

ANSWERS

THE BUSINESS ORGANISATION

1 D

D is the correct answer because the statements regarding shareholdings are all incorrect.

2 C

The liability of the shareholders is limited to the amount, if any, unpaid on the shares for which they have subscribed.

A, B and D are not inevitable consequences of forming a company and are dependent upon the individual circumstances of the company, sole trader and partnership. In addition the company is a separate entity from the people who own it, which reduces the risk of personal losses.

3 D

Public company status is necessary in order to invite the public to subscribe for shares and this is a common reason for a change in status.

It is not necessary to change to public company status in relation to A, B and C.

4 C

Not-for-profit organisations do need to make sure that their income is greater than their expenditure, however they focus on economy, efficiency and effectiveness rather than on profit generation.

5 C

NGOs are non-governmental, so A is incorrect. Note that D is a description of co-operatives.

6 B

Options C and D are incorrect, as they will give rise to limited liability for their owner – which is not the case in the scenario. S and R are both liable for the actions of their business. As they are both joint owners, HHH cannot be a sole trader.

7 C – BOTH ARE CORRECT

The private sector, comprising non-government organisations, is that part of a nation's economy that is not controlled by the government.

Co-operatives are usually organised to meet the needs of their member-owners who would typically receive a share of any profits made.

BUSINESS ORGANISATION AND STRUCTURE

8 D

The functional structure is most appropriate to small companies which have few products and locations and which exist in a relatively stable environment. This allows them to become highly efficient by structuring their operations so as to make them repetitive and therefore quick to perform.

9 C

Due to the breakdown of the company's activities into divisions, it should mean that the divisional managers can clearly see where their area of responsibility lies and it should leave top management free to concentrate on strategic matters.

Product divisionalisation means that there are divisions dedicated to the individual products the company produces, which means a lot of attention can be devoted to each of them.

10 B

Strategic planning is concerned with identifying the long-term issues that may affect the company. A and C describe tactical issues, whereas D is an operational concern.

11 A

In a university for example a lecturer may have to report to both subject and department heads.

12 C

Entrepreneurial organisations are usually quite small and owner-managed; due to the degree of flexibility required A, B and D would not be practical.

13 B

A hollow organisation only outsources non-core functions. A modular organisation outsources parts of its manufacturing process. Offshored companies have transferred some of their functions overseas.

14 C

An example is new books released in hard back, initially at a high price followed by lower priced paperbacks in due course. B describes captive product pricing and D describes loss leaders.

15 C

The AIDA sequence consists of Awareness, Interest, Desire and Action. To secure this objective firms will use a combination of different promotional techniques as part of their "promotional mix", including Advertising, Sales promotion techniques, Personal selling and PR.

16 D

Strategic analysis involves desk and field research and test marketing; Strategic choice involves market segmentation; Strategy implementation involves targeting strategies such as Differentiated, Undifferentiated and Concentrated.

ORGANISATIONAL CULTURE IN BUSINESS**17 D**

Employees like to be guided by powerful managers. This would tend to indicate high uncertainty avoidance. Note that the fact that staff members accept powerful managers would indicate a high power distance index.

18 D

Schein also described three levels of culture: artefacts, espoused values and basic assumptions and values.

19 C

The task culture is basically concerned with the continuous and successful solution of problems and performance is judged in terms of results and problems solved. Structurally, this culture is often associated with the matrix structure and examples are market research organisations, the entertainment industry and computer software design.

20 C

All organisations have some mix of the two.

Managers need to be aware of the informal structure and ensure that they adapt the formal structure to complement the informal one. This could involve maintaining a looser formal structure so that the informal structure can thrive. At the very least managers must take account of the informal structure in decision making.

21 B

If managers can work with the informal groups within their department there should be higher levels of motivation and productivity.

INFORMATION TECHNOLOGY AND INFORMATION SYSTEMS IN BUSINESS

22 D

Computers are able to handle complex information systems efficiently. Modern packages using graphics etc combined with colour printers now enable potentially dull reports to be presented in new and exciting ways. In general, computers process data perfectly, any mistakes are usually the result of human error.

23 C

Accurate represents the 8 qualities of good information. The eight qualities are:

Accurate

Complete

Cost-beneficial (The information should not cost more to obtain than the benefit derived from it)

Understandable

Relevant

Adaptable

Timely

Easy to use.

24 B

Expert systems are widely used in these fields because much of the work is rules based. Expert systems are also widely used in Taxation (e.g. personal tax) and Defence (aircraft recognition).

25 B

A decision-support system includes modelling and analysis tools that can be used to aid decision-making. A system capable of making decisions independently is referred to as an expert system.

The EIS provides managers with flexible access to information at the tactical and strategic levels. DSS are computer based systems that help decision makers confront ill-structured problems through direct interaction with data and analysis models.

STAKEHOLDERS**26 A**

The level of dominance is normally assessed in terms of power and influence. The needs of the key players must be considered during the formulation and evaluation of new strategies.

27 B

Employees are likely to be seen as key players. This is because they are unionised, giving them high power, and the proposals involve the loss of many jobs, leading to high levels of interest. GFF will need to involve its workers in its strategic planning process if it wishes its restructuring to be a success.

28 C

By definition. Don't forget that primary stakeholders include connected and internal stakeholders.

EXTERNAL ANALYSIS - POLITICAL AND LEGAL FACTORS

29 B

The other items listed would be monitored under the following headings:

A = Economic heading; C = Social heading; D = Technological heading

30 A

An employee also has a duty to be responsible for his or her own health and safety. However, avoiding physical and human hazards is part of data security – not data protection.

31 C

The work was undertaken on time, but was of poor quality, indicating a lack of skill and care. The fact that the original quote was verbal or that the price had risen would not be covered by consumer protection.

Note: if the builder's invoice was for an unreasonable amount, H may have a case for this as well. However, there is no evidence for this in the scenario.

EXTERNAL ANALYSIS - ECONOMIC FACTORS**32 B**

If the PED is greater than one, units sold will fall faster than the price. If the PED was less than one, units sold will fall more slowly than the price.

33 C

Both statements are correct.

34 A

A downwards shift in the supply curve occurs when the cost of production falls. Only option A would enable this to happen – the other options would all cause an upward shift of supply.

35 B

They will save more due to the uncertainty inflation creates. Those people who save to spend later (a “transactions motive”) will save less to avoid the purchasing power of their money being eroded.

36 C

A long term trade deficit has to be financed and the financing costs are a major drain on the productive capacity of the economy. D describes the effect of a long term trade surplus.

37 C

If a government intends to run a budget deficit then this has to be financed through borrowing – this creates the PSNCR.

38 D

Government can seek to reduce aggregate demand by running a budget surplus, effectively taking money out of the economy. This is known as a “contractionary policy”.

39 D

There are many measures of the money supply including M0 (Notes and coins in circulation and balances at the country’s Central Bank) and M4 (Notes and coins and all private sector sterling bank/building society deposits – 96% of which are deposits).

40 B

Monetarists revived the earlier classical view that and believe that there is only one true equilibrium point in the national economy. Equilibrium, they believe, will only occur when supply is equal to demand in all markets in an economy. Monetarists believe that the economy will automatically gravitate towards this “natural” equilibrium unless hindered by market imperfections. Thus it is the role of government to “free up” the economy by removing these imperfections.

EXTERNAL ANALYSIS – SOCIAL, ENVIRONMENTAL AND TECHNOLOGICAL FACTORS

41 A

Johnson and Scholes also suggested that Population demographics, Lifestyle changes and Consumerism should be monitored.

42 B

Due to improved standards of medical care and better nutrition, longevity is increasing. However the problems of diabetes and obesity are becoming more serious and the birth rate is falling, but the world population is growing.

43 C

In the developed countries the birth rate is falling so governments have introduced tax incentives such as childcare vouchers. However in China, until recently, a one-child policy penalised families for having several children.

The increase in the number of one person households (as a result of marriage breakdown etc) has been an important contributor to the demand for housing.

44 C

Homeworking has become a popular trend as it allows staff to achieve a better work/life balance while the company potentially reduces its costs via rent etc savings.

45 D

It is unlikely that adopting a sustainable approach will reduce administration. It may even cause an increase, as time must be spent ensuring that the operations of the business are sustainable.

COMPETITIVE FACTORS

46 B - FALSE

For companies competing in a “price sensitive” market a cost leadership strategy calls for being the low-cost producer in an industry for a given level of quality. This does not mean that products are “cheap and cheerful”, merely that competitors’ quality is matched rather than bettered.

47 A

Service is a primary activity in Porter’s value chain. Dealing with customer problems, or anything else which typically occurs after the point of sale is part of ‘service’. The sourcing and purchase of raw materials is a secondary activity – procurement.

PROFESSIONAL ETHICS IN ACCOUNTING AND BUSINESS

48 B

Ethics is concerned with good/bad and what you should/ought to do.

The other statements are factual ones with no ethical content.

49 C

An ethical dilemma involves a situation where a decision-maker has to decide what is the “right” or “wrong” thing to do. Giving bribes is seen as an unethical way to do business.

An “accountant” does not have to be qualified. Such people are not professional accountants because they don’t belong to any professional accountancy body (such as the ACCA) and have no obligation to follow an ethical code.

50 D

A profession is characterised by a number of factors of which one is compliance with an ethical code.

51 B

Social responsibility is a duty to all stakeholders of an undertaking to make decisions in a way that takes into account the interests of the environment and society as a whole.

52 D

A professional accountant should first consult with whoever is responsible for governance or ethics within their organisation. They should contact their professional body if this fails to resolve the issue.

All registered students, affiliates and members of the ACCA are required to comply with the Code.

GOVERNANCE AND SOCIAL RESPONSIBILITY IN BUSINESS**53 D**

This situation can occur in charities, other not-for-profit organisations, in financial mutuals and local government as well as large companies.

54 A

Managers can get on with full-time management of the business. Shareholders are interested in the return from their investment and do not have the skills, time or the inclination to concern themselves with day-to-day matters.

Note that the Combined Code on corporate governance established guidelines for governance of public companies only.

55 A

The shareholders will want to build in safeguards to ensure that the managers run the business in the interests of all the stakeholders fairly, not just in the managers' own interests. Thus the problem can be solved by aligning the interests of the directors and the interests of the company.

56 C

The traditionalists argue that companies should operate solely to make money for shareholders and that it is not a company's role to worry about social responsibilities.

57 D

It is a stated principle in most codes on Corporate Governance that no director should be involved in deciding the level of their own remuneration. The remuneration committee should be responsible for setting the remuneration of all the executive directors and the chairman, including pension rights and any compensation payments.

58 B

Audit committees, with knowledgeable NEDs, may strengthen the role of auditors. They should comprise at least three NEDs and should act as the first point of contact for both internal and external auditors.

59 A

Companies are required by law to send a copy (or a summarised version) to each shareholder, but most companies will post a copy on their website or will provide a paper copy free of charge to any member of the company who requests one.

60 D

Other key objectives of the rules of procedure include enabling both sides in an argument to state their case and ensuring consistency and fair play are maintained.

61 A

The sheer size and complexity of modern enterprises make it increasingly impossible for isolated individuals or small groups to meet the decision-demands of their organisations. Secondly, the growing pressures from all sections of the workforce for a greater say in the decision-making processes of their organisations are creating expectations that decision-making will become more open and democratic.

62 B

Authority – the committee’s authority should be spelled out. Size – if the group is too large there may not be enough opportunities for adequate communication. Membership – the members of the committee must be selected carefully. Subject matter – committee work should be limited to subject matter that can be handled in group discussion.

63 D

There are two ways of accomplishing this objective: at intervals, to give a summary of the salient points as you have understood them. To test understanding by inviting someone else to summarise and check that their summary accords with yours.

LAW AND REGULATION GOVERNING ACCOUNTING

64 B

The directors are responsible for preparing financial statements which give a true and fair view and for maintaining proper accounting records. Directors can be fined for failing to comply with these requirements.

65 D

By definition.

ACCOUNTING AND FINANCE FUNCTIONS WITHIN BUSINESS

66 D

The first three options are all false.

67 A

The statement of financial position shows the financing of the business – both debt and equity. Remember that the SOCI and the SOPL are broadly the same thing.

68 D

The other three options relate to financial accounting.

69 D

The treasury function is responsible for items A to C. However, it is not responsible for budgetary control – this would likely form part of the management accounting function. The treasury department would also be responsible for foreign currency management where applicable.

FINANCIAL SYSTEMS AND PROCEDURES**70 B**

A procedure is a set sequence of steps that should be followed. The definition given in (i) is that of a guideline

Statement (ii) is correct, as senior managers tend to have access to a great deal of data within the company if systems are automated.

71 C

Adopting formal systems makes it easier for workers to see and adopt the best way of operating each system. This tends to make training more efficient as well as reducing frauds and errors, as these will often be transactions that do not follow the normal system and can therefore be more easily identified.

THE RELATIONSHIP OF ACCOUNTING WITH OTHER BUSINESS FUNCTIONS

72 D

Options A to C all involve co-operation between the marketing and accounting departments within the organisation. However, while the accounting department would also be involved with option D, this would not be something that the marketing department would be likely to be involved in.

73 C

The service may have no real physical form, which makes it intangible.

AUDIT AND FINANCIAL CONTROL**74 D**

The definition given relates to EXTERNAL auditing. Internal auditing relates to the examination of an organisation's controls and risk management processes.

Though the internal auditors are responsible for checking the internal controls of an organisation, ultimate responsibility lies with the board of directors.

75 B

The others all relate to INTERNAL audit. Note that while an external auditor may make recommendations regarding internal controls, it would not normally be their responsibility to do so.

76 D

While a good set of internal controls can help to reduce the likelihood of the organisation failing to meet its objectives, there will always be some risk of this happening – no matter how good the controls are.

77 D

Fraud reporting procedures are not a specific component of internal control – the others are the risk assessment process and control activities.

78 B

A reconciliation is designed to identify potential problems that have occurred. This would be an example of a detective control. There is no category of internal controls known as avoidance.

FRAUD, FRAUDULENT BEHAVIOUR AND THEIR PREVENTION IN BUSINESS

79 C

There is no fraud, as the posting was unintentional. There is also misstatement as the final financial accounts are incorrect due to the error.

80 A

The fraud does not have to be pre-meditated (planned). However, the other three are required.

81 A

This is an example of teeming and lading. Make sure you are able to identify various types of fraud for your exam.

82 B

Businesses must identify all large or unusual transactions. Once investigated, any transactions that have reasonable grounds for suspicion should be reported to the authorities. Money laundering can refer to any criminally obtained assets.

LEADERSHIP, MANAGEMENT AND SUPERVISION

83 C

Taylor's scientific principles focus on increasing the efficiency of production by means such as standardising processes and training staff.

84 D

Drucker talked about establishing yardsticks which involves setting performance criteria.

85 A

A telling style relates to a manager's decision making ability, which is crucial in situations where time is at a premium.

RECRUITMENT AND SELECTION OF EMPLOYEES

86 C

This is a part of the personal specification, which focuses on which kind of a person is best suited to occupying a certain position.

87 D

As there is only one interviewer, the decision could be based on their personal likes and dislikes rather than on the candidate's actual ability and potential.

88 C

This piece of legislation focuses on making sure the working environment is safe and highlights the responsibilities of both employer and employee in that respect.

INDIVIDUAL, GROUP AND TEAM BEHAVIOUR**89 C**

Groupthink effect implies that a team becomes complacent and focuses on self-preservation rather than achievement of organisational goals.

90 D

Resource-Investigator is a bridge to the outside world; he knows the right people in the right places and is able to obtain the resources necessary to complete the project.

91 B

Option C is incorrect as groups involve a number of individuals in the decision-making process. This will increase the chances of disagreements and conflict. Increasing the number of individuals involved in any process is also likely to slow decision-making down as disagreements occur, requiring compromise and discussion.

MOTIVATING INDIVIDUALS AND GROUPS

92 B

This is part of the definition of content theories. Process theories tend to look at how to motivate people as individuals.

93 A

J is being offered a permanent contract by his employer. This will help protect him against the risk of unemployment and is therefore likely to help fulfil his safety or security needs.

94 B

This is an example of job enrichment, where an employee is given more responsibility or higher level work to perform. This often has a motivational aspect.

LEARNING AND TRAINING AT WORK**95 D**

Kolb suggested that learning is a cycle with four stages (abstract conceptualisation, experimentation, experience, reflection) Learning can start at any stage but all four stages have to be completed for the knowledge to be fully acquired.

96 B

This is the reaction of a pragmatist. An activist would prefer to learn by doing, a reflector by thinking about what they have learnt and a theorist by learning theoretical models.

REVIEW AND APPRAISAL OF INDIVIDUAL PERFORMANCE

97 C

360 degree appraisal implies that everyone who comes into contact with a member of staff would have something to contribute with regard to the performance of that staff member.

98 A

Appraisals do not have to be undertaken face-to-face, although this is common. The remaining factor is “fair”.

PERSONAL EFFECTIVENESS AT WORK**99 B**

Training courses usually take staff out of their usual working environment and are delivered in a classroom. On completion, employees may obtain a transferable skill, which is confirmed by a certificate of course completion.

100 D

Counselling is often referred to as helping people to help themselves. It tries to help people to deal with their inter-personal and work related issues.

101 D

Conflict does not have to be destructive. If managed properly it can actually be motivational and can provide new ideas and ways of working for the organisation.

Managers in conflict with staff who report to them would be an example of vertical conflict.

COMMUNICATING IN BUSINESS

102 A

In decentralised networks, information flows freely between members without having to go through a central person. Circle and all-channel networks are both decentralised.

103 D

The junior staff member is having to communicate with a different department and a different rank of employee – this is diagonal communication. Note that horizontal and lateral are the same!

104 B

This is an example of grapevine, or bush telegraph, communication. Formal communications do not usually spread rumours, so this is an informal communication.