



Mock Exam One

AAT L3 Business Awareness

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Mock Exam One

AAT L3 Business Awareness

Assessment information:

You have **2 hours and 30 minutes** to complete this practice assessment.

- This assessment contains **7 tasks** and you should attempt to complete **every** task.
- Each task is independent. You will not need to refer to your answers to previous tasks.
- The total number of marks for this assessment is **100**.
- Read every task carefully to make sure you understand what is required.
- Where the date is relevant, it is given in the task data.
- Both minus signs and brackets can be used to indicate negative numbers **unless** task instructions state otherwise.
- You must use a full stop to indicate a decimal point. For example, write 100.57 **not** 100,57 or 10057.
- You may use a comma to indicate a number in the thousands, but you don't have to. For example, 10000 and 10,000 are both acceptable.
- You will need to double click to enter values into a gapfill or cell within a table.

Exam Note: Task 2, Task 4 and Task 6 of your AAT exam assessment is human (not computer) marked, therefore assessment results are not released immediately.

Task 1 (20 marks)

This task is about organisations and ethics for accountants.

(a) Identify whether the following statements about charities are true or false.

(4 marks)

	TRUE	FALSE
A charity exists for public benefit such as for religious or scientific causes.	<input type="checkbox"/>	<input type="checkbox"/>
A charity pays corporation tax on any profits that it earns.	<input type="checkbox"/>	<input type="checkbox"/>
The Charity Commission is a government body that regulates charities.	<input type="checkbox"/>	<input type="checkbox"/>
A charity is controlled by a Board of Directors and is owned by the general public.	<input type="checkbox"/>	<input type="checkbox"/>

(b) Identify whether the following statements about companies are true or false.

(4 marks)

	TRUE	FALSE
A board of directors is appointed by the company shareholders.	<input type="checkbox"/>	<input type="checkbox"/>
Shareholders can provide more investment to fund the business.	<input type="checkbox"/>	<input type="checkbox"/>
Shareholders of a company have 'limited liability'.	<input type="checkbox"/>	<input type="checkbox"/>
No complex legal or accounting regulations govern companies.	<input type="checkbox"/>	<input type="checkbox"/>

(c) Complete the following sentence using the drop down list.

(1 mark)

The department responsible for identifying anticipating and satisfying customer requirements profitably would be the

Picklist: Finance department, Marketing department, HR department, IT department.

You work in a finance department for a large company.

(d) Identify the person that you would most likely contact about the following information.

(3 marks)

	Person
Budget cost allocation for monthly factory expenses.	<input type="text"/>
Sales credit control and customer collection problems.	<input type="text"/>
Query regarding the details on a supplier invoice.	<input type="text"/>

Picklist: Payroll manager, Production manager, Purchasing manager, Sales manager.

(e) Match each statement shown below to a fundamental principle of ethics for AAT members.

(3 marks)

Statement	Ethical principle
AAT members should be straightforward, honest and truthful.	<input type="text"/>
AAT members should comply with relevant laws and regulations as a minimum requirement.	<input type="text"/>
AAT members should not allow bias, conflicts of interest or undue influence to override their professional judgement.	<input type="text"/>

Picklist: Confidentiality, Objectivity, Integrity, Professional competence and due care, Professional behaviour.

(f) Identify whether each business stakeholder is an internal, or external stakeholder.

(3 marks)

	Internal	External
Shareholder.	<input type="checkbox"/>	<input type="checkbox"/>
Finance Director.	<input type="checkbox"/>	<input type="checkbox"/>
Employee.	<input type="checkbox"/>	<input type="checkbox"/>

(g) Match each statement shown below to an element of organisational structure.

(2 marks)

Job tasks are sub-divided into smaller areas for different workers to perform.	<input type="text"/>
Lines of staff authority that extend from the top to the bottom of an organisation.	<input type="text"/>

Picklist: span of control, specialisation, chain of command, centralisation.

End of Task

Task 2 (18 marks)

This task is about analysing the external environment.

MB operates 40 small buses across 25 different routes throughout London, it also runs a 24-7 fast track service to major airports around London.

The bus industry is a large contributor of greenhouse gases in London. More awareness of climate change by customers and plans from local authorities to introduce more “Ultra-Low Emission Zones”, will mean that 15 existing buses will need to be replaced by MB in the next 2-3 years. If these older buses are not replaced, MB will need to pay daily congestion charges on certain routes and these routes will become loss making. Interest rates have been raised by the Bank of England, which means any future cost of borrowing will be much higher for the company.

Brexit has caused heavy losses of EU drivers that were working for MB and the company has experienced difficulties recruiting enough bus drivers, wage rates and diesel prices have risen sharply in the last few months.

Customer lifestyles are rapidly changing with greater focus on the environment and use of greener transport. 5G technology offered by rivals of MB have played an important role in getting more passengers to use bus services. MB does not currently provide 5G services on any of its 40 small buses. Smartphones used by passengers also enable quicker alternatives for using a bus service e.g. Uber.

People across the country are seeking savings in their everyday life and more people are working from home, causing a downturn in passenger numbers.

(a) (i) Explain the usefulness of undertaking a PEST analysis for MB.

(2 marks)

(a) (ii) Explain two threats to MB for each PESTLE category below and give one recommendation to reduce the risk of each threat you have identified.

(8 marks)

Political

Social



(b) Identify for each type of partnership shown below, whether all partners, some partners or no partners have limited liability. (3 marks)

Type of partnership	Limited liability
General partnerships	<input type="text"/>
Limited Liability Partnerships (LLP)	<input type="text"/>
Limited Partnerships (LPs)	<input type="text"/>

Picklist: all partners, some partners, no partners.

(c) Identify whether the following statements about a public organisation is true or false. (2 marks)

	TRUE	FALSE
A public organisation is normally not-for-profit making and its purpose is for public (or social) benefit.	<input type="checkbox"/>	<input type="checkbox"/>
A public organisation is ultimately funded by taxation that is collected by a government.	<input type="checkbox"/>	<input type="checkbox"/>

(d) Complete the following sentence.

(1 mark)

A statutory maximum of partners is allowed in a general partnership, but many permitted exceptions exist such as for solicitors and accountants.

Picklist: 5, 10, 20, 50.

(e) Identify each type of cyber-attack from each statement provided below.

(2 marks)

Statement	Type of cyber-attack
Software that is designed to enter a computer device and send data to a third-party without the users consent.	<input type="text"/>
A hacker sends out thousands of disguised emails, that may trick recipients into clicking on a link or attachment that contains a virus.	<input type="text"/>

Picklist: DDoS attack, Blockchain, Phishing, Spyware, Ransomware.

End of Task

Task 3 (17 marks)

This task is about business structures, technology and data security.

(a) Identify THREE implications of a wider span of control for a manager. (3 marks)

Managers could be overloaded with a greater number of subordinate requests.	<input type="checkbox"/>
Improved communication between the manager and their subordinates.	<input type="checkbox"/>
Increased career opportunities for subordinates to be promoted and succeed their manager.	<input type="checkbox"/>
A lower headcount for managers could be achieved.	<input type="checkbox"/>
Tighter supervision and control of subordinates by each manager.	<input type="checkbox"/>
Managers could have less time to train and develop their subordinates.	<input type="checkbox"/>

(b) Identify each type of organisational structure explained below. (3 marks)

Explanation	Type of organisation
A distinct business set up within a larger group of companies.	<input type="text" value=""/>
The sub-division of a business into specialised departments.	<input type="text" value=""/>
A project manager coordinating team members who work in different departments.	<input type="text" value=""/>

Picklist: functional, virtual, matrix, divisional, entrepreneurial.

A key principle of GDPR is storage limitation.

(c) Identify TWO internal controls that could help comply with this principle. (2 marks)

Automatically deleting data kept after a certain time limit.	<input type="checkbox"/>
Periodic review of data kept to ensure it is not held longer than is necessary.	<input type="checkbox"/>
Policies to ensure data controllers handle personal data kept in a fair manner.	<input type="checkbox"/>
Policies to provide reasons why personal data is being kept about an individual.	<input type="checkbox"/>

(d) Complete the following sentence.

(1 mark)

Social engineering is the art of manipulating the of human beings by creating the right conditions for them to give out confidential information.

Picklist: bank accounts, e-mail accounts, behaviour, computers.

(e) Identify THREE key features of cloud accounting.

(3 marks)

Provides blockchain record keeping.	<input type="checkbox"/>
Access to data and information from anywhere.	<input type="checkbox"/>
Eliminates any risk of cyberattacks.	<input type="checkbox"/>
Remote data storage so no backup is required.	<input type="checkbox"/>
Interprets visual information to indicate relationships and trends.	<input type="checkbox"/>
Can display real-time data to a user.	<input type="checkbox"/>

(f) Identify TWO key risks of a cyber-attack.

(2 marks)

Improved brand reputation.	<input type="checkbox"/>
Confidentiality of data is breached.	<input type="checkbox"/>
Failure of operations and systems.	<input type="checkbox"/>
Reduction in working capital requirements.	<input type="checkbox"/>

(g) Identify the most likely technology for each statement shown below. (3 marks)

Statement	Technology
The capability of a machine to imitate intelligent human behaviour.	<input type="text"/>
A shared ledger that facilitates the process of recording transactions.	<input type="text"/>
Examining data sets to find trends and conclusions about information they contain.	<input type="text"/>

Picklist: blockchain, electronic signatures, AI and machine learning, data analytics.

End of Task

Task 4 (10 marks)

This task is about ethical and legal compliance.

Exam Notice: Reference material that explains the code of ethics for accountants is available during the real exam (by clicking on blue links). Please visit the AAT website and review the two AAT practice assessments to familiarise yourself with its content. The code of ethics for accountants is not required to be memorised, but will need to be understood and applied to scenario information provided in your exam.

Safina is an AAT member and works for H&C, a firm of accountants. She has been assigned to a client, BIK Limited, to work on an audit and assurance assignment for the client, to review their financial statements for the current year. Whilst working on this assignment, Safina discovered a significant and material accounting error in the clients financial accounts in the previous year. The previous year's financial accounts were audited last year by Safina and her audit manager at H&C.

Safina raised this matter with her audit manager. The audit manager replied and stated that the financial accounts from the previous year have already been filed at Companies House and if the client finds out about the errors, H&C would lose the client and Safina would lose her job for sure. The audit manager suggested strongly that Safina should say nothing and take no further action.

(a)(i) Explain the ethical threats for Safina, arising from her managers request.

(2 marks)

(a)(ii) Explain how Safina would breach her ethical principles, if she followed the advice of her manager.

(2 marks)

(a)(iii) Explain what actions Safina could take, arising from her managers request.

(2 marks)

(a)(iv) Explain any future consequences of Safina’s actions, if she followed her managers request and the previous error is then subsequently discovered by the senior partner at H&C. (2 marks)

The audit manager has reported the significant error identified to the senior partner at H&C. BIK Limited is now suing H&C for financial damages for breach of contract and professional negligence.

(a)(v) Explain what a claim for breach of contract and professional negligence is. (1 mark)

(a)(vi) Explain what professional indemnity insurance is. (1 mark)

End of Task

Task 5 (10 marks)

This task is about the microeconomic environment and sustainability.

Based on the forces of supply and demand for pricing and output in the beef industry.

(a) Identify for each statement below what is most likely to happen to price and output in the beef industry. (6 marks)

Statement	Price	Output
An increase in the population of the country.	<input type="text"/>	<input type="text"/>
The market price of chicken decreases.	<input type="text"/>	<input type="text"/>
Farmers face increasing costs to feed and raise their cows.	<input type="text"/>	<input type="text"/>

Picklist: Increase, Decrease, Remains the same.

(b) A fully sustainable business is one that. Choose ONE only. (1 mark)

Consumes natural resources from the environment in a positive way.	<input type="checkbox"/>
Continually improves the welfare of its customers and employees.	<input type="checkbox"/>
Continually improves the welfare of society as a whole.	<input type="checkbox"/>
Consumes natural resources without any negative impact on the environment.	<input type="checkbox"/>

(c) Match each statement shown below to a category included in 'triple bottom line' reporting. (3 marks)

Statement	Category
Maximise sales and profits.	<input type="text"/>
Maximise stakeholder welfare.	<input type="text"/>
Minimise harm to the natural environment.	<input type="text"/>

Picklist: Promotion, Planet, Place, Price, Profit, People.

End of Task

Task 6 (13 marks)

This task is about communication and visualisation.

Three months ago, Janet started up a tea shop in a busy high street within a town centre, selling hot and cold beverages, hot food, sandwiches, cakes and confectionary.

Janet purchased an electronic cash register for the shop and created five data classifications to enter and record sales transactions in the cash register. The five data classifications are:

- Hot beverages.
- Cold beverages.
- Hot food.
- Sandwiches and salads.
- Cakes and confectionary.

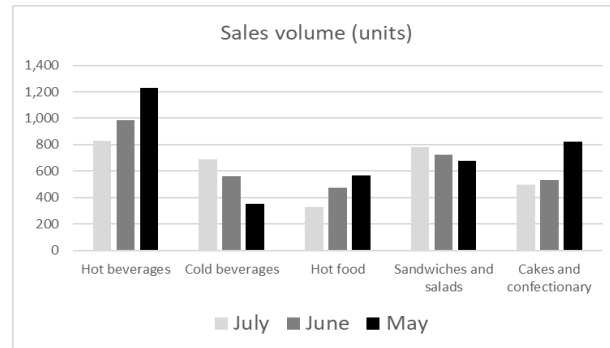
For example, if a café latte, pot of tea, herbal tea or any other hot drink is sold, the price of the item is manually entered in the cash register and 'hot beverages' is selected as a data classification.

The first month of trade was in May and was an unusually cold month. June and July were unusually hot for the time of year. Janet initially recruited two general assistants in May and a third assistant was recruited in July to help cook and serve hot food.

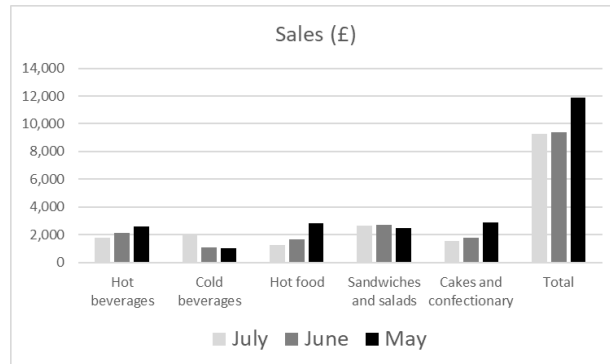
You have been helping Janet as a friend to improve her record keeping. Janet has provided you with her analysed cash register sales and a basic cash book for the first three months of trade. You have entered all the financial data provided into an accounting software package and have printed off the following report (shown below) for the first three months of trade.

Report:

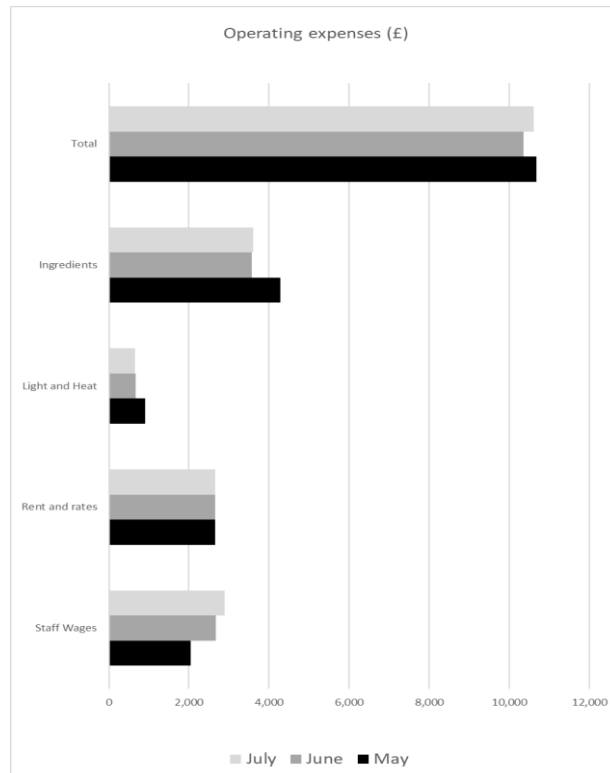
Sales volume (units)	July	June	May
Hot beverages	826	984	1,230
Cold beverages	690	562	354
Hot food	329	475	568
Sandwiches and salads	782	722	677
Cakes and confectionary	499	533	823



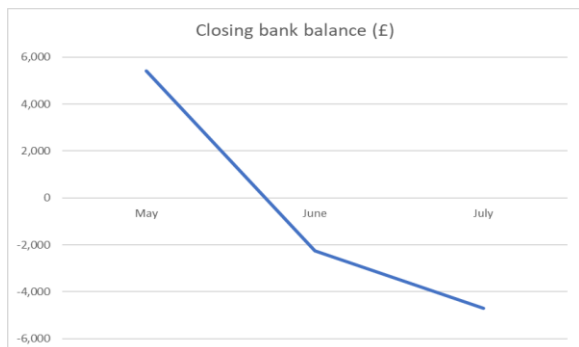
Sales (£)	July	June	May
Hot beverages	1,801	2,135	2,620
Cold beverages	2,001	1,118	1,027
Hot food	1,250	1,663	2,857
Sandwiches and salads	2,659	2,708	2,505
Cakes and confectionary	1,547	1,770	2,881
Total	9,258	9,393	11,889



Operating expenses (£)	July	June	May
Ingredients	3,610	3,569	4,280
Light and Heat	655	672	899
Rent and rates	2,650	2,650	2,650
Staff Wages	2,890	2,670	2,050
Depreciation	800	800	800
Total	10,605	10,361	10,679



	July	June	May
Closing bank balance (£)	-4,694	-2,242	5,410



Using the report shown above.

(a)(i) Explain THREE key pieces of information about the sales performance of Janet's business for the first three months of trade.

(3 marks)

(a)(ii) Explain ONE key change you would make to improve the sales information of Janet's business.

(1 mark)

(a)(iii) Explain TWO key pieces of information about Janet's business performance (ignoring sales performance) for the first three months of trade.

(2 marks)

(a)(iv) Explain TWO examples why you may be sceptical about the integrity of data provided by Janet. Explain one control for each example that may help improve the situation in future.

(4 marks)

(b) Identify TWO characteristics of useful information that would most likely improve, if Janet decides to use a fully digital sales and accounting system.

(2 marks)

Comparable	<input type="checkbox"/>
Consistent	<input type="checkbox"/>
Understandable	<input type="checkbox"/>
Reliable	<input type="checkbox"/>
Timely	<input type="checkbox"/>

Janet has a tax query and you have agreed to find out more information.

(c) Identify which one of the following is more likely to be a valid source of information.

(1 mark)

Facebook	<input type="checkbox"/>
Twitter	<input type="checkbox"/>
HMRC	<input type="checkbox"/>
Accounting blog sites	<input type="checkbox"/>

End of Task

Task 7 (12 marks)

This task is about risk and big data.

HOT HATCH (HH) Limited manufactures very expensive and fast sports cars. The board of directors of HH have highlighted some major risks for the company and have chosen a new proposal to manufacture and launch its first ever 'self-driving' sports car.

Using the TARA framework for risk management.

(a) Identify the most appropriate strategy to deal with each of the following risks. You must select all TARA strategies from the picklist shown below.

(4 marks)

Risk	Strategy
The increasing environmental concern by drivers is causing rising demand in the car market for smaller and more economical cars.	<input type="checkbox"/>
A driver or another passenger could be killed or injured, because of the sheer power of sports cars like those made by HH.	<input type="checkbox"/>
A driver or another passenger could be killed or injured, because of unknown manufacturing faults at the time when cars are made.	<input type="checkbox"/>
There is high potential that new environmental legislation could mean that all cars sold, must meet low fuel economy standards, this is impossible to achieve by HH because of the type of cars they sell.	<input type="checkbox"/>

Picklist: Transfer, Avoid, Reduce, Accept.

(b) Identify the most likely big data characteristic for each way that the new 'self-driving' sports car will perform.

(4 marks)

Characteristics of the HH self driving sports car	Big data characteristic
Gigabytes of data are generated by the self-driving car every second.	<input type="checkbox"/>
The self-driving car must collect a wide variety of data from a multitude of sources and formats e.g. sensors, maps, vehicle health etc.	<input type="checkbox"/>
All data generated by the self-driving car, requires real-time processing for the car to drive safely.	<input type="checkbox"/>
The self-driving car must constantly learn to send more helpful information to the driver and change route to avoid traffic delays.	<input type="checkbox"/>

Picklist: Variety, Veracity, Volume, Value, Velocity.

(c) Identify TWO most likely strategic risks for HH.

(2 marks)

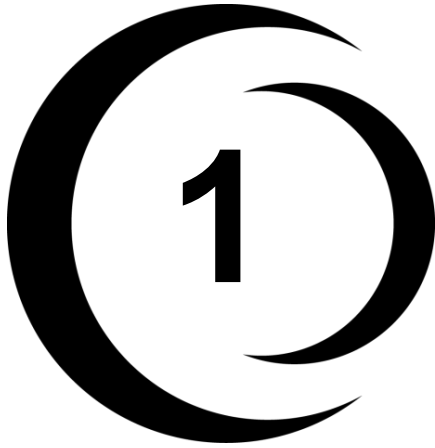
The risk of HH having high levels of business debt.	<input type="checkbox"/>
The risk of a fire or flood at the head office of HH.	<input type="checkbox"/>
The risk of a significant shortage of microchips that will restrict production of HH cars.	<input type="checkbox"/>
The risk that poor quality cars will be manufactured by the production workforce of HH.	<input type="checkbox"/>
The risk that an acquisition by HH of a major supplier to HH proves unsuccessful.	<input type="checkbox"/>

(d) Identify whether each statement below is true or false.

(2 marks)

	TRUE	FALSE
Risk is the chance of a future outcome occurring, all potential outcomes are known and the likelihood of each outcome is measurable.	<input type="checkbox"/>	<input type="checkbox"/>
Uncertainty cannot be measured, but gives a high degree of control to a business over the situation.	<input type="checkbox"/>	<input type="checkbox"/>

End of Task



Mock Exam One - Solutions

AAT L3 Business Awareness

Task 1 - Solutions (20 marks)

(a) Identify whether the following statements about charities are true or false.

(4 marks)

	TRUE	FALSE
A charity exists for public benefit such as for religious or scientific causes.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
A charity pays corporation tax on any profits that it earns.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
The Charity Commission is a government body that regulates charities.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
A charity is controlled by a Board of Directors and is owned by the general public.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The second statement is false because a charity has tax exempt status, which means it does not pay tax on any surplus that it earns. The fourth statement is false, a charity is run by a Board of Trustees, not a Board of Directors (which control a company).

(b) Identify whether the following statements about companies are true or false.

(4 marks)

	TRUE	FALSE
A board of directors is appointed by the company shareholders.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Shareholders can provide more investment to fund the business.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Shareholders of a company have 'limited liability'.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
No complex legal or accounting regulations govern companies.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The fourth statement is false. The Companies Act is the primary source of company law that governs companies in the UK. Accounting standards regulate and govern extensively how company financial statements are prepared and presented.

(c) Complete the following sentence using the drop down list.

(1 mark)

The department responsible for identifying anticipating and satisfying customer requirements profitably would be the **Marketing department**.

(d) Identify the person that you would most likely contact about the following information.

(3 marks)

	Person
Budget cost allocation for monthly factory expenses.	Production manager
Sales credit control and customer collection problems.	Sales manager
Query regarding the details on a supplier invoice.	Purchasing manager

(e) Match each statement shown below to a fundamental principle of ethics for AAT members.

(3 marks)

Statement	Ethical principle
AAT members should be straightforward, honest and truthful.	Integrity
AAT members should comply with relevant laws and regulations as a minimum requirement.	Professional behaviour
AAT members should not allow bias, conflicts of interest or undue influence to override their professional judgement.	Objectivity

(f) Identify whether each business stakeholder is an internal, or external stakeholder.

(3 marks)

	Internal	External
Shareholder.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Finance Director.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Employee.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

(g) Match each statement shown below to an element of organisational structure.

(2 marks)

Job tasks are sub-divided into smaller areas for different workers to perform.	specialisation
Lines of staff authority that extend from the top to the bottom of an organisation.	chain of command

Task 2 - Solutions (18 marks)

(a) (i) Explain the usefulness of undertaking a PEST analysis for MB. (2 marks)

Marking guide

- A suggested solution has been provided below.
- Usefulness of PESTLE analysis for MB (1 mark maximum).
- Some application of examples to MB e.g. threats identified include rising wage rates or fuel costs, or opportunities identified for MD e.g. technologies. (1 mark maximum for each comment).
- Any other relevant points may be awarded marks.

Suggested solution

PESTLE analysis provides a source of external information that will help senior management of MB make more effective strategic decisions. (1 mark). It provides early warning signals about external threats to strategic plans e.g. rising wage and fuel costs, or replacement of buses. (1 mark). It helps identify new business opportunities quickly for MB to innovate its strategic plans e.g. 5G technology. (1 mark).

(a) (ii) Explain two threats to MB for each PESTLE category below and give one recommendation to reduce the risk of each threat you have identified. (8 marks)

Marking guide

- A suggested solution has been provided below.
- Threats identified (maximum 1 mark for each threat identified in each category). 2 marks maximum given for each category for threats.
- Recommendation to reduce each threat identified (maximum 1 mark for each recommendation). 2 marks maximum given for each category for recommendations.
- Any other relevant points may be awarded marks.

Suggested solution

Political

Threat identified

Local authority decisions are a political factor influencing MB. Plans from local authorities for more Ultra-Low Emission Zones means that MB will need to replace 15 existing buses in the next 2-3 years, this will be very costly for the company. (1 mark).

Recommendation

MB needs to replace 15 existing buses, by replacing them sooner rather than later, they could use higher part-exchange values from older buses to fund new 'cleaner and greener' buses. MB could also avoid future interest rate rises if they can enter fixed rate loan agreements as soon as possible to fund new buses. (1 mark).

Threat identified

Brexit is a political (or economic) factor influencing MB. Brexit has caused a loss of EU drivers and MB has experienced difficulties recruiting enough bus drivers. (1 mark).

Recommendation

MB could increase wage rates and offer excellent working conditions to attract more existing bus drivers. MB could recruit its own trainee bus drivers, as a way of alleviating future driver shortages. (1 mark).

Social

Threat identified

Greater focus on the environment and use of greener transport by passengers is a social influence on MB. A key threat to MB because replacement of buses may indicate that MB is not doing enough to operate a 'cleaner and greener' bus service. (1 mark).

Recommendation

Even though expensive, MB could switch to electric or hybrid vehicles. This will help differentiate the MB brand from its rivals and make its services more appealing for passengers to use. (1 mark).

Threat identified

Greater use of technology by passengers is a social influence on MB. It is a key threat to MB because rivals are already using 5G technology. (1 mark).

Recommendation

MB needs to invest in 5G technology and even Apps for customers to view, book and track their bus journeys in real-time. This will help differentiate the MB brand from its rivals and make its services more appealing for passengers to use. (1 mark).

(b) Identify for each type of partnership shown below, whether all partners, some partners or no partners have limited liability.

(3 marks)

Type of partnership	Limited liability
General partnerships	no partners
Limited Liability Partnerships (LLP)	all partners
Limited Partnerships (LPs)	some partners

For a general partnership, all partners have 'unlimited liability' for any business debts that cannot be paid. For an LLP, all partners (members) have limited liability and all partners can be involved in the management of the business. For an LP, at least one general partner has 'unlimited liability' and 'limited liability' protection is given only to 'limited partners', who cannot be involved in the management of the business.

(c) Identify whether the following statements about a public organisation is true or false.

(2 marks)

	TRUE	FALSE
A public organisation is normally not-for-profit making and its purpose is for public (or social) benefit.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
A public organisation is ultimately funded by taxation that is collected by a government.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Both statements are true. A public organisation is any organisation that is part of the public sector (government owned and controlled). The main aim of a public organisation is to provide services to the general public e.g. the BBC, police, health, education and social care.

(d) Complete the following sentence.

(1 mark)

A statutory maximum of **20** partners is allowed in a general partnership, but many permitted exceptions exist such as for solicitors and accountants.

(e) Identify each type of cyber-attack from each statement provided below.

(2 marks)

Statement	Type of cyber-attack
Software that is designed to enter a computer device and send data to a third-party without the users consent.	Spyware
A hacker sends out thousands of disguised emails, that may trick recipients into clicking on a link or attachment that contains a virus.	Phishing

Task 3 - Solutions (17 marks)

(a) Identify THREE implications of a wider span of control for a manager.

(3 marks)

Managers could be overloaded with a greater number of subordinate requests.	<input checked="" type="checkbox"/>
Improved communication between the manager and their subordinates.	<input type="checkbox"/>
Increased career opportunities for subordinates to be promoted and succeed their manager.	<input type="checkbox"/>
A lower headcount for managers could be achieved.	<input checked="" type="checkbox"/>
Tighter supervision and control of subordinates by each manager.	<input type="checkbox"/>
Managers could have less time to train and develop their subordinates.	<input checked="" type="checkbox"/>

Span of control means how many sub-ordinates a manager has to plan, control and delegate work to e.g. the number of subordinates supervised by a single manager. Span of control is primarily concerned with the number of subordinates that a manager can efficiently and effectively supervise. A wider span of control will increase the number of subordinates managed by each manager.

True statements

- Managers could be overloaded with a greater number of subordinate requests. This may be true because a manager would have more subordinates to manage.
- A lower headcount for managers could be achieved. This may be true because if more subordinates can be managed by a single manager, then less managers would be required.
- Managers could have less time to train and develop their subordinates. This may be true because if more subordinates are managed by each manager, then there would be less time the manager could spend with each sub-ordinate.

False statements

- Tighter supervision and control of subordinates by each manager. This would be more likely an implication of narrowing span of control, tighter control would be achieved by less subordinates being managed.
- Improved communication between the manager and their subordinates. This would be more likely an implication of narrowing span of control, better communication could be achieved by less subordinates being managed.
- Increased career opportunities for subordinates to be promoted and succeed their manager. This would be more likely an implication of narrowing span of control, less subordinates would increase their chances of succeeding their manager.

(b) Identify each type of organisational structure explained below.

(3 marks)

Explanation	Type of organisation
A distinct business set up within a larger group of companies.	divisional
The sub-division of a business into specialised departments.	functional
A project manager coordinating team members who work in different departments.	matrix

(c) Identify TWO internal controls that could help comply with this principle.

(2 marks)

Automatically deleting data kept after a certain time limit.	<input checked="" type="checkbox"/>
Periodic review of data kept to ensure it is not held longer than is necessary.	<input checked="" type="checkbox"/>
Policies to ensure data controllers handle personal data kept in a fair manner.	<input type="checkbox"/>
Policies to provide reasons why personal data is being kept about an individual.	<input type="checkbox"/>

- Storage limitation is one of the key principles of GDPR. It means that a data controller should only retain personal data for as long as is necessary to fulfil the specified purpose for why it was processed in the first place. To ensure that personal data is not kept for longer than is necessary, time limits should be established and periodic review to erase any redundant data in a safe and secure manner. GDPR does not set any specific time limits.
- Policies to ensure data controllers handle personal data kept in a fair manner, is more likely to do with the key principle of 'lawfulness, fairness and transparency'.
- Policies to provide reasons why personal data is being kept about an individual, is more likely to do with the key principle of 'purpose limitation'.

(d) Complete the following sentence.

(1 mark)

Social engineering is the art of manipulating the **behaviour** of human beings by creating the right conditions for them to give out confidential information.

(e) Identify THREE key features of cloud accounting.

(3 marks)

Provides blockchain record keeping.	<input type="checkbox"/>
Access to data and information from anywhere.	<input checked="" type="checkbox"/>
Eliminates any risk of cyberattacks.	<input type="checkbox"/>
Remote data storage so no backup is required.	<input checked="" type="checkbox"/>
Interprets visual information to indicate relationships and trends.	<input type="checkbox"/>
Can display real-time data to a user.	<input checked="" type="checkbox"/>

(f) Identify TWO key risks of a cyber-attack.

(2 marks)

Improved brand reputation.	<input type="checkbox"/>
Confidentiality of data is breached.	<input checked="" type="checkbox"/>
Failure of operations and systems.	<input checked="" type="checkbox"/>
Reduction in working capital requirements.	<input type="checkbox"/>

(g) Identify the most likely technology for each statement shown below.

(3 marks)

Statement	Technology
The capability of a machine to imitate intelligent human behaviour.	AI and machine learning
A shared ledger that facilitates the process of recording transactions.	blockchain
Examining data sets to find trends and conclusions about information they contain.	data analytics

Task 4 - Solutions (10 marks)

(a)(i) Explain the ethical threats for Safina, arising from her managers request.

(2 marks)

Marking guide

- A suggested solution is provided below.
- 1 mark maximum for each ethical threat explained.
- Any other relevant points may be awarded marks.

Suggested solution

- Intimidation. The threat of Safina losing her job is an intimidation threat. The threat of losing her job may inappropriately influence her judgment or behaviour. (1 mark).
- Self-interest. The threat that Safina may bend to the managers request, because she wants to keep her job. Her 'personal interest' maybe pursued without any regard for others. (1 mark).

(a)(ii) Explain how Safina would breach her ethical principles, if she followed the advice of her manager.

(2 marks)

Marking guide

- A suggested solution is provided below.
- 1 mark maximum for each ethical principle explained.
- Any other relevant points may be awarded marks.

Suggested solution

- Integrity. An obligation for professional accountants to be straightforward and honest in their professional and business relationships. Safina should be truthful about the error that she has found. (1 mark).
- Professional behaviour. An obligation for professional accountants to comply with relevant laws and regulations. Safina would be breaking laws and regulations by concealing the matter. (1 mark).

(a)(iii) Explain what actions Safina could take, arising from her managers request.

(2 marks)

Marking guide

- A suggested solution is provided below.
- 1 mark maximum for each action explained.
- Any other relevant points may be awarded marks.

Suggested solution

- Seek advice confidentially from other relevant managers at H&C (or from the AAT) before any action is taken. (1 mark).
- Safina should report any unethical behaviour to responsible persons at work e.g. raise this matter with the senior partner at H&C. If the senior partner refuses to take any action, then Safina should resign as she needs to avoid being associated with false information. (1 mark).
- Report the matter using formal internal whistleblowing or 'speak-out' procedures that may be available at H&C for reporting unethical behaviour. (1 mark).

(a)(iv) Explain any future consequences of Safina's actions, if she followed her managers request and the previous error is then subsequently discovered by the senior partner at H&C. (2 marks)

Marking guide

- A suggested solution is provided below.
- 1 mark maximum for each future consequence explained.
- Any other relevant points may be awarded marks.

Suggested solution

- Safina could be reported to the AAT for professional misconduct. This may result in disciplinary action taken against her e.g. fine, membership suspended or terminated. (1 mark).
- Internal disciplinary action may be taken against Safina by H&C for her unethical behaviour e.g. warning, suspension from work, or termination of employment contact. (1 mark).

(a)(v) Explain what a claim for breach of contract and professional negligence is. (1 mark)

Marking guide

- A suggested solution is provided below.
- 1 mark maximum to explain a claim for breach of contract and professional negligence.
- Any other relevant points may be awarded marks.

Suggested solution

A claim for breach of contract and professional negligence can be brought against an accountant (H&C) by a client (BIK Limited) for illegal or unethical behaviour. Professional negligence is when a professional accountant fails to perform their responsibilities to the required standard of a reasonably competent and professional person e.g. accounting mistakes made that cause a client to suffer financial losses. (1 mark).

(a)(vi) Explain what professional indemnity insurance is.

(1 mark)

Marking guide

- A suggested solution is provided below.
- 1 mark maximum to explain professional indemnity insurance.
- Any other relevant points may be awarded marks.

Suggested solution

Professional indemnity insurance is compulsory for H&C who engage in public practice. Professional indemnity insurance covers or protects an accountant (or firm) against a claim for loss or damage by a client (or other third party), resulting from negligent services performed by the accountant (or firm). (1 mark)

Task 5 - Solutions (10 marks)

(a) Identify for each statement below what is most likely to happen to price and output in the beef industry.

(6 marks)

Statement	Price	Output
An increase in the population of the country.	Increase	Increase
The market price of chicken decreases.	Decrease	Decrease
Farmers face increasing costs to feed and raise their cows.	Increase	Decrease

As the population of a country increases, more buyers will exist to buy goods or services from a market, in this case beef. The effect of an increase in demand (if supply is unchanged) is to initially create a shortage in the market for beef and this puts pressure on the market price to rise. As the market price rises, more profit should incentivise farmers to expand their production of beef and so output will rise.

Chicken is an alternative good that satisfies the same need as beef, it is therefore a substitute good. If the market price of chicken decreases (encouraging more consumption of chicken) and the price of beef remained the same, then consumers may switch to consuming more chicken and less beef. The effect of a decrease in demand for beef (if supply is unchanged) is to initially create a surplus in the market, which puts pressure on the market price to fall. As the market price falls, less profit should incentivise farmers to contract their production of beef and so output will fall.

If business costs rise then less profit is earned and this normally discourages sellers (farmers) who may cut back on production levels and may even exit the market. The effect of a decrease in supply (if demand is unchanged) is to initially create a shortage in the market, which puts pressure on the market price to rise.

(b) A fully sustainable business is one that. Choose ONE only.

(1 mark)

Consumes natural resources from the environment in a positive way.	<input type="checkbox"/>
Continually improves the welfare of its customers and employees.	<input type="checkbox"/>
Continually improves the welfare of society as a whole.	<input type="checkbox"/>
Consumes natural resources without any negative impact on the environment.	<input checked="" type="checkbox"/>

(c) Match each statement shown below to a category included in 'triple bottom line' reporting.

(3 marks)

Statement	Category
Maximise sales and profits.	Profit
Maximise stakeholder welfare.	People
Minimise harm to the natural environment.	Planet

Task 6 - Solutions (13 marks)

(a)(i) Explain THREE key pieces of information about the sales performance of Janet's business for the first three months of trade.

(3 marks)

Marking guide

- Suggested solutions are provided below.
- THREE key pieces of information about sales performance (maximum 1 mark for each piece of key sales information).
- Any other relevant points may be awarded marks.

Suggested solutions

- A significant rise in cold beverages and a significant fall in hot beverages over the three month trading period. This suggests seasonality of sales in colder and hotter months. (1 mark).
- The seasonality of sales may also have affected the sale of hot food, cakes and confectionery, however sale of sandwiches and salads remained fairly stable. (1 mark).
- A significant fall in total sales (by more than £2,000) over the three month trading period. This may be due to customer novelty when the shop first opened in May, but needs further investigation because if it is a continuing trend, this would be very worrying for Janet's business. (1 mark).
- Hot food seems to have become a much smaller proportion of total sales (£). Given the heating cost and recruitment of a third assistant to cook and serve hot food, it should be reviewed for profitability. (1 mark).

(a)(ii) Explain ONE key change you would make to improve the sales information of Janet's business.

(1 mark)

Marking guide

- Suggested solutions are provided below.
- ONE key change to improve sales information (maximum 1 mark).
- Any other relevant points may be awarded marks.

Suggested solutions

- Data entry for the cash register could be modified to give a more detailed and accurate sales report. For example, rather than just five data classifications, use a classification for every product sold e.g. not just 'hot beverages', use codes instead for espresso, café late, tea, herbal tea etc. This enables better sales analysis for popular and unpopular hot drinks sold. Sales codes can also generate more accurate prices for data entry rather than the cashier manually entering the price of each item sold. (1 mark).

- The sales margin percentage for each product sold will enable Janet to identify what products generate the greatest profit from her sales generated. It will also allow unprofitable products to be identified and action taken to either increase selling price or discontinue the product. (1 mark).

(a)(iii) Explain TWO key pieces of information about Janet's business performance (ignoring sales performance) for the first three months of trade.

(2 marks)

Marking guide

- Suggested solutions are provided below.
- TWO key pieces of information about business performance (not sales performance). Maximum 1 mark each.
- Any other relevant points may be awarded marks.

Suggested solution

- The business bank account is overdrawn and the cash trend overall seems to be getting worse. Does Janet have an overdraft facility arranged with her bank or sufficient private funds to cover her future cash position. (1 mark).
- The business earned a small profit in May but incurred losses in June and July. (1 mark).
- Operating expenses have remained stable, because falling ingredient and heating costs (variable costs that are driven by sales activity and on a downward trend) are being replaced with rising staff wages (a fixed cost). (1 mark).

(a)(iv) Explain TWO examples why you may be sceptical about the integrity of data provided by Janet. Explain one control for each example that may help improve the situation in future.

(4 marks)

Marking guide

- Suggested solutions are provided below.
- TWO examples of why you may be sceptical (maximum 1 mark for each example).
- One control for each example (maximum 1 mark for each control).
- Any other relevant points may be awarded marks.

Suggested solution

- The price of each item sold is manually entered in the cash register which may produce high levels of inaccuracy. One control would be to use a barcode (or QR code) on a menu for each product sold, the cashier using a machine sensible device (rather than manual data entry) to enter sales data. This will help improve the accuracy of sale prices (and sale items) entered and avoid over or under charging customers. (2 marks).

- The cash book (not bank statements) was used to enter financial data. This data may not reconcile with the bank statements, so cash balances reported could be inaccurate due to errors or omissions in the cashbook. One control would be to reconcile the information in the cash book to the bank statements. This will improve accuracy of the bank balance reported and therefore the income and expenses of the business reported. (2 marks).

(b) Identify TWO characteristics of useful information that is more likely to improve, if Janet decides to use a fully digital accounting system.

(2 marks)

Comparable	<input type="checkbox"/>
Consistent	<input type="checkbox"/>
Understandable	<input type="checkbox"/>
Reliable	<input checked="" type="checkbox"/>
Timely	<input checked="" type="checkbox"/>

(c) Identify one source of information that is likely to be a valid source of information.

(1 mark)

Facebook	<input type="checkbox"/>
Twitter	<input type="checkbox"/>
HMRC	<input checked="" type="checkbox"/>
Accounting blog sites	<input type="checkbox"/>

Task 7 - Solutions (12 marks)

(a) Identify the most appropriate strategy to deal with each of the following risks. You must select all TARA strategies from the picklist shown below.

(4 marks)

Risk	Strategy
The increasing environmental concern by drivers is causing rising demand in the car market for smaller and more economical cars.	Accept
A driver or another passenger could be killed or injured, because of the sheer power of sports cars like those made by HH.	Transfer
A driver or another passenger could be killed or injured, because of unknown manufacturing faults at the time when cars are made.	Reduce
There is high potential that new environmental legislation could mean that all cars sold, must meet low fuel economy standards, this is impossible to achieve by HH because of the type of cars they sell.	Avoid

- First statement. HH operates in its own niche or segment of the car market (high performance cars) and so must **accept** the risk that market conditions may change.
- Second statement. Sports cars are dangerous and so drivers must be legally insured in case of third party liability. This is a risk that HH is likely to **transfer** to its clients (the driver).
- Third statement. HH would find this risk hard to avoid but should **reduce** it to an acceptable level.
- Fourth statement. The new legislation will mean HH will be pretty much out of business and so they must **avoid** this risk at all cost.

(b) Identify the most likely big data characteristic for each way that the new ‘self-driving’ sports car will perform.

(4 marks)

Characteristics of the HH self driving sports car	Big data characteristic
Gigabytes of data are generated by the self-driving car every second.	Volume
The self-driving car must collect a wide variety of data from a multitude of sources and formats e.g. sensors, maps, vehicle health etc.	Variety
All data generated by the self-driving car, requires real-time processing for the car to drive safely.	Velocity
The self-driving car must constantly learn to send more helpful information to the driver and change route to avoid traffic delays.	Value

The characteristics of big data

- **Volume** e.g. the sheer amount of data captured.
- **Variety** e.g. the 'diversity' of multiple sources of data that can be captured.
- **Velocity** e.g. the sheer 'speed' of real-time data processing and analytics.
- **Value** e.g. that data captured provides value or insight for decision making.

Characteristics did not include veracity e.g. data is trustworthy, complete and accurate.

(c) Identify TWO most likely strategic risks for HH.

(2 marks)

The risk of HH having high levels of business debt.	<input type="checkbox"/>
The risk of a fire or flood at the head office of HH.	<input type="checkbox"/>
The risk of a significant shortage of microchips that will restrict production of HH cars.	<input checked="" type="checkbox"/>
The risk that poor quality cars will be manufactured by the production workforce of HH.	<input type="checkbox"/>
The risk that an acquisition by HH of a major supplier to HH proves unsuccessful.	<input checked="" type="checkbox"/>

Strategic risk may arise due to adopting the wrong strategy or due to business (PESTLE) factors changing and having an adverse impact on strategic plans. The risk of a significant shortage of microchips that will restrict production and an acquisition of a major supplier that proves unsuccessful, are both strategic risks.

The risk of high levels of business debt is a financial risk e.g. cash-flows are consumed to pay loan interest and loan repayments, which can leave very little left to distribute dividends (profits) to shareholders of HH. The risk of a fire or flood is an environmental (or operational) risk. The risk of poor quality cars made by the workforce is an operational risk e.g. arising from the operational level or 'ground level' that makes, sells and delivers cars.

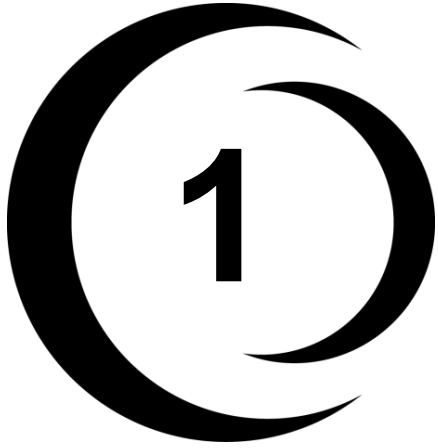
(d) Identify whether each statement below is true or false.

(2 marks)

	TRUE	FALSE
Risk is the chance of a future outcome occurring, all potential outcomes are known and the likelihood of each outcome is measurable.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Uncertainty cannot be measured, but gives a high degree of control to a business over the situation.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The first statement is true. Risk is the chance (or probability) of a future outcome occurring, all potential outcomes are known and the likelihood of each outcome is measurable. Risk is measurable and gives some degree of control over the situation.

The second statement is false. Uncertainty implies that the chance (or probability) of a future outcome occurring is unknown, unpredictable or too complex to be measured. Uncertainty cannot be measured and is uncontrollable.



Revision Notes

Types of organisation

	Ownership	Management	Liability for debts	Net assets	Taxation	Distributing profits	Accounting regulations
Sole trader	Sole trader	Sole trader	Unlimited Liability for a sole trader	Capital	Individual pays income tax on profits earned	Sole trader takes drawings from the business	None
Partnership	Partners	Partners	Unlimited Liability for a partner	Capital	Individuals pay income tax on their share of profits earned	Each partner takes drawings from the business	None
Company	Shareholders	Board of Directors	Limited Liability for Shareholders	Equity	Company pays corporation tax on company profits earned	Dividends paid to shareholders from profits earned by the company	Companies Act and Accounting Standards
LLP	Members	Members	Limited Liability for Members	Capital	Individuals pay income tax on their share of profits earned	Each partner takes drawings from the business	Partnership Act, Companies Act and Accounting Standards
Charity	Public benefit	Board of Trustees	Limited Liability for Trustees	Funds	Tax Exempt	Not for profit, earns a surplus or incurs a deficit	Charity legislation and statements of recommended practice

Business stakeholders

A stakeholder can be any organisation or person that has an interest in the business.

- **Internal stakeholders** are people whose interest is through a direct relationship with the business (anyone within the business) e.g. employees, management or directors who work for the business, or shareholders and business owners who invest directly in the business.
- **External stakeholders** are people that do not have a direct relationship with the business (anyone outside the business) e.g. banks, customers, suppliers, competitors, pressure groups, government, local authorities, local communities, trade unions, media and the general public.

Types of funding used by businesses

- New capital introduced e.g. money invested (or profits retained) by the owners.
- Bank loans, overdrafts and credit cards.
- Hire purchase.
- Finance lease.
- Working capital e.g. chase customer debts or delay payments to suppliers.
- Sale (disposal) of non-current assets e.g. land, property or machinery.

Organisational structure

Organisational structure defines how job tasks or activities are formally divided and coordinated, in order to deliver the organisations goals and objectives.

Elements of organisational structure

- Worker specialisation (division of work).
- Departmentalisation.
- Chain of command.
- Span of control.
- The degree of centralisation (or decentralisation).
- The degree of formalisation.

Hierarchy and span of control

- **Hierarchy (scalar chain)** e.g. the layers of management and authority.
- **Span of control** e.g. the number of subordinates supervised by each manager.

Types of organisational structure

- **Functional structure** e.g. the sub-division of a business into specialised departments e.g. finance, sales and production.
- **Divisional structure** e.g. a distinct business set up within a larger group of companies, to ensure a certain product or market is managed as a separate business.
- **Small (entrepreneurial) structure** e.g. limited organisational structure, very few staff employed and the owner (founder) makes all the key decisions.
- **Project-based (matrix) structure** e.g. 'cross functional team work' to support team work and collaboration.

The operational, tactical and strategic levels

- **Strategic (or corporate) level** e.g. concerned with the overall scope and long-term direction of the organisation, such as holding company (or head office) within a group, a board of directors in a large company, or the founder (owner) of a small business.
- **Tactical (or managerial) level** e.g. concerned with the coordination and control of operational resources to achieve strategic goals and objectives, such as a manager of a division in a large group, or a department manager in a large company.
- **Operational (or functional) level** e.g. concerned with the routine and regular nature of running the organisation on a day to day basis, such as department workers making, selling and delivering products or services.

Centralised and decentralised control

- **Centralisation** e.g. concentrates decision making in the hands the strategic level, such as senior management.
- **Decentralisation** e.g. delegates decision making to the operational level, such as production or sales workers.

The finance function

The finance function provides information, support, advice and guidance to both internal and external stakeholders.

- Managing funds effectively e.g. cash budgets and planning for borrowing.
- Management accounting e.g. budgets, variances and product costings.
- Financial accounting e.g. statutory financial accounts, tax and payroll returns.
- Corporate social responsibility (CSR) e.g. social and environmental reporting.

Corporate governance

Corporate governance refers to a system that directs and controls a board of directors in a company e.g. rules, practices or processes for behaviour and decision making. The spirit of good corporate governance is about balancing the needs and interests of all stakeholders, not just the company's shareholders.

Risk and uncertainty

- **Risk** e.g. chance (or probability) of future outcomes are known and measurable (with some degree of control).
- **Uncertainty** e.g. chance (or probability) of future outcomes are unknown, unpredictable or too complex to be measured (or controlled).

Types of business risk

- **Strategic risk** e.g. risk of pursuing unsuccessful business plans or objectives.
- **Financial risk** e.g. risk of high levels of business borrowing (debt).
- **Operational risk** e.g. operational risk of making and delivering the product.
- **Reputational risk** e.g. risk of poor brand reputation.
- **Legal risk** e.g. risk of breaches in laws and regulations.
- **Economic risk** e.g. risk of economic factors.
- **Political risk** e.g. risk of government factors.
- **Technological risk** e.g. risk of new and emerging technologies.

The TARA framework

TARA is a risk management framework which can be used to select a suitable response for each type of risk identified.

- **Transfer risk** e.g. the risk is transferred (passed on) to a third party.
- **Accept risk** e.g. the risk is tolerated and no action is taken to control it.
- **Reduce risk** e.g. the risk is reduced by taking actions to control it.
- **Avoid risk** e.g. the risk is avoided by terminating activities likely to cause it.

The PESTLE model

PESTLE analysis identifies external opportunities and threats (risks) for a business. It provides a source of information to help senior management make more effective strategic (or marketing) decisions.

- **P** political factors e.g. decisions by a government such as changing tax rates, war, terrorism, government corruption, changes in government or political trends.
- **E** economic factors e.g. risk of macroeconomic factors such as inflation, interest rates, wage rates, supply of labour, exchange rates, recession and trade barriers.
- **S** social factors e.g. factors driven by population, demographics (age, income, religion etc) and society needs, wants and values.
- **T** technological factors e.g. new emerging technologies that may radically transform a market.
- **L** legal factors e.g. new product safety standards, new regulations about hazardous or dangerous materials, new environmental laws, new employment laws and GDPR.
- **E** environmental factors e.g. climate and weather.

Task 2 of your exam will include a written question that may require you to identify and recognise the impact of PESTLE factors affecting a business, and to recommend appropriate actions to reduce the risk of threats identified.

Government control of an economy

- **Monetary policy** is any action by a government to influence the money supply or cost of borrowing (credit) within an economy.
- **Fiscal policy** is any action by a government to change taxation and/or government spending directly within an economy.

Both policies influence the amount of national expenditure (demand) for goods and services within an economy, and in turn affect the rate of unemployment and inflation.

	Increase demand in the economy	Decrease demand in the economy
Monetary policy	Decrease interest rates	Increase interest rates
Fiscal policy	Decrease taxation	Increase taxation
	Increase government spending	Decrease government spending

Types of taxation

- **Direct taxes** are administered and paid 'directly' by the individual (or business) expected to pay it e.g. income tax, corporation tax and national insurance.
- **Indirect taxes** are 'indirectly' collected from the individual (or business) expected to pay it e.g. VAT is collected indirectly by a shop (a 'third party') on sales made to its customers and paid over to HMRC, on behalf of its customers.

Functions of a tax system

- Taxation raises money to fund government spending and public services.
- Taxation can discourage consumption of undesirable goods and services.
- Taxation can help redistribute income and wealth within an economy.
- Taxation can be used to 'fine tune' an economy.

How exchange rates influence business costs

- If an exchange rate weakens, the price of overseas imports will rise.
- If an exchange rate strengthens, the price of overseas imports will fall.

International trade barriers

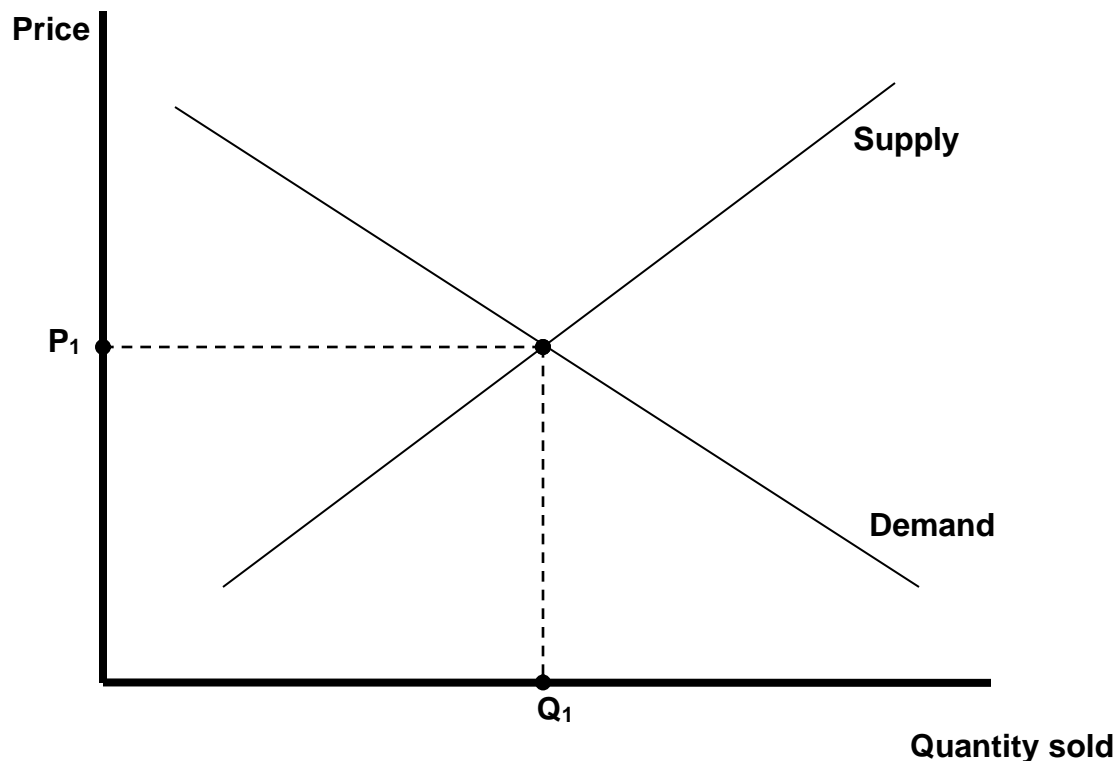
- Import tariffs (custom duty) e.g. the price of overseas goods will increase.
- Import quotas e.g. the volume of goods imported is restricted.
- Embargo e.g. zero quota on importing overseas goods.

The microeconomic environment

A **market** is any place (physical or virtual) whereby buyers and sellers come into contact for the purpose of exchanging goods or services.

Supply and demand

The study of supply and demand helps understand how markets determine an 'equilibrium' price and quantity sold (output). Equilibrium means 'balance' exists between two opposing forces of supply and demand, market prices and output will be unchanged.



Demand

Demand represents the total quantity that buyers are willing and able to purchase at the existing market price. The law of demand states that if the market price falls, the quantity demanded (consumed) for a good or service will rise, and vice versa.

Factors that cause changes in demand

- Advertising.
- Population of a country.
- Expectations of buyers.
- Price of substitute goods or services.
- Price of complimentary goods or services.
- Income of buyers (households).
- Tastes and fashion.

Normal and inferior goods

- **Normal goods** e.g. demand increases when consumer incomes increase, so demand and income are positively correlated.
- **Inferior goods** e.g. demand decreases when consumer incomes increase, so demand and income are negatively correlated.

Necessity and luxury goods

- **Necessity goods** e.g. normal goods, but demand 'does not increase by much' when consumer incomes increase e.g. cigarettes, alcohol, milk and bread.
- **Luxury goods** e.g. normal goods, but demand 'increases significantly' when consumer incomes increase e.g. houses, holidays, jewellery and luxury brands.

Supply

Supply represents the total quantity that sellers are willing and able to make (or sell) at the existing market price. The law of supply states that if the market price rises, the quantity supplied by sellers will rise, and vice versa.

Factors that cause changes in supply

- Climate (weather).
- Price and availability of factors of production (resources).
- Government taxation and subsidies.
- Goods in joint supply e.g. beef and leather.
- Expectations of sellers.
- Technology.

Influences on the level of competition within a market

Competition is the activity of establishing superiority over rivals in the same market e.g. gaining more sales, market share or profits.

Factors that influence competition

- Number of sellers and buyers in a market e.g. fewer sellers give concentrated power to charge higher prices to consumers.
- Barriers to entry e.g. obstacles restrict new sellers from entering the market.
- Product features offered by sellers in a market.
- The availability of information to sellers and buyers in a market e.g. imperfect information may limit rational choice for consumers.

Barriers to entry

- Patents, trademarks and copyrights.
- Product differentiation.
- Government e.g. nationalisation, licences and regulatory controls.
- High set up costs.
- Economies of scale e.g. large established firms benefit from low unit cost.
- High switching costs (or inconvenience) for a customer.
- Location e.g. monopolisation caused by geographic factors.

Product differentiation

Product differentiation makes a product stand out to a consumer and distinguish it from competing alternatives sold by rivals. Product differentiation 'wins more sales' and can allow sellers to charge premium prices.

Examples of product differentiation

- Product design.
- Advertising and distinctive branding.
- After sales support and guarantees.
- Customer relationship management.

Sustainability and the natural environment

Sustainability means that a business can operate without compromising the ability of future generations to inherit our existing natural resources.

Triple bottom line reporting

- **Profit (economic)** e.g. maximise sales, profits and cash-flows.
- **People (social)** e.g. maximise the welfare of stakeholders.
- **Planet (environmental)** e.g. minimise harm to the natural environment.

Corporate social responsibility (CSR)

A business needs to be aware of the impact of its actions or conduct on society (people) and how to act in the best interests of stakeholders.

Business ethics

Business ethics is concerned with moral principles or values that guide the right kind of behaviour or conduct for a business. Business ethics is one aim of corporate social responsibility.

Principles of ethics for professional accountants

The International Federation of Accountants (IFACs) principles of ethics establishes the standard of behaviour expected of a professional accountant. The code is principles based (not rules based) and promotes the 'spirit of beliefs' rather than the 'letter of the law'. The principles can be remembered using the acronym **PIPCO**.

- **P**rofessional competence and due care e.g. maintain professional knowledge and skills, and to act diligently when providing professional services.
- **I**ntegrity e.g. to be straightforward and honest in professional and business relationships (transparency, fair dealing and truthfulness).
- **P**rofessional behaviour e.g. to comply with relevant laws and regulations, and avoid any action that discredits the profession.
- **C**onfidentiality e.g. not to disclose private information to a third party, unless employer or client consent has been given.
- **O**bjectivity e.g. not to compromise professional or business judgment because of bias, conflict of interest or the undue influence of others.

Threats to ethical principles

Threats are situations that may compromise compliance to the code of ethics. The IFAC's threats can be remembered using the acronym **ASSIF**.

- **Advocacy** e.g. an accountant may promote a client or employers position to the point that their objectivity is compromised, such as promoting shares in a client, or representing a client in litigation or disputes with third parties.
- **Self-review** e.g. an accountant should not evaluate the results of a previous judgment made or service performed, such as issuing an assurance report on the effectiveness of a financial system they designed or implemented.
- **Self-interest** e.g. a financial (or other interest) inappropriately influences a professional accountants judgment or behaviour, such as having a direct financial interest in a client, or dependence on large fees received from a client.
- **Intimidation** e.g. an accountant could be deterred from acting objectively because of actual or perceived pressures, such as being threatened with litigation, dismissal by a client, or that a future contract will not be awarded.
- **Familiarity** e.g. an accountant may have a long or close relationship with a client or employer and be too sympathetic to their interests, or too accepting of their work, this may include close or immediate family members.

Ethical safeguards

Safeguards are actions or other measures that reduce threats to an acceptable level.

- Safeguards created by the profession, legislation or regulation.
- Safeguards in the work environment.

Stages of ethical conflict resolution

The following factors may be relevant to a resolution process:

- Relevant facts.
- Ethical issues involved.
- Fundamental principles related to the matter in question.
- Established internal procedures.
- Alternative courses of action e.g. refuse to remain associated, or resign.

Reporting unethical behaviour

The code of ethics for professional accountants states an explicit duty for members to report any breaches of ethical standards. This can be done by making a complaint to the AAT's Professional Standards team.

When disciplinary action may be taken

- Breach of the code of ethics.
- Breach of laws or regulations e.g. money laundering regulations.

Possible penalties imposed by AAT

- Members can be reprimanded and warned about future conduct.
- Members can be fined.
- Members can have their license (or membership) suspended or terminated.

Internal disciplinary procedures may also be brought against the accountant by their employer for unethical or illegal behaviour. Disciplinary action can include warnings (held on record), suspension from work or termination of employment contact.

Claims for breach of contract and professional negligence may also be brought against an accountant by their client for unethical behaviour. Professional indemnity insurance covers or protects an accountant against claims for loss or damage by clients as a result of providing negligent services.

Whistleblowing

Whistleblowing is a term used when an employee passes on information concerning a wrongdoing. Making a disclosure is referred to as 'blowing the whistle'.

Reasons for whistleblowing

- Discovery of bribery, corruption, fraud or money laundering.
- Reporting criminal offences e.g. health and safety, environmental laws etc.
- Reporting misuse of data e.g. GDPR.
- Reporting someone who is covering up a wrongdoing.

Employers may have internal policies and procedures for employees to report unethical behaviour ('internal whistleblowing' or speak-out procedures).

External whistleblowing

- External whistleblowing is the practice of reporting misconduct to outside sources, such as the police, newspapers and social media.
- Employees should seek legal advice before blowing the whistle externally.
- Whistle-blowers by law cannot be dismissed or unfairly treated.

Personal grievances about bullying, harassment and discrimination are not covered by whistleblowing laws, unless the case is of wider concern for the general public.

Money laundering

Money Laundering is a perfect description of how this crime takes place whereby 'dirty' (illegal) money is 'washed' and 'mixed' through a process and comes out finally as 'clean' (legal) money. The maximum prison sentence for money laundering is 14 years.

The process of money laundering

- **Placement** e.g. dirty money is deposited (placed) into the banking system.
- **Layering** e.g. the money is moved around and 'all mixed up'.
- **Integration (or extraction)** e.g. criminal proceeds are paid out to criminals and can be legitimately spent without incrimination.

Reporting suspected money laundering

As soon as you know or suspect that a person is engaged in money laundering or dealing in criminal property, you must submit a suspicious activity report (SAR). Failure to report suspicion of money laundering carries a maximum penalty of five years imprisonment. An SAR must be filed normally within 30 days of any potential criminal activity detected which appears suspicious.

An SAR can be made to an internal money laundering reporting officer (MLRO) if your organisation has money laundering supervision, or to the National Crime Agency (NCA) which is a UK government agency that helps fight serious and organised crime.

Information reported in a SAR

- Names, addresses, birth dates, driving licenses, passport numbers, occupation and phone numbers of all parties involved.
- The identity of the suspects (if known).
- Information and reasonable grounds stated for suspicion of money laundering.
- The location(s) of any laundered property (if known).
- Additional information or other parties connected to the matter.

Protected and authorised disclosure

SARs made to the NCA are either protected or authorised disclosures.

- A protected disclosure is normally how you report suspicious activities and you are protected against allegations of any breaches of confidentiality.
- An authorised disclosure is for someone who believes they may have engaged in or are about to engage in money laundering activities, someone may do this as a defence against money laundering allegations.

Tipping off

You must not say anything to the accused person(s) which may lead to an investigation being prejudiced. The penalty for telling an individual they are being investigated for suspected money laundering carries a maximum penalty of five years imprisonment and an unlimited fine.

Emerging and developing technologies

- Automation of processes.
- Artificial intelligence (AI) and machine learning.
- Blockchain.
- Electronic filing of documents.
- Electronic signing of documents.
- Data analytics.

Outsourcing and offshoring

- Outsourcing is the contracting out of operations and responsibilities of a specific business function (or process) to an external and third-party service provider.
- Offshoring is the relocation of a specific business function (or process) to an overseas country, outside the national boundaries of where the business normally resides (carried out internally, or by outsourcing to a third party).

Cloud accounting

Cloud accounting means keeping accounting records and storing financial data online, using the Internet. Information stored in the cloud is encrypted and only people with the login and password can view data. Some popular examples of cloud software accounting packages include Xero, QuickBooks and Sage 50cloud.

Benefits of cloud accounting

- ✓ Reduces the investment cost for accounting software and storage.
- ✓ Maintenance and upgrades are centrally managed by the service provider.
- ✓ Remote data storage so no backup is required.
- ✓ Supportive to the needs of remote or mobile workforces.
- ✓ Scalability of services to cost effectively support a large number of end users.
- ✓ Encourages collaboration and interaction with stakeholders, automates capabilities and gives access to real-time reporting of data and information.

Limitations of cloud accounting

- ✗ Lack of access if no internet connection.
- ✗ Privacy and security risks of sensitive or private information being hacked.
- ✗ High dependency on services and reliability of cloud services.

The principles of data protection

General Data Protection Regulation (GDPR) gives individuals the right to access personal data held about them. In addition there are obligations for better data management and a regime of fines for businesses that do not comply with GDPR.

The key principles of GDPR

Everyone that is responsible for handling personal data ('data controllers') must follow strict rules to ensure their legal obligations under GDPR are fulfilled.

- Lawfulness, fairness and transparency e.g. lawful processing of personal data.
- Purpose limitation e.g. reasons for processing personal data must be known.
- Data minimisation e.g. personal data limited to what is relevant and necessary.
- Accuracy e.g. personal data is kept accurate and up to date.
- Storage limitation e.g. personal data only retained for as long as necessary.
- Integrity and confidentiality e.g. security and confidentiality is maintained.
- Accountability e.g. data controllers must be able to demonstrate compliance.

The rights of data subjects

- To be informed about how their personal data is being used.
- To have access and view their personal data being kept.
- To have any incorrect personal data changed (but not erased).
- To prohibit or restrict (in some cases) storage of their personal data.

The impact of data protection breaches on a business

- Loss of data and information.
- Damage to reputation and brand.
- Financial compensation paid to victims e.g. employees or customers.
- Time and cost of public relations and legal investigations.
- Falling share price (if a public listed company).
- GDPR fines for data breaches.

Cybersecurity

Cybersecurity means using technologies, processes and controls to protect computer systems or networks from a cyber-attack. A cyber-attack is an attempt by a hacker to damage, steal or destroy data in a computer system or network.

Malicious software (or 'malware') is software that is specifically designed to disrupt, damage, or gain unauthorised access to a computer system. A **virus** is a type of computer code that alters the way a computer operates, it can spread like a virus from one host to another.

Examples of cyber-attacks

- **Phishing** e.g. hackers send out thousands of emails containing a virus.
- **Keyboard hijacking** e.g. a hacker hijacks a victims keyboard (or mouse).
- **Spyware** e.g. gathers and sends data to a third-party without a victims consent.
- **Ransomware** e.g. data files are locked by a hacker and a ransom is demanded.
- **DDoS attack** (Distributed Denial of Service) e.g. collaborations by multiple users acting together to overflow traffic to a web server and cause it to crash.

The risks from cyber-attack include damage to reputation and brand, theft of data, fraud, extortion, fines for GDPR breach and critical meltdown of operations and systems.

Cybersecurity defences

- Policies for strong password protection.
- Educate staff to be vigilant when receiving emails.
- Tighten up physical security in the office.
- Back up files e.g. cloud storage.
- Prepare for cyber-attacks.
- Hire experts to improve controls.
- Firewalls and anti-virus protection software.

Integrity controls

Input controls

Data has been properly authorised and correctly entered in the system.

- Data verification and validation.
- Sequence checks.
- Batch controls.
- Supervision and authorisation.
- Passwords.
- Machine (automated) data entry.

Processing controls

Data has been processed with integrity after it has been entered (input) in the system.

- Batch reconciliations.
- Regular testing.
- Reconciliations with third part evidence.
- Exception reports.

Output controls

Information is viewed only by those authorised and is safeguarded when transmitted.

- Passwords and access levels.
- Information reviews.
- Encryption of data.

Information

Information is a vital resource for planning, controlling and decision making.

Types of information

- Financial and non-financial.
- Quantitative and qualitative.
- External and internal.

Attributes of good quality information

The ACCURATE criteria is a useful framework for assessing the characteristics of useful and effective information.

- **A** Accurate e.g. reliable (not false, incorrect, or misleading).
- **C** Complete e.g. all that is required by a user is provided.
- **C** Cost beneficial e.g. the benefits exceed the cost of providing the information.
- **U** User friendly e.g. presented in a way that a user can understand.
- **R** Relevant e.g. a user is provided with all that is requested.
- **A** Authoritative e.g. information is valid, trusted and can be relied upon.
- **T** Timely e.g. delivered to a user in a timely manner or by an agreed deadline.
- **E** Easy to use e.g. information is summarised, charts, colour, no jargon etc.

Characteristics of operational, managerial and strategic information

Comparison	Strategic	Tactical	Operational
TIME PERIOD	FORECASTING/LONG-TERM		HISTORICAL/SHORT-TERM
OBJECTIVITY	SUBJECTIVE		OBJECTIVE
QUANTIFIABILITY	QUALITATIVE		QUANTITATIVE
ACCURACY	APPROXIMATE		ACCURATE
SOURCES OF DATA	EXTERNAL		INTERNAL
CERTAINTY	UNCERTAINTY OF FORECASTING		CERTAINTY OF HISTORICAL DATA
COMPLETENESS	INCOMPLETE		COMPLETE
BREADTH	THE BROAD ORGANISATION		A SPECIFIC TASK
DETAIL	SUMMARISED AND UNSTRUCTURED		HIGHLY DETAILED AND STRUCTURED

Big data

Big data can provide enhanced insight for decision making. It is a complex and costly process to examine large and varied data sets in order to uncover hidden patterns or trends. The benefits include the creation of new sales opportunities, highly effective marketing opportunities, better customer service, reduction in cost and improved operational efficiency.

The characteristics of big data

- **Volume** e.g. the sheer amount of data captured.
- **Variety** e.g. the 'diversity' of multiple sources of data that is captured.
- **Velocity** e.g. the sheer 'speed' of data processing in real-time.
- **Value** e.g. data captured provides value or insight for decision making.
- **Veracity** e.g. data captured is trustworthy, complete and accurate.

Sources of internal data

- Customer (sales) data e.g. databases or sales teams.
- Emails and documents generated.
- Transaction processing systems e.g. sales, purchases, inventory and payroll.
- Google analytics for website traffic and statistics.

Sources of external big data

- Social media sites like Facebook, Instagram and Twitter.
- Government data e.g. economic data from the Office for National Statistics.
- Google e.g. search queries relating to certain products.
- Customer data e.g. demographic information.
- Weather forecasts.

Visualising information

Visualisation is the visual representation of data which allows a user to see and understand it in a more intuitive way. It helps a user identify actions, trends, correlations, patterns or significant anomalies.

Task 6 of your exam will include a written question that may require you to interpret visual data and to indicate information, relationships and trends, using images, charts, diagrams, tables, matrices and graphs.

Dashboards support users to make data driven decisions in real-time and are a powerful way to communicate information and help technically or non-technically minded staff find quickly the answers they need.

Communicating information

- Communication is when a sender exchanges information with a recipient.
- Communication mediums include face to face, text, phone call, letter or e-mail.
- Communication can be written, verbal (speaking) or non-verbal (body language).
- Principles of effective communication include being clear, correct, complete, concrete, concise, considerate and courteous.
- Recognising valid and invalid information and exercising scepticism.

Communication mediums

- Letters, emails and instant messaging.
- Face to face presentations and meetings.
- Telephone calls.
- Intranet, Internet and social media.

Principles to determine an effective communication medium

- The purpose of communication.
- Whether the message is short or complex.
- Confidentiality e.g. to whom information can be disclosed.
- How urgent is the message.
- Does information or feedback need to be gathered.