



BUSINESS AND FINANCE SAMPLE PAPER 2016

QUESTIONS

1. What are the primary objectives of profit-oriented and non-profit oriented organisations? Select one option.

	<i>Profit-oriented organisation</i>	<i>Non-profit oriented organisation</i>
A	Output of goods/services	Minimise costs
B	Output of goods/services	Provision of goods/services
C	Maximisation of wealth	Minimise costs
D	Maximisation of wealth	Provision of goods/services

2. Mandrake plc is a large group which processes waste for local authorities. It has stated that it seeks to provide

'our shareholders with increased value, our customers with value for money, our employees with secure and interesting jobs and the public with safe and environmentally sustainable waste disposal.'

This is analysed below into four statements. Identify which ONE is Mandrake plc's primary business objective.

- A To provide our shareholders with increased value
 - B To provide our customers with value for money
 - C To provide our employees with secure and interesting jobs
 - D To provide the public with safe and environmentally sustainable waste disposal
-

3. Malcolm Christopher is a marketing manager with Stone plc. Whilst his marketing director has primary responsibility for the company's overall marketing strategies, Malcolm has day-to-day responsibility for all aspects of the company's marketing mix. This means that Malcolm will be responsible for:

- A A set of variables that he manages in order to achieve a desired response from the company's various target markets
 - B Budgets setting out the volumes to be sold to the company's various target markets
 - C The sets of different features and benefits that are present in the company's range of products
 - D The types of advertising used by a firm to reach and influence its various target markets
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4. Harris plc has a capital-intensive operation, with specialisation of work and well-established systems for getting the work done. Each month its operations manager is required to produce more items than in previous periods. Using the four Vs model Harris plc's operations manager is therefore expected to manage
- A High volume and high unit costs
 - B High volume and low unit costs
 - C Low volume and low unit costs
 - D Low volume and high unit costs
-

5. Pemble Ltd is a company that emphasises its adoption of the marketing orientation. Which of the following statements is most likely to be made by Elaine Pemble, its managing director?
- A Rather than focusing on product development, we offer discounts on our current lines to increase sales
 - B We increase sales by spending money on development of products our customers want
 - C We put all our effort into persuading customers to buy our products as our sales targets are of paramount importance
 - D We aim to increase sales by spending to develop products we think are innovative
-

6. Rumbert plc is a large group listed in the UK, with a head office in London and strategic business units (SBUs) spread throughout the world. Only overall strategic direction and consolidated financial reporting are provided by London. All SBUs manage their own marketing and operations, and report directly to regional centres which provide all other forms of functional support.

Rumbert Insurance is an SBU operating in South Africa and reporting to the Rumbert Southern Africa regional centre. It is engaged in providing home and car insurance direct to consumers. Identify whether the following areas of functional support would be provided to Rumbert Insurance by the Rumbert Southern Africa regional centre.

Sales management

- A Yes
- B No

Financial reporting for the London Stock Exchange

- C Yes
- D No

Periodic management accounts

- E Yes
 - F No
-

7. Angela is a sole trader who currently employs one person. Her business, Markstat, performs statistical analysis for market research companies. Workloads are increasing rapidly and Angela has realised that she now needs to employ three additional people. This will mean that new office premises have to be found and new furniture and equipment purchased. The business operates in a highly competitive sector.

Identify which TWO of the following factors are disadvantages of her current business structure in this context.

- A A floating charge cannot be used to secure borrowing
 - B Angela's liability is unlimited
 - C The business's liability is unlimited
 - D Financial statements do not have to be filed at Companies House
 - E The stringent legal rules that apply to the business's constitution
-

8. Mr Dafinone is a sole trader who works alone, maintaining and repairing IT systems. He works about 60 hours per week. He wants to take on a major new maintenance and repair contract for a local hospital's operating theatre. This will require at least 60 working hours each week. It will be extremely profitable if he can acquire the necessary equipment.

Identify whether the following statements about his sole trader status are true or false.

It prevents him from employing staff to help with the contract

- A True
- B False

It gives him personal liability for any failure of his in relation to the hospital IT system

- C True
- D False

It prevents him from obtaining a loan to obtain the equipment

- E True
 - F False
-

9. Sextet Partnership comprises six partners who share profits 6:5:4:3:2:1. They are considering incorporation as a limited company, Sextet Ltd. Only the six partners will become shareholders on incorporation.

In relation to Sextet Ltd, which of the following statements is necessarily true?

- A All partners will be equal shareholders in Sextet Ltd
 - B If Sextet Ltd wishes to raise new share capital, the number of shareholders may be allowed to rise above six
 - C All shareholders will become directors and will have the right to be equally involved in the management of Sextet Ltd
 - D If one of the shareholders in Sextet Ltd dies, the company will be dissolved
-

10. Pliar Ltd is considering a number of options to market a new product with Secateur Ltd's help. Identify the description which best suits the business structure suggested for each option.

Buy Secateur Ltd and market the product through that company

- A Group structure
- B Joint venture
- C Strategic alliance

Form a project team with employees of both Secateur Ltd and Pliar Ltd and market the product through that team

- D Group structure
- E Joint venture
- F Strategic alliance

With Secateur Ltd as equal partner, form Plicateur Ltd and market the product through that company

- G Group structure
 - H Joint venture
 - I Strategic alliance
-

11. A consultant has told the board of Pineapple plc that the strategic planning process should result in a strategic plan, a business plan and an operational plan. The board is unclear as to what these terms mean.

Identify each plan with its definition.

A plan setting out the markets the business intends to serve, how it will serve each market and what finance is required.

- A Strategic plan
- B Business plan
- C Operational plan

A plan setting out how overall objectives are to be achieved, by specifying what is expected from specific functions, stores and departments.

- D Strategic plan
 - E Business plan
 - F Operational plan
-

12. The marketing director of Birstall plc is currently formulating whether one of the company's products, which is aimed at a small niche market, should be differentiated from its close competitors, although at this stage she is unsure how such differentiation would be achieved in practice. The decision on whether to differentiate or not is a decision concerning the company's:

- A Functional strategy
 - B Business strategy
 - C Competitive strategy
 - D Product/market strategy
-

13. The specialist services division of Klaxon plc uses highly-qualified professional staff to provide its government-accredited service to its customers. The division is developing its business plan and is reviewing a five forces analysis that was conducted by a consultant. This identifies that rivalry between the very few providers of the specialist service will soon intensify.

Identify whether the following factors stated in the report indicate increased rivalry among providers or not.

Government subsidies for existing providers are to be removed.

- A Indicates increased rivalry
- B Does not indicate increased rivalry

Two key customers of the specialist service are to merge.

- C Indicates increased rivalry
 - D Does not indicate increased rivalry
-

- 14 The strategy director of Milton plc is assessing a particular project that he may recommend to the board of directors. He is concerned, however, about the risk-averse attitude of the board to similar projects in the past. In terms of risk, risk aversion is a measurement of:

- A The probability of risk arising
 - B Project uncertainty
 - C The impact of risk
 - D Appetite for risk
-

15. The depreciation policies adopted by Plumtree Ltd have remained unchanged for the past five years. According to the *Conceptual Framework for Financial Reporting*, in relation to its financial information, this fact supports the qualitative characteristic of:

- A Understandability
 - B Relevance
 - C Timeliness
 - D Comparability
-

16. When determining whether information is both of good quality and valuable, the characteristic that it must have is:

- A Accuracy
 - B Accessibility
 - C Timeliness
 - D Relevance
-

17. 'Effectiveness', 'economy' and 'efficiency' are often cited with reference to resource use.

Match these terms with the definitions below:

- 1 – A reduction or containment of costs
- 2 – Achieving maximum output at minimum cost
- 3 – The measure of achievement by reference to objectives

- A 1 = effectiveness 2 = economy 3 = efficiency
 - B 1 = economy 2 = efficiency 3 = effectiveness
 - C 1 = efficiency 2 = effectiveness 3 = economy
 - D 1 = economy 2 = effectiveness 3 = efficiency
-

18. A highly-g geared company's financial risk is most likely to increase when it increases its:

- A Operations
 - B Geographical reach
 - C Borrowings
 - D Share capital
-

19. Novel plc has been establishing its accounting and finance function. The company has been told that two purposes of published, audited financial statements are to help users to assess how effectively managers are running a business and to make judgements about the likely levels of risk and return in the future.

Which of the following user groups of Novel plc's published, audited financial statements is most likely to use accounting information for these purposes?

- A Community representatives
 - B Employees
 - C Shareholders
 - D Managers
-

20. Mainstream Ltd's finance director wants to establish an effective system in the accounting and finance function for producing management accounting reports. In establishing such a reporting system, which of the following issues should be the finance director's primary consideration?

- A The information needs of the company's managers
 - B The need for effective internal control mechanisms
 - C The need for cost-effectiveness
 - D The need for effective information security
-

21. Tram plc's finance and accounting section wants to provide information to management on the company's balanced scorecard. This role would be undertaken as part of Tram plc's
- A Statutory audit requirement
 - B Financial reporting function
 - C Treasury management process
 - D Performance measurement system
-

22. Which of the following statements about critical success factors (CSFs) for a business is true?
- A Low costs will always be a CSF; high sales revenue will always be a CSF
 - B Low costs will always be a CSF; high sales revenue will not always be a CSF
 - C Low costs will not always be a CSF; high sales revenue will always be a CSF
 - D Low costs will not always be a CSF; high sales revenue will not always be a CSF
-

23. A consultant has made two statements about the primary focus of the users of financial statements of an entity.

Statement 1 The primary focus of suppliers is on the entity's risk and return.

Statement 2 The primary focus of shareholders is on the entity's solvency.

Are these statements true or false?

	<i>Statement 1</i>	<i>Statement 2</i>
A	True	False
B	False	True
C	True	True
D	False	False

24. The legal relationship between a bank and its customer can include the bailor/bailee relationship, the mortgagor/mortgagee relationship and the fiduciary relationship.

Identify each of these relationships with its description.

The bank is expected to act with the utmost good faith in its relationship with the customer.

- A Mortgagor/mortgagee
- B Fiduciary
- C Bailor/bailee

The bank asks the customer to secure a loan with a charge over the customer's assets.

- D Mortgagor/mortgagee
- E Fiduciary
- F Bailor/bailee

The bank accepts the customer's property for storage in its safe deposit and undertakes to take reasonable care to safeguard it against loss or damage.

- G Mortgagor/mortgagee

- H Fiduciary
 - I Bailor/bailee
-

25. Which of the following statements about venture capital is NOT correct?

- A Venture capital can be used to fund business start-ups.
 - B Venture capitalists may realise their investment by selling their shares following flotation on the stock exchange.
 - C Venture capitalists would never sit on the board of a company.
 - D Venture capitalists normally expect a company's existing owners to bear a substantial part of the risk.
-

26. Which of the following forms of new share issues would normally be underwritten?

- A Introduction
 - B Offer for sale by tender
 - C Placing
 - D Rights issue
-

27. Of what is the following statement a definition?

'A document issued by a bank on behalf of a customer authorising a person to draw money to a specified amount from its branches or correspondents, usually in another country, when the conditions set out in the document have been met.'

- A Bill of exchange
 - B Export guarantee
 - C Banker's draft
 - D Letter of credit
-

28. In general, for a couple in their 50s with grown-up children their key objective will be to maximise income:

- A As their expenditure is so high
 - B So they can save and invest for retirement
 - C So they can launch their careers
 - D So they can buy their first house
-

29. An individual has a short to medium-term financial objective and money to invest in respect of this. Which of the following statements about priority and related risk and return is true in this case?
- A If it is a high priority the individual will want high risk and high return
 - B If it is a low priority the individual will want low risk and would accept low return
 - C If it is a high priority the individual will want low risk and would accept low return
 - D If it is a low priority the individual will not bother to invest
-

30. The objective of the accountancy profession can best be described as:
- A Providing financial information about an entity to external users, which is useful to them in making economic decisions and for assessing the stewardship of the entity's management.
 - B Measurement, disclosure or provision of assurance about financial information that helps managers, investors, tax authorities and other decision makers make resource allocation decisions.
 - C Identifying, measuring, accumulating, analysing, preparing, interpreting and communicating information used by management to plan, evaluate and control an entity and to assure appropriate use of and accountability for its resources.
 - D Managing all the processes associated with the raising and use of financial resources in a business.
-

31. What is the objective of the accruals basis of accounting?
- A To match cash inflows with cash outflows
 - B To match expenses with revenue earned
 - C To match expenses with cash received in the period
 - D To provide financial information to help investors determine the current cash flows
-

32. According to the Companies Act 2006, qualification as a chartered accountant and appointment as a director of a company together qualify an individual to be appointed as:
- A Company actuary, if it is an insurance company
 - B Company secretary, if it is a listed company
 - C Company valuer of investment properties, if it is a property company
 - D Company liquidator
-

33. Which accounting principle states that a company should use the same accounting methods and procedures from one accounting period to the next?
- A The materiality principle
 - B The consistency principle
 - C The prudence principle
 - D The faithful representation principle

-
34. Xigent plc employs directors of finance, of human resources and of legal services, as well as a company secretary. The company is having operational problems which are delaying its completion of a key project. If the project misses its deadline Xigent plc may suffer heavy penalties under the terms of its sales contract with the customer. Part of the delay has been caused by strikes due to bad industrial relations with both employees and sub-contractors, but Xigent plc is unsure whether the penalties included in the contract will come into effect given this reason.

Identifying whether the penalties are likely to come into effect is the role of Xigent plc's

- A Director of finance
 - B Director of human resources
 - C Director of legal services
 - D Company secretary
-

35. Part A of the ICAEW Code of Ethics establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles.

Which THREE of the following are stated as fundamental principles in the ICAEW Code of Ethics?

- A Integrity
 - B Independence
 - C Confidentiality
 - D Objectivity
 - E Reliability
-

36. The recent financial statements of Anson plc, a company listed on the London Stock Exchange, depart from the requirements of certain relevant accounting standards and provisions of the Companies Act 2006. The company is therefore likely to be referred to which of the following regulatory bodies?

- A The Prudential Regulation Authority
 - B The Financial Conduct Authority
 - C The Institute of Chartered Accountants in England and Wales
 - D The Financial Reporting Council
-

37. The Finance Director of Trun plc is a chartered accountant. She has received notice that, in respect of Trun plc's financial statements, she could be subject to disciplinary proceedings by the Professional Conduct Department of the ICAEW, or by the Financial Reporting Council's professional discipline team. The latter will only be involved if the matter raises issues affecting:

- A The public interest
- B The independence of the auditors
- C Corporate governance
- D International accounting standards

38. The Financial Reporting Council consists of:

- A Two divisions – the Conduct Division and the Codes and Standards Division
 - B Two divisions – the Accountancy Division and the Actuarial Division
 - C Three divisions – the Audit Regulation Division, the Accountancy Oversight Division and the Professional Discipline Division
 - D Three divisions – the Conduct Division, the Codes Division and the Standards Division
-

39. In the country of Zanadu, the population has a risk seeking attitude towards financial matters. Zanadu's financial system is likely to be:

- A A market-based system
 - B A stakeholder system
 - C A bank-based system
 - D A public policy system
-

40. In seeking to address the problem of the separation of ownership and control, corporate governance attempts to align the interests of which TWO of the following stakeholders?

- A Investors
 - B Employees
 - C Regulators
 - D Managers
 - E Auditors
-

41. The stewardship approach to corporate governance requires directors of limited companies:

- A To act at all times in the best interests of the company
 - B To allow shareholders to see detailed accounting records upon request
 - C To hold regular monthly meetings to answer shareholders' questions
 - D To consult the shareholders over difficult management decisions
-

42. Paul has become aware of theft from his employer, Mortice plc, by one of its directors. He wishes to bring this to the attention of the company but is not aware of how to do so in line with the UK Corporate Governance Code. Who within a company is responsible for reviewing arrangements by which staff may, in confidence, bring matters such as this to the attention of the company?

- A The company chairman
- B The board of directors

C The non-executive directors

D The audit committee

43. The UK Corporate Governance Code requires that the percentage of the board of directors of a listed company (excluding the chairman) who should be independent non-executive directors is:

A Between 10% and 24%

B Between 25% and 39%

C Between 40% and 49%

D 50% or over

44. Sumatra plc operates its own internal audit function, choosing not to make use of an external supplier for these services. In light of this policy, it is vital that arrangements are established within the company to ensure that there is no compromise of the:

A Independence of the internal auditors

B Integrity of information security systems

C Stewardship of directors

D Rigour of financial reporting processes

45. A shopkeeper finds that if he sets the price of a particular product at £9.00 per unit he sells, on average, 150 units of the product per month. However, at a price of £10.00 per unit, he sells an average of 110 units per month. The price elasticity of demand for the product is

A - 0.42

B - 2.40

C - 0.27

D - 0.11

46. Bench Ltd produces chairs. An economist working for the firm predicts that if average incomes rise next year, then demand for the firm's chairs will increase in direct proportion to the rise in incomes (assuming all other factors remain unchanged). The accuracy of the economist's prediction depends on whether the chairs produced by Bench Ltd

A Are normal goods

B Have many complementary goods

C Have few complementary goods

D Have few substitutes

47. 'Supply side' economics concerns:
- A The behaviour of the microeconomic supply curve
 - B The supply of factors of production in response to changing levels of factor rewards
 - C The behaviour of the aggregate supply curve in connection with the levels of prices, incomes and employment
 - D The effect that an increase in the supply of money has on inflation
-

48. Two of Sunshine Tours plc's stakeholder groups are putting the company under pressure to improve its return on investment. These are most likely to comprise which TWO of the following groups?
- A Shareholders
 - B Customers
 - C Bankers
 - D Suppliers
 - E Employees
-

49. It is reported that two large listed companies recently colluded with each other to fix the price of a product they both sell in the UK market. Collusion of this type is an example of market failure due to:
- A Inequality of resources
 - B External costs
 - C Market power
 - D Resource immobility
-

50. The Fenno product is manufactured in the UK but is also imported into the UK from France. The UK government has recently decided to apply an import quota on imports of the product from France at a level below the current level of imports. This action will have the effect of:
- A Only French suppliers suffering a lower price
 - B Both UK and French suppliers suffering a lower price
 - C Only UK suppliers enjoying a higher price
 - D Both UK and French suppliers enjoying a higher price
-



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ANSWERS

1. D Profit-oriented organisations should aim to maximise shareholder wealth. Non-profit-oriented organisations, such as charities, should aim to provide goods and/or services.

LO 1a

2. A The primary business objective of a profit-seeking plc will be the maximisation of shareholder wealth (A). The other statements are secondary objectives that will be pursued in support of this primary objective.

LO 1a

3. A The marketing mix comprises four variables (A): product, price, promotion and place. The marketing mix is not the same as the sales mix (B) nor is it the same as the communications mix (D). It is also a broader concept than mere product features and benefits (C).

LO 1c

4. B High volume lends itself to Harris plc's capital-intensive operation, with specialisation of work and well-established systems for getting the work done. Unit costs should therefore be low (B).

LO 1d

5. B The marketing orientation looks outwards and is concerned with ascertaining and supplying customers' requirements. Marketing is about supplying what the customer wants (B). The other statements show features of sales-orientation and product-orientation – a concentration on selling rather than marketing and a concentration on what we as a company have to offer (C) rather than on what the customer wants or needs. Instead of finding out what the customer wants, such a company would be trying to sell whatever items it happens to have in stock (A) or whatever Pemble staff thought innovative (D). Instead of a product-centred 'make and sell' philosophy, the marketing approach is a customer-centred 'sense and respond' philosophy.

LO 1c

6. B,D,E

Sales management – No

Financial reporting for the London Stock Exchange – No

Periodic management accounts – Yes

Sales management is part of both marketing and operations, so would be handled by Rumbert Insurance itself, not by the Regional Office. Financial reporting is centralised at Head Office so again would not be provided by the Regional Office. Periodic management accounts would be provided by the Regional Office as they are neither marketing/operations, nor are they related to strategic direction or consolidated financial reporting.

LO 2c

7. A, B

A floating charge (which gives lenders security for their loan) cannot be created over the business of a sole trader (A), but it can be over the assets of a limited company. This could hinder her ability to raise finance. Currently, Angela has unlimited liability (B) and with the increasing financial commitments of the business it might be better for her personally to seek limited liability, though the business will still have unlimited liability for its own debts (C). As a sole trader, the business's liability is not distinct from her own. Filing financial statements at Companies House (D), and the rules that apply to the business's constitution (E), do not apply to Angela as she is not operating as a company.

LO 2b

8. B,C,F

It prevents him from employing staff	False
It gives him personal liability for any failure	True
It prevents him from obtaining a loan	False

As a sole trader he can raise loans and employ staff so neither of these statements is true. However, as a sole trader he does have the disadvantage of personal liability.

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LO 2a/2b

9. B Shareholders do not have an automatic right to be a director or to be involved in management (C). The partners' individual shareholdings will be determined by an agreement that is not necessarily related to the existing partnership agreement (A). The concept of perpetual succession means that the company will not dissolve upon the death of a shareholder (D).

LO 2b

10. A,F,H

Buy Secateur Ltd – Group structure

Form a project team – Strategic alliance

With Secateur Ltd as equal partner – Joint venture

Purchasing the company will make it part of a group; forming a project team is a form of strategic alliance. Plicateur Ltd would be a separate legal entity owned 50:50 by the two companies and this is the most usual form of joint venture. A strategic alliance is more informal.

LO 2a

11. B,F

A plan setting out the markets – Business plan

A plan setting out how overall objectives will be achieved – Operational plan

An operational plan specifies what is expected of each function in a business and a business plan sets out the market(s) to be served, how they will be served and the finance required.

LO 1f

12. C A functional strategy (A) would be concerned with the role of the marketing function itself within the company. Competitive strategy (C) is concerned with how the business will compete in terms of source of competitive advantage (cost or differentiation) and extent of competitive scope (broad or narrow). Product/market strategy (D) is concerned with how the business will grow (Ansoff's Matrix). Business strategy (B) is concerned in particular with how the marketing mix would be adjusted in due course if a competitive strategy of differentiation was decided upon.

LO 1b/1e

13. A,C

Government subsidies removed	Indicates increased rivalry
Two key customers merge	Indicates increased rivalry

A concentration of customers will increase rivalry since the power of customers is thereby increased. Removal of government subsidies creates a more level playing field amongst competitors hence increasing rivalry.

LO 1b

14. D Appetite for risk (D) is the extent to which you are willing to take on risk. Being risk averse means that you prefer to take the investment with the lowest risk.

LO 1h/1i

15. D Comparability from one year to the next is helped by companies choosing a particular accounting policy and remaining with it.

LO 3a

16. D Good quality information must be accurate (A) and timely (C), and valuable information must be accessible (B), but to be both good quality and valuable it must be relevant (D).

LO 3a/3d

17. B Effectiveness is the measure of achievement and the extent to which objectives have been attained (3). Efficiency is the relationship between outputs and the resources used to produce those outputs. An efficient operation produces the maximum output for any given set of resource inputs (2); or it has minimum inputs for any given quantity and quality of output. Economy means obtaining the appropriate quantity and quality of inputs at the lowest cost (1). An activity would not be economic, if, for example, there was over-staffing or failure to purchase materials of requisite quality at the lowest available price.

LO 1a/3b

18. C In a highly-g geared company, the higher the proportion of borrowings the greater the financial risk. If business activity falls, the company may not be able to meet its interest payments.

LO 1h/1i

19. C Managers have stewardship over resources owned by the shareholders, so the shareholders (C) use the financial statements to assess the quality and effectiveness of their stewardship. Shareholders own shares (which are risky investments) in the hope of earning a satisfactory return. Community representatives (A), employees (B) and managers (D) have other primary interests.

LO 3a

20. A Management accounting is driven not by rules or standards but by the need to meet the information requirements of managers (A) within an organisation who use the information to plan, control, make decisions and monitor performance.

LO 3c

21. D The balanced scorecard is a performance measurement tool (D) focused on a variety of performance measures important to a business, rather than purely financial ones.

LO 3c

22. D High quality might be more important than costs, high margins might be more important than revenue. We cannot therefore state that either low costs or high sales revenue will always be CSFs.

LO 1a/3b/3e

23. D
Liquidity, not risk and return, is the main concern for the entity's suppliers.
Risk and return, not solvency, are the main concern of the entity's shareholders.

LO 3f

24. B,D,I

The bank is expected to act with the utmost good faith in its relationship with the customer	Fiduciary
The bank asks the customer to secure a loan with a charge over the customer's assets	Mortgagor/ Mortgagee
The bank accepts the customer's property for storage in its safe deposit and undertakes to take reasonable care to safeguard it against loss or damage	Bailor/ Bailee

LO 3g

25. C Venture capitalists often will want a place on the board to secure their investment.

LO 3h

26. D No new shares are issued in an introduction (A) and so there is no need to underwrite. An offer for sale by tender (B) would not normally need underwriting since the issue price reflects the value of the shares as perceived by the market. Underwriting would only be necessary if there is a risk that there will be under-subscription even at the minimum price. It is unnecessary to underwrite a placing (C) since a purchaser for the shares is arranged in the issue process. Although a rights issue (D) should not need underwriting in theory, since all the shares are being offered to existing shareholders, in practice it will usually be underwritten. This is to ensure that sufficient funds are raised from the issue, even if the rights are not fully exercised.

LO 3i

27. D This is a letter of credit. A bill of exchange (A) is drawn by one party on another (not necessarily by a bank). An export guarantee (B) is insurance against defaults on exports. A banker's draft (C) is a cheque drawn by a bank on one of its own bank accounts.

LO 3j

28. B At this stage in their lives people generally aim to build up their retirement 'nest-eggs'. As their children are grown their expenditure is not so high, and they have generally already bought property and established careers.

LO 3k

29. C An individual with a high priority short to medium-term financial objective and money to invest in respect of this will want to minimise risk and will accept a lower return as a result.

LO 3l

30. B The accountancy profession is concerned with providing measurement, disclosure or provision of assurance about financial information that helps managers, investors, tax authorities and other decision makers make resource allocation decisions.
(A) relates to financial reporting; (C) to management accounting; and (D) to financial management.
LO 4a
31. B Expenses are matched with revenue earned under this basis of accounting because transactions and other events are recognised when they occur rather than when the related cash-flow is either paid or received. (A), (C) and (D) all relate in some way to cash flow.
LO4b
32. B The Companies Act 2006 states that a company secretary of a plc shall be a member of ICAEW (or certain other bodies) or a solicitor or barrister.
LO 4b
33. B The consistency principle states a company should use the same accounting methods and procedures from period to period.
LO 4b
34. C Enforcement of contracts is clearly a legal matter requiring the attention of the company's director of legal services.
LO 4c
35. A, C and D
The fundamental principles established by the ICAEW Code of Ethics are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.
LO 5g
36. D The FRC, via the Conduct Division's Financial Reporting Review Panel, investigates departures from relevant accounting standards by large companies such as those listed on the LSE.
LO 4c
37. A The Financial Reporting Council's professional discipline team in its Conduct Division investigates specifically those cases that raise important issues affecting the public interest.
LO 4c
38. A The FRC consists of Conduct Division and the Codes and Standards Division.
LO 4c
39. A Household preference for equity (more risk) rather than bank deposits (less risk) means that equity finance is likely to dominate the financing of businesses.
LO 5d
40. A and D
The separation of ownership and control refers to the classic 'agency problem', in which investors (shareholders) who own the company delegate to managers (as agents) responsibility for running the business for the ultimate benefit of the owners. Corporate governance is fundamentally concerned with ensuring that the managers act as the owners would want them to.
LO 5b

41. A The stewardship approach requires that directors should act at all times in the company's best interests, not in their own. This is a resolution of the agency problem. Allowing shareholders to see detailed accounting records on request, holding monthly meetings to answer shareholders' queries and consulting shareholders over difficult management decisions are not factors that are required by the stewardship approach, though a company can choose to enforce such procedures if it wants.

LO 5a

42. D This is set out in provisions supporting C3 (accountability: audit committee and auditors) of the Code.

LO 5c/5e

43. D One of the provisions supporting main principle B1 (effectiveness: the composition of the board) is that at least 50% of the board, excluding the chairman, should be independent non-executive directors.

LO 5c/5e

44. A An effective internal audit function has, as a fundamental requirement, to maintain its independence at all times.

LO 5e/5f

45. B Proportional change in quantity demanded = $40/150 \times 100 = -26.6\%$

Proportional change in price = $1/9 \times 100 = 11.1\%$

PED = $-26.6/11.1 = -2.40$

LO 6a

46. A With normal goods, if incomes rise demand for the product will rise and this will be the case regardless of the existence of either substitutes or complements.

LO 6a

47. C It is aggregate supply in the economy which is at issue.

LO 6C

48. A and C

The two groups most likely to put the company under pressure to improve its return on investment are the shareholders and the bankers. Customers want products of a certain quality at a reasonable price; suppliers are interested in regular orders in return for reliable delivery and good service; and employees' objectives include job security, good conditions of work and job satisfaction.

LO 1a/6e

49. C Collusion is an example of market power exerted by a few suppliers.

LO 6b/6d

50. D Restricting supply (via quota) will cause the price to rise.

LO 6f