



Examiners' report

F1 Accounting in Business

December 2007

General Comments

Overall the results for this sitting were excellent globally, which indicates that tuition providers and candidates must have prepared very well for this first examination of a broadly new syllabus.

Clearly in such a knowledge based paper, if a candidate has studied and or has been taught well and topics have been covered broadly and in sufficient depth, achieving 50% or 45 marks will be well within the capability of the reasonably well prepared candidate.

Sample questions for discussion:

On analysis of the candidates' performance in the December 2007 examination the following three questions have been highlighted as ones where lessons can be learned and may help to highlight some key points about studying and preparing for the F1 examination.

The first question was as follows:

Q11

Which type of unemployment arises from a permanent reduction in demand for the products supplied by a single industry or group of industries with traditionally large workforces?

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

The answer is B – Structural.

Although more people selected the correct answer than any other individual option, almost 50% of candidates selected incorrect answers, indicating some uncertainty about the definition of structural as opposed to frictional or cyclical unemployment.

This topic is included under section B2 of the syllabus (Macroeconomic factors) specifically capability 2c) ii) unemployment.

The most surprising statistic was the percentage of candidates that selected C – Cyclical (26%), whereas only 15% selected A and 7% selected D.

The high percentage selecting C would indicate either that a significant proportion of candidates were wholly unprepared for this question, or failed to read the question correctly, or simply just guessed at it.

The question clearly says 'arises from a *permanent reduction in demand*'. As the word cyclical implies peaks and troughs, then it should have been quite apparent that this option was incorrect. Of course the same point can be made about selecting D *seasonal* for the same reasons.

The difference between structural and frictional unemployment is at one level a more subtle difference and therefore it would have been expected that candidates would have been more inclined to select A than C or D, if they did not select the correct answer. The reason for this is that although frictional and structural unemployment are both about a mismatch between the availability of employees and their skills and the type and location of vacancies, frictional unemployment is essentially a temporary situation where in a reasonable timeframe the mismatch will be eliminated, either by people relocating or being re-skilled. Structural unemployment is about a more permanent or more painful mismatch caused by a more serious shortage in certain types of jobs through, for example, the decline of a major industry such as mining or shipbuilding. In this situation the specialist nature of the work and sheer numbers of unemployed and where they are located make it very difficult for these people to find employment. The question gives a clue to this by referring to '*..products supplied by a single industry or group of industries with traditionally large workforces*'

In conclusion, students need to be more prepared in key aspects of macro economic theory, and how governments, businesses and individuals affect and can be affected by these factors, ensuring that they read the questions carefully and look for key words in the statement, the question (prompt) and in the options which can help them choose the right option and steer them away from the incorrect ones.

Q15

In relation to fraud prevention, what objective should external auditors have in designing and implementing their audit procedures?

- A A reasonable prospect of detecting irregular statements or records
- B The identification of every inconsistency or error within the records
- C To provide a systematic check of every recorded transaction
- D To verify pre-determined samples of all types of records

The answer is A

However, in this question only 36% of candidates selected the correct option with 64% choosing the wrong option. 21% selected B, 27% selected C and 16% selected D.

These statistics tend to suggest that candidates weren't really sure about this question and may have misunderstood the objectives or the scope of the *external* auditing function or perhaps confused it with objectives of internal audit or even financial accounting.

A is correct because audit is about planning a systematic approach to verifying that accounting systems are being operated correctly and that transactions are processed appropriately at a pre-agreed threshold materiality level. The objective of an external audit is for a professional auditor to evaluate or measure a subject matter that is the responsibility of another party against identified suitable criteria, and to express a conclusion (opinion) offering a

level of assurance about the subject matter for the intended user. Therefore, from the above statement there are no absolute guarantees. Only a measure of confidence can be expressed by the external auditor.

As external auditing involves selecting various tests and relies on sampling, there can never be any realistic guarantee that every inconsistency or error can be detected, nor would auditors be physically able to systematically check every recorded transaction in the time allowed or with the resources at their disposal. For example, on planning an audit such matters as which systems, records and even individual transactions will be examined and the level of materiality to be used in investigations will be decided at the planning stage or as a matter of usual practice or laid down guidelines. By implication this would mean that investigating immaterial or very low value transactions would fall outside the scope of the external audit.

This would therefore mean that B and C were not correct. D is also incorrect for the same reason as not *all* types of records can be audited, although significant groups of records would be sampled and tested. In a sense the audit only provides *reasonable assurance* that the accounts provide a fair and representative view of the financial performance and position of a business, but cannot prove that no errors have been made or that all inconsistencies have been eliminated.

Students should therefore ensure that they understand the overall purpose, scope and objectives of external auditing, having a clear understanding of the differences between the internal and external auditing function and of the role of financial accounting itself. It is also important for candidates to be realistic about what the external auditing function can achieve given the timescales such audits work to and with regard to the resources they have available to them.

Q49

Which of the following best defines coaching?

- A Developing the individual by helping to build on skills and overcome weaknesses
- B Provision of one-way instruction on formal tasks required to carry out the immediate job.
- C Offering career guidance in order to maximise the individual's potential
- D Provision of objective advice to overcome the individual's personal problems

The answer is A

In this question about half the candidates had it right, but as high as 32% thought the answer was B, with 14% selecting C. The fewest candidates 4% selected D.

These statistics would indicate that candidates weren't quite sure of their definitions or of the differences between coaching, mentoring and counselling which are all covered in Section F2(f) - *Explain the purposes and processes of coaching, mentoring and counselling and their benefits.*

Most surprising here is that so many felt that B was correct given that although it relates to work and task performance, it clearly states a *one-way instruction on formal tasks required to carry out the job*. Coaching is essentially a collaborative process, with targets mutually agreed so it is not a one-way process, therefore B is

incorrect for that reason. C and D are also incorrect because coaching is essentially work based and is about helping staff perform business tasks more effectively, it is not usually about career or personal issues, but about *developing* them as employees.

This question, as with the first two questions discussed above, illustrates the importance of knowing and clearly understanding key definitions within the syllabus and recognising sometimes subtle differences between different terms, which to the unprepared student could be very similar in meaning and may cause confusion. In a knowledge based examination such as F1, testing definitions can be a popular form of question, although many questions will also require some application. Tuition providers should therefore encourage students to explore the meaning of any key terms included within the relevant syllabus sections and also help students understand these as precisely as they can in appropriate contexts.

Conclusion

Another lesson to be learned from examining these questions is the importance to candidates of reading the question carefully, and highlighting key words which can sometimes act as clues (prompts) to the right answer or may help to eliminate any incorrect answers. This tactic can be very important in improving the probability of candidates selecting the correct options and therefore passing the examination.