

**ACCA**  
**Paper F1**  
and  
**FIA**  
**Diploma in Accounting**  
and  
**Business**

Accountant in Business  
(AB/FAB)

**Complete Text**

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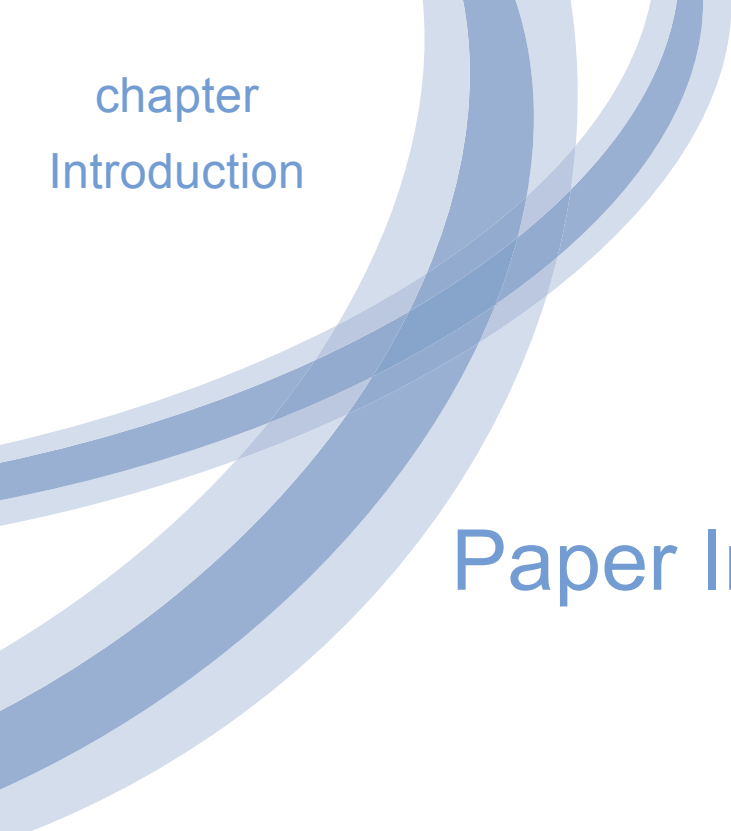
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chapter  
Introduction

# Paper Introduction

## How to Use the Materials

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chances of success in your examinations.

The product range contains a number of features to help you in the study process. They include:

- (1) Detailed study guide and syllabus objectives
- (2) Description of the examination
- (3) Study skills and revision guidance
- (4) Complete text or essential text
- (5) Question practice

The sections on the study guide, the syllabus objectives, the examination and study skills should all be read before you commence your studies. They are designed to familiarise you with the nature and content of the examination and give you tips on how to best to approach your learning.

The **complete text or essential text** comprises the main learning materials and gives guidance as to the importance of topics and where other related resources can be found. Each chapter includes:

- The **learning objectives** contained in each chapter, which have been carefully mapped to the examining body's own syllabus learning objectives or outcomes. You should use these to check you have a clear understanding of all the topics on which you might be assessed in the examination.
- The **chapter diagram** provides a visual reference for the content in the chapter, giving an overview of the topics and how they link together.
- The **content** for each topic area commences with a brief explanation or definition to put the topic into context before covering the topic in detail. You should follow your studying of the content with a review of the illustration/s. These are worked examples which will help you to understand better how to apply the content for the topic.
- **Test your understanding** sections provide an opportunity to assess your understanding of the key topics by applying what you have learned to short questions. Answers can be found at the back of each chapter.

- **Summary diagrams** complete each chapter to show the important links between topics and the overall content of the paper. These diagrams should be used to check that you have covered and understood the core topics before moving on.
- **Question practice** is provided at the back of each text.

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### Icon Explanations



**Definition** – Key definitions that you will need to learn from the core content.



**Key Point** – Identifies topics that are key to success and are often examined.



**Expandable text** – Expandable text provides you with additional information about a topic area and may help you gain a better understanding of the core content. Essential text users can access this additional content on-line (read it where you need further guidance or skip over when you are happy with the topic)



**Illustration** – Worked examples help you understand the core content better.



**Test Your Understanding** – Exercises for you to complete to ensure that you have understood the topics just learned.



**Tricky topic** – When reviewing these areas care should be taken and all illustrations and test your understanding exercises should be completed to ensure that the topic is understood.

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- (1) On-line referenceware: reproduces your Complete or Essential Text on-line, giving you anytime, anywhere access.

- (2) On-line testing: provides you with additional on-line objective testing so you can practice what you have learned further.
- (3) On-line performance management: immediate access to your on-line testing results. Review your performance by key topics and chart your achievement through the course relative to your peer group.

### **Paper introduction**

#### **Paper background**

The aim of ACCA Paper F1, **Accountant in Business**/FIA Diploma in Accounting and Business, **Accountant in Business**, is to introduce knowledge and understanding of the business and its environment and the influence this has on how organisations are structured and on the role of the accounting and other key business functions in contributing to the efficient, effective and ethical management and development of an organisation and its people and systems.

#### **Objectives of the syllabus**

- Understand the purpose and types of business and how they interact with the key stakeholders and the external environment.
- Understand business organisation structure, functions and the role of corporate governance.
- Recognise the function of accountancy and audit in communicating, reporting and assuring financial information and in effective financial control and compliance.
- Recognise the principles of authority and leadership and how teams and individuals are recruited, managed, motivated and developed.
- Understand the importance of personal effectiveness as the basis for effective team and organisational behaviour.
- Recognise that all aspects of business and finance should be conducted in a manner which complies with and is in the spirit of accepted professional ethics and professional values.



## Core areas of the syllabus

- The business organisation, its stakeholders and the external environment.
- Business organisational structure, functions and governance.
- Accounting and reporting systems, controls and compliance.
- Leading and managing individuals and teams.
- Personal effectiveness and communication.
- Professional ethics in accounting and business.

## Syllabus objectives

We have reproduced the ACCA's syllabus below, showing where the objectives are explored within this book. Within the chapters, we have broken down the extensive information found in the syllabus into easily digestible and relevant sections, called Content Objectives. These correspond to the objectives at the beginning of each chapter.

### Syllabus learning objective

### Chapter reference

#### **A THE BUSINESS ORGANISATION, ITS STAKEHOLDERS AND THE EXTERNAL ENVIRONMENT**

##### **(1) The purpose and types of business organisation**

- (a) Define business organisations and explain why they are formed.
- (b) Describe common features of business organisations.
- (c) Outline how business organisations differ.
- (d) List the industrial and commercial sectors in which business organisations operate.
- (e) Identify the different types of business organisation and their main characteristics
  - (i) Commercial
  - (ii) Not-for-profit and cooperatives
  - (iii) Public sector
  - (iv) Non-governmental organisations and cooperatives.

**1**

**(2) Stakeholders in business organisations**

**5**

- (a) Define stakeholders and explain the agency relationship in business and how it may vary in different types of business organisation.
- (b) Define internal, connected and external stakeholders and explain their impact on the organisation.
- (c) Identify the main stakeholder groups and the objectives of each group.
- (d) Explain how the different stakeholder groups interact with each other and how their objectives may conflict with each other.
- (e) Compare the power and influence of various stakeholder groups and how their needs should be accounted for, such as under the Mendelow framework.

**(3) Political and legal factors affecting business**

**6**

- (a) Explain how the political system and government policy affects the organisation.
- (b) Describe the sources of legal authority, including supra-national bodies, national and regional governments.
- (c) Explain how the law protects the employee and the implications of employment legislation for the manager and the organisation.
- (d) Identify the principles of data protection and security.
- (e) Explain how the law promotes and protects health and safety in the workplace.
- (f) Recognise the responsibility of the individual and organisation for compliance with laws on data protection, security and health and safety.
- (g) Outline principles of consumer protection such as sale of goods and simple contract.

(4) **Macro-economic factors**

7

- (a) Define macro-economic policy and explain its objectives.
- (b) Explain the main determinants of the level of business activity in the economy and how variations in the level of business activity affect individuals, households and businesses.
- (c) Explain the impact of economic issues on the individual, the household and the business:
  - (i) inflation
  - (ii) unemployment
  - (iii) stagnation
  - (iv) international payments disequilibrium.
- (d) Describe the main types of economic policy that may be implemented by government and supra-national bodies to maximise economic welfare.
- (e) Recognise the impact of fiscal and monetary policy measures on the individual, the household and businesses.

(5) **Micro economic factors**

7

- (a) Define the concept of demand and supply for goods and services.
- (b) Explain elasticity of demand and the impact of substitute and complementary goods.
- (c) Explain the economic behaviour of costs in the short and long term.
- (d) Define perfect competition, oligopoly, monopolistic competition and monopoly.

- (6) **Social and demographic factors** **8**
- (a) Explain the medium and long-term effects of social and demographic trends on business outcomes and the economy.
  - (b) Describe the impact of changes in social structure, values, attitudes and tastes on the organisation.
  - (c) Identify and explain the measures that governments may take in response to the medium and long-term impact of demographic change.
- (7) **Technological factors** **8**
- (a) Explain the effects of technological change on the organisation structure and strategy
    - (i) Downsizing
    - (ii) Delayering
    - (iii) Outsourcing.
  - (b) Describe the impact of information technology and information systems development on business processes.
- (8) **Environmental factors** **8**
- (a) List ways in which the business can affect or be affected by its physical environment.
  - (b) Describe ways in which businesses can operate more efficiently and effectively to limit damage to the environment.
  - (c) Identify the benefits of economic sustainability to a range of stakeholders.
- (9) **Competitive factors** **9**
- (a) Identify a business's strengths, weaknesses, opportunities and threats (SWOT) in a market and the main sources of competitive advantage.
  - (b) Describe the activities of an organisation that affect its competitiveness: purchasing, production, marketing and service.

- (c) Explain the factors or forces that influence the level of competitiveness in an industry or sector using Porter's five forces model.
- (d) Identify the main elements within Porter's value chain and explain the meaning of a value network.

**B BUSINESS ORGANISATION STRUCTURE, FUNCTIONS AND GOVERNANCE**

**(1) The formal and informal business**

- (a) Explain the informal organisation and its relationship with the formal organisation.
- (b) Describe the impact of the formal organisation on the business.

**3**

**(2) Business organisation, structure and design**

- (a) Describe Mintzberg's components of the organisation and explain the different ways in which formal organisations may be structured: entrepreneurial, functional, matrix, divisional (geographical, by product, or by customer type), boundaryless (virtual, hollow or modular).
- (b) Explain basic organisational structure concepts:
  - (i) separation of ownership and management
  - (ii) separation of direction and management
  - (iii) span of control and scalar chain
  - (iv) tall and flat organisations
  - (v) outsourcing and offshoring
  - (vi) shared services approach.
- (c) Explain the characteristics of the strategic, tactical and operational levels in the organisation in the context of the Anthony hierarchy.
- (d) Explain centralisation and decentralisation and list their advantages and disadvantages.

**2**

- (e) Describe the roles and functions of the main departments in a business organisation:
  - (i) research and development
  - (ii) purchasing
  - (iii) production and direct service provision
  - (iv) marketing
  - (v) administration
  - (vi) finance.
- (f) Explain the role of marketing in an organisation
  - (i) the definition of marketing
  - (ii) the marketing mix
  - (iii) the relationship of the marketing plan to the strategic plan.
- (3) **Organisational culture in business** **3**
  - (a) Define organisational culture.
  - (b) Describe the factors that shape the culture of the organisation.
  - (c) Explain the contribution made by writers on culture: Schein, Handy and Hofstede.
- (4) **Committees in business organisations** **11**
  - (a) Explain the purposes of committees.
  - (b) Describe the types of committee used by business organisations.
  - (c) List the advantages and disadvantages of committees.
  - (d) Explain the role of the Chair and Secretary of a committee.
- (5) **Governance and social responsibility in business** **11**
  - (a) Explain the agency concept in relation to corporate governance.
  - (b) Define corporate governance and social responsibility and explain their importance in contemporary organisations.

- (c) Explain the responsibility of organisations to maintain appropriate standards of corporate governance and corporate social responsibility.
- (d) Briefly explain the main recommendations of best practice in effective corporate governance: executive and non-executive directors, remuneration committees, audit committees and public oversight.
- (e) Explain how organisations take account of their social responsibility objectives through analysis of the needs of internal, connected and external stakeholders.
- (f) Identify the social and environmental responsibilities of business organisations to internal, external and connected stakeholders.

**C ACCOUNTING AND REPORTING SYSTEMS, CONTROLS AND COMPLIANCE**

**(1) The relationship between accounting and other business functions 15**

- (a) Explain the relationship between accounting and other key functions within the business such as procurement, production and marketing.
- (b) Explain financial considerations in production and production planning.
- (c) Identify the financial issues associated with marketing.
- (d) Identify the financial costs and benefits of effective service provision.

**(2) Accounting and finance functions within business 13**

- (a) Explain the contribution of the accounting function to the formulation, implementation and control of the organisation's policies, procedures and performance.
- (b) Identify and describe the main financial accounting functions in business: recording financial information, codifying and processing financial information and preparing financial statements.
- (c) Identify and describe the main management accounting and performance management functions in business: recording and analysing costs and revenues, providing management accounting information for decision-making and planning and preparing budgets and exercising budgetary control.

- (d) Identify and describe the main finance and treasury functions: calculating and mitigating business tax liabilities, evaluating and obtaining finance, managing working capital and treasury and risk management. **16**
- (e) Identify and describe the main audit and assurance roles in business: internal and external audit. **16**
- (f) Explain the main functions of the internal auditor and the external auditor and how they differ. **16**
- (3) **Principles of law and regulation governing accounting and audit** **12**
  - (a) Explain basic legal requirements in relation to retaining and submitting proper records and preparing and auditing financial statements.
  - (b) Explain the broad consequences of failing to comply with the legal requirements for maintaining and filing accounting records.
  - (c) Explain how the international accountancy profession regulates itself through the establishment of reporting standards and their monitoring.
- (4) **The sources and purpose of internal and external financial information, provided by business** **13**
  - (a) Explain the various business purposes for which the following financial information is required: the income statement, the statement of cash flows and the statement of financial position.
  - (b) Describe the main purposes of the following types of management accounting reports:
    - (i) Cost schedules
    - (ii) Budgets
    - (iii) Variance reports.



- (5) **Financial systems, procedures and related IT applications** **14**
- (a) Identify an organisation's system requirements in relation to the objectives and policies of the organisation.
- (b) Describe the main financial systems used within an organisation:
- (i) purchases and sales invoicing
  - (ii) payroll and credit control
  - (iii) cash and working capital management.
- (c) Explain why it is important to adhere to policies and procedures for handling clients' money.
- (d) Identify weaknesses, potential for error and inefficiencies in accounting systems.
- (e) Recommend improvements to accounting systems to prevent error and fraud and to improve overall efficiency.
- (f) Explain why appropriate controls are necessary in relation to business and IT systems and procedures.
- (g) Identify business uses of computers and IT software applications: Spreadsheet applications, database systems and accounting packages. Describe the relative benefits and limitations of manual and automated financial systems that may be used within an organisation. **4**
- (6) **Internal controls, authorisation, security and compliance within business** **16**
- (a) Explain internal control and internal check.
- (b) Explain the importance of internal financial controls in an organisation.
- (c) Describe the responsibilities of management for internal financial control.
- (d) Describe the features of effective internal financial control procedures in an organisation, including authorisation.

- (e) Identify and describe the types of information technology and information systems used by the business organisation for internal control.
  - (f) Identify and describe features for protecting the security of IT systems and software within businesses.
  - (g) Describe general and application systems controls in business.
- (7) **Fraud and fraudulent behaviour and their prevention in business** **17**
- (a) Explain the circumstances under which fraud is likely to arise.
  - (b) Identify different types of fraud in the organisation.
  - (c) Explain the implications of fraud for the organisation.
  - (d) Explain the role and duties of individual managers in the fraud detection and prevention process.
  - (e) Define the term 'money laundering'.
  - (f) Give examples of recognised offences under typical money laundering regulation.
  - (g) Identify methods for detecting and preventing money laundering and explain how suspicions of money laundering should be reported to the appropriate authorities.
- D LEADING AND MANAGING INDIVIDUALS AND TEAMS**
- (1) **Leadership, management and supervision** **18**
- (a) Define leadership, management and supervision and explain the distinction between these terms.
  - (b) Explain the nature of management:
    - (i) scientific/classical theories of management – Fayol, Taylor
    - (ii) the human relations school – Mayo
    - (iii) the functions of a manager – Mintzberg, Drucker.

- (c) Explain the areas of managerial authority and responsibility.
  - (d) Explain the situational, functional and contingency approaches to leadership with reference to the theories of Adair, Fiedler, Bennis, Kotter and Heifetz.
  - (e) Describe leadership styles and contexts: using the models of Ashridge and Blake and Mouton.
- (2) Recruitment and selection of employees 19**
- (a) Explain the importance of effective recruitment and selection to the organisation.
  - (b) Describe the recruitment and selection process and explain the stages in this process.
  - (c) Describe the roles of those involved in the recruitment and selection processes.
  - (d) Describe the methods through which organisations seek to meet their recruitment needs.
  - (e) Explain the advantages and disadvantages of different recruitment and selection methods.
  - (f) Explain the purposes of a diversity policy within the human resources plan.
  - (g) Explain the purposes and benefits of an equal opportunities policy within human resource planning and the practical steps that an organisation may take to ensure the effectiveness of its diversity and equal opportunities policy.
- (3) Individual and group behaviour in business organisations 20**
- (a) Describe the main characteristics of individual and group behaviour.
  - (b) Outline the contributions of individuals and teams to organisational success.
  - (c) Identify individual and team approaches to work.
- (4) Team formation, development and management 20**
- (a) Explain the differences between a group and a team.
  - (b) Define the purposes of a team.

- (c) Explain the role of the manager in building the team and developing individuals within the team. Belbin's team role theories and Tuckman's theory of team development.
  - (d) List the characteristics of effective and ineffective teams.
  - (e) Describe tools and techniques that can be used to build the team and improve team effectiveness.
- (5) **Motivating teams and individuals** **21**
- (a) Define motivation and explain its importance to the organisation, teams and individuals.
  - (b) Explain content and process theories of motivation: Maslow, Herzberg, McGregor and Vroom.
  - (c) Explain and identify types of intrinsic and extrinsic rewards.
  - (d) Explain how reward systems can be designed and implemented to motivate teams and individuals.
- (6) **Learning and training at work** **22**
- (a) Explain the importance of learning and development in the workplace.
  - (b) Describe the learning process: Honey and Mumford, Kolb.
  - (c) Describe the role of the human resources department and individual managers in the learning process.
  - (d) Describe the training and development process: identifying needs, setting objectives, programme design, delivery and validation.
  - (e) Explain the terms 'training', 'development' and 'education' and the characteristics of each.
  - (f) List the benefits of effective training and development in the workplace.
- (7) **Review and appraisal of individual performance** **23**
- (a) Explain the importance of performance assessment.
  - (b) Explain how organisations assess the performance of human resources.

- (c) Define performance appraisal and describe its purposes.
- (d) Describe the performance appraisal process.
- (e) Explain the benefits of effective appraisal.
- (f) Identify the barriers to effective appraisal and how these may be overcome.
- (g) Explain how the effectiveness of performance appraisal may be evaluated.

**E PERSONAL EFFECTIVENESS AND COMMUNICATION IN BUSINESS**

**(1) Personal effectiveness techniques**

**24**

- (a) Explain the importance of time management.
- (b) Describe the barriers to effective time management and how they may be overcome.
- (c) Describe the role of information technology in improving personal effectiveness.

**(2) Consequences of ineffectiveness at work**

**24**

- (a) Identify the main ways in which people and teams can be ineffective at work.
- (b) Explain how individual or team ineffectiveness can affect organisational performance.

**(3) Competence frameworks and personal development**

**24**

- (a) Describe the features of a competence framework.
- (b) Explain how a competence framework underpins professional development needs.
- (c) Explain how personal and continuous professional development can increase personal effectiveness at work.
- (d) Explain the purpose and benefits of coaching, mentoring and counselling in promoting employee effectiveness.
- (e) Describe how a personal development plan should be formulated, implemented, monitored and reviewed by the individual.

- |          |  |           |
|----------|--|-----------|
| (4)      | <b>Sources of conflict and techniques for conflict resolution and referral</b>   | <b>24</b> |
|          | (a) Identify situations where conflict at work can arise.  |           |
|          | (b) Describe how conflict can affect personal and organisational performance.  |           |
|          | (c) Explain how conflict can be avoided.   |           |
|          | (d) Identify ways in which conflict can be resolved or referred.   |           |
| (5)      | <b>Communicating in business</b>   | <b>25</b> |
|          | (a) Define communications and identify methods of communication used in the organisation and how they are used.  |           |
|          | (b) Explain how the type of information differs and the purposes for which it is applied at different levels of the organisation: strategic, tactical and operational.                           |           |
|          | (c) List the attributes of good quality information.   | <b>4</b>  |
|          | (d) Explain a simple communication model: sender, message, receiver, feedback, noise.  | <b>25</b> |
|          | (e) Explain formal and informal communication and their importance in the workplace and identify the consequences of ineffective communication.  |           |
|          | (f) Describe the attributes of effective communication, the barriers to effective communication and identify practical steps that may be taken to overcome them.                                 |           |
|          | (g) Describe the main methods and patterns of communication.   |           |
| <b>F</b> | <b>PROFESSIONAL ETHICS IN ACCOUNTING AND BUSINESS</b>  |           |
| (1)      | <b>Fundamental principles of ethical behaviour</b>   | <b>10</b> |
|          | (a) Define business ethics and explain the importance of ethics to the organisation and to the individual.   |           |
|          | (b) Describe and demonstrate the following principles from the IFAC code of ethics, using examples: Integrity, Objectivity, Professional competence, Confidentiality and Professional behaviour. |           |

- (c) Describe organisational values which promote ethical behaviour using examples: Openness, Trust, Honesty, Respect, Empowerment and Accountability.
  - (d) Explain the concept of acting in the public interest.
- (2) **The role of regulatory and professional bodies in promoting ethical and professional standards in the accountancy profession** **10**
- (a) Recognise the purpose of international and organisational codes of ethics and codes of conduct, IFAC, ACCA, etc.
  - (b) Describe how professional bodies and regulators promote ethical awareness and prevent or punish illegal or unethical behaviour.
  - (c) Identify the factors that distinguish a profession from other types of occupation.
  - (d) Explain the role of the accountant in promoting ethical behaviour.
  - (e) Recognise when and to whom illegal, or unethical conduct by anyone within the organisation should be reported.
- (3) **Corporate codes of ethics** **10**
- (a) Define corporate codes of ethics.
  - (b) Describe the typical contents of a corporate code of ethics.
  - (c) Explain the benefits of a corporate code of ethics to the organisation and its employees.
- (4) **Ethical conflicts and dilemmas** **10**
- (a) Describe situations where ethical conflicts can arise.
  - (b) Identify the main threats to ethical behaviour.
  - (c) Outline situations at work where ethical dilemmas may be faced.
  - (d) List the main safeguards against ethical threats and dilemmas.

## The examination

### Examination format

The syllabus is assessed by paper or computer-based examination. Questions will assess all parts of the syllabus and will test knowledge and some comprehension or application of this knowledge. The examination will consist of:

	Number of marks
Thirty 2-mark questions	60
Sixteen 1-mark question	16
Six 4-mark question	24
	<hr/>
Total time allowed: 2 hours	100

### Paper-based examination tips

**Divide the time** you spend on questions in proportion to the marks on offer. The time allocation is 1.2 minutes per mark. If you **get completely stuck** with a question, leave space in your answer book and return to it later.

**Multiple-choice questions:** Read the questions carefully and work through any calculations required. If you don't know the answer, eliminate those options you know are incorrect and see if the answer becomes more obvious. Guess your final answer rather than leave it blank if necessary.

### Computer-based examination (CBE) – tips

Be sure you understand how to use the software before you start the exam. If in doubt, ask the assessment centre staff to explain it to you.

Questions are **displayed on the screen** and answers are entered using keyboard and mouse. At the end of the exam, you are given a certificate showing the result you have achieved.

Do not attempt a CBE until you have **completed all study material** relating to it. **Do not skip any of the material** in the syllabus.

**Read each question very carefully.**

**Double-check your answer** before committing yourself to it.

**Answer every question** – if you do not know an answer, you don't lose anything by guessing. Think carefully before you guess.

With a multiple-choice question, eliminate first those answers that you know are wrong. Then choose the most appropriate answer from those that are left.



Remember that **only one answer to a multiple-choice question can be right**. After you have eliminated the ones that you know to be wrong, if you are still unsure, guess. But only do so after you have double-checked that you have only eliminated answers that are definitely wrong.

**Don't panic** if you realise you've answered a question incorrectly. Getting one question wrong will not mean the difference between passing and failing.

## **Study skills and revision guidance**

This section aims to give guidance on how to study for your exams and to give ideas on how to improve your existing study techniques.

### **Preparing to study**

#### **Set your objectives**

Before starting to study decide what you want to achieve – the type of pass you wish to obtain. This will decide the level of commitment and time you need to dedicate to your studies.

#### **Devise a study plan**

Determine which times of the week you will study.

Split these times into sessions of at least one hour for study of new material. Any shorter periods could be used for revision or practice.

Put the times you plan to study onto a study plan for the weeks from now until the exam and set yourself targets for each period of study – in your sessions make sure you cover the course, course assignments and revision.

If you are studying for more than one paper at a time, try to vary your subjects as this can help you to keep interested and see subjects as part of wider knowledge.

When working through your course, compare your progress with your plan and, if necessary, re-plan your work (perhaps including extra sessions) or, if you are ahead, do some extra revision/practice questions.

### Effective studying

#### Active reading

You are not expected to learn the text by rote, rather, you must understand what you are reading and be able to use it to pass the exam and develop good practice. A good technique to use is SQ3Rs – Survey, Question, Read, Recall, Review:

- (1) **Survey the chapter** – look at the headings and read the introduction, summary and objectives, so as to get an overview of what the chapter deals with.
- (2) **Question** – whilst undertaking the survey, ask yourself the questions that you hope the chapter will answer for you.
- (3) **Read** through the chapter thoroughly, answering the questions and making sure you can meet the objectives. Attempt the exercises and activities in the text, and work through all the examples.
- (4) **Recall** – at the end of each section and at the end of the chapter, try to recall the main ideas of the section/chapter without referring to the text. This is best done after a short break of a couple of minutes after the reading stage.
- (5) **Review** – check that your recall notes are correct.

You may also find it helpful to re-read the chapter to try to see the topic(s) it deals with as a whole.

#### Note-taking

Taking notes is a useful way of learning, but do not simply copy out the text. The notes must:

- be in your own words
- be concise
- cover the key points
- be well organised
- be modified as you study further chapters in this text or in related ones.

Trying to summarise a chapter without referring to the text can be a useful way of determining which areas you know and which you don't.

## Three ways of taking notes:

### Summarise the key points of a chapter.

**Make linear notes** – a list of headings, divided up with subheadings listing the key points. If you use linear notes, you can use different colours to highlight key points and keep topic areas together. Use plenty of space to make your notes easy to use.

**Try a diagrammatic form** – the most common of which is a mind-map. To make a mind-map, put the main heading in the centre of the paper and put a circle around it. Then draw short lines radiating from this to the main sub-headings, which again have circles around them. Then continue the process from the sub-headings to sub-sub-headings, advantages, disadvantages, etc.

### Highlighting and underlining

You may find it useful to underline or highlight key points in your study text - but do be selective. You may also wish to make notes in the margins.

### Revision

The best approach to revision is to revise the course as you work through it. Also try to leave four to six weeks before the exam for final revision. Make sure you cover the whole syllabus and pay special attention to those areas where your knowledge is weak. Here are some recommendations:

**Read through the text and your notes again** and condense your notes into key phrases. It may help to put key revision points onto index cards to look at when you have a few minutes to spare.

**Review any assignments** you have completed and look at where you lost marks – put more work into those areas where you were weak.

**Practise exam standard questions** under timed conditions. If you are short of time, list the points that you would cover in your answer and then read the model answer, but do try to complete at least a few questions under exam conditions.

Also practise producing answer plans and comparing them to the model answer.

If you are stuck on a topic find somebody (a tutor) to explain it to you.

**Read good newspapers and professional journals**, especially ACCA's **Student Accountant** – this can give you an advantage in the exam.

Ensure you **know the structure of the exam** – how many questions and of what type you will be expected to answer. During your revision attempt all the different styles of questions you may be asked.

### **Further reading**

You can find further reading and technical articles under the student section of ACCA's website.

# The business organisation

## Chapter learning objectives

Upon completion of this chapter you will be able to:

- define 'business organisations' and explain why they are formed
- describe common features of business organisations
- outline how business organisations differ
- list the industrial and commercial sectors in which business organisations operate
- identify the different types of business organisation: commercial, not-for-profit, public sector, non-governmental organisations, co-operatives.



## 1 Business organisations and the reason they are formed

### 1.1 What is a business organisation?

Defining an organisation is difficult as there are many types of organisations which are set up to meet a variety of needs, such as clubs, schools, companies, charities and hospitals.

What they all have in common is summarised in the definition produced by **Buchanan and Huczynski**.



'Organisations are social arrangements for the controlled performance of collective goals.'

Note the three key aspects of this definition:

- collective goals
- social arrangements
- controlled performance



#### What is an organisation?

Consider the three aspects of Buchanan and Huczynski's definition in more detail:

- 'Collective goals' – organisations are defined by their goals. The main goal of a school is to educate pupils. It will therefore be organised differently to a company that aims to make profits.
- 'Social arrangements' – someone working alone cannot be classed as an organisation. Organisations are structured to allow people to work together towards a common goal. Usually, the larger the organisation, the more formal its structures.
- 'Controlled performance' – an organisation will have systems and procedures in place to ensure that group goals are achieved. For a company this could involve setting sales targets, or periodically assessing the performance of staff members.

It is worth noting that a major similarity between most organisations is that they are mainly concerned with taking inputs and transforming them into outputs.

For a manufacturing company, this could involve taking raw materials and transforming them into a finished product that can be sold onto its customers.

An accountancy training firm will also take inputs (students and syllabuses) and transform them into outputs (qualified accountants).

e.g

### Illustration 1 – Football team

A football team can be described as an organisation because:

- It has a number of players who have come together to play a game.
- The team has an objective (to score more goals than its opponent).
- To do their job properly, the members have to maintain an internal system of control to get the team to work together. In training they work out tactics so that in play they can rely on the ball being passed to those who can score goals.
- Each member of the team is part of the organisational structure and is skilled in a different task: the goalkeeper has more experience in stopping goals being scored than those in the forward line of the team.
- In addition, there must be team spirit, so that everyone works together. Players are encouraged to do their best, both on and off the field.



### Test your understanding 1

Which of the following would be considered to be an organisation?

- (i) A sole trader
- (ii) A tennis club
- (iii) A hospital
- A (i), (ii) and (iii)
- B (i) and (ii) only
- C (ii) and (iii) only
- D (i) and (iii) only

## 1.2 Why do we need organisations?

Organisations enable people to:

- **Share skills and knowledge** – this can enable people to perform tasks that they would be unable to achieve on their own. Knowledge can also be shared between all the people within the organisation.
- **Specialise** – individual workers can concentrate on a limited type of activity. This allows them to build up a greater level of skill and knowledge than they would have if they attempted to be good at everything.
- **Pool resources** – whether money or time.

This results in **synergy** where organisations can achieve more than the individuals could on their own.



### Test your understanding 2

Jared is organising a social event. Which of the following would be benefits of him forming a committee to manage the planning process and the event itself?

- (i) It would help to overcome his limitations, by bringing on board other people with different skills to him.
  - (ii) It would save time through the joint efforts of everyone on the committee.
  - (iii) It would help to satisfy Jared's social needs.
  - (iv) All members of the committee would have to be skilled in all aspects of managing the social event.
- A (i), (ii) and (iii) only  
B (i), (iii) and (iv) only  
C All of the above  
D None of the above



## 2 Different types of organisation

As we have discussed, different organisations have different goals. We can therefore classify them into several different categories.

### 2.1 Commercial versus not-for-profit

#### Commercial organisations

Commercial (or profit-seeking) organisations see their main objective as maximising the wealth of their owners.

There are three common forms that a commercial company can take:

- **Sole traders** – the organisation is owned and run by one person. In this type of organisation the owner is not legally separate from the business itself. If a sole trader's business is sued by a customer, the customer is actually suing the owner themselves.
- **Partnerships** – the organisation is owned and run by two or more individuals. Traditionally, partnerships (like sole traders) do not have a separate legal identity from their owners. However in recent years many countries have created alternative partnership structures (such as Limited Liability Partnerships (LLPs) in the UK) which mean that the business exists as a separate legal entity and the owners' liability is limited to the amount they have invested into the partnership.
- **Limited liability companies** – a company has a separate legal identity to its owners (who are known as shareholders). The owner's liability is limited to the amount they have invested into the company.

In the UK, there are two types of limited company:

**Private limited companies** (with 'Ltd' after their name) – these tend to be smaller businesses, often owned by a few shareholders. Shares cannot be offered to the general public.

**Public limited companies** (with 'plc' after their name) – these can be much larger businesses. Shares can be offered to the general public, meaning that there can be millions of different shareholders. This makes it easier for the company to raise finance, enabling further growth.

#### Not for profit organisations



Not-for-profit organisations (NFPs or NPOs) do not see profitability as their main objective. Instead, they seek to satisfy the particular needs of their members or the sectors of society that they have been set up to benefit.

e.g

### Illustration 2 – NFP examples

NFPs include the following:

- government departments and agencies (such as HM Revenue and Customs)
- schools
- hospitals
- charities (such as the Red Cross, Oxfam and Doctors Without Borders)
- clubs.

The objectives of different NFPs will vary significantly:

- Hospitals exist to treat patients.
- Councils may see their mission as caring for their communities.
- Government organisations usually exist to implement government policy.
- A charity may have ‘provision of relief to victims of disasters’ as its main objective.

## 2.2 Public versus private sector organisations

### Public sector organisations



The public sector is the part of the economy that is concerned with providing basic government services and is controlled by government organisations.

e.g

### Illustration 3 – Public sector organisations

The organisations that make up the public sector vary from country to country, but generally include:

- police
- military
- public transport
- primary education
- healthcare for the poor

## Private sector organisations



The private sector consists of organisations that are run by private individuals and groups rather than the government.



### Illustration 4 – Private sector

The private sector will therefore normally include:

- businesses
- charities and
- clubs.

Within these will be both profit-seeking and not-for-profit organisations.



### Test your understanding 3

Many schools run fund-raising events such as fêtes, where the intention is to make a profit. This makes them ‘profit-seeking’.

Is this statement:

- A True
- B False

## Non-governmental organisations (NGOs)



A non-governmental organisation is one which does not have profit as its primary goal and is not directly linked to the national government.

NGOs often promote political, social or environmental change within the countries they operate.

e.g

### Illustration 5 – NGOs

NGOs include:

- the Red Cross
- Doctors Without Borders
- Greenpeace
- Amnesty International.

## 2.3 Co-operatives



Co-operatives are organisations that are owned and democratically controlled by their members – the people who buy their goods or services. Each member usually gets a single vote on key decisions – unlike companies where shareholders get one vote for *each share* that they own.

They are organised solely to meet the needs of the member-owners, who usually share any profits.

e.g

### Illustration 6 – Co-operatives

In the UK, the largest example of a co-operative is the Co-operative Group, which has over 5.5 million members and operates in diverse markets, such as banking, travel and groceries.



### Test your understanding 4

Which of the following are usually seen as the primary objectives of companies?

- (i) To maximise the wealth of shareholders
  - (ii) To protect the environment
  - (iii) To make a profit
- A (i), (ii) and (iii)  
B (i) and (ii) only  
C (ii) and (iii) only  
D (i) and (iii) only



### Test your understanding 5

Which of the following organisations is most likely to be classified as part of the public sector?

- A A charity
- B A social club
- C A school
- D A public limited company

### 3 Sectors in which organisations operate

A further difference between organisations is the market in which they operate. There are a large number of different sectors, which include:

- **Agriculture** – production, processing and packaging of foodstuffs.
- **Mining** – extraction and processing of minerals.
- **Finance** – this includes banks and other companies that profit through investments and the lending of money to others.
- **Retailers** – sale of goods produced by manufacturers to consumers.
- **Service** – production of intangible goods and services.
- **Transportation** – movement of goods between locations.

This is not an exhaustive list, but it should give you some idea of the wide range of activities that support organisations.

### 4 Summary

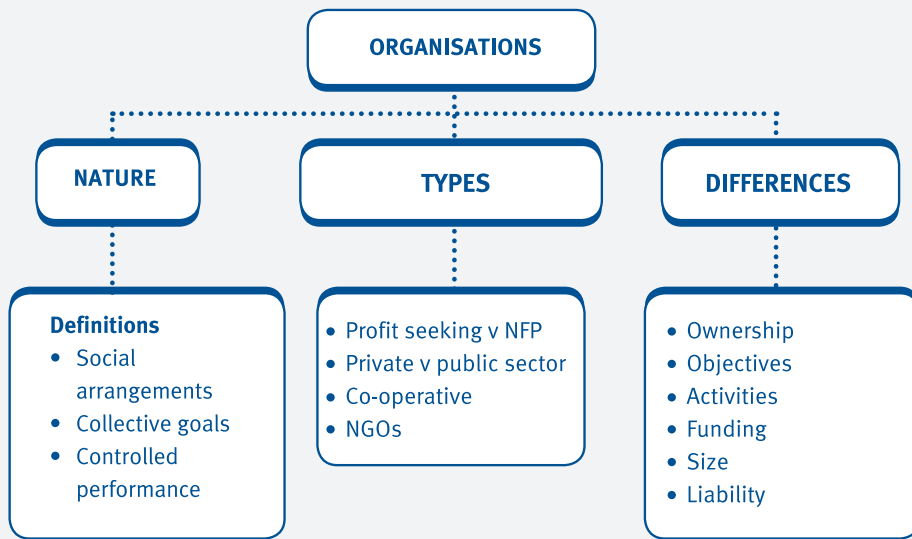
In summary, there are a number of key differences between the various types of organisations. These include (but are not limited to):

- **Ownership** – private sector organisations are likely to be owned by individual owners or shareholders (depending on the type of organisation). Public sector organisations will be controlled by the government, while co-operatives will be owned by their members.
- **Objectives** – as mentioned, each organisation has very different goals. This can range from the provision of social services (for charities and public sector organisations) to the maximisation of owner wealth (for profit-seeking organisations).
- **Activities** – the activities of an organisation will be designed to support its objectives. This means that organisational activities are as varied as the organisations themselves!

- **Sources of funding** – public sector organisations will tend to raise money from the central government. Private sector organisations, such as companies and co-operatives, will most likely have to raise funds from their owners. Charities are usually funded by donations.
- **Size** – organisations vary in size from large, multinational companies to sole traders consisting of only one person.
- **Liability** – the owners of sole traders or partnerships are liable for any losses their businesses make. Owners of companies enjoy **limited liability**.

In spite of these differences, the different types of organisations often face similar issues to each other. For instance, most will have employees that need to be motivated. Many organisations will need to design strategies for the future, or will need to consider what systems should be put in place to ensure the accurate recording of transactions.

It is these common issues that we are going to examine in more detail in the coming chapters.

**Chapter summary**

## 5 Practice questions



### Test your understanding 6

Which of the following statements regarding types of business is correct?

- A Partnerships are owned and run by one or more people
- B Private limited companies can sell shares to the public
- C Shareholders in companies typically have limited liability
- D The owners of sole traders typically have limited liability



### Test your understanding 7

GreenWatch is an independent environmental charity set up to lobby the government for improved environmental regulation on business. What type of organisation is GreenWatch most likely to be classed as?

- A Public sector
- B Co-operative
- C Non-governmental
- D Commercial



### Test your understanding 8

Which of the following is NOT a benefit that organisations have over individuals?

- A They allow the sharing skills and knowledge
- B They enable people to perform tasks they would be unable to achieve on their own
- C They enable synergy to be achieved
- D They speed up the time taken to make decisions



**Test your understanding 9**

Which of the following statements regarding organisations are correct?

- (i) Companies tend to raise money from central government.
  - (ii) Most sole traders and partnerships have the aim of maximising owner wealth.
  - (iii) Public sector organisations are controlled by the central government.
  - (iv) Charities form part of the public sector.
- A (i) and (ii) only  
B (iii) and (iv) only  
C (ii) and (iii) only  
D (ii) and (iv) only

**Test your understanding 10**

Here are four statements relating to the features of different types of organisation:

- A This type of organisation can sell its shares to the public.
- B This type of organisation is owned and run by two or more people who are legally indistinguishable from the organisation itself.
- C This type of organisation is controlled by the government.
- D This type of organisation is owned and democratically controlled by its members.

**Required:**

- (a) Identify the description above which is associated with each of the following types of organisation, by selecting A, B, C, D or none.
- (i) Private limited company
  - (ii) Partnership
  - (iii) Public limited company
  - (iv) Co-operative
  - (v) Public sector organisation
  - (vi) Sole trader

**(0.5 marks each, total = 3 marks)**

(b) Below are four types of organisation:

- A Charities
- B Schools
- C Limited companies
- D Police forces

**Required:**

Write down which two of the above are most likely to be classified as part of the private sector by selecting TWO of the letters from (A, B, C, D).

**(0.5 marks each, total = 1 mark)**

**(4 marks)**

## Test your understanding answers



### Test your understanding 1

#### The correct answer is C

A sole trader would normally be someone working on their own, so there would be no collective goals.



### Test your understanding 2

#### The correct answer is A

Statement (iv) would not be true, as organisations (which this committee could be classified as) allow for specialisation. Not all of the members would have to be skilled at performing all of the necessary tasks.



### Test your understanding 3

#### The correct answer is B – False

Schools run fund-raising activities to help pay for extra books, e.g. to improve the quality of education given to pupils. The primary objective is educational, not profit. The money made at the fête is thus a means not an end.



### Test your understanding 4

#### The correct answer is D

While protecting the environment is to be encouraged and is reinforced within statute to some degree, it is not a primary objective of the company. Companies exist primarily to maximise the return to their owners.



### Test your understanding 5

#### The correct answer is C

Public sector organisations will be controlled by the central government. This is unlikely to be a charity, a company or a social club – which are typical examples of the private sector.

Note that a privately owned and operated school could be part of the private sector, but schools are still the most likely from the list to be public.



### Test your understanding 6

#### The correct answer is C

Sole traders do not enjoy limited liability as, legally, they are not separate from their owners. Only public limited companies can issue shares to the public and partnerships cannot be owned by one person!



### Test your understanding 7

#### The correct answer is C

As a charity, GreenWatch is not commercial as it does not have a profit-making objective. It is not obviously controlled by the central government, meaning that it is not in the public sector. It also clearly does not meet the definition of a co-operative, which is an organisation that is controlled by the people who buy its goods.



### Test your understanding 8

#### The correct answer is D

Forming an organisation means that people work collectively. Typically this will mean that decision-making will become slower, as more people (with potentially differing ideas) are involved in the decision-making process.

**Test your understanding 9****The correct answer is C**

Companies usually raise money from sources other than the central government and charities are part of the private sector, rather than the public sector.

**Test your understanding 10**

(a) The correct answers are:

(i) **None**

(ii) **B**

(iii) **A**

(iv) **D**

(v) **C**

(vi) **None**

(b) The private sector refers to organisations that are run by private individuals and groups rather than the government. Therefore, the correct answers are **A** and **C**.

