

ACCA INTERIM ASSESSMENT

**Accountant in Business
(FAB)**

2014

Time allowed **2 hours**

Answer all questions

Do not open this paper until instructed by the supervisor

**This question paper must not be removed from the
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SECTION A – OBJECTIVE TEST QUESTIONS**ANSWER ALL 46 QUESTIONS****(30 × 2 marks, 16 × 1 marks)**

1 Which of the following is most likely to be an example of a non-governmental organisation?

- A A charity
- B A police force
- C An accountancy partnership **(1 mark)**

2 When examining the external environment organisations might use PEST analysis.

What does PEST stand for?

- A Political, Environmental, Social and Technical
- B Physical, Environmental, Social and Technical
- C Physical, Emergent, Strategic and Turbulent
- D Political, Economic, Social and Technical **(2 marks)**

3 What principle of the classical approach to management is breached by a matrix structure?

- A Unity of command
- B Delegation of authority
- C Span of control
- D Division of work **(2 marks)**

4 An organisation may be divided into three levels. Starting at the top of the organisation, what are these levels?

- A Strategic, tactical, operational
- B Tactical, strategic, operational
- C Strategic, operational, tactical
- D Operational, tactical, operational **(2 marks)**

- 5 J Ltd is considering implementing a new corporate structure. It has chosen a structure that maximises its structural flexibility, but has two sets of management, leading to dual command and increased conflict.**

Which organisational structure has J chosen?

- A Divisional
 - B Matrix
 - C Entrepreneurial
 - D Functional
- (2 marks)**

- 6 RPZ plc is a business that has many levels of management. Each manager only looks after a small number of staff in order to improve control.**

Which of the following statements about RPZ is correct?

- A It has a long scalar chain
 - B It has a wide span of control
- (1 mark)**

- 7 Hofstede looked for national differences in an attempt to find aspects of culture that might influence business behaviour.**

Which of the following is one of Hofstede's key dimensions of national differences?

- A Position-power
 - B Uncertainty avoidance
 - C Work-relaxation
 - D Task-people
- (2 marks)**

- 8 U plc is launching a new product – the YG153. U normally sells its products at a premium but sales of the YG153 have been weak, with research indicating that it is too expensive for the market to be able to afford.**

Which aspect of pricing has U failed to consider?

- A Cost
 - B Customers
 - C Corporate objectives
 - D Competition
- (2 marks)**

- 9 Schein argued that the corporate culture of an organisation is initially influenced by which of the following?**

- A The size of the organisation
 - B The organisation's first leaders
 - C The organisation's level of diversity
- (1 mark)**

10 Which of the following rights of data subjects is part of typical data protection legislation?

- A Right to immediate access to all data held regarding the data subject
- B Right to free access to all data held regarding the data subject
- C Right to prevent processing for the purposes of direct marketing
- D Right to immediate erasure of data held regarding the data subject on request

(2 marks)

11 Porter identified nine types of 'value activity' in a firm which he categorised into two types; primary activities and support activities.

Which of the following is a support activity?

- A Inbound logistics
- B Procurement
- C Service

(1 mark)

12 Cyclical unemployment refers to unemployment:

- A which occurs because of the seasonal nature of some industries
- B resulting from the long-term decline of an industry
- C which occurs at particular times of the year
- D which occurs during recessions

(2 marks)

13 An inflationary gap exists in an economy when:

- A the government has a budget deficit
- B aggregate demand is greater than the full employment level of income
- C the money supply rising faster than national income
- D the government increases its level of expenditure

(2 marks)

14 Which of the following statements about price elasticity of demand (PED) is correct?

- A If the number of suppliers of a product increases, the PED will usually fall
- B PED tends to be low for items that customers spend a large proportion of their income on
- C Necessities are relatively elastic
- D The longer a price change holds, the more likely a product is to become elastic

(2 marks)

15 Lucas Training is a small entrepreneurial organisation led by Frank Lucas who started the business 2 years ago. Frank is central to all the key decisions made in the firm. His knowledge and business awareness is critical to the firm's success. Which of Handy's cultural types is present in Lucas Training?

- A Power
- B Role
- C Task
- D Person

(2 marks)

16 Which of the following is an advantage of an entrepreneurial structure?

- A Economies of scale
- B Enhanced career opportunities
- C Enables growth
- D Goal congruence

(2 marks)

17 V operates a popular gym. He charges a higher price for customers who wish to use the facilities at peak times and less for those customers who can use the gym at quiet times.

What approach to pricing is being taken by V?

- A Discrimination
- B Skimming
- C Penetration
- D Going rate

(2 marks)

18 Hofstede developed an influential model of the dimensions on which national cultures differ. X Inc is a company based in the country of Zee with a national culture that supports single status pay arrangements, informal styles of dress in the workplace and self-managed team working.

According to Hofstede, this would be classified as:

- A individualistic
- B collective
- C low power distance
- D high uncertainty avoidance

(2 marks)

- 19 Consider the following statement regarding a country's balance of payments.**
- Expenditure-reducing strategies involve the government deliberately encouraging consumers to buy domestically produced rather than imported goods.
- Is this statement true or false?
- A True
B False **(1 mark)**
- 20 Which of the following attributes of an organisation is an advantage of a centralised management structure?**
- A Flexibility
B Initiative
C Standardisation
D Decisions made close to the facts **(2 marks)**
- 21 D wishes to analyse the internal and external issues that will affect his company. Which single model could D use to accomplish this?**
- A PEST
B Value chain
C SWOT
D Five forces **(2 marks)**
- 22 A manager is considering whether to accept a bribe she has been offered. She has stated that she does not believe that there is any universal moral code that she should be following and that she wishes to make the decision that benefits her – regardless of how it affects others.**
- Which of the following beliefs regarding ethics are held by the manager?
- (i) Pluralism
(ii) Egoism
(iii) Relativism
(iv) Absolutism
- A (i) and (iii)
B (i) and (iv)
C (ii) and (iii)
D (ii) and (iv) **(2 marks)**

23 Which of the following ethical threats occurs when an accountant promotes his client's interests to the point where his subsequent objectivity is compromised?

- A Familiarity
- B Advocacy
- C Self-interest (1 mark)

24 Which of the following would NOT prevent an individual from becoming a non-executive director (NED)?

- A Participation in the company's share options or pension scheme
- B A lack of previous experience as a non-executive director
- C Close ties with the executive directors (1 mark)

25 M is currently a member of a temporary committee that has been asked to investigate the launch of a new product, after which it will be disbanded. This is an example of an ad hoc committee.

Is this statement true or false?

- A True
- B False (1 mark)

26 Which of the following is the name given to a type of computer-based information system that uses and combines mathematical models to assist with finding solutions to management problems?

- A Management information system
- B Decision support system
- C Expert system
- D Executive information system (2 marks)

27 Which of the following is NOT necessary in order for financial statements to be considered 'true and fair'?

- A They must be free from all fraud
- B They must follow generally accepted practice
- C They must be free from significant errors
- D They must follow all relevant accounting standards (2 marks)

28 The creation of corporate governance regulation is NOT an ethical safeguard put in place by the ACCA.

Is this statement true or false?

- A True
- B False (1 mark)

29 A product has a price elasticity of demand (PED) of 1.5. Which of the following statements can be inferred from this figure?

- (i) It is unit elastic.
 - (ii) If the selling price of the product falls by £10, the number of units sold will rise by 15.
 - (iii) The product is relatively elastic
 - (iv) The product is unlikely to be a necessity.
- A (i) and (ii) only
B (ii), (iii) and (iv) only
C (i), (ii) and (iv) only
D (iii) and (iv) only **(2 marks)**

30 A firm of accountants installs a new information system that contains all the relevant personal tax regulations for their clients. The system enables the firm to input a client's details and the system will calculate their tax liability automatically.

A system of this kind is an example of an expert system.

Is this statement true or false?

- A True
B False **(1 mark)**

31 Which of the following would NOT be a benefit to a company of implementing a strong system of corporate governance?

- A Reduced management costs
B Increased investor confidence
C Meeting listing requirements
D Reduction in the risk of mismanagement **(2 marks)**

32 Structural unemployment is caused by falling levels of aggregate demand in the economy.

Is this statement true or false?

- A True
B False **(1 mark)**

- 33 Which of the following is not a benefit to the business of reducing its impact on the environment?**
- A Customers often prefer dealing with an organisation that is seen as being more ethical
 - B Reduced waste and pollution can help to improve the environment
 - C Reduced waste may well lead to cost savings, improving business profits
 - D The company will have a wider range of suppliers to choose from **(2 marks)**
- 34 One of the results of technological changes in large businesses is delayering. What is delayering?**
- A Reducing the number of levels in the management hierarchy
 - B Opening up internal communications through information systems
 - C Reduction in management specialisation and functionality **(1 mark)**
- 35 Rupa is an accountant. She has verbally agreed with one of her clients, Oliver, to understate his earnings on his tax return in order to reduce his tax liability in return for a large fee.**
- Which feature of a simple contract is missing, meaning that the contract is not valid?
- A Legality
 - B Agreement
 - C Capacity
 - D Consideration **(2 marks)**
- 36 Using Porter's five forces model to examine the profitability of an industry which of the following will lead to higher profitability (assuming everything else being equal)?**
- A An increase in buyer power
 - B A new entrant into the industry
 - C A new supplier to the industry
 - D The development of an alternative product which meets the needs of the industries' customers **(2 marks)**
- 37 Which of the following would be part of a supply-side policy to reduce unemployment in an economy?**
- A Reducing the supply of imports by raising trade barriers
 - B Increasing labour retraining schemes
 - C A reduction in the level of public expenditure **(1 mark)**

- 38 J works for FGT Ltd and has been asked to prepare a budget for his manager. Which of the following is a key purpose of budget preparation?**
- A Communication of key targets and financial information to staff
 - B Aiding the creation of the external financial statements
 - C Meeting the company's legal requirements for management accounting
 - D To show investors and other groups how the business has performed over the last period
- (2 marks)**
- 39 An organisation's bankers can be classified as connected stakeholders.**
- Is this statement true or false?
- A True
 - B False
- (1 mark)**
- 40 Using Mendelow's matrix, how would a stakeholder who has low interest and high power be classified?**
- A Minimal interest
 - B Keep informed
 - C Keep satisfied
 - D Key player
- (2 marks)**
- 41 H plc is planning to raise additional debt finance to help it finance a new project. Which of the following statements regarding this decision is correct?**
- A Debt is typically more expensive than equity
 - B Raising finance through equity would allow H to use its assets as security
 - C Raising debt finance is likely to change the ownership structure of the company
 - D Equity would be a better source of finance if the project returns are uncertain
- (2 marks)**
- 42 In terms of employment ACCA's ethical guidelines require members to:**
- A act responsibly but in a way that satisfies organisational demands and pressures
 - B act responsibly but in a way that satisfies the individual's own ethical code
 - C act responsibly, honour any legal contract of employment and conform to employment legislation
- (1 mark)**
- 43 What sort of stakeholders might shareholders be described as?**
- A Internal
 - B Connected
 - C External
 - D Secondary
- (2 marks)**

- 44 R is currently considering the purchase of a new computerised accountancy package to replace his existing manual system. Which of the following is likely to be an advantage of this?**
- A Reduced likelihood of input errors
 - B Increased speed when recording transactions
 - C Reduced capital expenditure
 - D Elimination of training requirements for users **(2 marks)**
- 45 Which of the following would be most likely to be undertaken by a treasury department?**
- A Budget preparation
 - B Product pricing decisions
 - C Currency management **(1 mark)**
- 46 Non-executive directors can perform an important role in corporate governance in all but one of the following ways:**
- A They act as independent advisors ensuring that executive directors make decisions in the best interest of shareholders
 - B They play a role on the remuneration committee to ensure fair pay to directors
 - C They are members of the audit committee to whom internal and external auditors report
 - D They are responsible for all key business decisions so they should ensure that shareholders interests are taken into account **(2 marks)**

SECTION B – MULTI-STAGE QUESTIONS

ANSWER ALL 6 QUESTIONS

1 (a) Modern structural theory includes 'boundaryless' organisations – in particular:

- A Hollow
- B Virtual
- C Modular

Required:

Classify the following as relating to either A (hollow), B (virtual), C (modular) or D (none):

- (i) **The organisation has very few remaining internal functions as the majority have been outsourced to third parties.**
- (ii) **The organisation outsources some or all of its manufacturing process to third parties.**
- (iii) **The organisation retains core activities and outsources those that are classified as non-core.**
- (iv) **The organisation restructures and centralises the internal provision of certain key services.**

(0.5 marks each = 2 marks total)

(b) Organisations can fall into a number of different categories, including:

- A Public sector organisation
- B Public limited company
- C Partnership
- D Non-governmental organisation

The following sentences contain gaps which specify a particular type of organisation.

AAA is an organisation which was formed to make a profit. It is an example of a 1 because it is jointly owned by several individuals, but has no share capital.

Required:

- (i) **Select the type of organisation that appropriately fills gap 1 above; i.e. select A, B, C or D.**

ZZZ is an organisation which aims to provide support for homeless citizens in country G. It relies on public donations and is an example of a 2.

Required:

- (ii) **Select the type of organisation that appropriately fills gap 2 above; i.e. select A, B, C or D.**

(1 mark each = 2 marks in total)

(4 marks)

2 (a) Here are four short references to dimensions within Hofstede's model of corporate culture:

- A This dimension examines the expectation of having democratic input into the decisions made by management.
- B This dimension looks at employees' willingness to act outside normal job descriptions or roles.
- C This dimension considers whether employees tend to act alone or as part of a group.
- D This dimension examines what employees should be offered in order to improve their motivation.

Required:

Identify the description above which is associated with each of the following value chain activities, by writing A, B, C or D.

- (i) Individualism**
- (ii) Uncertainty avoidance**
- (iii) Masculinity**
- (iv) Power distance**

(0.5 marks each, total = 2 marks)

(b) Below are a number of statements regarding popular cultural models.

- A Handy's 'power culture' suggests that an organisation's culture is driven by one major source of authority.
- B Schein suggested that artefacts are the aspects of culture that can be easily seen (such as the way employees dress).
- C 'Task cultures' tend to be highly bureaucratic in nature.
- D 'Espoused values' refer to aspects of culture that are unseen.
- E 'Norms' refer to standard sets of behaviour within the organisation.
- F 'Role cultures' tend to occur where the organisation exists to satisfy the needs of particular individuals.
- G Schein argued that an organisation's culture is largely formed by its age and diversity.
- H According to Hofstede, employees who are motivated by pay rises and job titles are typically part of 'masculine' cultures.

Required:

Write down which four of the above statements are correct by selecting FOUR of the letters from A-H.

(0.5 marks each, total = 2 marks)

(4 marks)

- 3** (a) Promotion is a key aspect of the marketing mix. It is made up of the following four stages:
- A Action
 - B Awareness
 - C Desire
 - D Interest

Required:

Place the stages into the correct order, beginning with the earliest, by writing the letters A-D in the correct order.

(0.5 marks each, total = 2 marks)

- (b) H plc is considering a number of different ways of setting the price for a new product that it is about to launch.
- A Setting a high initial price, but dropping the price later in order to increase demand.
 - B Selling the product at different prices in different countries.
 - C Setting a low initial price, then raising it once the product has achieved a strong market share.
 - D Selling at the average price that H's competitors are charging for similar products.

Required:

Identify the description above which is associated with each of the following theories, by writing A, B, C or D.

- (i) Price discrimination**
- (ii) Penetration pricing**
- (iii) Price skimming**
- (iv) Going rate pricing**

(0.5 marks each, total = 2 marks)

(4 marks)

4 According to Mendelow, stakeholders can be classified into four groups, depending on their level of interest in the organisation and their level of power. These groups are:

- A Keep informed
- B Keep satisfied
- C Minimal effort
- D Key players

In company VVV, four stakeholders have been identified:

Stakeholder A owns 40% of VVV's share capital and is VVV's largest single shareholder. A regularly attends shareholder meetings.

Stakeholder B is a trade union that represents the majority of VVV's staff. It has regular meetings with the directors of VVV to ensure that its concerns are considered.

Stakeholder C is one of VVV's customers. It represents less than 2% of VVV's total sales, but VVV is stakeholder C's major supplier.

Stakeholder D is the Government of the country that VVV operates in. It has no regular contact with VVV, though the company is expected to follow all relevant legislation.

Required:

- (i) For Stakeholder A, select which of Mendelow's groups apply from the list above (i.e. A, B, C or D)
- (ii) For Stakeholder B, select which of Mendelow's groups apply from the list above (i.e. A, B, C or D)
- (iii) For Stakeholder C, select which of Mendelow's groups apply from the list above (i.e. A, B, C or D)
- (iv) For Stakeholder D, select which of Mendelow's groups apply from the list above (i.e. A, B, C or D)

Note: more than one stakeholder may fall into each group.

(1 mark each, total = 4 marks)

(4 marks)

5 (a) Below are a number of ethical terms.

- A Empowerment
- B Professional courtesy
- C Honesty
- D Objectivity
- E Professional behaviour
- F Integrity
- G Trustworthiness
- H Confidentiality

Required:

Write down which FOUR of the above are part of the IFAC code of ethics by selecting FOUR from A-H.

(0.5 marks each, total = 2 marks)

(b) The accounting profession is regulated by a number of different organisations, including:

- A IASB
- B IFRS Foundation
- C IFRS Interpretations Committee
- D IFRS Advisory Council

The following sentences contain gaps relating to the relevant organisation from the list above.

The 1 is responsible for the development and publication of IFRSs and their interpretations.

Required:

(i) Select the organisation that appropriately fills gap 1 above; i.e. select A, B, C or D.

A wide range of members who are affected by the international regulation of the accounting profession are grouped into the 2. They support the work of the other bodies by giving a wider opinion on the needs and activities of the profession.

Required:

(ii) Select the organisation that appropriately fills gap 2 above; i.e. select A, B, C or D.

(1 mark each = 2 marks in total)

(4 marks)

- 6 (a) According to Porter, there are four possible strategic options for an organisation:
- A Focus
 - B Stuck in the middle
 - C Differentiation
 - D Cost-leadership

Required:

Identify which of the above strategic options is being used by each of the following organisations, by writing A, B, C or D.

- (i) **Company A has used economies of scale to manufacture its products for less than its rivals.**
- (ii) **Company B has launched a major advertising campaign to convince its customers that its products are more desirable than those made by its rivals.**
- (iii) **Company C offers a range of products which are similar to those of its rivals and cost the same to manufacture.**
- (iv) **Company D offers a range of products targeted to women over the age of forty.**

(0.5 marks each, total = 2 marks)

- (b) Below are four short definitions of markets:

- A This type of market exists where there are many different competitors, but each offers a slightly differentiated product.
- B This market occurs where one organisation controls all or nearly all of the market.
- C This market occurs where a small number of organisations control the market.
- D This type of market has large numbers of customers, identical products, perfect information and no barriers to entry or exit.

Required:

Identify the description above which is associated with each of the following markets, by writing A, B, C or D.

- (i) **Perfect**
- (ii) **Oligopoly**
- (iii) **Monopolistic competition**
- (iv) **Monopoly**

(0.5 marks each, total = 2 marks)

(4 marks)