples that related to the facts of this particular question as opposed to the first three that they thought of; the question made it clear that a fixed fee would be paid for the work so it was not appropriate to write about the payment of holiday pay or sick pay.

The final part of the question was more difficult. It required candidates to recognise that the personal service company rules would apply and to explain the implications for the various parties. Candidates' performance here was mixed. Many candidates identified that the issue related to personal service companies but got confused as to which of the companies would be regarded as making the deemed salary payment. Weaker candidates assumed that the question was still about VAT and repeated matters already covered in Part (a).

PAPER P7 ADVANCED AUDIT AND ASSURANCE

The December 2010 Paper P7 exam covered many important syllabus areas, most of which had been tested in some capacity at previous sittings. It was, therefore, unsatisfactory to see very little improvement in candidates' performance as a whole. Of course, some candidates did very well, and there were some scripts displaying first-rate analytical and application skills. But the majority of scripts unfortunately failed to demonstrate sufficient knowledge or higher professional skills to achieve a pass mark.

The exam comprised two compulsory questions in Section A, and three questions in Section B of which two should be attempted. Both Section A questions were based on detailed scenarios, and contained several requirements covering different syllabus areas.

Each optional 20-mark question in Section B included a short scenario, and several requirements. Of the Section B questions, Question 4 was by far the most popular, and Question 5 the least popular.

The same factors as detailed in previous examiner's reports continue to contribute to the disappointing pass rate:

- ❑ failing to answer the specific question requirements
- ❑ not applying knowledge to question scenarios
- ❑ making too few comments given the mark allocation of a requirement
- ❑ lack of knowledge on certain syllabus areas
- ❑ illegible handwriting.

The rest of this report contains a discussion of each question, highlighting the requirements that were answered well, and the areas that need improvement.

SPECIFIC COMMENTS QUESTION 1

This question was for 32 marks, and involved a new audit engagement, with the candidate placed in the position of the audit manager. Requirements involved a business risk evaluation, identification and explanation of relevant financial statement risks, and audit procedures relating to a brand name.

On the whole, candidates seemed to like this question, especially the business risk evaluation. However, many candidates failed to answer the specific question requirements, thereby denying themselves of marks.

Requirement (a) asked for an evaluation of business risks, for 15 marks. The audit client operated in the retail industry and had recently initiated several strategies aimed at expansion, including e-commerce. It was clear that most candidates were prepared for this type of requirement, and on the whole performed well. Answers tended to display reasonable application skills, with some candidates prioritising the risks identified, and reaching an overall conclusion. There was much less evidence here of 'knowledge-dumping' than in answers to other requirements. Some answers worked through the scenario, and for each risk identified explained the potential impact on the business. Some answers also made connections between different aspects of the client's business, for example, that joining the Fair Trade Initiative would have cost repercussions at a time when profit margins were reducing.

However, answers still left a lot of room for improvement. Common weaknesses in answers to the requirement included:

- ❑ Repeating large chunks of text from the scenario with no explanation provided.
- ❑ Not actually explaining or evaluating a risk identified – just saying 'this is a risk'.
- ❑ Providing detailed definitions of business risk, which was not asked for.
- ❑ Providing audit procedures for risks, again not asked for.
- ❑ Providing recommendations for mitigating the risk, not asked for.

There was far too much emphasis on going concern risk, often raised indiscriminately for every risk area identified.

In addition, it is worth noting that very few candidates used the figures provided in the scenario to identify risk exposure. The client's revenue and profit had fallen from the previous year, and some simple financial analysis

PAPER P7 CANDIDATES ARE REMINDED THAT THEY MUST ANSWER THE SPECIFIC QUESTION REQUIREMENT, AND NOT THE REQUIREMENT THEY WOULD LIKE TO HAVE BEEN ASKED. A MINORITY OF CANDIDATES PROVIDED MANY PAGES OF DETAILED ANSWER WHICH DESCRIBED HOW YOU WOULD PLAN AN AUDIT IN GENERAL. ALL OF THIS WAS TOTALLY IRRELEVANT, AND FAILED TO GENERATE ANY MARKS.

PAPER P7 QUESTION 1 CANDIDATES ARE REMINDED THAT AUDIT PROCEDURES MUST BE TAILORED TO THE FACTS OF THE SCENARIO PROVIDED AND MUST BE SUFFICIENTLY DETAILED TO MAKE SENSE. 'GET MANAGEMENT REP', 'DISCUSS WITH MANAGEMENT' AND 'REVIEW COST' ARE EXAMPLES OF MEANINGLESS 'PROCEDURES' WHICH EARN NO CREDIT WITHOUT FURTHER DEVELOPMENT.

could have revealed falling profit margins and worsening interest cover. This type of analysis is not difficult or time consuming, and is something that demonstrates mark-generating application skills.

Finally, some candidates simply failed to answer the question requirement. A minority of candidates took the opportunity to provide many pages of answer which just described how you would plan an audit in general, including descriptions of contacting the previous auditor, determining materiality levels, and meeting the client to discuss the engagement. All of this was totally irrelevant, and failed to generate any marks. Candidates are reminded that they must answer the specific question requirement, and not the requirement they would like to have been asked.

There were two professional marks available in connection with requirement (a). Most candidates attempted the briefing notes format by including an appropriate heading and introduction. It seemed that by the end of their answer however, candidates had forgotten about the professional marks, as it was rare to see a conclusion provided on the business risk evaluation. Candidates are reminded that resources are available on ACCA's website providing guidance on the importance of professional marks.

Requirement (b) was for 10 marks, and asked candidates to identify and explain five financial statement risks from the scenario. The quality of answers to this requirement was unsatisfactory. The minority of candidates who scored well on this requirement provided a succinct explanation of the financial statement risk, clearly stating the potential impact of the risk identified on the financial statements. Some answers, which were by far the majority, tended to just outline an accounting treatment with no mention of the actual risk itself. Another common weakness was to discuss the detection risk which may arise with a new audit client, which is not a financial statement

risk. Given that financial statement risks have featured in several previous exams it was somewhat surprising that the majority of candidates could not provide a satisfactory answer, especially when requirement (a) had asked for a business risk evaluation, which should then lead into the identification of financial statement risks as part of audit methodology.

Some candidates used the financial information provided to identify financial statement risks, rarely with any success. Common statements of this type were along the lines of 'revenue is reduced, so there is a risk of understatement'.

Finally, there was a tendency for candidates to provide more than the required number of financial statement risks, which is clearly a waste of time.

Requirement (c) asked candidates to recommend principal audit procedures in relation to the valuation of a purchased brand name, which was recognised at cost in the financial statements. Some candidates scored well here, providing well-written procedures specific to the valuation of an intangible asset. Some answers recognised that procedures should focus on determining whether or not the brand was impaired and whether the non-amortisation policy was appropriate. The most common errors here included:

- ▣ Misreading the scenario and thinking the brand was internally generated (the scenario clearly stated that the brand had been purchased several years ago).
- ▣ Misreading the scenario and thinking the brand was amortised (the scenario clearly states it is not amortised).
- ▣ Providing detailed explanations of the requirements of IAS 38 Intangible Assets (not asked for).
- ▣ Misreading the scenario or requirement and discussing procedures or accounting treatments for goodwill arising on a business combination.

There were a lot of standard tests provided which did not fit the scenario, like checking management calculations on amortisation, and checking the qualifications of the valuer.

Candidates are reminded that audit procedures must be tailored to the facts of the scenario provided and must be sufficiently detailed to make sense. 'Get management rep', 'discuss with management' and 'review cost' are examples of meaningless 'procedures' which earn no credit without further development. In addition, there were many instances where candidates were obviously trying to generate procedures using a list of words as a prompt. For example 'observe the asset' or 'inquire about the asset'. Candidates must think carefully and not just use words as a prompt if they make no sense. Candidates are encouraged to read the examiner's article on exam technique in answering questions on audit procedures, published in September 2009 and available on ACCA's website.

Overall, Question 1 and requirement (a) in particular was reasonably answered by a large proportion of candidates. However, answers to requirement (b) were unsatisfactory.

QUESTION 2

Question 2 was for 28 marks, and featured an assurance engagement for an existing audit client. Both the audit firm and the client were global enterprises, and the client was listed on several stock exchanges. Candidates responded reasonably well to parts of this question, though many answers did not reach their full potential by not being applied to the question scenario.

Requirement (a), for 12 marks, asked candidates to identify and explain the matters that should be considered in evaluating whether the audit firm should perform an assurance engagement on the client's Sustainability Report. It was clear that most candidates knew the matters that should be considered (ethical constraints, resources, knowledge, timescale, fees etc), and most candidates took the right approach to the question, by working through the various 'matters' and applying them to the question. The fact that this was not an audit engagement did not seem to faze candidates, and there were many sound answers to this requirement. Some answers evaluated the many ethical problems with taking on the assurance engagement as well as providing the audit for 'a major client', and appreciated that with only four

weeks to complete the work, it would probably be impossible to ensure quality work could be performed on a global scale to such a tight deadline by an inexperienced team.

Some answers also picked up on the fact that the client's listed status would probably prevent the audit firm from conducting the assurance engagement, and certainly the situation would need to be discussed with, and approved by the audit committee.

However, some answers were much too brief for the 12 marks available, amounting to little more than a bullet point list of matters to be considered but with no application to the scenario. Without application it was not possible to pass this requirement. Other common mistakes included:

- ❑ Ignoring the fact that the client was already an existing audit client, so discussing the need to contact its auditors for information.
- ❑ Not reading the question and thinking that you had been approached to perform the audit.
- ❑ Only discussing the potential problems and not identifying the benefits of providing the service (eg it would provide experience for the newly established assurance team).
- ❑ Ignoring information given in the question (eg saying that the firm would need to ask about the use of the assurance report – when the question clearly states that it would be published in the annual report with the financial statements).

Requirement (b) asked for procedures that could be used to verify two key performance indicators (KPIs) – the number of serious accidents in the workplace, and the average annual spend on training per employee. A fair proportion of answers were sound, with precise procedures recommended.

But, many recommended procedures relied too much on observation and enquiry, and ignored the fact that the client was a global company with 300,000 employees which led to some bizarre and meaningless procedures being given, such as 'observe a serious accident', 'inspect the location of a serious accident', 'ask how much is spent on training', and 'look at the training room to see how many chairs are there'. None of these could verify the KPIs and are pointless.

Requirement (c) focused on other information published with financial statements. In the scenario an inconsistency had been discovered

between a figure relating to charitable donations which had been stated at \$9m in a note to the financial statements, and \$10.5m in the Chairman's Statement and Sustainability Report.

The requirement, for eight marks, was to explain the auditor's responsibility, and to recommend actions to be taken.

This requirement was inadequately attempted overall. Answers were usually extremely brief, and it was clear that most candidates did not know the requirements of ISA 720, *The Auditor's Responsibilities in Relation to Other Information in Documents Containing Audited Financial Statements*. Most answers took a guess that the matter would need to be discussed with management, and that if unresolved there would be some kind of impact on the auditor's report (an 'except for' opinion was the usual recommendation). But few could say more than this about the issue. Some candidates assumed that some kind of money laundering was taking place, leading to irrelevant discussions of reporting the situation to outside authorities. Very few candidates recognised that if uncorrected, the issue should be included in an Other Matter paragraph, as required by ISA 720. This could imply a lack of knowledge, or that some candidates are studying from out of date learning materials.

Finally, there were two professional marks available for requirement (c). The majority of candidates attempted to achieve these marks by using an appropriate format. However, a significant minority incorrectly thought that the professional marks were attached to requirement (a).

QUESTION 3

This was a 'traditional' question asking candidates for the matters that they would consider, and the evidence they should expect to find when reviewing working papers in relation to three separate issues relating to the same audit client. The client was a leading leisure travel provider with 10 million customers a year. It was pleasing to see many candidates perform well on this question, with requirement (a) producing a number of sound answers. On the whole, candidates performed better on the evidence part of the question than seen in previous sittings, which is obviously encouraging.

Requirement (a), for eight marks, described a legal claim which had been made against the client by a group of customers. No provision had been made, and the client's management justified

this on the grounds that the amount would be covered by insurance. Almost all candidates were able to generate marks by calculating the materiality of the amount, and describing the basic accounting treatment for provisions. Fewer went on to discuss the potential impact of the insurance cover, and some answers drifted into a discussion of going concern and other business risks.

Some candidates mistakenly thought that the event happened after the year-end, and others thought that the airline 'belonged' to the client. Surprisingly, only a minority of candidates picked up on the fact that management would not want to recognise the provision due to a bonus being based on profit before tax of the company.

Audit procedures were often inadequately focused, with no regard to the scale of the issue. Although most suggested looking at legal documents, candidates rarely mentioned looking at the group claim document. Some candidates proposed lots of very detailed tests on the validity of individual claims, such as checking hotel bills and airline tickets.

Requirement (b), for seven marks, dealt with a business segment which had seen significant reductions in revenue and profit. This part of the question was not dealt with well. Very few candidates recognised that the business segment represented a cash generating unit that required an impairment test. Most picked up a mark by calculating materiality, but then could only discuss the fact that the internally generated brand name was correctly not recognised in the financial statements. Even those candidates that did pick up on the impairment issue could rarely provide evidence points other than 'check the value of the assets' (too vague) or 'inspect the assets' (irrelevant, and ignoring the fact that the assets in question are cruise liners in operation so very unlikely to be conveniently located near the auditor). Many candidates could only provide evidence points on the brand name, even though was not recognised in the financial statements at all, leading to pointless procedures such as 'inspect the brand name in the register', 'observe the operation of the brand name' and 'check the value of the brand name'.

Requirement (c), for five marks, concerned a post year-end acquisition, which should have been disclosed in the notes to the financial statements. Many candidates correctly discussed the issue, and provided sensible evidence

points concerning the verification of the date that control of the new subsidiary passed to the client, and the scale of its operations.

Unfortunately, many candidates wanted to see the new subsidiary consolidated, even though it had clearly been purchased after the end of the reporting period. At the other end of the spectrum, some candidates suggested that as the event happened after the year end, the auditor need not perform any procedures at all. Both of these approaches totally missed the point of the scenario, and indicate that candidates must take time to think about the information that has been presented to them before rushing to write their answer.

QUESTION 4

This was the most popular of the optional questions, and focused on ethics and practice management. It was very pleasing to see many candidates achieve a clear pass on both (a) and (b).

Requirement (ai) asked candidates to critically evaluate a proposed advertisement to be placed in a national newspaper, for eight marks. This was probably the best answered requirement of the whole paper, with many achieving a clear pass, and quite a few maximum marks were awarded. The few unsatisfactory answers tended to simply repeat extracts from the advertisement and say 'this is unprofessional'.

Requirement (a ii) asked candidates to evaluate whether a corporate finance service could be offered to clients, for five marks. This was not well answered. While most candidates could state obvious issues, like whether one person would be enough to provide the service, unfortunately very few clearly distinguished between audit and non-audit clients, which was a key issue, as the scenario clearly stated that only one third of the audit firm's clients were audit clients. Few dealt with the issue of the contingent fee in enough detail, with answers usually saying that it was 'unprofessional' but not elaborating further.

Requirement (b) dealt with the ethical problems raised by long association of audit firms and their clients. For seven marks, candidates were asked to explain the ethical threats, and to evaluate

the advantages and disadvantages of compulsory firm rotation. On the whole, this was well answered. Most candidates could identify and explain to some extent the various ethical threats posed by long association, with the familiarity threat being the most common to be discussed. The advantages and disadvantages were often dealt with reasonably well, though a lot of answers were just bullet point lists with no real evaluation provided at all. For many candidates this was the last requirement attempted, so the brevity of answers was probably linked to time management in the exam.

QUESTION 5

This was by far the least popular of the optional questions, focusing on audit reports, and reporting on internal control deficiencies.

Requirement (ai), for 10 marks, asked for a critical appraisal of a draft audit report, in which a disclaimer of opinion had been given, following a management imposed limitation in scope resulting in a lack of evidence with regard to research and development costs. Some answers were sound, and worked through the audit report, explaining its deficiencies in a logical manner. Some answers appreciated that the disclaimer of opinion may be an over-reaction, and that a qualification may be more suitable. Other points raised in some answers concerned the inappropriate wording of the audit report, the reference to management lack of integrity, and the fact that the matter had not been quantified, making it difficult for users of the report to gauge the significance of the matter. Almost all candidates correctly determined the materiality of the matter.

Unsatisfactory answers, which were by far the majority, tended not to appraise the audit report at all, and instead provided lengthy explanations of the accounting treatment for research and development, but completely missed the point that the auditor was unable to verify if the correct accounting treatment had been applied. Some blamed the audit team, rather than the client, for the lack of evidence, and suggested that the whole audit be re-performed.

Requirement (a ii) continued the

theme of (ai), asking for matters that should be considered and further actions that should be taken by the auditor, in light of the limitation in scope. Most candidates suggested that the limitation in scope and its potential impact on the audit report be taken to audit committee or those charged with governance for discussion, and many also raised management integrity as an issue. Some candidates tended to repeat what they had written for (ai) without further development.

Requirement (b) focused on the new requirements of the Clarified ISAs in relation to reporting internal control deficiencies to management and those charged with governance. A brief scenario was provided, outlining internal control deficiencies discovered during the audit of trade payables, and candidates were asked the further actions they would take, and to outline any reporting requirements. This was reasonably well attempted, with most answers referring to management letter points, and making recommendations for improving controls to the client. However, there were very few references to ISA 265, and only a handful of answers discussed the importance of determining whether a deficiency is significant or not.

Overall, answers to Question 5 were unsatisfactory, given that audit reports is a regularly examined syllabus area.

CONCLUSION

As seen in previous sittings, what makes the difference between a pass and a fail script is usually the level of application skills which have been demonstrated. Candidates who answer the specific question requirement, and tailor their answers to the scenarios provided are likely to do well.

A significant proportion of candidates continue to produce answers that are simply too vague or too brief, do not actually answer the question requirements, and display inadequate technical knowledge of the Clarified ISAs. These candidates are encouraged to improve their exam technique as well as knowledge of the syllabus by practising as many past exam questions as possible, using up-to-date study materials, and by taking on board the comments made in examiner's articles and reports.

IT SHOULD BE NOTED THAT PAPER P7 CANDIDATES WHO ANSWER THE SPECIFIC QUESTION REQUIREMENT, AND TAILOR THEIR ANSWERS TO THE SCENARIOS PROVIDED ARE LIKELY TO DO WELL.

CAT FEEDBACK

PAPER 3 MAINTAINING FINANCIAL RECORDS

The exam comprised two sections: 20 compulsory multiple-choice questions of two marks each in Section A, and four compulsory questions of 15 marks each in Section B. Around 2/3 of the marks were for computation and 1/3 of the marks required a discursive response.

There were few candidates who did not attempt all 24 questions, which suggests that the advice to prepare across the whole syllabus, which has been regularly repeated in previous reports, has been heeded by many candidates.

In Section B, a number of very good answers were provided. In each of the four questions in this section, there were candidates who obtained full marks. Some candidates presented extremely good scripts, scoring marks of 90% or more and a small number of candidates scored 100%. Such performance is commendable, and these candidates have a very strong foundation for their further studies.

It is disappointing to note that some candidates continue to struggle with the sections of the syllabus which focus on theoretical topics as tested in Question 1 of Section B of the paper. However, there was a further reduction in the number of such candidates. This reinforces the evidence referred to above that preparation across the whole syllabus is undertaken by a growing number of candidates.

Candidates in future sittings should take note of this point.

The most prevalent reasons for some candidates obtaining low marks remains as in previous sittings, ie studying only a few selected topics, not reading the question carefully enough, or a lack of structure in the approach to answering questions.

Although no marks are awarded for calculations and workings in Section A, the correlation between a careful and structured approach (which the existence of calculations and workings indicates) and high marks has been noted at previous sittings. Therefore, it remains a surprise that a considerable number of scripts contain no calculations or workings. It is often that case that such scripts do not obtain good marks.

The importance of this approach is even greater in Section B, where it is almost impossible to score good marks unless calculations are carefully laid out and clearly annotated. This was

particularly the case in Question 4. Furthermore, a structured, annotated script allows the marker to see clearly if the candidate's approach to calculations is correct, allowing marks to be awarded for process, even if some errors have been made.

SPECIFIC COMMENTS QUESTION 1

There were five subparts to this question, worth between two and four marks.

Overall, answers were of varying quality. Some very good answers were presented to all parts, but fewer of these related to Parts (d) and (e). There were two main reasons that some answers did not score good marks. The first was that the material presented was, quite simply, incorrect. The second was that, although the material was correct, it was not valid, given the specific requirement of the question. These issues are discussed in more detail below.

PART (A)

All that was required to obtain the marks in this part of the question was simple statements of two reasons for the creation of a suspense account. Many candidates were able to identify valid reasons.

However, some answers were not sufficiently clear to be awarded marks. Perhaps the most common example of this was a statement that a suspense account was used to correct errors in posting. As not all errors will require the use of a suspense account, marks could only be awarded to answers which demonstrated awareness that errors leading to an imbalance in the trial balance gave rise to the need for a suspense account.

A common example of an answer that is correct, but is not valid as it does not answer the question was for an answer to note that a suspense account was a temporary account which should be cleared before final accounts are prepared.

PART (B)

This part of the question was answered very well by a number of candidates, but it also provided a further example of material that is correct, but cannot be awarded marks as it does not answer the question. Such answers noted that the most common methods of calculating depreciation are straight line and reducing balance. In some cases, answers then went on to describe

these methods. Often these were good descriptions, but they simply did not answer the question.

The most common inaccuracy was included in answers which argued that depreciation is a means of reflecting the value of non-current assets, and that land is not depreciated as it increases in value.

PART (C)

This part sought to test the ability of candidates to apply the accounting equation. However, to answer it correctly the question needed to be read carefully. A disappointing number of candidates ignored the fact that the goods were sold on credit and that the sale generated a profit. The fact that a profit was generated should have clearly indicated that capital would increase. Furthermore, as nothing relating to the transaction affected liabilities, it should have been apparent that there would be no change to that value. Therefore, a basic knowledge of the accounting equation would lead to the conclusion that assets must have increased in line with capital. This could be confirmed by noting that the goods were sold on credit – thus inventory was reduced and receivables increased. If the sale had been made at cost, these changes would have cancelled each other out, but as the sale generated a profit, the selling price (the increase in receivables) exceeded cost (the reduction in inventory), meaning that assets increased.

PART (D)

The fact that this part of the question related to one of the principles of accounting meant that it was probably the most technical aspect of the entire paper. The fact that many candidates do not seem to have acquired a basic knowledge of such theoretical aspects meant that it was probably the most difficult. However, those candidates who understood a few basic points were able to score good marks. The technical nature of the question and the related difficulty were offset by the fact that, by simply describing the principle of prudence, it was possible to adequately explain the affect on the preparation of financial statements.

PART (E)

The basis of inventory valuation is an important part of the syllabus and is tested frequently. Indeed, different aspects of this topic were tested in this paper (here and in Question 4). It is

disappointing to note that a number of candidates do not appear to understand the key issues. In particular, the difference between periodic weighted average (unit value is calculated once at the end of the period) and continuous weighted average (unit value is continually re-calculated each time inventory is purchased) is often overlooked by candidates.

Perhaps the fact that candidates do not always read the question carefully was a further influence on answers which did not score marks in this part.

Whatever the reason, a disappointing number of candidates scored poorly, or not at all, on this part as their answers were either confused or described continuous weighted average.

QUESTION 2

The key to scoring good marks in a question on reconciliations is to read the question carefully, and to adopt a logical approach. Careful reading will help in understanding the nature of each item referred to in the question. One logical approach is to clarify, on an item by item basis, if:

- ▣ an entry is required in the ledger account
- ▣ an adjustment is required on the reconciliation statement or
- ▣ both of these.

The next step is to clarify the value of each entry or adjustment. The final step is to decide if each entry is a debit or a credit, and if each adjustment is an addition or a deduction.

Those candidates who adopted such an approach were invariably rewarded with good marks – in some cases full marks.

The main reasons that other candidates did not fare so well were a lack of care in reading the question and/or a lack of logic in their approach to the problem.

One particular example was item (vii), a cheque returned by a supplier. Most candidates recognised that this required an entry in the ledger account. However, a number of candidates made a credit entry, thus recording the issue of a cheque. In a number of such cases, the error was compounded by the fact that the value was that of the original cheque. By noting carefully that the question stated:

- ▣ a cheque had been returned
- ▣ a replacement has been issued
- ▣ the replacement has been correctly recorded
- ▣ the original cheque has not been cancelled.

It was possible to note that the action required was to record the cancellation of the original cheque. As the value of the original cheque was \$640, this is the value of the required entry. By going back to basic double entry and noting that cheques issued are recorded by a credit entry in the bank account, the conclusion is that a debit entry was now required to cancel the cheque.

Perhaps the most disappointing aspect of some answers was that candidates had mixed up the two balances given in the question, and used the ledger balance as the starting point for the reconciliation and the bank statement balance as the starting point for the ledger account. This can only be explained by the fact that such candidates had been careless in reading the question.

The final part of the question tested if candidates understood how bank balances should be reported. There were several aspects to answering this correctly. The first is that the adjusted balance on the ledger account should be reported. The second is that where more than one bank account is maintained, the (credit) balance on an account which is overdrawn should not be deducted from debit balances, but should be reported separately. Finally, the fact that a debit balance represents an asset and a credit balance represents a liability indicates that the balances should be reported on the statement of financial position.

Those candidates who had prepared thoroughly and understood these points, read the question carefully and answered accordingly invariably picked up all three marks in this part of the question.

QUESTION 3

The key issues involved in accounting for partnerships were tested in Question 3. There were a number of extremely good answers to this question, indicating that some candidates have developed the knowledge and skills which are the objective of this paper.

The question was divided into three parts, each intended to test particular aspects of the required knowledge and skills.

Part (a) required the preparation of an appropriation account while Part (b) required the closing current account balances to be calculated. In Part (c) candidates were invited to think carefully, as the wording of requirement meant that it was necessary to

recognise that the value of a partner's total investment is the total of the balance on that partner's current and capital accounts.

In some answers to Part (a), it was apparent that the candidates did not understand that an appropriation account is used to deal with the various adjustments to net profit which have been agreed between the partners in order to calculate the residual profit – and that it is the residual profit which is shared in the profit and loss sharing ratio. In some cases, candidates simply shared the net profit (ie before any appropriations) in the profit and loss sharing ratio.

In other answers, candidates appeared to understand the purpose of an appropriation account, but they were unable to deal with the various adjustments correctly. In most of these cases the main problem was that entries which should have been debited to the account were credited and vice versa.

The most disappointing errors arose from a simple lack of care in reading the question. There were two aspects to this. The first was that, although the requirement asked for 'each partner's total share' some candidates, having completed the appropriation account, did not provide a total for each partner. It is extremely hard to understand why candidates would choose to avoid picking up marks by such an omission.

The second was that the question noted that additional capital had been introduced. Therefore, it should have been obvious that this needed to be taken into account when calculating partners' interest on capital. Unfortunately, some candidates did not read the question carefully and simply calculated interest on capital based on either the opening or closing capital balance.

In Part (b), the main reason that some candidates did not score good marks was that they did not recognise that the total share of profit attributable to each partner should be recorded in the current account. The easiest way to do this was to enter the total calculated in Part (a) in the current account. For those candidates who had not read the question carefully when completing Part (a), answers to Part (b) required more time than necessary as each of the adjustments in the appropriation required a separate entry in the current account.

QUESTION 4

This question was perhaps the most involved question on the paper as it tested candidates' ability to deal with a number of the post trial balance adjustments which are typically required when final accounts are prepared.

As has already been noted in this report, careful reading of the question and a logical approach were essential if good marks were to be obtained. A good number of candidates took this approach.

In Part (a) this required each item to be dealt with in turn, by calculating the value of the adjustment required and then deciding whether the adjustment increased or decreased profit. The most successful approach was to prepare a working for the calculation of the adjustment and a separate schedule of the resulting adjustments to the profit.

The most common reasons why some candidates did not achieve this level of success were:

- ▣ not calculating the time apportionment of the insurance prepayment correctly
- ▣ not reading the question carefully and treating the prepayment as an accrual
- ▣ a lack of awareness of how to calculate the net realisable value of inventory items
- ▣ confusion about how to deal with the write down in value of inventory
- ▣ calculating depreciation on the straight-line basis, even though the question clearly stated that the policy was to use the reducing balance method.

In Parts (b) and (c), there were three main reasons that some candidates did not obtain marks. The first was not recognising that, as the bank balance was a credit balance, it represented an overdraft, and thus a current liability. The second was failing to include the prepayment calculated in Part (a) in the value of current assets. Finally, some candidates included the incorrect value for inventory. In most of these cases the unadjusted value was included.

PAPER 4 ACCOUNTING FOR COSTS

This two-hour paper consisted of 20 multiple-choice questions for a total of 40 marks (Section A) and four longer-form questions worth a total of 60 marks (Section B).

A large number of candidates were well prepared for the exam and gained high marks. Several candidates gained

maximum marks. At the same time, many others were very poorly prepared and scored low marks. Too often, candidates' answers displayed:

- ▣ Poor presentation and lack of clarity. The consequence was that it was frequently difficult to follow what was being presented as the candidate's final answer which was, as a result, difficult to mark. This was especially the case with Questions 1(a), 2(a) and 3(a) (see detailed comments below).
- ▣ Failure to read each question carefully to determine what was required of candidates. The consequence was that time was wasted on unnecessary calculations which almost certainly prevented some candidates from making a reasonable attempt at all of the questions. This was especially the case in Questions 1(b), 3(a) and 4(b) (see detailed comments below).

Adequate workings were generally provided, enabling appropriate marks to be awarded, although occasionally it was not clear where figures had come from, especially in the answers to Questions 1(a) and 4(a).

Candidates were generally able to make a reasonable attempt at all four Section B questions. Where only three questions were attempted, it was invariably Question 3 that was not attempted.

The comments that follow relate to each of the longer-form questions in Section B of the paper.

SPECIFIC COMMENTS QUESTION 1

This question required candidates to demonstrate their ability to calculate both batch costs (Part (a)) and process costs (Part (b)). Both parts were reasonably well answered.

Part (a) focused on cost behaviour in a batch production setting, requiring candidates to flex the costs, where appropriate, according to batch size. While many candidates gained full marks many others had difficulty with the batch costs. These latter candidates

frequently failed to appreciate that the preparation costs, where the same amount was incurred irrespective of batch size, were fixed costs per batch and/or that the batch manufacturing costs varied in total in proportion to the batch size. As a consequence it was frequently assumed either that all of the costs were fixed in total regardless of the batch size or that all of the costs were proportionately variable with batch size.

Other common errors in the answers to Part (a) were demonstrated by candidates who assumed that:

- ▣ the costs given in the question were for a single leaflet rather than for a batch of 10,000 leaflets;
- ▣ the general fixed overheads were variable per unit or fixed per batch rather than charged per labour hour.

In the calculation of the cost per leaflet in Part (a)(ii), a very surprising number of candidates divided the number of leaflets in the batch by the total batch costs rather than vice versa. Others added the fixed costs per batch to the variable costs per leaflet.

It was at times difficult to establish what was being presented as the candidate's final answers with both costs per leaflet and total cost figures scattered over the page. Workings were not always clear.

Part (b) was on the subject of process costing. Candidates needed to understand and apply the concept of equivalent units. Many candidates gained full marks. However, some other candidates, having separately calculated the unit cost of materials and the unit cost of conversion costs correctly, then calculated a different total unit cost based on the total process costs divided either by the units of materials or by the equivalent units of conversion costs.

Some candidates calculated the unit cost of materials correctly but failed to deal with the conversion costs. Common errors in trying to adjust for the stage of completion of the work-in-progress, in the calculation of the conversion costs per unit, were:

TOO OFTEN, PAPER 4 CANDIDATES' ANSWERS DISPLAYED POOR PRESENTATION AND LACK OF CLARITY AND A FAILURE TO READ EACH QUESTION TO DETERMINE WHAT WAS REQUIRED. WHERE ONLY THREE QUESTIONS WERE ATTEMPTED, IT WAS INVARIABLY QUESTION 3 THAT WAS NOT ATTEMPTED.

IN ANSWER TO PAPER 4 QUESTION 3 PART (B), MANY CANDIDATES KNEW THAT SUNK COSTS WERE PAST COSTS ALREADY INCURRED BUT THEY OFTEN FAILED TO MAKE IT CLEAR THAT SUCH COSTS ARE IRRELEVANT FOR DECISION MAKING.

- multiplying the total cost incurred on conversion costs in the period by 75%
- multiplying the total units of 27,800 by 75%.

Other candidates simply divided the total process costs by the total units of 27,800, or even by the completed units of 24,600, without any attempt to split the materials and conversion costs. These had to be calculated separately because a different number of units applied to each. Another error was to deduct the work-in-progress units from the completed units.

Finally, a large number of candidates failed to look sufficiently carefully at the requirements of Part (b) of the question. The calculation of production costs per unit only was required yet many went on to apportion the total process costs for the period between the completed output and the work-in-progress remaining. This was a significant amount of extra, but unnecessary, work and much time was wasted.

QUESTION 2

This question, on the subject of overhead absorption, was very well answered by the majority of candidates. They were required to calculate predetermined absorption rates using budgeted data for both costs and activity, apply the rates to absorb overhead on actual activity and finally to determine whether overheads had been over or under absorbed in the period and by how much. It was, however, sometimes difficult with candidates answers to know which part was being attempted.

Although the question stated clearly that predetermined rates were to be calculated in answer to Part (a), ie using budgeted data, some candidates calculated actual rates, or divided budgeted costs by actual activity or divided actual costs by budgeted activity. Some even hedged their bets by calculating both budgeted and actual absorption rates. At times the correct answer to Part (a) only appeared in the answer to Part (b) with different rates being presented as the answer to (a).

A similar variety of calculations, for the absorption of overhead, were presented in candidates' answers to Part (b), where budget activity as well as actual activity was applied to a variety of absorption rates. Some candidates had no understanding of what 'overhead absorbed' means. At times the correct answer to Part (b) only appeared in the answer to Part (c).

The most common error in answer to Part (c) was the comparison of the actual costs with the budgeted costs, rather than with the overheads absorbed from the answer to Part (b). Some candidates did use their overhead absorbed figures but they compared them with the budgeted costs, rather than the actual costs. Some candidates even ended up comparing actual costs with actual costs or budgeted costs with budgeted costs because of the way that they had calculated absorption rates and/or applied them in overhead absorption. Own figure marks were given where they were merited.

Finally a number of candidates were confused as to what constitutes over absorption and under absorption respectively, or failed to make clear whether their answers represented over or under absorption. It is not sufficient simply to use brackets because there is no consensus as to what it means in this context.

QUESTION 3

The application of the relevant cost concept in short-term decision making was tested in this question. As with all other questions, a reasonable number of candidates gained maximum marks although it was the question most frequently not attempted by those who only answered three questions in Section B. Overall, most candidates were able to accumulate reasonable marks on this question.

Nevertheless, candidates also at times demonstrated confusion concerning the analysis required in answer to Part (a). A significant number of candidates seemed to think that a decision was required and tried to make one. Often this comprised a comparison between

the total relevant costs, and the 'normal' accounting costs, for the special order. This was despite only being asked for a calculation of the relevant costs in the question and not being provided with any information about revenue in order to be able to reach a decision. It was also not clear at times what was being presented as the final answer.

Common errors in determining the relevant costs were:

- failing to use the replacement price for material M6 or including only the additional \$0.50 per kg compared with the cost of the existing inventory
- deducting, rather than adding, the \$1,960 opportunity cost of labour
- not including the 430 hours of labour at \$11 per hour
- including the absorbed general fixed overheads as well as the incremental overheads.

Candidates need to understand that the relevant costs relating to a particular decision are those costs yet to be incurred that will be affected by the decision. Costs already incurred, or future costs that will be incurred anyway regardless of the decision, are irrelevant.

In answer to Part (b), many candidates knew that sunk costs were past costs already incurred but they often failed to make it clear that such costs are irrelevant for decision making. A variety of definitions were provided for avoidable costs with many candidates believing that they could not be avoided and/or would be incurred regardless of the course of action. Several others simply stated that avoidable costs are avoidable.

QUESTION 4

This question required candidates to prepare a marginal costing profit statement (Part (a)) and to calculate, and explain, the profit difference compared with absorption costing (Part (b)). Frequently, reasonable attempts were made at Part (a) but candidates were invariably less successful with Part (b) and often did a lot of unnecessary calculations in the process. Nevertheless, as with all the other questions, a reasonable number of candidates gained full marks.

In answer to Part (a), the concept of contribution was broadly understood with the result that most candidates attempted to calculate the total contribution within their marginal costing profit statement but with

varying degrees of success. Common errors in the calculation of contribution in the marginal costing profit statement were:

- ❑ not including variable administration overheads in the costs deducted, thus believing that contribution is sales less variable production costs only
- ❑ including closing inventory at 500 units, calculated as sales less production and ignoring the opening inventory. This was impossible anyway because the sales units exceeded the production units in the period
- ❑ matching the variable costs for 11,800 units of actual production, or for 12,000 units of budgeted production, against the sales of 12,300 units.

Some candidates used the term 'gross profit' to refer to the contribution.

The vast majority of candidates correctly treated the total fixed overheads (both production and administration) as period costs and deducted the total from the contribution.

The question requirement for Part (b) clearly indicated that a profit statement using absorption costing was not required. Most candidates, however, prepared such a statement often with costs listed by element and thus with unnecessarily lengthy, and thus time consuming, workings. This may have been because candidates did not know how else to calculate the difference in profit between marginal and absorption costing. The absorption costing calculations and statements were invariably incorrect. Candidates need to realise that the difference in profit is due to inventory valuation and that the difference can be calculated, and explained, as the change in inventory over a period multiplied by the fixed production overhead absorption rate (which is applied to the inventory in absorption costing but treated as a period cost in marginal costing).

While some candidates could explain the reason for the profit difference clearly, many others simply indicated that it was something to do with inventory and/or fixed overheads. Some stated that absorption costing will always show a lower profit because of the inclusion of fixed overheads which they seemed to believe were not required in marginal costing. Several believed, wrongly, that profit differences are due to overhead over/under absorption.

PAPER 5 MANAGING PEOPLE AND SYSTEMS

This paper is in two sections: Section A has 12 multiple-choice questions (MCQs), each worth two marks and Section B has a total of five questions, four of which are worth 14 marks each and one final question is worth 20 marks. Section A is worth 24 marks, and Section B is worth 76 marks. The paper remains a two-hour exam and all questions in both sections are compulsory and should be attempted. Regardless of the change in format to this paper from June 2009, as with previous papers, each individual question focused on a different and distinct syllabus area and all of the five key syllabus areas were examined.

SPECIFIC COMMENTS SECTION B

Many of the issues arising from Section B of this paper were similar to the last exam session and despite the recent change in format of the paper, the same issues have continued to emerge. Therefore, many of the comments that follow have also been made in my previous reports.

- ❑ It was very pleasing to observe that many candidates were able to produce very sound and well-written papers, which attempted every question and displayed a clear understanding of the parts of the syllabus being examined.
- ❑ Some candidates did not attempt all questions and thereby missed opportunities to access any marks at all for some questions. This appeared to be largely due to poor exam preparation. Candidates should have recognised that there were a total of 76 marks available for Section B and should, therefore, ensure that they allocate their time appropriately between Section A and Section B of the paper. In addition, within Section B, four of the questions were worth 14 marks and one question (the last one) was worth 20 marks and again, time should be allocated accordingly.
- ❑ Candidates are reminded of the importance of developing a sound exam technique as well as being familiar with the syllabus content – this can be particularly helpful in terms of managing the time available for answering the questions.
- ❑ Candidates are still wasting valuable time by writing out all parts of the question at the beginning of their answers. This is not necessary and should be avoided; marks cannot be awarded for it.

- ❑ Candidates also continue to waste valuable time creating unnecessarily elaborate headings to parts of their answers (different styles and sizes of text). Headings can be very useful in organising and presenting your work but simple underlining will suffice.
- ❑ This continues to be a discursive paper with questions generally requiring explanation and some discussion and some candidates did not articulate and communicate their answers as clearly as they might have done. Simple statements in a list, without any explanation, will rarely be adequate to achieve full marks – unless this is specifically asked for in the requirement.
- ❑ It is always important to take care with presentation, use of language and the general structure of the answers – even for the shorter answers now required for the four questions in Section B.
- ❑ Candidates are reminded of the importance of adhering to the instructions provided on the exam paper. In particular, candidates should ensure that they clearly identify the question number that they are attempting. Some candidates numbered the questions in the order in which they did them, rather than in the order in which they appeared on the actual paper. This should be avoided as it can lead to confusion. In all cases, the question number within the answer book should match the number of the question on the exam paper.

QUESTION 1

Question 1 always examines syllabus area one, the business and accounting environment and in this case the focus was on Section 1b (iii), the nature of policies and procedures. The relevant study session was 4b, 'explain the purpose of systems, policies and procedures in a general business context'. The question was in two parts: Part (a) focusing on the purposes of policies in organisations and Part (b) focusing on procedures. Part (a) was worth eight marks and Part (b) six marks. Both parts of the question asked for the explanation to include examples.

Answers to this question were quite disappointing, primarily because candidates did not adequately explain the 'purposes' of policies and procedures. Quite a number of candidates explained the importance of organisations having policies and procedures and this was not required

and marks could not be awarded for it. Some candidates displayed a distinct lack of knowledge and failed to differentiate between procedures and policies. Far too many candidates simply listed types of policies and procedures and although some marks could be awarded for these (because they could be considered as examples), it was not possible to award full marks – however extensive the list – as the key part of the question was about ‘purposes’ and this was not dealt with. Quite a number of answers failed to include any examples at all and this was a clear requirement of the question. Where a question asked for examples (plural) there is an expectation that the answer will include more than one and at least two examples.

The key learning point from this question is the importance of reading the question carefully and dealing very clearly with the specific requirement of the question.

Despite the above general observations, there were some sound answers to this question and some candidates scored full marks.

QUESTION 2

Question 2 always examines syllabus area two, the effective management of business and accounting systems, and in this case the focus was on Section (d), internal controls. The relevant study session was 6a, ‘explain the importance of internal controls in an organisation’.

This question was answered very well by the majority of candidates, many of whom had clearly used the mnemonic SPAMSOAP to help them to remember the eight types of internal controls. From this they were able to select five to explain in more detail. Some candidates explained all eight in detail although only five were in fact required; no additional marks could be awarded for the three additional controls which were explained. Good answers clearly identified the internal control, for example segregation of duties, or arithmetical and accounting controls, explained it fully and often included an example. Many candidates achieved full marks for their answers to this question. Where candidates scored less well, it was because they discussed control in a very general sense, for example the control of inventory. Other examples of poor answers which scored very few, if any marks at all, were those which explained in detail what was meant by the word ‘control’. Some candidates were clearly confused and discussed

control in the context of Fayol’s five functions of management and no marks could be awarded for this.

QUESTION 3

As in previous exam sessions, Question 3 required candidates to demonstrate some knowledge of a particular theoretical area, in this case the work of Blake and Mouton and the different management styles that they identified on a managerial grid. The relevant part of the syllabus was 3 (ii) differing styles of management and the study session was 10 (b) ‘describe the skills, traits and characteristics of a leader, with reference to Blake and Mouton...’.

The first part of the question was worth five marks and required candidates to identify the five management styles that appeared on the managerial grid. Many candidates correctly listed the five styles. Quite a number of candidates included a diagram of the grid with the five styles correctly positioned on the grid. A diagram can be a useful way of presenting the information, but unless it is explicitly asked for in the question, additional marks cannot be awarded for it. Some candidates wasted valuable time by producing very accurate and clearly labelled diagrams and while these were quite correct, additional marks could not be awarded because it was not a requirement of the question.

Part (b) of this question required candidates to describe any three of the five styles that they had identified in Part (a). Three marks were available for each style described. There were some very good answers here with many candidates displaying a good knowledge of the work of Blake and Mouton.

However, it was very unfortunate that some candidates had no knowledge of this work at all; with some making no attempt to answer the question whatsoever. This is very disappointing and candidates are reminded that all parts of the syllabus will always be examined on every paper and as such candidates need to be familiar with all sections of the *Syllabus* and the *Study Guide*. Study session 10b refers very specifically to Blake and Mouton.

As is often the case with Question 3, candidates assume that any question on management theory must refer to Fayol and on this particular paper, some candidates produced very good answers on the five functions of management as identified by Fayol. This was clearly incorrect and marks could not be awarded for it.

The key issue with this question, as

ever, centres on knowledge of a very distinct syllabus area, rather than anything to do with misinterpreting the requirement in any way. The question was very specific and there was no scope for very vague or general answers.

My examiner reports usually comment on the poor answers to Question 3 and to theoretical questions in general and therefore it is especially pleasing to observe that on this occasion, far more candidates produced sound answers which displayed a good understanding of this syllabus area.

QUESTION 4

Question 4 examined syllabus area four: individual effectiveness at work and the relevant study session was 15a ‘recognise the importance of good communication, both formal and informal, in the workplace’.

This was a very straightforward question requiring candidates to explain what was meant by formal and informal communication and to describe how they operated. Unfortunately, some candidates offered very broad answers about the communication cycle generally and did not deal with formal or informal communication in any meaningful way. Reference to the communication cycle was only appropriate if it was in the context of formal and informal communication, if it wasn’t, then it was not possible to award marks for it. Far too many candidates explained in detail the various methods of communication, again without any reference as to whether they were formal or informal. Some candidates compared written and verbal communication with non-verbal communication and did not deal with the requirements of the question at all. Some candidates incorrectly stated that formal communication always has feedback whereas informal communication does not. Again incorrectly, some candidates stated that formal communication was always written and informal communication was always verbal. They then went on to list types of written communication and types of verbal communication but unless these were identified correctly as formal or informal, it was not possible to award marks.

Answers tended to deal with formal communication more effectively than informal communication, missing opportunities to explain about rumour, gossip and the grapevine. Candidates should avoid making statements such as ‘Formal communication is communication which is formal’ as this does not show any understanding

THE KEY ISSUE WITH PAPER 5 QUESTION 3, AS EVER, CENTRES ON KNOWLEDGE OF A VERY DISTINCT SYLLABUS AREA, RATHER THAN ANYTHING TO DO WITH MISINTERPRETING THE REQUIREMENT IN ANY WAY. THE QUESTION WAS VERY SPECIFIC AND THERE WAS NO SCOPE FOR VERY VAGUE OR GENERAL ANSWERS.

of what formal communication is. Good answers were clear about the differences between formal and informal communication channels and explained how they both operated in some detail and often providing excellent examples to illustrate points made.

QUESTION 5

Question 5 on the paper was worth 20 marks – and not 14 as is the case with the other four questions in Section B. It is important that candidates bear this mark allocation in mind when planning their time. A limited number of candidates appeared to run out of time when answering Question 1 and the main reason for this appeared to be the very lengthy answers they had included for Questions 1 to 4, which were often disproportionate to the marks available for these questions.

Question 5 examined syllabus area 5 (ii), common hazards and how to deal with them. The relevant study sessions were 19b and 19c, 'Identify possible sources of danger to health and safety of individuals in the work place' and 'Suggest appropriate preventative and protective measures'.

The question was in two parts and examined the causes of fire in Part (a) and preventative measures in Part (b). The first part of the question asked candidates to identify five potential causes of fire in the workplace. This was very straightforward and many candidates achieved full marks for this section. Unfortunately, some answers repeated points and achieved limited marks.

Part (b) of Question 5 required candidates to explain five types of precautionary and safety measures which could be taken by an organisation to reduce the risk and impact of fire. There were some very good answers to this section, with five clear types being identified, such as storage, building maintenance or staff training. Within each of these types or categories candidates then went on to explain them further and in some cases gave useful examples to illustrate the points made. Some candidates did not really identify

five discrete types of measures and simply presented a list of all the things that might be done to minimise the risk of fire and while it was possible to award some marks for this, candidates were not able to achieve the maximum marks available. There was scope for most answers to deal more effectively with the potential impact of fire as well as fire prevention measures.

Key learning points:

- ❑ The main observation from the December 2010 exam, which I would like to emphasise here, is the importance of reading the questions carefully and then dealing with the precise requirements of the question. This means reading the question in its entirety in order to distinguish between the differing requirements of the different sections.
- ❑ All five parts of the syllabus will always be examined and all parts are equally weighted. This means that it is important for candidates to revise all areas of the syllabus. Far too many candidates do not give themselves the opportunity to access all of the marks available by not answering one or more questions on the paper. In particular, I would continue to encourage candidates to prepare adequately for Question 3.
- ❑ Despite some better answers for Question 3 this time, some candidates still appear to have difficulty in answering theory-based questions and this has been a recurring feature of this exam and of my examiner reports. Once again, I would like to direct candidates to the August 2007 issue of *Student Accountant*; this contains a three-page article entitled 'Good in theory?', which offers advice and guidance on answering theory-based questions and explains in detail how to approach these types of questions. It also offers guidance on how to study theories using the study texts and in addition it includes a useful summary of the key syllabus areas and study sessions which lend themselves to this type of question.

PAPER 6 DRAFTING FINANCIAL STATEMENTS

There were two sections to the paper, with all questions being compulsory. Section A consisted of 10 multiple-choice questions of two marks, each covering a broad range of topics on the syllabus and Section B, which had three longer questions worth 80 marks, testing the candidates' in-depth understanding and application of key skills in the syllabus.

Overall, candidates performed well on this exam. The majority of candidates made a good attempt at all the questions with some candidates scoring very high marks. The presentation of answers was generally good and, once again, well-prepared candidates produced comprehensive workings that supported the figures in the financial statements.

SPECIFIC COMMENTS – SECTION B QUESTION 1

This question was worth 40% of the marks. Candidates were presented with the incomplete records of a partnership for the year ended 31 October 2010 and some additional information about transactions during the year. Most candidates made a good attempt at this question and scored well. Those candidates who presented the wrong figures on the face of the financial statements but supported the figures with workings were awarded marks as appropriate.

In Part (a) of the question candidates were required to prepare the income statement (profit and loss account) and appropriation account. Most candidates made a good attempt at this part of the question. The most common errors were:

- ❑ incorrectly calculating the sales and the purchases figures
- ❑ incorrectly adjusting the accrual for energy and the prepayment of rent
- ❑ adding interest on capital instead of deducting it
- ❑ not showing the underpinning workings.

In Part (b) candidates were asked to prepare the partners' current accounts. Candidates' own figures for each partner's profit were given credit provided they were the same as those calculated in the income statement (profit and loss account). Weaker candidates tended to either get the figures on the wrong side of the accounts or missed out either interest on drawing or interest on capital from the accounts.

In Part (c) candidates had to prepare the statement of financial position (balance sheet) for the partnership; again this was reasonably well done. The main areas of difficulty for candidates were correctly calculating the bank and the accrual figures.

QUESTION 2

This question was worth 20% of the marks. Candidates were provided with the summarised income statements (profit and loss accounts) of Big Co (Ltd) and Small Co (Ltd) for the year ended 31 October 2010. Small Co was a subsidiary of Big Co and candidates were given information pertaining to its acquisition and for transactions during the year between the two companies.

Overall this question was not as well answered as Question 1. Many candidates were unable to correctly calculate the goodwill arising on the acquisition of Small Co (Ltd) that was required in part (a) of the question.

In Part (b) candidates were required to prepare the consolidated income statement (consolidate profit and loss account) for Big Co (Ltd). Candidates made a good attempt at this part of the question. The majority of candidates were able to correctly adjust the revenue (sales) figure and cost of sales figure for the internal sales. However, many candidates omitted to adjust cost of sales for the goods remaining unsold at the year end. Also, a number of candidates did not show the profit attributable to the parent company and the non-controlling interest.

In Part (c) candidates were asked to define an 'associate' relationship and to give examples that might demonstrate such a relationship. The weaker candidates described partnerships or subsidiary companies as associates, which was incorrect. Those candidates who had revised well had no trouble with giving the correct definition of an associate and provided the examiner with examples of how a minority investor might exert significant influence, eg the appointment of representatives to the board of directors, or the interchange of management personnel between the two companies.

QUESTION 3

This question was worth 20% of the marks. Candidates were given the financial statements of Fazak Co (Ltd) for the year ended 31 October 2010, together with comparator ratios for the previous year and industry average ratios.

In Part (a) candidates were asked to calculate stated ratios and give the formula they had used. This part of the paper was reasonably well answered. Most candidates calculated some, if not all, of the ratios correctly and clearly showed the ratio formulas and calculations.

In Part (b) candidates were asked to comment on the ratios. As with previous sessions, too many candidates merely repeated the ratio figures they had calculated or were given in the question, without offering any real comments or possible explanations for the changes or differences in the ratios between years or the industry average. Some candidates tried to hide their lack of understanding by presenting long winded paragraphs, often restating the same point more than once. Those candidates who presented structured answers commenting/interpreting each of the ratios in turn scored well.

In Part (c) of this question, candidates were asked to briefly explain five limitations of ratio analysis. This was an opportunity for candidates to pick up easy marks. Strong candidates correctly suggested limitations such as: different accounting policies applied by comparator companies, price inflation distorting comparisons over time and issues around the timeliness/availability of information for preparing ratios.

PAPER 7

PLANNING - CONTROL AND PERFORMANCE MANAGEMENT

The paper followed what is now the usual CAT Paper 7 format. Section A contained 10 compulsory multiple-choice questions worth two marks each. Section B contained four compulsory written test questions worth 20 marks each.

The distribution of marks across the paper was as in previous sittings. Candidates attempting Paper 7 should expect it to:

- ▣ Focus on the key syllabus areas as specified in the published *Syllabus*. On this occasion 74% of the available marks were based on key syllabus areas. In the long term, I aim for key syllabus areas to make up about 80% of the paper.
- ▣ Test numeric and written skills, on this paper 42% of the marks were for discussion and 58% were for calculation. In the long term I aim for a split of marks of approximately 40% for words and 60% for numbers.
- ▣ Test application more than knowledge. The December 2010 paper contained 32% knowledge-based marks.

Overall the standard of answers on Section B was disappointing. Three of the four questions covered key syllabus areas that I have examined several times before. Despite this some very poor answers were received.

The December 2010 paper was the 14th paper of this syllabus. By this stage the questions I have set have covered the full syllabus. Although I will not repeat entire questions, many of the questions I will set will be made up of similar blocks of knowledge and techniques to those used on past papers. There are only so many ways that I can ask questions, for example, on the calculation of standard cost variances. Candidates who practise past exam questions will be very well placed to answer future questions. Past papers, together with answers and marking guides are available on the ACCA website and I urge candidates to use them in their exam preparations.

The quality of exam technique was mixed. Many candidates failed to show workings to numeric answers. This becomes a problem when a candidate's final answer is incorrect. If workings are not shown markers are unable to award method marks as the method is not apparent to them.

A large minority of candidates made no attempt at the narrative sections of the paper. As these sections accounted

FOR PAPER 7, THE QUALITY OF EXAM TECHNIQUE WAS MIXED. MANY CANDIDATES FAILED TO SHOW WORKINGS TO NUMERIC ANSWERS. THIS BECOMES A PROBLEM WHEN A CANDIDATE'S FINAL ANSWER IS INCORRECT. IF WORKINGS ARE NOT SHOWN MARKERS ARE UNABLE TO AWARD METHOD MARKS AS THE METHOD IS NOT APPARENT TO THEM.

for 42% of the marks this made it very difficult for these candidates to pass. Time management was, in the main, good and there was little evidence of candidates running out of time.

Presentation of answers was variable. Some scripts were beautifully presented and were a joy to mark. On others the handwriting is so bad it is almost impossible to follow.

Although the average standard of scripts submitted was disappointing some excellent scripts were submitted. A significant number of candidates scored in the 70% to 90% range. Congratulations to these well-prepared candidates and their teachers.

I will now consider performance on a question-by-question basis. These sections will inevitably focus on candidate weaknesses, but it is worth remembering that many good scripts were received.

SPECIFIC COMMENTS

QUESTION 1

This question covered standard costing and variance analysis. These areas are covered by syllabus headings 5 and *Study Guide* sections 20, 21 and 23. Standard costing and variance analysis is a key syllabus area.

Part (a) required candidates to calculate direct labour and fixed overhead standard cost variances. Answers to Part (a) tended to be either very good or very bad. Common errors were to express variances in hours rather than \$, or per unit rather than in total. Not surprisingly, the fixed overhead variances were calculated less accurately than the direct labour variances.

Part (b) required candidates to reconcile budgeted and actual cost. This area was the subject of a recent *Student Accountant* article by the examiner. This was generally very badly done with hardly any candidates submitting a complete reconciliation. A good answer would have calculated a cost volume variance to reconcile original budgeted cost with flexed budgeted cost, going on to reconcile flexed budgeted cost with actual cost with the cost variances from Part (a). Common errors included a failure to calculate a cost volume variance and a failure to reconcile to original budgeted cost. This resulted in many candidates starting their statement with the flexed budget cost.

Some candidates simply recalculated the variances from Part (a), and scored no marks. Others misinterpreted the question and responded to the word

'statement' by providing a written commentary on the Part (a) variances.

QUESTION 2

This question covered performance measurement. Part (a) required candidates to calculate a variety of financial and non-financial performance measures. Part (b) required an explanation of the factors that would make the comparison of two organisation's performance difficult. Part (c) required a brief explanation of differences between measuring managerial and organisational performance. These areas are covered under syllabus headings 7a and 8a and *Study Guide* headings 16b, 17d, 24b, and 25a. Performance measurement is a key syllabus area

Part (a) prompted a mixed quality of answers. Good answers usually started with a statement of the formula to be used to calculate the performance measure and went on to calculate the required figures. This allowed own figure marks to be awarded if the final answer was incorrect.

The calculation of residual income (Part (a)(i)) caused many problems. Common errors included a total lack of knowledge of the concept, expressing residual income as a percentage of capital investment, using ZPS's cost of capital to calculate Carbone's cost of capital and stating ZPS's residual income as zero (presumably due to a mistaken belief that residual income cannot be negative).

Return on sales was generally well calculated. However, many candidates failed to appreciate that a decimal fraction of 0.0003 equates to a percentage of 0.03% not 3%.

A surprising number of candidates failed to calculate answers to (a)(iii) and (a)(iv), despite their 'everyday' nature. Of those who did many failed to include both letters and parcels as items delivered by ZPS.

Part (a)(v) was probably the most difficult figure to calculate, presumably due to its unfamiliar nature. Taking an approach similar to that in working out an inventory holding period would yield the required figure.

In Part (a) overall there was much confusion over units of measurement in part a, commonly candidates confused % with \$. Others struggled with the arithmetic of dividing by millions. More calculator practice is recommended here. We live in an age of very large numbers and would-be accountants must get used to dealing in millions and billions.

Finally for Part (a) it was obvious that few candidates were checking the 'reasonableness' of their answers – one student gave an answer for delivery time of 77,395,000 days while another calculated it as 0.00000365 days. Nearly all markers commented to me on the average weight per parcel calculated in some answers to Part (a)(iv), a figure of 8m tons per parcel being a common, but obviously, incorrect answer.

Part (b) required candidates to explain differences between the two organisations that would make it difficult to compare their performance. This was generally quite well done. A common error was to include too much identification of differences but very few explanations of why those differences cause problems with comparison of the two companies. The requirement 'explain' literally means to make plain. Many candidates appear to confuse this with list. For example the comment: 'One is listed, one is state owned' is not an explained point and would only earn one mark. An explained point that would earn two marks could be: 'One is listed, one is state owned, therefore, they will be working towards different objectives'.

A number of candidates misinterpreted the question and provided a commentary on the relative performance of the two organisations.

Part (c) required an explanation (in general terms) of the differences involved in assessing the performance of a manager and the performance of an organisation. Many candidates successfully identified controllability of costs and revenues as the crucial concept. Common errors included relating answers to ZPS and Carbone and trying to compare the performance of the two company's managers. Others simply provided a list of performance indicators to use

QUESTION 3

This question was based around rolling budgeting and also tested the techniques involved in budget construction. These areas are covered under syllabus headings 6a and 6d and *Study Guide* sections 7, 11 and 12. Budgeting is a key syllabus area.

Part (a) required candidates to analyse costs into fixed and variable elements. This was well done. Of the errors that were made the most common were ignoring the semi-variable nature of direct labour cost, expressing quarterly fixed cost as a cost per annum

and expressing fixed costs as a cost per unit. Some candidates presented very confused answers, which mixed up revenue figures with cost figures.

Part (b) required candidates to use their analysis from Part (a) to flex the budget for the fourth quarter and then to use these figures to update the annual budget. When errors were made in the earlier parts of the question own figure marks were awarded if the candidates' method could be understood. This section was generally very well done with many candidates scoring full marks (nine marks). Common errors were to forget to flex the budget to the new output level and to forget to update figures for inflation. A surprising number of candidates failed to produce the annual budget required and failed to gain four easy marks.

Part (c) required an explanation of three advantages of rolling budgeting. This was generally well done. Where errors were made, they usually involved candidates explaining the benefits of budgeting rather than rolling budgeting specifically. A large minority of candidates attempted to make the same point in three different ways. Only one set of marks will be awarded in this case.

QUESTION 4

This question was based around fixed price tendering and also tested knowledge of cost plus pricing and activity based costing. These areas are covered under syllabus headings 1c and 8e, and *Study Guide* sections 4c, 4d, 27b, 27c and 27d.

Part (a) involved the calculation of a price using ABC principles and a cost plus pricing formula. It was, on the whole, well done with a large number of candidates achieving full marks. When errors were made, the most common were the incorrect use of calculated cost drivers, in particular mixing up rates per driver unit and rates per desk. The price was sometimes calculated incorrectly with candidates calculating a 20% margin rather than mark up.

Some candidates decided that as there was spare capacity labour was not a relevant cost, and, therefore, missed it out altogether. This could possibly be true, although it was not mentioned in the pricing approach suggested by the finance director. If it was clear that this is what candidates were doing credit was given.

Part (b) required an explanation of the limitations of cost plus pricing. The quality of answers was very mixed,

presumably because this is not a key syllabus area. Weaker answers tended to give advantages rather than limitations or to explain the limitations of ABC rather than of cost plus. Two common misconceptions were the belief that cost does not include overheads or fixed costs and that cost plus is a very complex pricing system. As in many of the written sections candidates often simply stated limitations without explaining them; this restricted them to one mark per point rather than two.

Finally, Part (c) required a definition of fixed price tendering and the procedures underlying the preparation of cost estimates. Generally this was poorly done. Many candidates were clearly unfamiliar with fixed price tenders and produced answers that were simply a rearrangement of the words in the question (eg 'a fixed price tender is a tender who's price is fixed'). These types of answers scored no marks. Most candidates appeared to be unaware of the competitive nature of tendering. Definitions of opportunity cost were also often weak, with candidates confusing benefits forgone with costs forgone. Finally procedures for calculating minimum prices often solicited a long list of potential costs, without mention of the key concepts of incremental or relevant cost.

PAPER 8 IMPLEMENTING AUDIT PROCEDURES

The paper comprised two sections. Section A (20 marks) contained 10 multiple-choice questions (MCQs), each worth two marks, on topical areas from across the CAT Paper 8 syllabus. Section B (80 marks) contained four compulsory questions, two of which were worth 25 marks each and the other two were worth 15 marks each.

A significant number of candidates performed to a satisfactory standard; however, a relatively high number performed to an inadequate standard. Most candidates answered Section A to a satisfactory standard (although a significant minority did not), but the range of answers submitted to Section B questions were mixed. It was encouraging to note the number falling into the former category. However, the number of inadequate answers submitted was of concern. These were often too brief, muddled, partially irrelevant or totally incorrect and reflected the fact that a very significant number of candidates were not properly prepared for the exam.

Most candidates attempted all questions on the paper. While, there was no discernible pattern to answers submitted to the MCQs, given the range and frequency of incorrect answers submitted, it is again evident that a significant minority of candidates were simply not properly prepared for a test of this nature. At Section B a relatively high proportion of candidates appeared to have only a fleeting knowledge of most of the parts of the syllabus examined. This is particularly disappointing given the consistency of the syllabus areas covered in recent CAT Paper 8 exams.

The primary reason for a candidate achieving a low mark for this paper is lack of preparation. The key to success is to set about the course of study with a timely and structured approach, ensuring that sufficient emphasis is placed on revision, question practice and examination technique.

SPECIFIC COMMENTS SECTION A

A relatively high number of candidates answered this section to a pass standard. However, a significant minority submitted correct answers to only four of the questions or less. This seems to reflect inadequate in-depth learning of many important topics included in the syllabus for this paper.

SECTION B QUESTION 1

This question focused on various aspects of internal control in a company. There was a total of 25 marks available over five parts.

At Part (a) candidates were required explain the terms 'Application controls' and 'General IT controls', for two marks each. A relatively high number of candidates struggled to properly define the former, with many demonstrating very muddled thinking. Most candidates were able to define general IT controls to a pass standard but many that could not, gave the impression that general controls were password controls. Part (b), requiring identification and description of four application controls that would help ensure accuracy of input into a purchases and trade payables system, was in general answered to an inadequate standard, with few candidates being awarded more than three of the six marks. A significant number of candidates submitted nonsensical points, others included control activities such as 'ensuring that invoices are checked to purchase orders'

THE MAJORITY OF PAPER 9 CANDIDATES ATTEMPTED ALL FOUR QUESTIONS BUT MANY STRUGGLED WITH QUESTION 2, QUESTION 3(A) AND QUESTION 4(A)(II). IT WAS DISAPPOINTING TO SEE SUCH POOR ATTEMPTS IN THESE AREAS.

in their answer, while some did identify 'application controls' but not those that would help ensure accuracy over input. Part (c) requested an explanation of the term 'segregation of duties' for one mark, and then (for six marks) identification of six responsibilities in a purchases and trade payables system that should be segregated. A high number of candidates could not properly explain the meaning of the term, although most did answer to a satisfactory standard. Whilst it was pleasing to note the significant number of candidates who demonstrated good knowledge of the responsibilities that should be segregated; of concern was the relatively high number of candidates who had very little understanding in this regard. Candidates' knowledge of the use of computer-assisted audit techniques was tested by the requirement at Part (d) for six marks, to identify matters for consideration when deciding on when to use them. While a minority of candidates displayed sound knowledge, in the main the requirement was answered to an inadequate standard, with a large number of candidates submitting irrelevant points. Part (e) of the question tested candidates' understanding of the audit risk model – and in particular the effect on detection risk when control risk and the risk of material misstatement is high. There were two marks available for this part, and from answers submitted it seems apparent that the majority of candidates have insufficient comprehension of the model.

QUESTION 2

This question was on audit planning and offered 25 marks over four parts.

Planning is a key part to any audit engagement and candidates' understanding of why this is so was tested at Part (a), with a requirement, worth five marks, to state five ways in which adequate audit planning should benefit an audit. Many candidates were able to state three benefits and a significant number stated at least four. However, of the remainder, a large number appeared to have very little appreciation of planning issues

and so scored inadequately. Part (b) of the question, offered candidates the opportunity to score 16 marks, by explaining how five aspects of a company's operations as described, would affect the strategy for the audit of the company's financial statements. Again there were a significant number of answers which were satisfactory. However, in line with Part (a) above, a high number of candidates' answers were inadequate, being extremely brief, displaying muddled thinking and containing irrelevant points.

Part (c) of the question, required candidates to explain how analytical procedures should have assisted in the planning of the audit of the financial statements of the subject company. While there was a range of answers submitted demonstrating a sound or reasonable knowledge of the issues, there were many others that indicated a lack of understanding. Relatively few answers were awarded more than two of the four marks available for this part of the question.

QUESTION 3

This question on audit evidence offered 15 marks over two parts.

In Part (a), there were nine marks available for explaining three different forms that financial statement assertions may take, and for confirming what is being asserted in each instance, with regard to the following:

- ▣ classes of transactions and events for the period under audit
- ▣ account balances at the period end
- ▣ presentation and disclosure.

A number of candidates scored all nine marks with many others scoring at least six. In contrast to this however, a very significant number of candidates scored inadequately with some displaying very little or no knowledge about financial statement assertions.

There were six marks available in Part (b) for listing four audit procedures or tests that should be carried out to substantiate a bank loan. This was not a difficult requirement, as well-prepared candidates demonstrated by submitting answers that secured all or most of the

six marks. It was though, of concern to note the relatively high number of candidates that obtained a very low mark for this requirement, with answers that demonstrated a very low level of understanding of the topic.

QUESTION 4

The question focused on various aspects of the auditor's report and the auditor's responsibility in this respect. There were 15 marks allocated over two parts to the question.

A question about the elements of the auditor's report has not been previously set at the CAT Paper 8 level. Part (a) (i), for six marks, tested knowledge of this topic by requiring candidates to identify and describe four such elements. The standard of answers submitted were mixed. Part (a)(ii) offered a further six marks for describing four differing circumstances in which it is appropriate for an auditor to modify their audit opinion. A relatively large proportion of candidates answered correctly and succinctly and gained most of the marks available, but many others did not obtain any marks or scored inadequately by demonstrating very sparse knowledge of the topic. A lot of the inadequate answers submitted are best described as 'rambling' – containing incorrect, confused and irrelevant points. Candidates who referred to 'emphasis of matter' issues in their answer were not given credit for this as, the inclusion of these in an auditor's report, should not have any influence on the opinion expressed by the auditor. At Part (b), candidates were required to identify two situations arising, which could result in the auditor concluding that the scope of the audit was limited. An encouraging proportion of candidates scored at least two of the three marks available, but, again, there was a very noticeable difference in the knowledge levels of those candidates and the significant number of others who obtained one or less of the three marks.

PAPER 9 (UK) PREPARING TAXATION COMPUTATIONS

This exam followed the usual format of 10 multiple-choice questions of two marks each and four long-form questions for the remaining 80% of the marks.

This report is based on Section B of the exam only.

Section B consisted of four compulsory questions (Question 1 for 25 marks, Question 2 for 22 marks,

Question 3 for 18 marks and Question 4 for the remaining 15 marks).

The majority of candidates attempted all four questions but many struggled with Question 2, Question 3(a) and Question 4(a)(ii). It was disappointing to see such poor attempts in these areas; further comment on this will be made below.

Once again it was the common areas of capital allowances and corporation tax that seem to cause the greatest problem. Candidates are again reminded that Question 2 of the paper is always a corporation tax question, usually including capital allowances, and that they must learn this area and examine past exam papers for an overview of the type and standard of question that will be set.

SPECIFIC COMMENTS QUESTION 1

This question was in two parts and tested benefits, a basic income tax calculation, National Insurance contributions and furnished holiday accommodation.

The three benefits examined were generally well answered. The only real problem here was failing to note that the car and fuel benefits were only available for six months and, therefore, the benefit should have been reduced by 6/12. Conversely many candidates reduced the computer benefit because they misread the question – the computer was first provided in 2008, not 2009 as many seemed to think.

The income tax assessment was very well done, however, the usual common errors were made. The majority of candidates had not mastered the treatment of pension contributions. If the contributions are to an occupational pension scheme then the amount should not be grossed up and the amount paid is deducted from employment income. If paid to a private pension plan then contributions should be grossed up by 100/80 and then the gross figure is used to extend the basic rate band. These two treatments were often done incorrectly.

Other common mistakes were either exempting national savings interest or grossing the amount up when in fact the amount received is the gross interest due and is fully taxable, and ignoring the professional fee – this is an allowable expense against employment income.

The National Insurance calculations were either well done or not well at all. Candidates must read the question. In this case candidates were asked

TOO MANY PAPER 9 SCRIPTS SHOWED CANDIDATES HAD LITTLE OR NO IDEA OF THE AREAS BEING EXAMINED. CANDIDATES ARE REMINDED TO STUDY THE ENTIRE SYLLABUS, AND TO READ QUESTIONS CAREFULLY.

to calculate the National Insurance contributions (NIC) for Suzanne and her employer with a specific instruction NOT to calculate the contributions for Benjamin – despite this many candidates wasted valuable time calculating the NIC due from Benjamin and his employer.

The NICs for an employee are class 1 primary NICs and these are calculated on the cash earnings – this does not include benefits, savings income or dividends. For the employer class 1 secondary contributions are due on the same cash earnings figure, and in addition, class 1B contributions are due on the non-cash benefits given to the employee.

Many candidates used incorrect 'earnings' figures and several calculated contributions based on class 2 and class 4 – these later classes are for the self-employed not for employees.

Finally in Question 1, Part (b) involved the tax advantages of furnished holiday accommodation. Once again candidates should read the question – there was a specific statement telling candidates not to give the qualifying conditions – but still many candidates gave these as their answer. Few candidates knew all the advantages and many simply stated points such as 'they must be near the sea' or 'must be of a high standard' – which have nothing to do with tax. The advantages are – capital allowances can be claimed, the income qualifies as earned income for pension purposes, the accommodation is classed as a business and, therefore, relief for trade losses are available and capital gains tax business reliefs may be available on sale.

QUESTION 2

This was a three-part question involving adjusting of profits, capital allowances and corporation tax for a 15-month accounting period. Most candidates found this question a real problem.

Part (a) of the question caused several problems. Once again reading the question carefully would help candidates score marks. The requirement clearly stated that candidates must start with the net profit and must list every item, stating what

action is required. A suggested layout was given; this was not compulsory but was given as an aid to help candidates.

The standard of answers given seemed to show that very few candidates really understand what the adjustment process is about and how this is done. Most answers just seem to list every item and a guess whether they should be added or deducted from the profit given.

The adjustment process is necessary to turn an accounting net profit figure into a figure that is taxable – many items of expense are deductible for accounting but not for tax and similarly some income items may be included in the accounting profit but are either not taxable or are taxable under a different category to trading income.

The accounting profit must be fully analysed and expenses not allowed for tax must be added back and the income not taxable as trading income must be deducted.

This adjustment process is necessary for all businesses including sole traders, partnerships and companies and as such is an important aspect of tax law which will be tested on a regular basis.

Part (b) of the question examined two common areas of corporation tax – capital allowances and tax for a long period of account.

The first problem was to understand that companies can never be assessed to tax on a period of more than 12 months therefore both the capital allowances and corporation tax had to be calculated in two periods, the first for the first 12 months and the second for the remaining three months.

For capital allowances (CAs) candidates had to know that annual investment allowance of £50,000 was available and first-year allowance of 40% was due on the remaining £10,000 of the new purchase. For the second three-month period the writing down allowance had to be reduced to 3/12.

When calculating the corporation tax income and deductions had to be allocated to the correct period, either the first 12 months or the second three-month period. The adjusted profit (before CAs) had to be time apportioned and the CAs calculated in Part (i)

had to be deducted from the relevant period. Property income is then time apportioned on the accruals basis – ie £1,000 per month in this question, the capital gain and Gift Aid are allocated based on the date of the gain or payment. A common mistake was to tax the dividend income – however this should be grossed up by 100/90 and then treated as franked investment income which effects the rate of tax to be used but is not actually taxed.

There are then two separate tax calculations, one for each period.

Some marks were given where candidates did a 15-month tax calculation, however it should be noted that the tax thresholds of £1,500,000 and £300,000 can never be extrapolated to give higher amounts.

QUESTION 3

This was a three-part question and involved the calculation of gains for four common disposals, the calculation of gains on the gift of quoted shares and finally the calculation of rollover relief.

Four separate disposals were involved in Part (a), the biggest problem was once again not doing what the question asked – candidates did not seem to read the question. The requirement clearly stated that candidates must state why any gain or loss is not included – this was ignored by most.

The first disposal was a chattel and required the calculation of marginal relief, this was well done by the majority of candidates. The only small technical point to note here is that the gross proceeds and not the net proceeds has to be used in the 5/3rds formula.

The second disposal was a qualifying corporate bond – this is exempt from capital gains tax. Candidates were required to state this (as per the question) to get the mark available – simply leaving the calculation out did not earn a mark.

The third calculation was the sale of plant and machinery. Any loss on the sale is covered by capital allowances and therefore no capital loss can be claimed. Many candidates did not know this and those that may have did not state the rule as required by the question.

The final disposal was the sale of a workshop, which involved the purchase of an extension, which had been destroyed before the sale and never replaced. On occasions such as this the cost of the extension is not allowed in the calculation of the gain because the cost is not reflected in what is being sold. Once again, as required by the

question, candidates had to explain this to get full marks.

Part (b) required candidates to calculate the value of quoted shares given away in order to calculate the gain occurring. Two calculations are required, the average method which adds the highest and lowest daily bargains and divides them by two and the $\frac{1}{4}$ up method which adds a $\frac{1}{4}$ of the difference in the two closing prices to the lower of the two figures. The lower of the two calculations is then deemed to be the sale price of each of the shares given away.

Many candidates got full marks for this part and some had a rough idea of the requirement and calculated a variation of values – these candidates got credit for their efforts.

Part (c) involved an understanding of rollover relief. The technical points here involved calculating a basic gain (proceeds less cost) and rolling over the gain against the cost of any qualifying replacement business asset purchased during the period of one year before the disposal and three years after the disposal. However, full rollover relief is only available if the full proceeds are reinvested, if they are not – as per this question – then a gain equal to the proceeds retained is chargeable immediately and only the balance of the full gain can be rolled over.

Once again as required by the question requirement full marks were only given if candidates stated the full original gain, the chargeable gain and the amount rolled over.

QUESTION 4

This was a two-part question involving the allocation of partnership profits including the assessable figures for a departing partner and the calculation of value added tax (VAT) payable.

The allocation of partnership profits was generally well done, however, candidates are reminded that salaries and interest on capital should be allocated to relevant partners first and the balance of the profits allocated last. The salaries and interest on capital are deemed to be 'fixed allocations of profit' not actual salaries (employment income) or interest (savings income).

The calculation of the assessable amounts for a departing partner was very poorly attempted. Most candidates had no idea and simply listed the amounts calculated in the partnership split – this did not earn marks.

When asked to calculate assessable profits for tax years – candidates

must do this, ie they must state tax years and not accounting periods. If a partner leaves, candidates must treat the partner as a sole trader closing his business and therefore calculate assessable profits for relevant tax years (using the figures allocated) based on the closing year rules. Unfortunately, many candidates incorrectly did a 'version' of the opening year rules and finished up with extra overlap profit.

Part (b) of the question required the calculation of VAT payable – it is pleasing to note that this was done very well. The technical points that candidates had to be aware of were that supplies to overseas customers are zero rated and that VAT payable on cars is not normally recoverable. Other points to note were that if a figure is given exclusive of VAT then the VAT is calculated by using the relevant VAT percentage (15% in this case) but if the figure is quoted inclusive of VAT then the relevant fraction ($\frac{3}{23}$ in this case) should be used.

CONCLUSION

There were some extremely good sets of answers but as usual far too many scripts showed candidates had little or no idea of the areas being examined. Candidates are reminded to study the entire syllabus, not just selected areas, and to read the questions carefully. Full marks will only be awarded if the full requirement is answered, if told to do something you must do it, this is the only way the examiner can tell if you fully understand an area or have simply ignored an item because you don't know what to do. Finally, read the requirements carefully.

PAPER 10 MANAGING FINANCES

Section A consisted of 10 objective testing questions, worth 20 marks overall, and Section B comprised four 20-mark questions. The calculation/written split in Section A was 50:50, and the split in Section B was 46:54.

The majority of candidates attempted all of the questions in Section B, suggesting that candidates did not appear to suffer from time pressure in this exam. Presentation varied from script to script, but generally legibility and layout were acceptable.

Many candidates provided adequate workings for the numerical parts of Section B. It is imperative that candidates show clear workings in their answers, otherwise if the final answer

is incorrect, it is impossible to award method marks.

Overall the technical knowledge shown by candidates at this sitting was poor. In many instances, it was obvious that candidates are not studying the whole syllabus, and could not attempt every part of each question in Section B.

SECTION A

The majority of candidates attempted this section, but overall performance was poor.

SPECIFIC COMMENTS – SECTION B QUESTION 1

This question examined investment appraisal. The calculation in Part (a) was a net present value calculation worth 12 marks, and candidates seemed well prepared for this type of calculation.

Candidates often struggled to calculate the correct income from the diners, but if workings were clearly shown, many method marks were gained, with many candidates gaining two of the three marks available. The cost of the chefs was dependant on the number of diners. If the number of diners was incorrectly calculated within the income calculation, but the incorrect figure consistently used in the chef cost calculation, then method marks were awarded. Candidates must recognise, as has been the case in previous exams, the importance of clearly showing all workings so that method marks can be awarded.

Candidates need to ensure that they incorporate incremental costs only within net present value calculations. Many candidates included a cash flow of \$32,400 for the overheads, being the current overheads of \$30,000 as well as the increase of \$2,400, when only the incremental amount of \$2,400 should have been considered within the calculation. Similarly, with the reduction in current annual net income, it should only be the reduction that is included within the calculation, not the original amount and the reduction, ie \$20,000 in year one, not \$180,000.

Candidates must read the scenario carefully to ensure that they pick up the correct timings for cash flows. For example, the scenario clearly stated that the second payment for the building work would take place one year after the first payment. The first payment was usually correctly put at T0, but the second payment was frequently put in year two or year five.

The requirement in Part (a) specifically asked for a conclusion. This was missed by many candidates and an easy mark was lost.

Part (b) was written for five marks, asking candidates to explain what a relevant cash flow is and illustrate their points with examples from Part (a). Here candidates were required to explain the principles (future, incremental, cash flow etc) and link the principle to an example from Part (a). Candidates who just repeated what they had done in Part (a) in narrative form (eg 'chef's wages are relevant') and did not explain why the cash flow was relevant gained few marks. However, in the main, this part of the question was well answered with many candidates scoring full marks.

Part (c) was very badly answered, with many candidates scoring zero. A lack of knowledge of this part of the syllabus was shown with candidates either ignoring Part (c) altogether, or for example starting a discussion about the effect of inflation on imports and exports, or explaining the internal rate of return, neither of which answers the requirement set.

QUESTION 2

This question concentrated on inventory management. Overall, performance on this question was very disappointing. This topic is a core part of the syllabus and I wrote a technical article on this topic published in March 2010.

Part (a)(i) and (ii) were generally the best answered parts of this question – candidates showed an awareness of the concepts and made a good attempt at the requirements for JIT to operate. Part (a)(iii) was, however, badly answered. Candidates often stated that JIT would be ideal for Expand Co, so ignoring the clues in the scenario (inefficiencies, too many different suppliers) and ignoring their own criteria for JIT. Other candidates ignored the part of the requirement 'in the circumstances outlined above', and tried to explain what Expand Co needed to do to make JIT work in the future – this was not the focus of the question.

Answers to Part (b) were on the whole very poor. Calculating the EOQ should have been easy marks to gain – the formula was given – but the majority of candidates still got this wrong. The main errors were to not calculate demand for the raw material component correctly at 100,000 units (annual demand of 50,000 was for finished goods, and each unit of finished goods required two units of the raw material component) and not calculate the holding cost correctly at 20% of the purchase price.

If errors had been made in the EOQ calculation, but workings had been clearly shown, it should have been possible to gain many marks in the following part of

the calculation dealing with the discounts. However, the majority of candidates were unable to deal with the discount, and either did not attempt this part of the calculation, or did so very badly.

Part (c) asked for factors 'other than price' – but many candidates included price in their list. Other than this, candidates generally wrote down reasonable factors and many gained at least two of the three marks available.

QUESTION 3

Question 3 examined financing, and for the five methods of financing listed, asked candidates to first explain the method of financing, and then relate the method to the situation given in the scenario. Both aspects of the requirement needed to be answered for full marks to be awarded.

The quality of answers varied greatly in this question. Some candidates showed a good understanding of the types of financing, applied their knowledge to the scenario well, and gained high marks. Many candidates however, showed a lack of knowledge, stating for example that venture capital was a joint venture, or that trade credit was bulk buy discounts. In addition, many candidates did not relate their answers to the scenario, for example not picking up the size of the investment required, or the fact that this is a family owned company. Accordingly, such answers did not gain many marks.

QUESTION 4

This question examined short-term decisions, a topic with which candidates should now be familiar.

Candidates tended to get Parts (a)(i) and (ii) either completely correct or score zero. This could indicate that some candidates are not studying the whole syllabus. Part (a)(iii) asked candidates to comment on their calculations. When asked to comment, it is not enough just to restate the figures calculated.

In Part (b), many candidates misread the requirement, with the vast majority drawing a breakeven chart rather than a profit-volume chart.

The answers to Part (c) were also very weak. In Part (i), candidates either did not attempt this part of the question at all, or vaguely stated that the profit-volume line would be affected, but not how. Part (ii) was often not attempted, however, a few candidates who had not drawn the chart in Part (b), did show good exam technique, and calculated the new breakeven point in Part (c)(ii), and credit was given for this.

EXAM NOTES: JUNE 2011

FINANCIAL REPORTING

FINANCIAL REPORTING - INTERNATIONAL AND UK PAPER F3, FINANCIAL ACCOUNTING; PAPER F7, FINANCIAL REPORTING; AND PAPER P2, CORPORATE REPORTING

Knowledge of new examinable regulations issued by 30 September will be required in exam sessions being held in the following calendar year. Documents may be examinable even if the effective date is in the future. The documents listed as being examinable are the latest that were issued prior to 30 September 2009 and will be examinable at the December 2010 exam session. The *Study Guide* offers more detailed guidance on the depth and level at which the examinable documents will be examined. The *Study Guide* should be read in conjunction with the examinable documents list.

There are other additional areas examinable for UK and Irish papers and these are available at www.accaglobal.com/stdudents/pass/examinable_documents

International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs)

	F3	F7	P2
IAS 1 Presentation of Financial Statements	•	•	•
IAS 2 Inventories	•	•	•
IAS 7 Statement of Cash Flows	•	•	•
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	•	•	•
IAS 10 Events After the Reporting Period	•	•	•
IAS 11 Construction Contracts	•	•	•
IAS 12 Income Taxes	•	•	•
IAS 16 Property, Plant and Equipment	•	•	•
IAS 17 Leases	•	•	•
IAS 18 Revenue	•	•	•
IAS 19 Employee Benefits	•	•	•
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	•	•	•
IAS 21 The Effects of Changes in Foreign Exchange Rates	•	•	•
IAS 23 Borrowing Costs	•	•	•
IAS 24 Related Party Disclosures	•	•	•
IAS 27 Consolidated and Separate Financial Statements	•	•	•
IAS 28 Investments in Associates	•	•	•
IAS 29 Financial Reporting in Hyperinflationary Economies	•	•	•
IAS 31 Interests in Joint Ventures	•	•	•
IAS 32 Financial Instruments: Presentation	•	•	•
IAS 33 Earnings per Share	•	•	•
IAS 34 Interim Financial Reporting	•	•	•
IAS 36 Impairment of Assets	•	•	•
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	•	•	•
IAS 38 Intangible Assets	•	•	•
IAS 39 Financial Instruments: Recognition and Measurement	•	•	•
IAS 40 Investment Property	•	•	•
IAS 41 Agriculture	•	•	•
IFRS 1 First-time Adoption of International Financial Reporting Standards	•	•	•
IFRS 2 Share-based Payment	•	•	•
IFRS 3 Business Combinations (revised)	•	•	•

	F3	F7	P2
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations		•	•
IFRS 7 Financial Instruments: Disclosures		•	•
IFRS 8 Operating Segments		•	•
IFRS 9 Financial Instruments		•	•
IFRS for Small and Medium-Sized Entities			•

Other Statements Framework for the Preparation and Presentation of Financial Statements*	F3	F7	P2
	•	•	•

Exposure Drafts, Discussion Papers and Other Documents

	F3	F7	P2
ED2009/6 Management Commentary			•
ED 2009/5 Fair Value Measurements			•
ED An Improved Conceptual Framework for Financial Reporting – Chapters 1 and 2*			•
ED 2009/12 Financial Instruments: Amortised Cost and Impairment			•
ED 2010/09 Leases			•
ED 2010/06 Revenue from contracts with customers			•

* Note: The Conceptual Framework was issued on 28 September 2010. Given the proximity to the cut off, ACCA has made the decision that in the interests of all stakeholders this revised document will not be examined and any questions relating to the framework will be based on the documents listed above.

AUDIT - INTERNATIONAL

Knowledge of new examinable regulations issued by 30 September will be examinable in exam sessions being held in the following calendar year. Documents may be examinable even if the effective date is in the future. This means that all regulations issued by 30 September 2010 will be examinable at the June 2011 session.

The *Study Guide* offers more detailed guidance on the depth and level at which the examinable documents will be examined. The *Study Guide* should therefore be read in conjunction with the examinable documents list.

PAPER F8, AUDIT AND ASSURANCE (INT)

The accounting knowledge that is assumed for Paper F8, *Audit and Assurance* is the same as that examined in Paper F3, *Financial Accounting*. Therefore, candidates studying for Paper F8 should refer to the accounting standards listed as relevant to Paper F3.

PAPER P7, ADVANCED AUDIT AND ASSURANCE (INT)

The accounting knowledge that is assumed for Paper P7, *Advanced Audit and Assurance* is the same as that examined in Paper P2, *Corporate Reporting*.

Therefore, candidates studying for Paper P7 should refer to the accounting standards listed as relevant to Paper P2. Paper P7 will only expect knowledge of accounting standards and financial reporting standards from Paper P2.

Knowledge of Exposure Drafts and Discussion Papers will not be expected.

AUDIT

International Standards on Auditing (ISAs)

	F8	P7			F8	P7
	•	•	ISA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	•	•
	•	•	ISA 710	Comparative Information – Corresponding Figures and Comparative Financial Statements	•	•
ISA 200	•	•	ISA 720	The Auditor's Responsibilities Relating to Other Information in Documents Contained in Audited Financial Statements	•	•
ISA 210	•	•			•	•
ISA 220	•	•				
ISA 230	•	•		International Auditing Practice Statements (IAPs)		
ISA 240	•	•	IAPS 1000	Inter-bank Confirmation Procedures	F8	P7
ISA 250	•	•	IAPS 1010	The Consideration of Environmental Matters in the Audit of Financial Statements	•	•
ISA 260	•	•	IAPS 1013	Electronic Commerce: Effect on the Audit of Financial Statements	•	•
ISA 265	•	•				
ISA 300	•	•		International Standards on Assurance Engagements (ISAEs)		
ISA 315	•	•	ISAE 3000	Assurance Engagements Other Than Audits or Reviews of Historical Financial Information	F8	P7
ISA 320	•	•	ISAE 3400	The Examination of Prospective Financial Information	•	•
ISA 330	•	•	ISAE 3402	Assurance Reports on Controls at a Service Organisation	•	•
ISA 402	•	•				
ISA 450	•	•		International Standards on Quality Control (ISQCs)		
ISA 500	•	•	ISQC 1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Statements and Other Assurance and Related Services Engagements	F8	P7
ISA 501	•	•			•	•
ISA 505	•	•				
ISA 510	•	•		International Standards on Related Services (ISRSs)		
ISA 520	•	•	ISR 4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information	F8	P7
ISA 530	•	•			•	•
ISA 540	•	•				
ISA 550	•	•		International Standards on Review Engagements (ISREs)		
ISA 560	•	•	ISRE 2400	Engagements to Review Financial Statements	F8	P7
ISA 570	•	•	ISRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	•	•
ISA 580	•	•			•	•
ISA 600	•	•				
ISA 610	•	•		Exposure Drafts (ED)		
ISA 620	•	•			F8	P7
ISA 700	•	•		Auditing Complex Financial Statements	•	•
ISA 705	•	•		Proposed ISA 315 (Revised) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment	•	•
	•	•		Proposed ISA 610 (Revised) Using the Work of Internal Auditors	•	•

Petrol cars with CO₂ emissions between 76 and 120 grams per kilometre 10%

Car fuel benefit F6 P6
• •

The base figure for calculating the car fuel benefit is £18,000.

Pension scheme limits F6 P6
• •

Annual allowance £255,000 •
Lifetime allowance £1,800,000 •
The maximum contribution that can qualify for tax relief without evidence of earnings £3,600 • •

Authorised mileage allowances: cars F6 P6
• •

Up to 10,000 miles 40p
Over 10,000 miles 25p

Capital allowances: rates of allowance F6 P6
• •

Plant and machinery

Main pool 20%
Special rate pool 10%

Motor cars (purchases since 6 April 2009 (1 April 2009 for limited companies))

CO₂ emissions up to 110 grams per kilometre 100
CO₂ emissions between 111 and 160 grams per kilometre 20
CO₂ emissions over 160 grams per kilometre 10

Annual investment allowance
First £100,000 of expenditure 100

Industrial buildings allowance

Writing-down allowance 1

Corporation tax F6 P6
• •

Financial year	2008	2009	2010
Small companies rate	21%	21%	21%
Main rate	28%	28%	28%
Lower limit (£)	300,000	300,000	300,000
Upper limit (£)	1,500,000	1,500,000	1,500,000
Standard fraction	7/400	7/400	7/400

Marginal relief F6 P6
• •

Standard fraction x (U-A) x N/A

Value added tax F6 P6
• •

Standard rate – up to 3 January 2011 17.5%
Standard rate – from 4 January 2011 onwards 20%

Registration limit £70,000
Deregistration limit £68,000

Inheritance tax: tax rates F6 P6
• •

	%
£1–325,000	Nil
Excess – Death rate	40
– Lifetime rate	20

Inheritance tax: taper relief F6 P6
• •

Years before death	Percentage reduction
More than 3 but less than 4 years	20
More than 4 but less than 5 years	40
More than 5 but less than 6 years	60
More than 6 but less than 7 years	80

Capital gains tax F6 P6
• •

Rate of tax – Lower rate	18%
– Higher rate	28%
Annual exemption	£10,100
Entrepreneurs' relief – Lifetime limit	£5,000,000
– Rate of tax	10%

National Insurance contributions (not contracted out rates) F6 P6
• •

		%
Class 1 Employee	£1–5,715 per year	Nil
	£5,716–43,875 per year	11.0
	£43,876 and above per year	1.0
Class 1 Employer	£1–5,715 per year	Nil
	£5,716 and above per year	12.8
Class 1A		12.8
Class 2	£2.40 per week	
	Small earnings exception limit – £5,075	
Class 4	£1–5,715 per year	Nil
	£5,716–43,875 per year	8.0
	£43,876 and above per year	1.0

Rates of interest (assumed) F6 P6
• •

Official rate of interest	4%
Rate of interest on underpaid tax	3%
Rate of interest on overpaid tax	0.5%

Stamp Duty Land Tax F6 P6
• •

	Rate %
£150,000 or less ¹	Nil
£150,001–£250,000 ²	1
£250,001–£500,000	3
£500,001 or more	4

¹ For residential property, the nil rate is restricted to £125,000.

² From 25 March 2010 to 24 March 2012 there is an exemption for first-time buyers purchasing residential properties for no more than £250,000.

Stamp duty F6 P6
• •

Shares 0.5%

RESOURCES

The Resources section contains all the information you need to enter for your June exams, and also includes answers to your frequently-asked questions and contact details for *ACCA Connect*

70 ACCA CONNECT

For all enquiries, contact *ACCA Connect*, our global customer service centre

70 FEES

Exam fees for ACCA and CAT Qualification, and Foundations in Accountancy papers and ways to pay

71 EXAM TIMETABLES

Detailed exam timetable for the June 2011 exam session to help with your diary planning

72 FAQs

Answers to your frequently-asked questions about exam entry, *myACCA* services and certificates of achievement

73 EXAM RULES

Essential advice and rules that you should be aware of before you take your June 2011 exams

73 FOUNDATIONS IN ACCOUNTANCY

Find out more about ACCA's new entry-level suite of qualifications



ACCA CONNECT



For all enquiries, simply contact *ACCA Connect* – our global customer service centre. However you want to contact us, by phone, fax, email or post, one of our expert advisers will be happy to assist you.

MONDAY TO THURSDAY

Open 21 hours (closed 20.00 to 23.00)

FRIDAY

Open 20 hours (closed 20.00 to midnight)

SATURDAY

Closed

SUNDAY

Open 09.00 to 17.00 and 23.00 to midnight (all times based on GMT/BST as appropriate)

ACCA Connect

2 Central Quay 89 Hydepark Street Glasgow

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email: students@accaglobal.com

website: www.accaglobal.com

ACHIEVING ACCA MEMBERSHIP

ACCA will now invite you to transfer to membership as soon as your records indicate that you are ready.

For more information visit www.accaglobal.com/students/acca/membership/. However, if, after the next set of results in August 2011, you think

you are ready, you can download and complete the application form available at www.accaglobal.com/students/acca/membership/ and return it to: ACCA Customer Services, 2 Central Quay, 89 Hydepark Street, Glasgow United Kingdom, G3 8BW

It will take approximately four to six weeks to process your application for membership.

FEES

ANNUAL SUBSCRIPTION – 2011

Please note as a student you are required to pay an annual subscription for each year you are registered with ACCA. This is a separate fee to your initial registration fee. Your annual subscription is due on 1 January – irrespective of the month you registered. For example, if you registered in December, you will still be required to pay an annual subscription by 1 January. The payment enables ACCA to provide you with services and support to assist you with your studies and training as you work towards gaining your qualification.

Students who fail to pay fees when due (including exam/exemption fees), will have their names removed from the ACCA register. Students wishing to re-register are required to submit any amounts unpaid at the time of their removal in addition to the re-registration fee. No penalty fee will be charged. Confirmation of your unpaid fees can be obtained from your national ACCA office or *ACCA Connect*.

The following fees and subscriptions apply (exam fees are valid for the June 2011 session):

CAT students

Initial subscription	£72
Re-registration	*£72
Annual subscription	£62
Introductory Level exam	£40
Intermediate Level exam	£40
Advanced Level exam/exemption	£53

ACCA Qualification students

Initial subscription	£72
Re-registration	*£72
Annual subscription	£72
Knowledge exam/exemption	£57
Skills exam/exemption	£72
Professional exam	£84
*plus unpaid fee(s)	

Foundations in Accountancy students

Initial registration	£72
Subscription	£72

Don't forget to pay your fees on time. Dates by which fees and subscriptions must be paid and arrangements for payment are included in your ACCA welcome pack.

CHANGE OF ADDRESS

Update your contact details online through *myACCA*, or let us know your new details by writing to *ACCA Connect*, or email students@accaglobal.com



Are your contact details up to date?
<https://www.acca-business.org>



JUNE 2011 EXAM SESSION

The following dates have been confirmed for the next exam session:

June 2011

Week 1 6 to 10 June
 Week 2 13 to 15 June

Exams will take place over an eight-day period with one session of exams each day.

The exams will be held concurrently in five different time zones. The base starting times in each of these time zones will be:

- ▣ Zone 1 (Caribbean) – 08.00hrs
- ▣ Zone 2 (UK) – 10.00hrs
- ▣ Zone 3 (Pakistan and South Asia) – 14.00hrs
- ▣ Zone 4 (Asia Pacific) – 15.00hrs
- ▣ Zone 5 (Australasia) – 17.00hrs.

Local starting times will be set falling out from these base start times for every centre. Details of local start times

can be found against each centre on the *Examination Centre List* accompanying your *Examination Entry Form*. Papers F1 to F3 are two-hour exams, and Papers F4 to F9 and P1 to P7 are three-hour exams.

Monday 6 June

- 1* Recording Financial Transactions
- 6* Drafting Financial Statements
- F6 Taxation
- P6 Advanced Taxation

Tuesday 7 June

- 2* Information for Management Control
- 7* Planning, Control and Performance Management
- F4 Corporate and Business Law
- P7 Advanced Audit and Assurance

Wednesday 8 June

- 3* Maintaining Financial Records

- F3 Financial Accounting
- MFA Financial Accounting
- F8 Audit and Assurance

Thursday 9 June

- 4* Accounting for Costs
- F9 Financial Management
- P4 Advanced Financial Management

Friday 10 June

- 5* Managing People and Systems
- F2 Management Accounting
- MMA Management Accounting
- P5 Advanced Performance Management

Monday 13 June

- 8* Implementing Audit Procedures
- F5 Performance Management
- P1 Governance, Risk and Ethics

Tuesday 14 June

- 9* Preparing Taxation Computations
- F7 Financial Reporting
- P2 Corporate Reporting

Wednesday 15 June

- 10* Managing Finances
- F1 Accountant in Business
- P3 Business Analysis

*CAT exams

The latest ACCA exam rules can be found at www.accaglobal.com/students/rules/exam_regs

LOCAL START TIMES
 CAN BE FOUND BY
 EACH CENTRE OF
 THE EXAMINATION
 CENTRE LIST.

EXAM TIMETABLE

EXAM ENTRY

The quickest and simplest way to register for your exams is to register online at **myACCA** (<https://portal.accaglobal.com/>).

Registering for your exams online means:

- ▣ you get immediate confirmation of receipt/processing of your exam entry
- ▣ you get immediate validation of exam entry information

- ▣ you can go back and change the exam centre you've selected
- ▣ you can change your law/tax variant and standards or stream
- ▣ should you change your mind about which exams you feel ready to take then you can amend your exam selection.

You can amend your exam selection at no extra cost up until the standard exam

entry closing date of **15 April 2011** for June exams and **15 October 2011** for December exams. If you're completing a paper *Examination Entry Form* sent to you in February this must be received at ACCA's exam department in the UK by **15 April 2011**. Please note that due to the volume of entries, you should confirm whether your exam entry has been received by viewing your status on *myACCA* or contacting *ACCA Connect*.

FREQUENTLY-ASKED QUESTIONS

I have forgotten my password. How can I request a new one?

If you have forgotten your password, you can request a new one through the myACCA homepage by clicking on the 'forgotten your password' link. You will be asked to enter your registration number and confirm some personal details. A new password will be emailed to you within 24 hours.

When are results issued?

Results are issued approximately nine weeks after exams are completed. All students receive a postal notification, dispatched on the same day from the UK. However, if you want to receive your results as quickly as possible, you can register to receive your results by email too. Log on to myACCA and choose the option to receive your exam results by email.

Can I obtain a letter confirming I am a registered student?

As soon as your registration application has been processed successfully you will receive a student information pack. As part of the information pack you will receive a welcome letter and registration card confirming your status as a student of ACCA.

If you require further confirmation of your status then please contact ACCA

Connect who will be able to assist you by issuing the appropriate letter.

How can I order a replacement student card?

In order that you may be issued with a replacement card please contact ACCA Connect. A fee of £10 is charged if you:

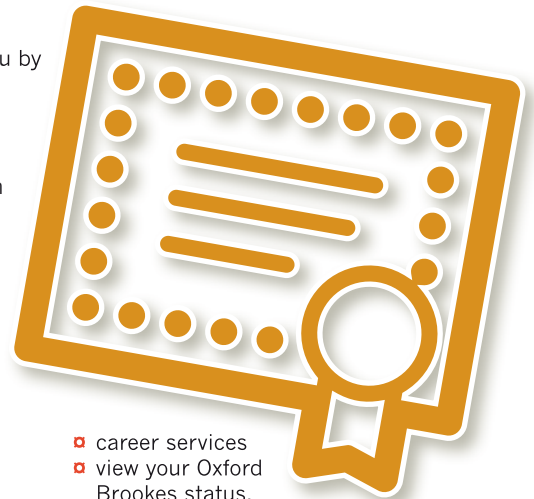
- ▣ lose your registration card
- ▣ change your name by deed poll.

No fee is charged if you change your name by marriage.

What services are offered through myACCA?

There are a host of services and information available through myACCA, including:

- ▣ chart your progress towards achieving the ACCA Qualification
- ▣ enter for exams
- ▣ amend an existing exam entry
- ▣ view exam timetables and results
- ▣ submit your PER return
- ▣ record your experience by accessing and updating the trainee development matrix (TDM)
- ▣ access the Professional Ethics module
- ▣ update your personal and/or employment details
- ▣ make a payment
- ▣ change your password



- ▣ career services
- ▣ view your Oxford Brookes status.

What exam certificates are awarded for the ACCA Qualification?

Certificate of Achievement

Students are awarded a Certificate of Achievement if they achieve a pass mark of 85% or above for individual passes in Papers F1, F2 and F3.

Fundamentals Level Certificate

Students are awarded a Fundamentals Level Certificate when they have successfully completed all of the exams in the Fundamentals level of the ACCA Qualification (Papers F1–F9).

Professional Level Certificate

Students are awarded a Professional Level Certificate when they have successfully completed all of the exams in the Professional level of the ACCA Qualification (P1–P3 and any two of the Options papers from P4, P5, P6 and P7).

OXFORD BROOKES BSc (HONS)

Students completing certain papers of the ACCA Qualification are eligible to apply for a BSc (Hons) in Applied Accounting from Oxford Brookes University.

The degree must be completed within 10 years of your initial registration on to ACCA's professional qualification; otherwise, your eligibility will be withdrawn. Check your eligibility status at www.accaglobal.com/students/bsc/. The dates tabled below outline the forthcoming deadlines for completing the qualifying exams and the last opportunity to submit your *Research and Analysis Project* (RAP):

First session (1)

June 2000
December 2000

Final session for completing the qualifying exams (2)

December 2010
June 2011

Final date for submission of RAP

May 2011
November 2011

Notes

- 1 First applicable exam session as confirmed at the time of your initial registration with ACCA.
- 2 Completion of Fundamentals level exams.

Professional Ethics module

Students wishing to submit their *Research and Analysis Project* (RAP) must complete the Professional Ethics module. For more information visit www.accaglobal.com/students/bsc/

TRANSFER FROM CAT TO ACCA QUALIFICATION

Students completing the exam element of the Certified Accounting Technician Scheme are eligible to transfer to the ACCA Qualification with exemption from Papers F1, F2 and F3.

This transfer is automatic for all students who stated on their initial *Technician Registration Form* that they wished this to take place. Such students are eligible to take the next session of the ACCA Qualification exams.

If you indicated on your application that you did not wish this transfer to take place, a separate application will be required should you subsequently decide to attempt the ACCA Qualification exams.

EXAM RULES

Important information for ACCA students intending to take exams at the June 2011 exam session

- 1 You are required to comply in all respects with any instructions issued by the registrar, exam supervisor, and invigilators before and during an exam.
- 2 You may not attempt to deceive the registrar or the exam supervisor by giving false or misleading information.
- 3 You are not allowed to take to your exam desk, possess, use, or intend to use while at that desk, any books, notes or other materials except those authorised by the registrar. If you are found to have taken to your desk, or possessed while at that desk, unauthorised materials which are relevant to the syllabus being examined, it will be assumed that you intended to use them to gain an unfair advantage in the exam. In any subsequent disciplinary proceedings, it shall be for you to prove that you did not intend to use the materials to gain an unfair advantage in the exam.
- 4 You may not assist, attempt to assist, obtain, or attempt to obtain assistance by improper means from any other person during your exams.
- 5 You are required to adhere at all times to the Instructions to Candidates, which you receive with your *Examination Attendance Docket*.
- 6 You are required to comply with the exam supervisor's ruling. Supervisors are obliged to report any cases of irregularity or improper conduct to the registrar. The supervisor is empowered to discontinue your exam if you are suspected of misconduct and to exclude you from the exam hall.

THESE RULES ARE REPRODUCED ON YOUR EXAMINATION ATTENDANCE DOCKET – YOU SHOULD TAKE TIME BEFORE THE EXAMS TO FAMILIARISE YOURSELF WITH THEM. IN ORDER TO BE ELIGIBLE TO SIT YOUR EXAMS YOU MUST SIGN YOUR DOCKET CONFIRMING YOUR AGREEMENT TO COMPLY WITH THESE RULES.

- 7 You may not engage in any other unprofessional conduct designed to assist you in your exam attempt.
- 8 You are not permitted to remove either your script booklet or your question paper from the exam hall. All exam scripts remain the property of ACCA.
- 9 Once the exam has started, you are not allowed to leave the exam hall permanently until the end of the session, and then only when instructed by the supervisor.

These regulations are reproduced on your *Examination Attendance Docket* – you should take time to familiarise yourself with them. In order to be eligible to sit your exams, you must sign your docket confirming your agreement to comply with these regulations.

Important examination rules

- ▣ Mobile phones and pagers should be switched off at all times in the exam hall, and are not permitted to be taken to your desk under any circumstances. Mobile phones are not permitted on your desk even if they remain switched off.

- ▣ Calculators taken into the exam must comply with the regulations stated on your *Examination Attendance Docket*, ie they should be noiseless, pocket-sized, and they must not have a print-out facility or graphic word display facility in any language.
- ▣ For security reasons, the exams are held concurrently in five different time zones. Students are therefore not permitted to leave the hall permanently until the end of the exam session. Any student in breach of this regulation will be reported.

In the exam hall

Every effort is made to ensure that you sit your exams in the best conditions. However, if you have a complaint regarding the centre operation, you should make this known to the exam supervisor in the first instance. The supervisor will do everything within their power to resolve the matter to your satisfaction there and then. If the complaint is of a fundamental nature, ACCA will take whatever further remedial action it considers appropriate in the circumstances.

FOUNDATIONS IN ACCOUNTANCY

Foundations in Accountancy consists of a suite of awards, including certificates, diplomas and a revised Certified Accounting Technician (CAT) Qualification, which will first be examined in December 2011.

These flexible awards focus on the core skills of financial accounting and management accounting; and the wider role of the accountant in business at higher levels. The range of awards means employers can pick the level of qualification that most appropriately meets their business needs. For students, it provides flexible entry points with certification awarded at each level, allowing students to develop their education and skills, making

them an attractive and relevant choice for employers.

Foundations in Accountancy awards focus on the core skills of financial accounting and management accounting; and the wider role of the accountant in business at higher levels. The range of awards means employers can pick the level of qualification which most appropriately meets their business needs. In addition, it provides students with flexible entry points with certification awarded at each level, allowing students to tailor the awards, making them an attractive and relevant choice for employers.

Foundations in Accountancy contains the following qualifications:

- ▣ Introductory Certificate in Financial and Management Accounting – awarded on the completion of exams FA1 and MA1; and Foundations in Professionalism
- ▣ Intermediate Certificate in Financial and Management Accounting – awarded on the completion of exams FA2 and MA2; and Foundations in Professionalism
- ▣ Diploma in Accounting and Business – awarded on the completion of exams FAB, FMA and FFA; and Foundations in Professionalism
- ▣ Certified Accounting Technician (CAT) Qualification.

Access more information and download relevant resources at www.accaglobal.com/fia

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ACCA has introduced a new suite of entry-level awards – collectively referred to as Foundations in Accountancy – designed to act as great preparation for those who wish to progress their career to professional level, or provide recognition and reward for individuals working in accounting-support roles.

