ACCA

Paper F1

ACCOUNTANT IN BUSINESS

January–June 2015

“Start by doing what is necessary, then what is possible, and suddenly you are doing the impossible.”

St. Francis of Assisi

Globaltraining

UNIVERSITY OF NICOSIA

ACCA

PAPER F1

ACCOUNTANT IN BUSINESS

STUDY TEXT

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1. Examination Format

The examination has a total of 100 marks split as follows:

- **Section A:** contains **46 COMPULSORY** Objective Test Questions (OT's), split into:
  - Thirty 2-mark questions
  - Sixteen 1-mark questions
- **Section B:** contains **6 COMPULSORY** Multi-Task Questions (MTQs), split into:
  - Six 4-mark questions

Students have **2-hours** to complete the exam, and must answer correctly **at least 50%** of the marks in order to pass the exam.

2. Sitting The Exam

You may choose to sit the exam in either Paper-Based or Computer-Based format.

2.1. Paper-Based Exam

The paper-based exam is available to be attempted twice a year in June and December at your local examination centre.

You may apply to attempt the exam via post or by logging into your *MyACCA* account.

The exam entry deadlines for each exam sitting are as follows:

Exam Entry Period	**Early**	**Standard**	**Late**
June Session	8 March	8 April	8 May
December Session	8 September	8 October	8 November
Exam Entry Method	Online Only	Online and by Post	Online Only

The exam entry fee depends on which exam entry period you apply within.

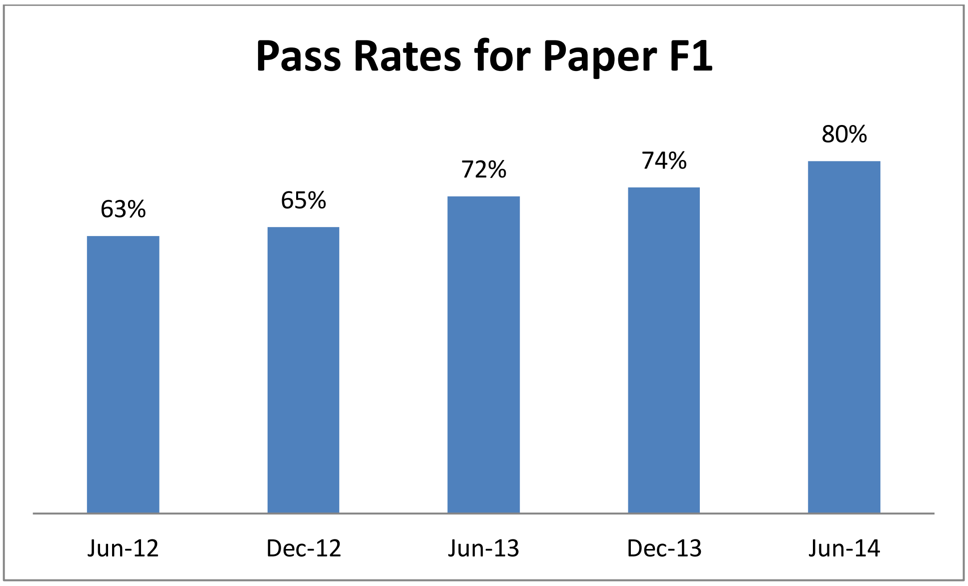
Results will be released on 8 August for the June examination and 8 February for the December examination.

2.2. Computer-Based Exam

Computer-based exams are available for the first four fundamental papers (F1, F2, F3 and F4). They can be attempted at your local CBE centre at any time of the year. You will need to apply and pay directly to the CBE centre. A CBE centre list is provided on the ACCA website.

Results are displayed instantly on the computer screen at the end of the exam.

3. Pass-Rates



4. Syllabus

A. The business organisation, its stakeholders and the external environment

1. The purpose and types of business organisation
2. Stakeholders in business organisations
3. Political and legal factors affecting business
4. Macroeconomic factors
5. Micro economic factors
6. Social and demographic factors
7. Technological factors
8. Environmental factors

9. Competitive factors

B. Business organisational structure, functions and governance

1. The formal and informal business organisation
2. Business organisational structure and design
3. Organisational culture in business
4. Committees in business organisations
5. Governance and social responsibility in business

C. Accounting and reporting systems, controls and compliance

1. The relationship between accounting and other business functions
2. Accounting and finance functions within business organisations
3. Principles of law and regulation governing accounting and auditing
4. The sources and purpose of internal and external financial information, provided by business
5. Financial systems, procedures and related IT applications
6. Internal controls, authorisation, security of data and compliance within business
7. Fraud and fraudulent behaviour and their prevention in business, including money laundering.

D. Leading and managing individuals and teams

1. Leadership, management and supervision
2. Recruitment and selection of employees
3. Individual and group behaviour in business organisations
4. Team formation, development and management
5. Motivating individuals and groups
6. Learning and training at work
7. Review and appraisal of individual performance.

E. Personal effectiveness and communication

1. Personal effectiveness techniques
2. Consequences of ineffectiveness at work

3. Competence frameworks and personal development
4. Sources of conflicts and techniques for conflict resolution and referral
5. Communicating in business.

F. Professional ethics in accounting and business

1. Fundamental principles of ethical behaviour
2. The role of regulatory and professional bodies in promoting ethical and professional standards in the accountancy profession
3. Corporate codes of ethics
4. Ethical conflicts and dilemmas

CHAPTER 1 | The Business Organisation

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1. What is a Business Organisation

Organisations are ***social arrangements for the controlled performance of collective goals***

- Social Arrangement
  2+ people working together
- Controlled Performance
  Systems and procedures are in place
  e.g. tasks allocation
- Collective Goals
  Work is performed to achieve a specific defined goal

EXAMPLE

A football team can be called an organisation because:

- Social Arrangement: There are more than two players in the team
- Controlled Performance: Each player has a specified role in the team such as to be a defender or attacker
- Collective Goals: All players are working together in order to achieve the goal of winning the football match.

2. Why do we Need Organisations?

i. **Share skills and knowledge** – enables people to perform tasks they would not be able to on their own

ii. **Allow specialisation** – individual workers can concentrate on a limited type of activities in order to build a greater level of skill and knowledge

iii. **Pool resources** – such as money and time

Synergy
Organisations can achieve more than the individuals could on their own

3. Classifying Organisations by Profit Orientation

3.1. Profit Seeking and Commercial Organisations

The main objective of a commercial organisation is **to maximize the wealth of their** owners.

In order to do this they are should have the following overall goals:

- Continue their existence (survival)
- Maintain growth and development
- Make profit

Commercial Organisations commonly take the following forms:

<table>
<tr>
<td>Soletrader
➢ Owned and run by one person</td>
<td rowspan="2">The BUSINESS OWNER is NOT legally separate from the business itself

Hence they have Personal Liability</td>
</tr>
<tr>
<td>Partnership
➢ Owner and run by two or more people</td>
</tr>
<tr>
<td>Limited Liability Company
➢ Private Limited Company (Ltd)
Owned by few private shareholders

➢ Public Limited Company (Plc)
Shares (an ownership in the company) can be sold to the public in order to raise extra finance</td>
<td>The Organisation is a SEPARATE LEGAL ENTITY to its owners (shareholders) –

Owner’s liability is limited to the amount invested in the company</td>
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DEFINITION

Liability: the state of being legally responsible for something.

Personal Liability: Where an individual, such as the shareholder, is the legally responsible for any mistakes made by the organisation. As a result if there is any financial obligation (such as if the court demands the organisation to pay compensation to a customer), the individual is responsible and may have to satisfy the obligation using their own (personal) assets (for example selling their house to pay the compensation due).

Separate Legal Entity: A legal entity, typically a business, is defined as detached from another business or individual with respect to legal responsibility. As a result any financial obligations which the company are liable to, will be paid from the company's assets and not the owners personal assets. The term '**Separate Legal Person**' is also used.

3.2. Not-For-Profit Organisations

The main objective of a commercial organisation is to **satisfy particular needs of their members rather than make profit.**

EXAMPLE

Example of Not-For-Profits include:

- Government Departments (Objective: To service the country)
- Schools (Objective: To educate)
- Hospitals (Objective: To treat patients)
- Charities (Example: The Red Cross)
- Clubs (Example: Sports team)

Mutual Organisations

These are a specific category of Non-For-Profit organisations. They are voluntary organisations formed to raise funds from the subscriptions of their members, out of which services can be provided to them. The defining feature of a mutual company is since its customers are also its owners, and so they are entitled to receive profits or income generated by the mutual company.

EXAMPLE

Trade Unions would be considered mutual organisations. A Trade Union is an organised association of workers in a particular industry or profession (e.g. teachers in education) which is formed in order to protect and further their (e.g. the teachers) rights and interests.

4. Classifying Organisations by Ownership/Profit

4.1. Public Sector Organisations

The public sector refers to the part of a nation's economy that is concerned with providing basic government services and is controlled by government organisations.

Public Sector Organisations are funded by the public through tax income, and are controlled by the government. They are not-for-profit organisations.

EXAMPLE

- Police
- Military
- Public Transport
- Primary Education
- Healthcare

4.2. Private Sector Organisations

The Private Sector refers to the part of a nation's economy which is controlled by private individuals or groups (not controlled by the government). Organisations within this sector may be either profit seeking or not-for-profit organisation.

EXAMPLE

- Businesses
- Charities
- Clubs

4.3. Non-governmental Organisations

A non-governmental organisation is a not-for-profit organisation which is not linked directly, or controlled, by the government.

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

EXAMPLE

- The Red Cross
- Doctors without Borders
- Greenpeace
- Amnesty International

5. Co-operatives

A co-operative is an organisation which is owned, controlled and operated by a group of users for their own benefit. Each member invests in the organisations and shares in the control of the organisation. Their aim is to meet common economic, social and/or cultural needs, through a jointly owned and democratically controlled enterprise.

The co-operative may be for-profit or not-for profit.

The members often have a close association with the enterprise as producers or consumers of its products or services, or as its employees

EXAMPLE

In Country A there are 50 pharmacies who buy their medicines from the same company abroad. All the owners of the pharmacy meet and realise that if they buy the medicines together they can receive a reduced price. They decide to set up a co-operative (as a separate legal entity) which will purchase the medicines at the reduced cost and stored them in a warehouse. The pharmacy owners each contribute money (capital) to invest in setting up the warehouse and purchasing the medicine. The individual pharmacy owners will then purchase their medicines from the co-operative at the same reduced price. All the pharmacy owners meet once a quarter to make decisions about the co-operative.

This is a co-operative as the pharmacy owners:

- Invested in the organisation (making them owners)
- Make decisions about the organisation (making them controllers)
- Purchase from the organisation at the reduced price (making them members)

CHAPTER 2 | Stakeholders

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1. What is a Stakeholder?

A stakeholder is a person or group that has an interest in what the organisation does, or an expectation of the organisation.

The person/group can be influenced by the organisation or can have an influence on the organisation.

Hence the organisation needs to identify its stakeholders and their needs, and then decide how to react to the various stakeholder groups.

EXAMPLE

The government would be considered a stakeholder of an organisation because it can influence, and be influenced by, the organisation in the various ways, including:

- Receiving tax income from the organisation
- Changing laws which may affect the organisations operations
- Encouraging employment to keep a stable economy

2. Categories of Stakeholders

Organisations should categorise their stakeholders as follows:

2.1. Internal Stakeholders

ınternal stakeholders are intimately connected to the organisation, and are based within the organisation. Their objectives are likely to have a strong influence on how the organisation is run.

EXAMPLE

Stakeholders	Need/Expectation	Example
Employees	Pay, working conditions, job security	If workers are to be given more responsibility, they will expect increased pay
Managers/Directors	Status, pay, bonus, job security	If growth is going to occur, the managers will want increase profits, leading to increased bonuses

2.2. Connected Stakeholders

Connected Stakeholders are external to the organisation but regularly interact and have a **contractual relationship** with the organisation. Satisfaction of shareholders is usually a primary objective of the organisations.

EXAMPLE

Stakeholders	Need/Expectation	Example
Shareholders	Steady flow of income, capital growth, continuation of business	If capital is required for growth, the shareholders will expect a rise in the dividend stream
Customers	Satisfaction of customers' needs, value-for-money products and services	If growth is going to occur, the managers will want increase profits, leading to increased bonuses
Suppliers	Paid promptly	If a decision is made to delay payment to suppliers to ease cash flow, existing suppliers may cease existing goods
Finance Providers	Ability to repay the finance	The firm's ability to generate cash

2.3. External Stakeholders

External stakeholders **do not** have a contractual relationship with the organisation, but still have an interest in the organisation. This group has diverse objectives.

EXAMPLE

Stakeholders	Need/Expectation	Example
Community at large	General public can be a stakeholder if their lives are affected by the organisation's decisions	Local residents' attitude towards out-of-town shopping centres
Customers	The organisation does not harm the external environment	If an airport wants to build a new runway, the pressure groups may stage a 'sit in'

Government	Provision of jobs, payment of taxes, compliance with legislation	Actions by companies could break the law or damage environment – governments control what organisations can do
Trade Unions	Taking part in the decision-making process	If a department is to be closed the union will want to be consulted

2.4. Primary v. Secondary Stakeholders

This is a different method of categorising stakeholders, which is based on whether or not they have a contractual relationship within the organisation

Primary Stakeholders	A contractual relationship Connected and internal stakholders Examples
Secondary Stakeholders	No contractual relationshop External Examples

3. Stakeholder Conflict

The needs/expectations of different stakeholders may conflict.

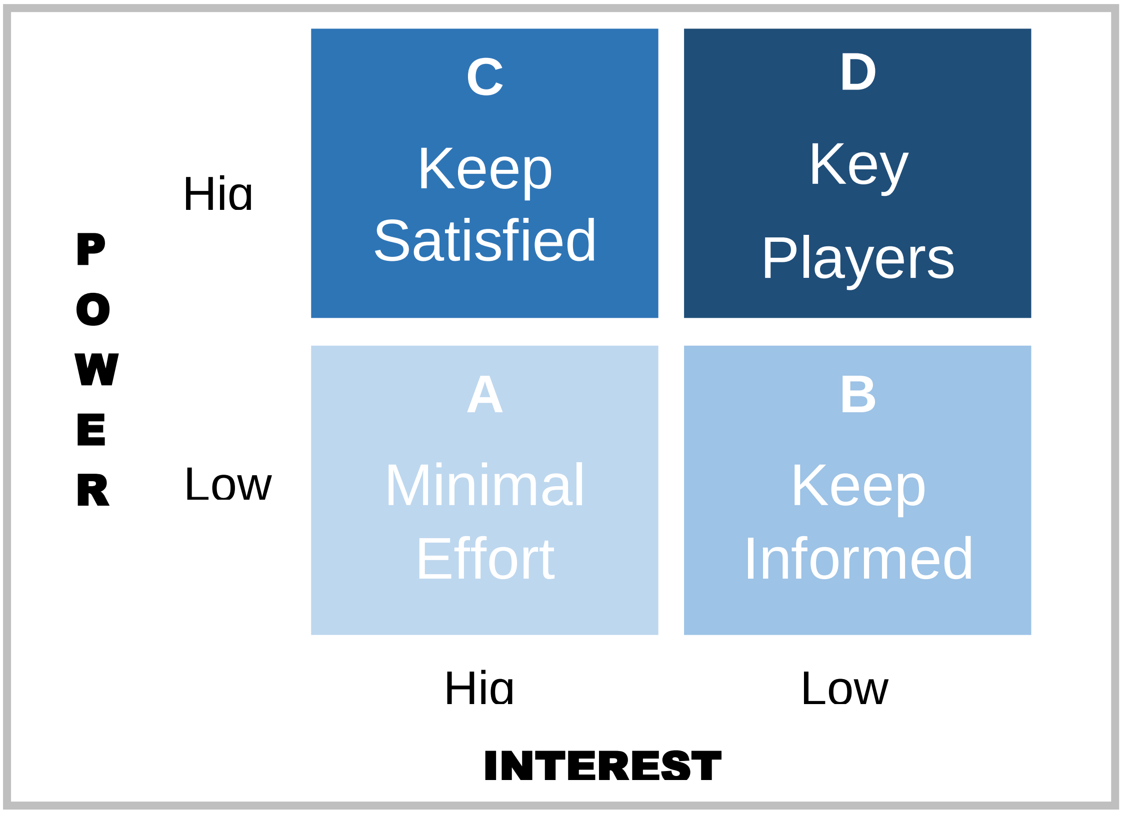
EXAMPLE

Stakeholders	Conflict
Employees VS Managers	Jobs/Wages VS Bonus
Customers VS Shareholders	Product quality VS Dividends
General Public VS Shareholders	Effect on the environment VS Profit/Dividends
Managers VS Shareholders	Growth VS Independence

Therefore, it is important for an organisation **to meet the needs of the most dominant stakeholders and at the same time the needs of the other stakeholders to be considered**.

4. Mendelow's Power-Interest Matrix

An organisation **should prioritise its stakeholders** using **Mendelow's matrix**, based on the **level of power and interest** and then take appropriate actions in order to minimize their negative reactions. Formulation of new strategies requires consideration of stakeholders, especially key players.



EXAMPLE

Group	Response	Example
A	Minimal Effort	Office cleaner who works for the company for 3-hours per week.
B	Keep Informed	Environmental Protesters. Provide information on the company's activities in being environmental aware.
C	Keep Satisified	The Government. Ensure the company pays it's takes and obeys the law, so the government does not become interested.
D	Key Players	Majority Shareholder. The company should work closely with these individuals, listening to their needs and involving them in key company decisions.