

ACCA Paper F1

Accountant in Business

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Syllabus

- | | |
|---|---|
| A | Business organisation structure, governance and management |
| B | Key environmental influences and constraints on business and accounting |
| C | History and role of accounting in business |
| D | Specific functions of accounting and internal financial control |
| E | Leading and managing individuals and teams |
| F | Recruiting and developing effective employees |

Examiner & Format of the Exam

Examiner: **Bob Souster**

Format of the Exam		Marks
1 mark question	10 questions	10
2 mark questions	40 questions	80
Total		90

Two hour exam – 50% pass mark

3

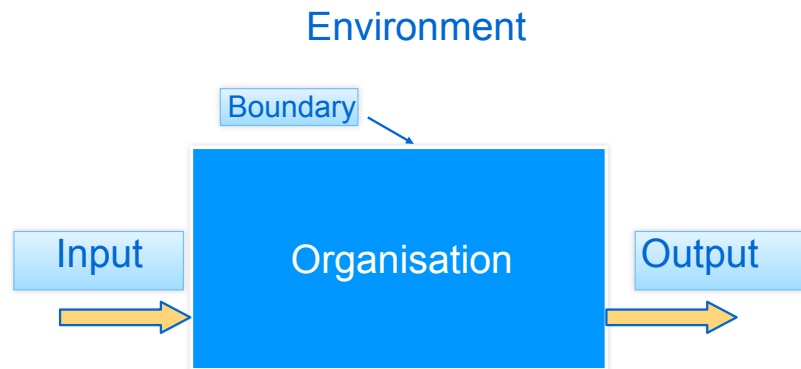
Organisations

“An **organisation** is a social arrangement which pursues collective goals, which controls its own performance and which has a boundary separating it from its environment”



4

System



5

Types of organisation

- Commercial – sole traders, partnerships, limited liability partnerships, limited companies
- Not-for-profit
- Public sector
- Non-governmental organisations eg Greenpeace
- Cooperatives

6

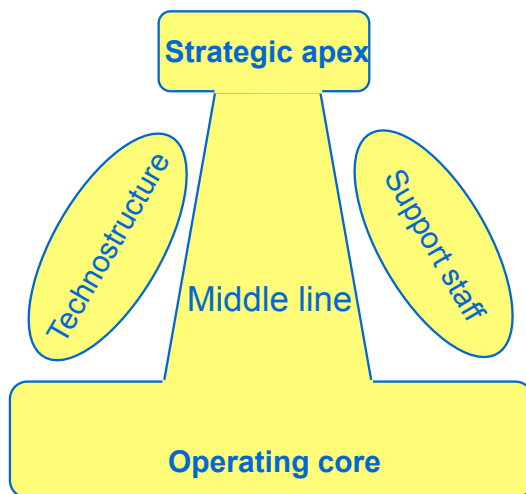
Organisation structures

- Entrepreneurial
- Functional
- Divisional
- Matrix

7

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Mintzberg's structure



8

Centralisation/decentralisation

Looks at where power lies.

Advantages of decentralisation:

- Work-load/time
- Speed
- Expertise
- Motivation
- Training and assessment

But

- Poorer coordination

11

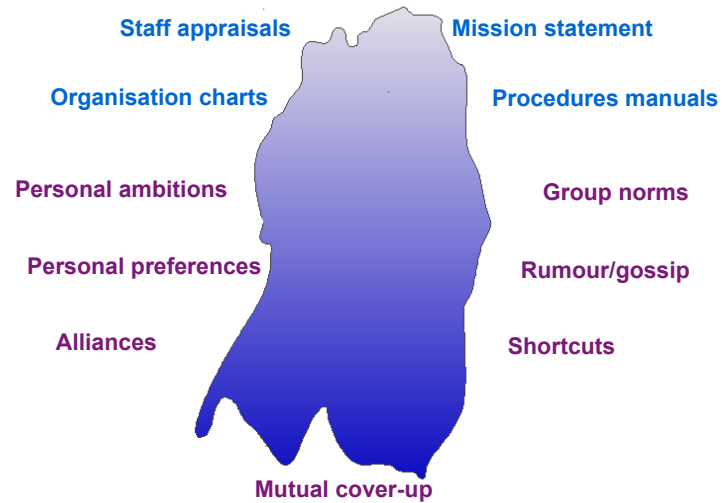
Recent trends

- Downsizing
- De-layering
- Outsourcing

12

Formal and informal organisations

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Information

• What is information?

– Data with meaning

• ACCURATE

- Accurate
- Complete
- Cost-beneficial
- User-targeted
- Relevant
- Authoritative
- Timely
- Easy-to-use

14

Role of information technology

- Recent developments in IT have had a massive impact on the way we work
- New communication channels
- Office automation
- Home working



Types of system

- Transaction processing system
- Management information system
- Decision support system
- Executive information system

Information technology

- Stand alone
- Lans
- Wans
- Internet
- Intranet
- Extranet



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Levels – types of information



Internal and external information

- Internal sources
 - Sales analyses
 - Inventory reports
 - Debtor aging
 - Attendance records
- External sources
 - Internet
 - Marketing literature
 - Conferences and courses
 - Commercial databases
 - Government

19

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Environmental influences – PEST(EL)

- Political
- Economic
- Social
- Technological
- Ecological
- Legal



20

Competitive forces

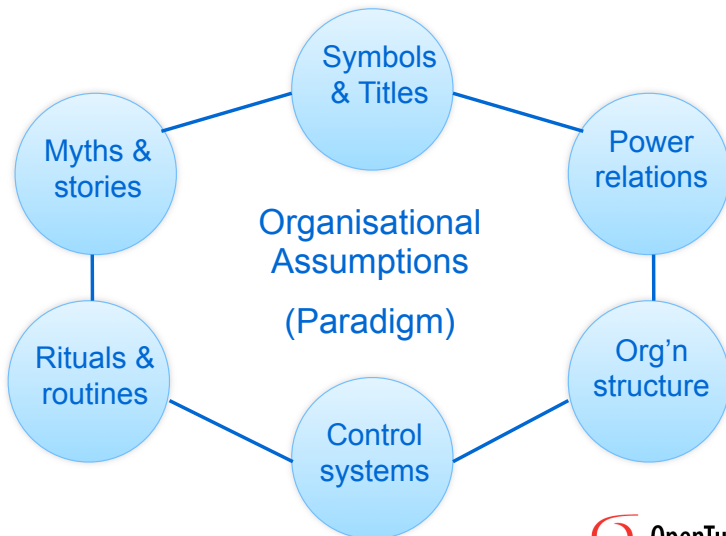
- Porter's 5 forces model
- Helps organisations to understand the competitive forces in the environment
- Competitive advantage

21

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Cultural web

Culture – “The way we do things round here”



22

The basic idea, and essence of the paper

Types of culture – Handy's classification

- Power (Zeus)
- Role (Apollo)
- Task (Athena)
- Person (Dionysus)

23

Schein - three levels of culture

- Artifacts (visual, structure, processes)
- Espoused values (strategies goals philosophies)
- Basic underlying assumptions (basic underlying assumptions)

24

National cultures

The Hofstede model

- National culture influences how people work and expect to be managed
- Countries differ on the following dimensions
 - Power distance
 - Uncertainty avoidance
 - Individualism-collectivism
 - Masculinity

25

Stakeholders

- Internal
- Connected
- External

26

Elements of corporate governance

- Balance of executive and non-executive directors on the board
- Remuneration, appointment and audit committee
- Proper internal control systems
- Approaches:
 - 1 Compliance based – US. Sarbanes Oxley Act**
 - 2 Principles-based**

29

Combined code of corporate governance

- Listed companies are expected to comply.
- Any non-compliance must be explained in the annual report.

30

Corporate Social Responsibility

- Should the interests of stakeholders other than shareholders be taken into account?
- Profit is of itself a good thing for society.
- Shareholders could make donations themselves.
- Do directors have the authority to make non-essential payments?
- Who decides on the beneficiaries?

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Ethics - importance

- Risk reduction
- Cost reduction
- Lower returns required
- More collaboration
- Better employees
- More sales

32

Individual influences on ethical behaviour

- National and cultural beliefs
- Education and employment
- Psychological factors
- Personal integrity
- Moral imagination

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Situational influences on ethical behaviour

- Reward mechanisms
- Authority
- Bureaucracy
- Work roles
- Organisational field
- Organisational culture
- National cultural context

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Ethical stances (Johnson and Scholes)

- Short-term shareholder interest
- Long-term shareholder interest
- Multiple stakeholder obligations
- Shaper of society

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Influence of the accountancy profession

- That the influence of the accountancy profession is potentially huge can be established simply by considering all the different involvements that accountants have:
 - Financial accounting
 - Audit
 - Management accounting
 - Consulting
 - Tax
 - Public sector accounting

36

Professional ethical codes

- The IFAC Code of Ethics in 2005 is a good illustration of a professional ethical code :
- The Code states that the accountancy profession has a responsibility to act in the public interest.
- The detailed guidance establishes fundamental principles of ethics.
- The guide then supplies a framework requiring accountants to identify, evaluate and address threats to compliance, applying safeguards to eliminate the threats or to reduce them to an acceptable level.

37

ACCA Code of Ethics and Conduct.

- Fundamental principles:
 - Integrity
 - Objectivity
 - Professional competence and due care
 - Confidentiality
 - Professional behaviour

38

Users of accounting information

- Managers of the company.
- Shareholders of the company,.
- Trade contacts: suppliers and customers
- Providers of finance to the company.
- The Inland Revenue.
- Employees of the company.
- Financial analysts and advisers,.
- Government and their agencies.
- The public.

39

Management accounts and financial accounts

Management accounts

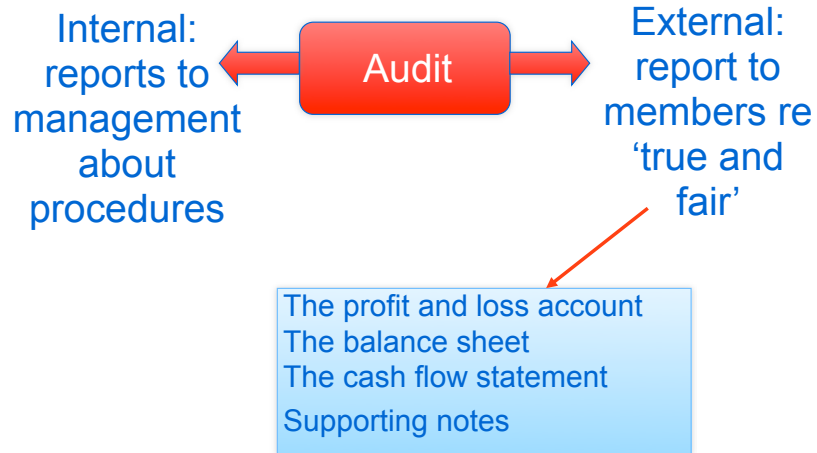
- Any format
- Forward and back
- Often ad hoc
- Not governed by statute
- Not subject to audit

Financial accounts

- Format regulated
- Historical
- Routine
- Statutory and accounting rules
- Often subject to audit

40

Audit



41

The regulatory system

- Company law (CA 1985)
- Accounting standards

Financial Reporting Council.

Accounting Standards Board (ASB),

(Issues standards 'concerned with principles rather than fine details'. Its standards are called Financial Reporting Standards (FRSs))

The Urgent Issues Task Force (UITF) is an offshoot of the ASB. Tackles urgent matters not covered by existing standards.

The Financial Reporting Review Panel (FRRP) is concerned with the examination and questioning of departures from accounting standards by large companies.

42

GAAP

- **GAAP** is a set of rules governing accounting. The rules may derive from:
 - Company law (mainly CA 1985)
 - Accounting standards
 - International accounting standards and statutory requirements in other countries (particularly the US)
 - Stock Exchange requirements

43

Internal controls

- An organisation must develop clear internal controls which are understood by staff
- Framework for controls
 - control environment
 - control processes

44

Implications of fraud

- Financial
- Performance
- Misrepresentation
- Incorrect decisions
- Reputation

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Detecting and preventing fraud

- Control systems – including internal audit
- Ethics
- Training

46

Responsibility

- Directors – controls and information
- External auditors – audit procedures

47

The purpose and process of management

What is management?

“...getting things done through other people”

What is an organisation?

“...a social arrangement for the controlled performance of collective goals”

by Rosemary Stewart

48

Trait theory

- **Key traits**

Intelligence, initiative, self-assured

- **Criticisms**

Too many, ill-defined, subjective, simplistic, inappropriate

49

Henri Fayol - Classical Management

Five functions "P, O treble C"

P – Planning

O – Organising

C – Commanding

C – Coordinating

C – Controlling



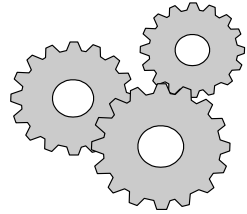
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Henri Fayol (1841-1925) French industrialist

Taylor – scientific management

Principles

1. Science of work
2. Applied to job design
3. Financial reward
4. Co-operation



51

Taylor - scientific management

Benefits

- Productivity
- Wage allocation based on output
- Workforce care programmes

But

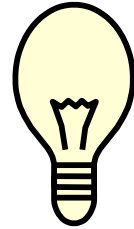
- Dehumanises work

52

Human relations school

Hawthorne Studies – Mayo (1880-1949)

- More to motivation than pay – human factors
- People like groups
- Groups influence behaviour



53

Style theories

Drucker

Management has three functions

- Managing a business
- Managing managers
- Managing workers and work

Broken down further into five categories

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Drucker

- Setting objectives
- Organising the group
- Motivating and communicating
- Measuring performance
- Developing people

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Mintzberg – managerial functions

Interpersonal roles - arising from formal authority and status and supporting the information and decision activities.	<ul style="list-style-type: none">•figurehead•liaison•leader
Information processing roles	<ul style="list-style-type: none">•monitor•disseminator•spokesman
Decisional roles - making significant decisions	<ul style="list-style-type: none">•improver/changer•disturbance handler•resource allocator•negotiator

56


Power, authority, responsibility, delegation

- Power – ability to influence people or events
Rational/legal, coercion, reward, knowledge, charismatic
- Authority – the right to exercise power
- Responsibility = accountability
- Delegation – transfer of authority

57

Ashbridge Management College model

Four types of leadership style

- Tells
 - Sells
 - Consults
 - Joins
- 
- Autocratic
- Democratic

58

Blake and Mouton's managerial grid

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Two basic criteria for leadership

Concern for people

1, 9 country club

9, 9 team

5,5 middle of the road

1, 1 impoverished

1, 9 authoritarian

Concern for task

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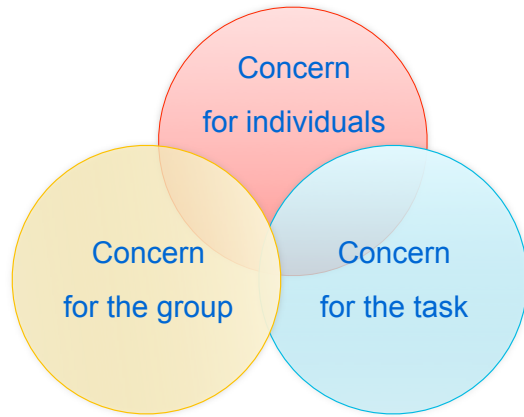
Contingency theories

- Adair
- Handy
- Bennis
- Heifetz
- Fiedler

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Adair – action-centred leadership

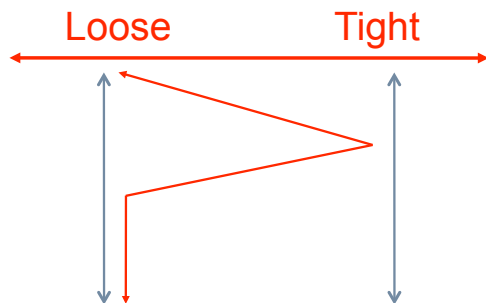


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Handy's best fit theory

- Leader
- Subordinates
- Task
- Environment



62

Bennis - 1

- Manager - Administers, maintains, focuses on systems & controls and the short term view, asks how and when, keeps eye on the bottom line
- Leader - Innovates. Develops, focuses on people, inspires trust, asks what and why has a long-term view and an eye for the horizon
- Bennis distinguishes between transformational (doing the right thing) and transactional leadership (doing things right). This distinction is often quoted as the difference between management and leadership.

63

Bennis - 2

Qualities of great leaders:

- Integrity
- Dedication
- Magnanimity
- Humility
- Openness
- Creativity

64

Heifetz – adaptive leadership

- Move between the balcony and the battlefield.
- Identify the adaptive challenge.
- Create a holding environment - support
- Give the work back to the people with the problem.
- Protect the voices of leadership from below.
- Regulate the distress.
- Pay disciplined attention to the issues.

65

Fiedler

Effectiveness depends on:

- Leadership style – psychologically close or distant and
- Situational favourableness: the degree to which the situation gives the leader control and influence

Three things are important here:

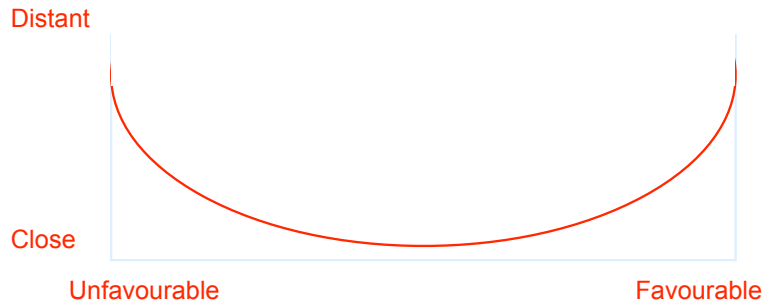
- The relationship between the leaders and followers.
- The structure of the task.
- Position power.

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Fiedler – contingency theory

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Effectiveness



67

Kotter

	Transformational Leadership – change (Leadership)	Transactional Leadership (Management)
Creating agenda	Establishing direction	Planning and budgeting
Developing HR	Aligning people	Organising and staffing
Execution	Motivating and inspiring	Controlling and problem solving
Outcomes	Produces changes – often dramatic	Produces predictability and order

68

Groups

What is a group?

“...any collection of people who perceive themselves to be a group...” (Charles Handy)

- Sense of purpose, aim
- Identity
- Group norms
- Communication

69

Team Roles

Dr Meredith Belbin: eight (or nine) different roles in teams:

- Chairman
- Shaper
- Monitor/evaluator
- Company worker
- Resource-investigator
- Team worker
- Plant
- Completer/finisher
- Specialist



70

Tuckman – Stages of team development

1. Forming
2. Storming
3. Norming
4. Performing
5. Dorming

71

Tuckman (1965) Important to know this theory for the exams.

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Teams and committees

- **Teams** – deliberately formed, specific objectives, mixed skills, leader
- **Committees** – decision-making, chairperson, mixed skills. Formal decisions.

72

Motivation

What is motivation?

The urge to take action to achieve or avoid something.

Managers need to understand what motivates individuals in order to urge them to fulfil the organisation's objectives.

Motivation

- Content Theory – What is in the job that motivates employees to perform to the best of their abilities?



- Process Theory - How can managers get the most out of their staff?



Herzberg

- Focus on hygiene factors to avoid dissatisfaction
- Jobs should be redesigned to provide motivators

77

Vroom – Expectancy theory

Valence x Expectancy = Force

Suggests that people will only put effort into something if they care about an outcome and think it can be achieved.

78

McGregor – Theory X and Theory Y

The assumptions of managers affect how they tried to manage and motivate people

McGregor presented two opposing assumptions

- Theory X
- Theory Y

79

Intrinsic and extrinsic rewards

Intrinsic

- Rewards come from within – a feeling of achievement, personal advancement etc.

Extrinsic

- Rewards come from outside – pay, praise

80

Increasing motivation

- Participation
- Job design
 - Job enlargement
 - Job rotation
 - Job enrichment

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Pay as a motivator

- How pay is determined
- What do we want from pay?
- Performance related pay
- Group rewards



82

Personal development plans

Action plan for individuals

- Improve performance
- Improve skills and competences
- Career development – transferable skills
- Personal growth and interests

SMARTER: specific, measurable, agreed, realistic, time-bound, evaluated, reviewed

83

Time management

- Set goals which are SMART
- Action plans
- Prioritise results and tasks
- Important v urgent
- Sequence tasks



84

Coaching, mentoring and counselling

Coach – experienced employee

Mentor – long-term relationship

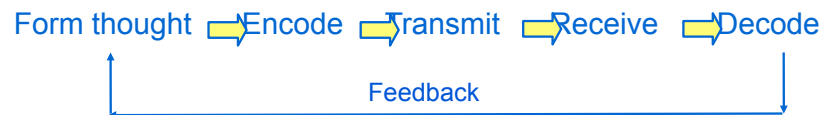
Counsellor – guidance

Aim is to increase productivity and efficiency

85

Communication

Communication is required for planning,
coordination and control



86

Communication

Communication within the organisation can be:

- Vertical
- Horizontal
- Diagonal
- Formal/informal

87

Barriers to communication

- Inappropriate language
- Status
- Emotion
- Wrong medium
- Not wanting to transmit
- Not wanting to receive
- Information overload

88

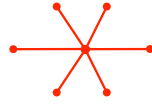
Leavitt

Patterns of communication

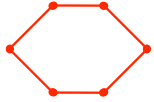
Y



Wheel



Circle



Chain



89

Recruitment and selection

Human resources are a scarce resource and are critical to organisational strategy

Organisations must

- Define requirements
- Attract applicants
- Select

90

Job analysis, description and person specification

- Collecting, analysing, setting out content of jobs
- Job description – content of job
- Person specification – role-specific attributes
- Roger's 7-point selection plan -BADPIGS:
(background, achievements, disposition,
physical, interests, general intelligence,
special aptitudes)

91

Advertising vacancies

Advertise vacancies to try to attract applicants to fit the person specification

- Describe job
- Provide information
- Interest suitable applicants



92

Selection methods

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A systematic approach to selection should be employed

- Interviews
- Selection tests
- References
- Work sampling
- Group selection methods



93

Interviews

Most frequently used technique but poor at predicting how candidates will perform

They must be well structured and conducted by suitably skilled interviewers



94

Selection testing

- Applicants undergo formal tests to identify competence and attributes
- Psychometric tests – personality
- Proficiency
- Intelligence
- Aptitude



95

Developing and training

- Training – competence: specific, needed for current role
- Development – growth: less specific, needed at some time in the future
- Education – knowledge acquired gradually through learning and instruction

96

The learning process

How do people learn?

- Behaviourist psychology
- Cognitive approach

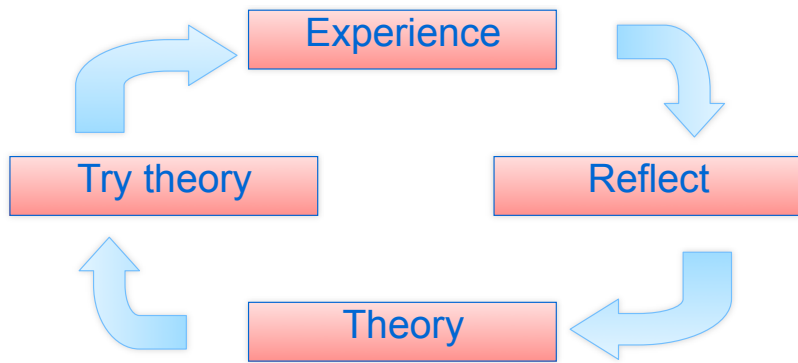
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Honey and Mumford

- Theorists – understand
- Reflectors – observe and consider
- Activists – hands-on
- Pragmatists - practical

98

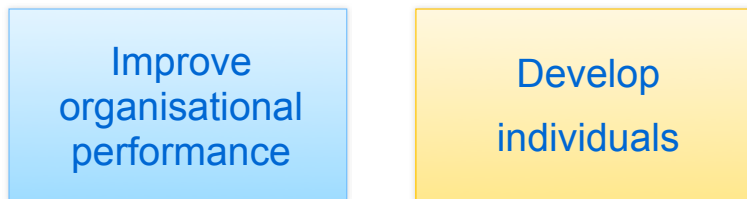
Kolb – experiential learning



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Performance appraisal



100

Appraisal systems

Three review elements

- Reward
- Performance
- Potential

101

Appraisal interviews

- Prepare
- Interview
 - Tell and sell, tell and listen, problem-solving
- Plan
 - Gain commitment, agree, summarise
- Report
 - Agreed conclusions
- Follow up
 - Take action, monitor progress

102

Sources of law

- European Community law:
 - Regulations – directly applicable to all member states
 - Directives – national laws have to be altered
- Legislation/statute – domestic parliament
- Case law (common law/equity/precedent)



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Data Protection Act implements Directive 95/46/EC

1. Shall be processed fairly and lawfully
2. Shall be obtained only for one or more specified and lawful purposes
3. Shall be adequate, relevant and not excessive
4. Shall be accurate and, where necessary, kept up to date.
5. Not be kept for longer than is necessary



104

Data Protection Act implements Directive 95/46/EC

6. Personal data shall be processed in accordance with the rights of data subjects under this Act.
7. Appropriate measures shall be taken against unauthorised or unlawful processing and against accidental loss or destruction of, or damage to, personal data.
8. Personal data shall not be transferred to a country or territory outside the European Economic Area, unless that country or territory ensures an adequate level of protection

105

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Risks to data

- Human error.
- Technical malfunction or error.
- Catastrophic events.
- Malicious damage.
- Industrial espionage or sabotage.
- Dishonesty.



106

Health and safety – employer's duties

- All work practices must be safe.
- The work environment must be safe and healthy.
- All plant and equipment maintained to the necessary standard.
- Information, instruction, training and supervision should encourage safe working practices.
- Clear communication of safety policy to all staff.
- Employers must carry out risk assessments,

107

Health and safety – employer's duties(cont)

- Share hazard and risk information with others
- Must introduce controls to reduce risks.
- Should revise/initiate safety policies in the light of the above, Must identify employees who are especially at risk.
- Must employ competent safety and health advisers.
- The Safety Representative Regulations provide that:
 - a **safety representative** may be appointed by a recognised trade union. Safety representatives are entitled to paid time off work to carry out their duties.
 - **safety committees** to be set up at the request of employee representatives.

108

Health and safety – employees' duties

- Take reasonable care of themselves and others
- Allow the employer to carry out his or her duties (including enforcing safety rules)
- Not interfere intentionally or recklessly with any machinery or equipment
- Inform the employer of any situation which may be a danger (this does not reduce the employer's responsibilities in any way)
- Use all equipment properly

109

Health and safety policy

- Principles
- Procedures
- Compliance with the law
- Detailed instructions
- Training requirements



110

Employment protection

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Termination of employment



- Retirement
- Resignation
- Dismissal (termination, non-renewal, constructive)

Is dismissal fair or unfair?

111

Fair/unfair dismissal

• Fair dismissal

- Redundancy
- Legal impediment
- Non-capability
- Misconduct
- Other substantial reason

• Unfair dismissal

- Unfair selection for redundancy
- Membership and involvement in a trade union
- Pregnancy
- Insisting on documented payslips and employment particulars
- Carrying out certain activities in connection with health and safety at work

• Wrongful dismissal

- Breaches contract of employment

112

Remedies for unfair dismissal

- Re-instatement: giving the employee the old job back.
- Re-engagement: giving the employee a job comparable to the old one.
- Compensation: which may include redundancy pay, breach of contract and punitive award.

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Equal opportunities - 1

Anti-discrimination laws relate to:

- Race
- Sex
- Disability
- Religion
- Sexual orientation
- Age

114

Equal opportunities - 2

- Direct discrimination
- Indirect discrimination
- Victimisation

115

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Diversity

What is diversity?

... ensuring that the composition of the workforce reflects the population as a whole

A diverse organisation will better understand and meet the needs of customers

116

Inflation - causes

- Demand pull
- Cost push
- Import cost factors
- Expectations
- Increase in the money supply

119

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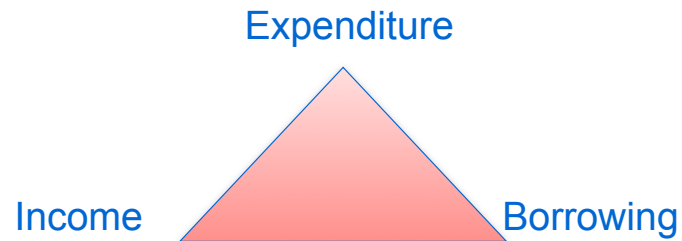
Unemployment

- Real wage
- Frictional
- Seasonal
- Structural
- Technological
- Cyclical

120

Monetary and fiscal policy - 1

Fiscal policy



121

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Monetary and fiscal policy - 2

Monetary policy – management of the supply of money

- Interest rates
- Reserve requirements/credit controls

122

Functions of taxation

- To raise revenues for the government
- To discourage certain activities regarded as undesirable.
- To cause certain products to be priced to take into account their social costs.
- To redistribute income and wealth.
- To protect industries from foreign competition.
- To provide a stabilising effect on national income.

123

Types of taxation

- A regressive tax takes a higher proportion of a poor person's salary than of a rich person's.
- A proportional tax takes the same proportion of income in tax from all levels of income.
- A progressive tax takes a higher proportion of income in tax as income rises.

124

More terminology!

- A direct tax is paid direct by a person to the Revenue authority.
- An indirect tax is collected by the Revenue authority from an intermediary (a supplier).
 - A specific tax is charged as a *fixed sum* per unit sold.
 - An ad valorem tax is charged as a *fixed percentage* of the price of the good.

125

Current account

- Trade in goods (balance of trade)
- Trade in services
- Income from overseas investment
- Transfers (eg EU)
- Capital amount (eg loans)
- Financial account (eg investment overseas)

127