



# **EXP**ress Notes

## **ACCA Paper F1**

### Accountant in Business

For exams in 2010

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## START About ExPress Notes

We are very pleased that you have downloaded a copy of our ExPress notes for this paper. We expect that you are keen to get on with the job in hand, so we will keep the introduction brief.

First, we would like to draw your attention to the terms and conditions of usage. It's a condition of printing these notes that you agree to the terms and conditions of usage. These are available to view at [www.theexpgroup.com](http://www.theexpgroup.com). Essentially, we want to help people get through their exams. If you are a student for the ACCA exams and you are using these notes for yourself only, you will have no problems complying with our fair use policy.

You will however need to get our written permission in advance if you want to use these notes as part of a training programme that you are delivering.

### **WARNING! These notes are not designed to cover everything in the syllabus!**

They are designed to help you assimilate and understand the most important areas for the exam as quickly as possible. If you study from these notes only, you will not have covered everything that is in the ACCA syllabus and study guide for this paper.

### Components of an effective study system

On ExP classroom courses, we provide people with the following learning materials:

- The ExPress notes for that paper
- The ExP recommended course notes / essential text or the ExPedit classroom course notes where we have published our own course notes for that paper
- The ExP recommended exam kit for that paper.
- In addition, we will recommend a study text / complete text from one of the ACCA official publishers, but we do not necessarily give this as part of a classroom course, as we think that it can sometimes slow people down and reduce the time that they are able to spend practising past questions.

ExP classroom course students will also have access to various online support materials, including:

- The unique ExP & Me e-portal, which amongst other things allows "view again" of the classroom course that was actually attended.
- ExPand, our online learning tool and questions and answers database

Everybody in the World has free access to ACCA's own database of past exam questions, answers, syllabus, study guide and examiner's commentaries on past sittings. This can be

an invaluable resource. You can find links to the most useful pages of the ACCA database that are relevant to your study on ExPand at [www.theexpgroup.com](http://www.theexpgroup.com).

## How to get the most from these Express notes

For people on a classroom course, this is how we recommend that you use the suite of learning materials that we provide. This depends where you are in terms of your exam preparation for each paper.

Your stage in study for each paper	These Express notes	Exp recommended course notes, or Expedite notes	Exp recommended exam kit	ACCA online past exams
Prior to study, e.g. deciding which optional papers to take	<b>Skim through</b> the Express notes to get a feel for what's in the syllabus, the "size" of the paper and how much it appeals to you.	<b>Don't</b> use yet	<b>Don't</b> use yet	Have a <b>quick look</b> at the two most recent real ACCA exam papers to get a feel for examiner's style.
At the start of the learning phase	<b>Work through</b> each chapter of the Express notes <b>in detail</b> before you then work through your course notes.  Don't try to feel that you have to understand everything – just get an idea for what you are about to study.  <b>Don't make any annotations</b> on the Express notes at this stage.	<b>Work through in detail.</b> Review each chapter after class at least once.  Make sure that you understand each area reasonably well, but also make sure that you can recall key definitions, concepts, approaches to exam questions, mnemonics, etc.	Nobody passes an exam by what they have studied – we pass exams by being efficient in being able to prove what we know. In other words, you need to have effectively input the knowledge and be effective in the output of what you know. <b>Exam practice is key</b> to this.  Try to do at least one past exam question on the learning phase for each major chapter.	<b>Don't</b> use at this stage.

Your stage in study for each paper	These Express notes	EXP recommended course notes, or EXPedite notes	EXP recommended exam kit	ACCA online past exams
Practice phase	<b>Work through</b> the Express notes again, this time <b>annotating</b> to explain bits that you think are easy and be brave enough to cross out the bits that you are confident you'll remember without reviewing them.	<b>Avoid reading through</b> your notes again. Try to focus on doing past exam questions first and then go back to your course notes/ Express notes if there's something in an answer that you don't understand.	This is <b>your most important tool</b> at this stage. You should aim to have worked through and understood at least two or three questions on each major area of the syllabus. You pass real exams by passing mock exams. Don't be tempted to fall into "passive" revision at this stage (e.g. reading notes or listening to CDs). Passive revision tends to be a waste of time.	Download the <b>two most recent real exam</b> questions and answers.  Read through the <b>technical articles</b> written by the examiner.  Read through the two most recent <b>examiner's reports</b> in detail. Read through some other older ones. Try to see if there are any recurring criticism he/ she makes. You must avoid these!
The night before the real exam	<b>Read through the Express notes in full.</b> Highlight the bits that you think are important but you think you are most likely to forget.	Unless there are specific bits that you feel you must revise, avoid looking at your course notes. Give up on any areas that you still don't understand. It's too late now.	<b>Don't</b> touch it!	Do a final review of the two most <b>recent examiner's reports</b> for the paper you will be taking tomorrow.
At the door of the exam room before you go in.	<b>Read quickly</b> through the full set of Express notes, focusing on areas you've highlighted, key workings, approaches to exam questions, etc.	<b>Avoid</b> looking at them in detail, especially if the notes are very big. It will scare you.	<b>Leave</b> at home.	<b>Leave</b> at home.

Our Express notes fit into our portfolio of materials as follows:

## Express Notes

Provide a base understanding of the most important areas of the syllabus only.



## Expedite Notes

Provide a comprehensive coverage of the syllabus and accompany our face to face professional exam courses



## Expert Notes

Provide detailed coverage of particular technical areas and are used on our Professional Development and Executive Programmes.

To maximise your chances of success in the exam we recommend you visit [www.theexpgroup.com](http://www.theexpgroup.com) where you will be able to access additional free resources to help you in your studies.



## START About The Exp Group

Born with a desire to be the leading supplier of business training services, the Exp Group delivers courses through either one of its permanent centres or onsite at a variety of locations around the world. Our clients range from multinational household corporate names, through local companies to individuals furthering themselves through studying for one of the various professional exams or professional development courses.

As well as courses for ACCA and other professional qualifications, our portfolio of expertise covers all areas of financial training ranging from introductory financial awareness courses for non financial staff to high level corporate finance and banking courses for senior executives.

Our expert team has worked with many different audiences around the world ranging from graduate recruits through to senior board level positions.

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Organisations can be classified by either their profit motive or their ownership.

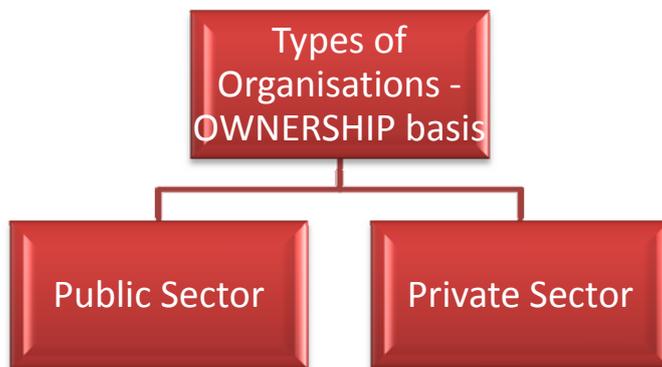


**Commercial (profit seeking)**

- quoted companies
- private companies
- partnerships

**Not-for-profit**

- charities
- NGOs
- Clubs / societies



**Public Sector**

- Basic healthcare
- Public transport/roads
- Police, military
- Primary Education

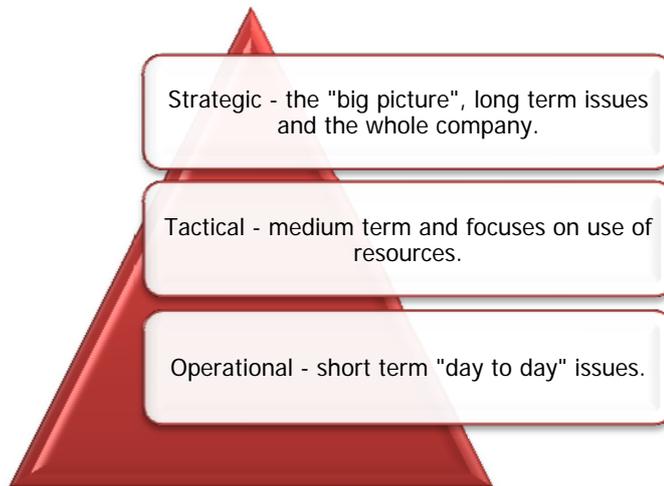
**Private Sector**

- Not controlled by the government



## KEY KNOWLEDGE

### Levels of planning within an organisation



**Strategic Planning** comprises three main stages:



## KEY KNOWLEDGE

### Marketing

The Chartered Institute of Marketing defines marketing as "The management process responsible for identifying, anticipating and satisfying customer requirements profitably".

A core concept behind marketing is the **marketing mix**. This represents controllable variables and is commonly known as the **4Ps**.

### Product – Price – Place - Promotion

Organisations can adjust these variables to target various segments of the population



## KEY KNOWLEDGE

### Main types of organisational structure

#### 1. Entrepreneurial



#### Advantages include:

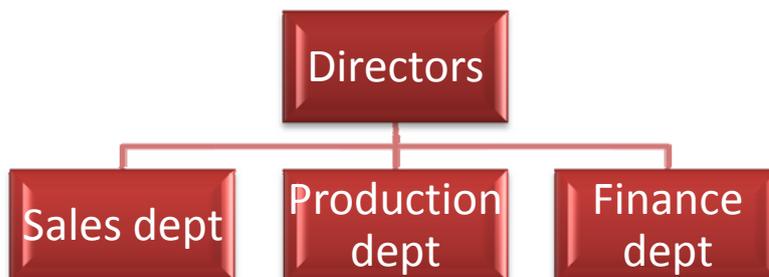
- + quick to react
- + close to workers

#### Disadvantages include:

- Relies on one person
- Difficult to grow above a certain size

#### 2. Functional

Often found when an organisation grows out of the entrepreneurial stage. Based around functions of a business. For example,



#### Advantages include:

- + allows growth
- + enables standardization / specialisation

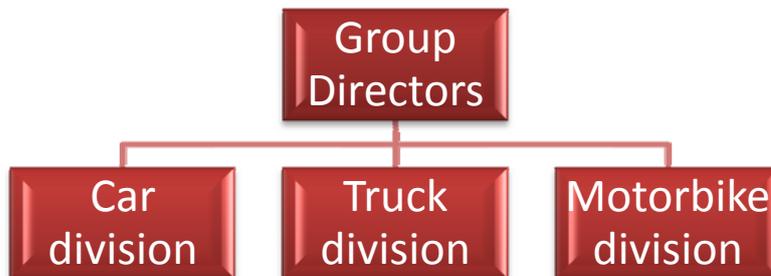
#### Disadvantages include:

- Can be slow
- Could be conflict between departments

### 3. Divisional

Based around divisions of a business. Could be either Product Divisions or Geographic Divisions.

Example of a divisional structure for vehicle manufacturing company:



Example of a divisional structure for a company based on geographic area:



### 4. Matrix Structure

Dual reporting by an individual to for example, the country manager and head office sales director.

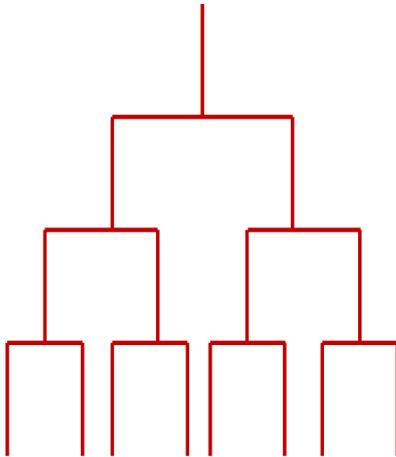


#### KEY KNOWLEDGE Span of control / Scalar chain

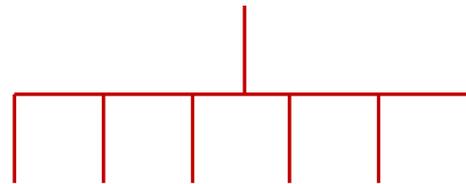
**Span of Control:** the number of people that an individual “controls”. i.e. whom he is directly responsible for.

**Scalar Chain:** the number of “links” in the chain of command from top to bottom of an organisation.

When span of control and scalar chain are combined they can create either a tall or flat organisation structure.



**Tall / Narrow Structure**



**Flat / Wide Structure**



**KEY KNOWLEDGE**  
**Centralisation / Decentralisation**

This refers to where decisions are made.

**Centralised** – decisions are made “centrally” (e.g. within the head office)

**Decentralised** – decisions are made away from the centre (e.g. lower down the hierarchy)

**Advantages of Centralised** include:

- Ensures goal congruence
- Experienced in making decisions
- Could attract economies of scale

**Disadvantages of Centralised** include:

- Lack of local knowledge
- Could be slow in making a decision
- Reduce motivation in “decentralized staff”

Advantages / disadvantages of decentralized would generally be the opposite to those found within a centralised organisation.



## KEY KNOWLEDGE

### Formal and informal business organisation

As well as formal structure issues mentioned above there are also informal ones which will develop over time.

An example is an informal network of friends or support within a company

Chapter 2

# Organisational Culture and Stakeholders



**START**  
The Big Picture

This chapter summarises various theories on culture within an organisation and examines the concepts involving stakeholders.



**KEY KNOWLEDGE**  
Culture within a business

Culture is “the way we do things around here” (Charles Handy). Items which will impact on culture include:

- Size of organisation
- Age of organisation
- Product or service that is supplied
- Technology used
- Geographic diversity

**Writers on culture:**

**Schein** argued that the culture of an organisation is created by its first leaders. Future leaders of the organisation will “follow” the culture. There is a strong link between leadership and culture. Schein defined three levels of culture:

- |                      |   |
|----------------------|---|
| 1. Artifacts         | • Things easily seen                      |
| 2. Espoused values   | • Strategies and goals of an organisation |
| 3. Basic assumptions | • Could be difficult to identify          |

**Handy** identified four cultural stereotypes based on Greek gods:

- |                      |  |
|----------------------|--|
| 1. Power (Zeus)      | <ul style="list-style-type: none"> <li>• One major source of power.</li> <li>• Often found in small, start up businesses.</li> </ul> |
| 2. Role (Apollo)     | <ul style="list-style-type: none"> <li>• Emphasis on structured hierarchy.</li> <li>• Can be bureaucratic.</li> </ul>                |
| 3. Task (Athena)     | <ul style="list-style-type: none"> <li>• Based around teams and working on projects.</li> </ul>                                      |
| 4. Person (Dionysus) | <ul style="list-style-type: none"> <li>• Exists to satisfy the needs of individuals.</li> </ul>                                      |

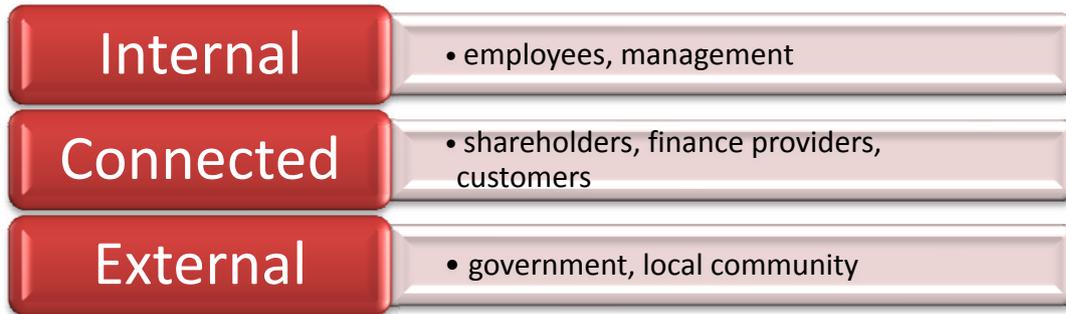
**Hofstede** looked at international perspectives on culture. He identified five characteristics:

- |                          |   |
|--------------------------|---|
| 1. Power distance        | • do cultures accept inferior positions?                    |
| 2. Individualism         | • do people work individually or together via collectivism? |
| 3. Masculinity           | • how different is the focus on gender roles?               |
| 4. Uncertainty           | • do cultures try to reduce uncertainty?                    |
| 5. Long term orientation | • what is the attitude to change over time?                 |



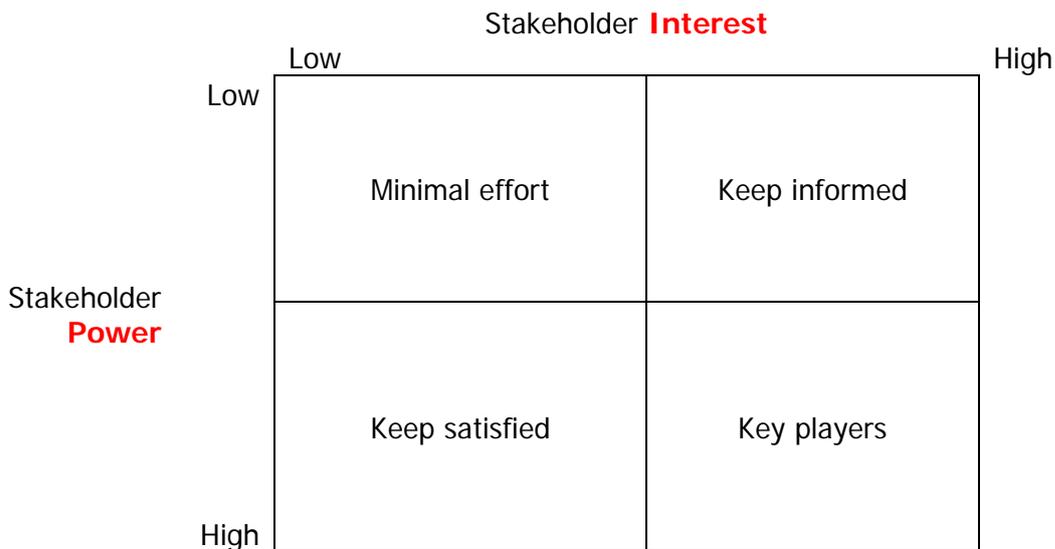
**KEY KNOWLEDGE**  
**Stakeholders of business organisations**

There are three main types of stakeholders:



Conflict between stakeholders often exists. For example management could want to reduce staff salaries to reduce costs and increase their own bonuses.

**Mendelow's Matrix** plots a stakeholder's **power and interest** and identifies how an organisation should treat them.





## KEY KNOWLEDGE

### Committees in the business organisations

A committee is a group of people with certain responsibilities.

They differ from the term “team” in that they normally:

- Have a permanent role.
- Have clearly defined rules and procedures.

To be successful a committee should be:

- An appropriate size for the task (i.e. not too many or too few committee members).
- Have a Chairperson with appropriate skills to run a committee (e.g. to guide the meeting).
- Have a Secretary (i.e. to assist the Chairperson and take minutes).

A committee can be involved in:

- Decision making.
- Providing advice.
- Generating ideas.

An example of a type of committee is a board of directors.

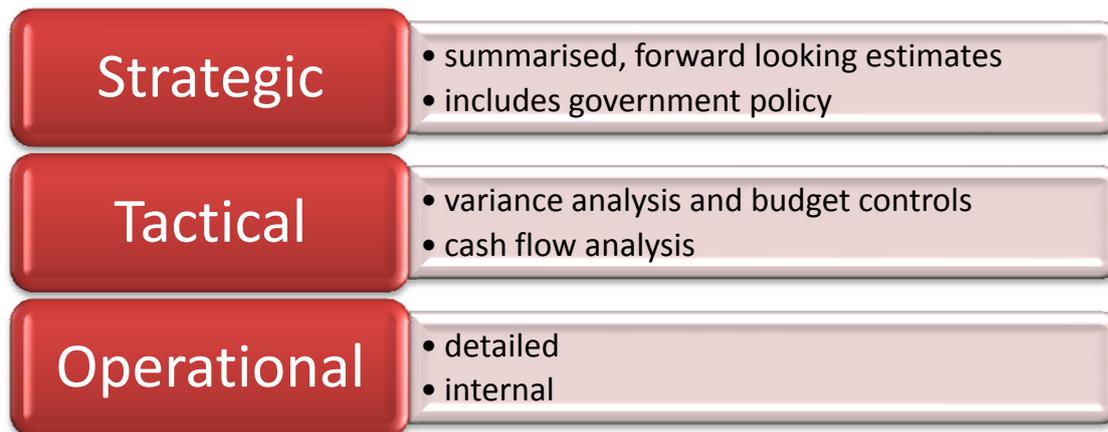


Information systems play a key role in most businesses.

Using a well known mnemonic, information should be **ACCURATE**:

- A**ccurate
- C**omplete
- C**ost-beneficial
- U**nderstandable
- R**elevant
- A**daptable
- T**imely
- E**asy to use

In chapter 1 we identified three levels of planning within an organisation. Linking the information needs to each of these levels:



Information sources can be classified as:



Information systems used in an organisation include:

1. **Transaction Processing Systems (TPS)** – simply records and processes transactions. E.g. generates invoices.
2. **Management Information Systems (MIS)** – provides information to management to enable them to make better decisions. E.g. individual product profitability.
3. **Decision Support Systems** – used to support decision making
4. **Executive Information Systems** – used to monitor the whole business.

**Spreadsheets** are one of the most commonly known software applications. Whilst very useful for analysing data they should generally not be used as a substitute for a database. A database can both analyse and store a large amount of information.



Issues that help determine whether an activity is ethical or not include:

- Is it illegal? – if it is, it is likely to be unethical.
- Does it agree with an organisations code of ethics?
- Does it agree with a published code of ethics?

### What is a profession?

A profession (e.g. accountant, doctor, lawyer) can be distinguished from other occupations by the fact that:

- There is a period of training.
- There is a process of qualification (e.g. obtaining ACCA membership).
- The profession is bound by rules of a professional association.

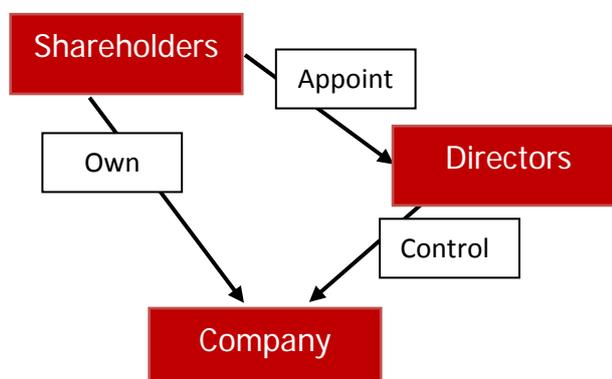
An example of a code of ethics from a professional body can be found at the ACCA website at <http://rulebook.accaglobal.com>



## KEY KNOWLEDGE

### Governance and social responsibility in business

The **separation of ownership and control** arises when shareholders who own a company appoint directors to control it.



Smaller companies may have the same persons as a shareholder and director.

Larger companies will almost certainly have separate shareholders and possibly thousands of shareholders.

**Corporate governance** refers to how a company is “governed”. i.e. the processes by which a company is controlled and directed.

Areas of importance within corporate governance include:

- **Non Executive Directors (NED)** – directors who are not involved in the day to day activities but who primarily attend board meetings.
- **Remuneration Committee** – established to avoid directors setting their own remuneration levels.
- **Audit Committee** – acts as an interface between the board of directors and the external auditors.
- **Public Oversight** – this gives the public an insight into the company (e.g. via public open days).

**Corporate Social Responsibility (CSR)** refers to the organisation’s duty to look after all of its stakeholders as opposed to just the shareholders.

Traditionally, CSR was often seen as a burden on a company but now it is often seen as a source of opportunity (e.g. improvement in a company’s reputation).

CSR often involves a Stakeholder Needs Analysis whereby organisations identify their key stakeholders and what their needs are.





## KEY KNOWLEDGE

### Political and legal factors

#### Political

Organisations need to be aware of various levels of political systems including:

- Global – e.g. EU law.
- National – e.g. government policy.
- Local – e.g. local councils.

#### Legal

Organisations should comply with legislation such as employee rights, health & safety (H&S) and consumer protection. Failure to comply could result in:

- Fines.
- Bad publicity.
- Loss of current and future customers.

There are various levels of legal authority including:

- Supra-national bodies (UN, European Courts)
- National (national governments and the House of Lords in the UK).
- Regional (local councils or regional assemblies in certain countries).

**Legal protection for employees** includes H&S in the workplace.

Potential H&S hazards are present in all businesses. Offices for example have potential hazards of electrical equipment, torn carpets, spilt liquids, etc.

Most countries have detailed H&S legislation in place and a common characteristic is that H&S in the workplace is the responsibility of **BOTH** the employer (e.g. provide safe equipment) and the employee (e.g. behave in a responsible manner).

#### Legal issues concerning data protection and data security

**Data protection** concerns protecting people against the information held by organisations about them being misused (e.g. preventing a company forwarding information about the individual to another company without that individual's permission).

**Data security** concerns keeping data physically safe from hazards such as floods and fires.



## KEY KNOWLEDGE

### Macro-economic factors

**Inflation** represents increases in prices. Stable prices are normally desired by government as inflation can cause uncertainty and impacts on certain individuals more than others. e.g. pensioners with a fixed element of income.

Governments want a low level of **unemployment**. High unemployment levels can result in pressures on social payments as well as pressures on family and social issues.

**International payments disequilibrium** - if there are problems with the balance of payments (imports vs. exports) this can result in pressures on areas such as financing the balance.

Government **economic policies** include:

- **Fiscal** policies – taxation adjustments.
- **Monetary** policies – management of the supply of money as well as changing interest rates.



## KEY KNOWLEDGE

### Social and demographic factors

Areas include:

- Population – size, profile and location
- Health
- Education
- Wealth

There have been a number of trends in recent years including:

- Population movement from countryside to city.
- An aging population in certain countries.

- Increase in rates of obesity in a number of countries.
- Increased awareness of health issues, exercising and healthy eating (although not always implementing this knowledge!)
- Increased concern for environmental issues such as recycling.
- Increased use of the internet.



### KEY KNOWLEDGE Technological factors

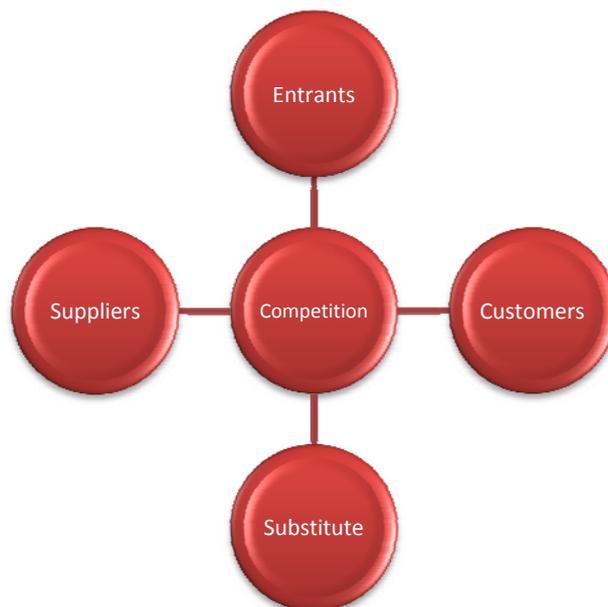
Advances in technological areas have resulted in:

- **Downsizing** – reducing the number of employees but maintaining output levels.
- **De-layering** – removing layers of management within the hierarchy.
- **Outsourcing** – using external resources to perform activities which were previously performed in-house (e.g. call centres).



### KEY KNOWLEDGE Competitive factors

The level of competitors in an industry can be looked at using Porter's 5 Forces model:





Accountants have many roles within a business including preparing:

- Accounts (both financial and management)
- Tax returns
- Financial reports, etc.



## KEY KNOWLEDGE

### Law and regulation governing accounting

#### Regulatory Body

Companies have to comply with the regulatory body in their country. For example, UK companies have a regulatory body of the Companies House.

Information such as financial statements and Register of Directors has to be submitted to the regulatory body.

#### Company Legislation

Companies have to comply with applicable legislation. In the UK this is the Companies Act. There are numerous requirements of the Companies Act including submitting accounts which are “true and fair”.

The responsibility for preparing accounts lies with the directors although they can delegate the preparation to a suitable person.

#### Self Regulation

As well as professional bodies such as ACCA that regulate their members there is also the IASB (International Accounting Standards Board) which looks at harmonizing accounting standards around the world. Standards produced by the IASB are called IFRSs (International Financial Reporting Standards)



## KEY KNOWLEDGE

### Financial systems, procedures and IT applications

“**Systems**” are separate but inter-related processes with the aim of achieving an objective.

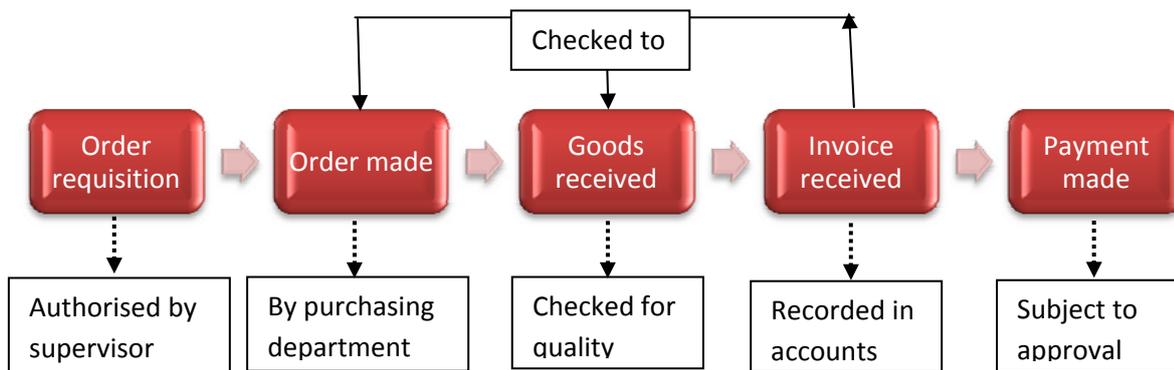
Systems are often documented in a company by a “Procedures Manual”.

Advantages of systems include:

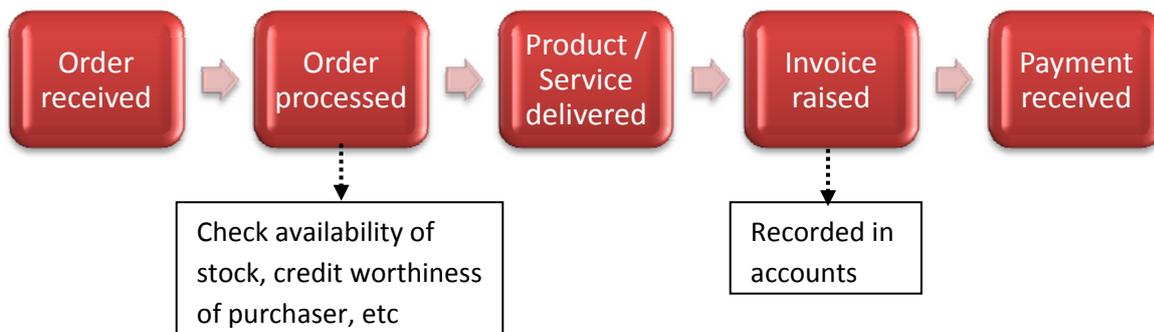
- Standardisation.
- Ease of processing.
- Ease of monitoring.

Two of the main financial systems used within an organisation are:

### 1. Purchases



### 2. Sales



Systems can be either manual or automated:

#### Manual – advantages

- Cheaper initial cost
- No skills needed to operate database system
- Easier to correct errors in the process

#### Automated – advantages

- Quicker for large volumes
- Less prone to errors
- Easier to check





## KEY KNOWLEDGE

### Internal and external auditing and their functions

**External auditors** are appointed to report to the shareholders on whether the financial statements show a true and fair view.

**Internal auditors** are appointed to report to management on a variety of items but mainly involving how the company manages its risk.

A potential limitation of internal audit is independence. i.e. they are appointed by management to report to management on systems that management are responsible for.



## KEY KNOWLEDGE

### Internal financial control and security within business organisations

**Internal controls** are processes put in place by management to help prevent things from going wrong. It is management's responsibility for having an adequate internal control policy in place.

**Internal check** is a component of internal control and involves making sure that no one single person is wholly responsible for a single task. Each individual's work should be checked by someone else.



## KEY KNOWLEDGE

### Fraud and fraudulent behaviour and their prevention in business

**Fraud** is an intentional act whereby an individual or a group of individuals use deception to obtain an illegal or unfair advantage.

Examples of fraud include:

- Falsifying accounts (e.g. window dressing).
- "Teeming and lading".
- False payments.

Directors are responsible for preventing and identifying fraud. They can do this by a variety of methods including:

- Strong internal controls.
- Strong internal audit function.



- **P**lanning
- **O**rganising
- **C**ommanding
- **C**oordinating
- **C**ontrolling

**Taylor** – employees are given “scientific methods” of working and are given little discretion over how they work.

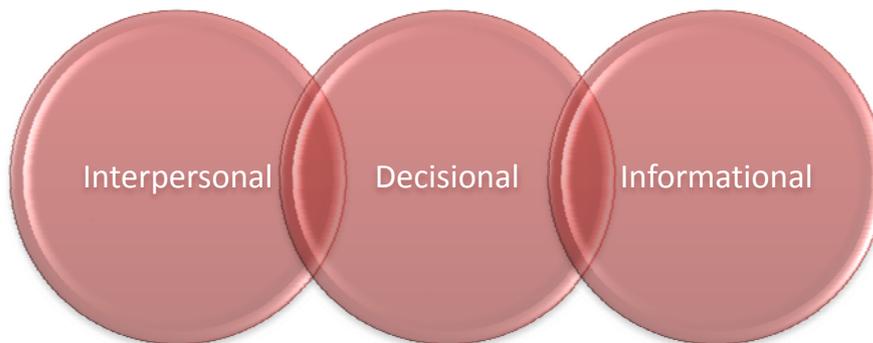
## 2. The Human Relations School

**Mayo** – employees are motivated by more than pay. Relationships and group interaction are more important than pay alone. People like working in groups.

## 3. The Contingency Approach

There is no one best approach but rather it will depend on the actual situation.

**Mintzberg** identified three categories of skills that managers need:



**Drucker** identified 5 operations of a manager:

1. Setting objectives.
2. Organising the group.
3. Motivating and commanding.
4. Measuring performance.
5. Developing systems.

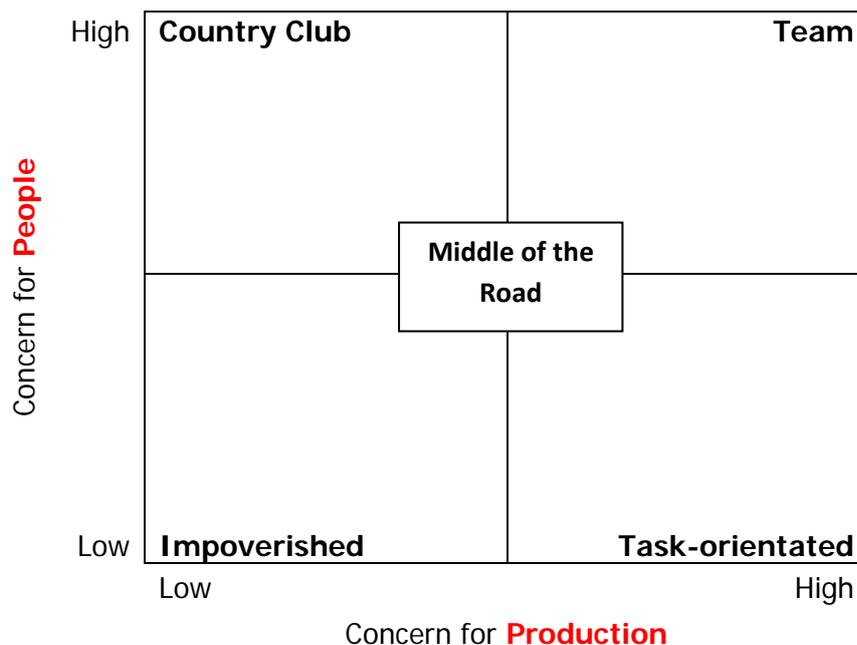


**KEY KNOWLEDGE**  
**Leadership theories**

**Adair** identified 3 needs which leaders should address. Each need will require more attention than the others at certain times.



**Blake & Mouton's** grid plotted people according to their concern for people and their concern for production.

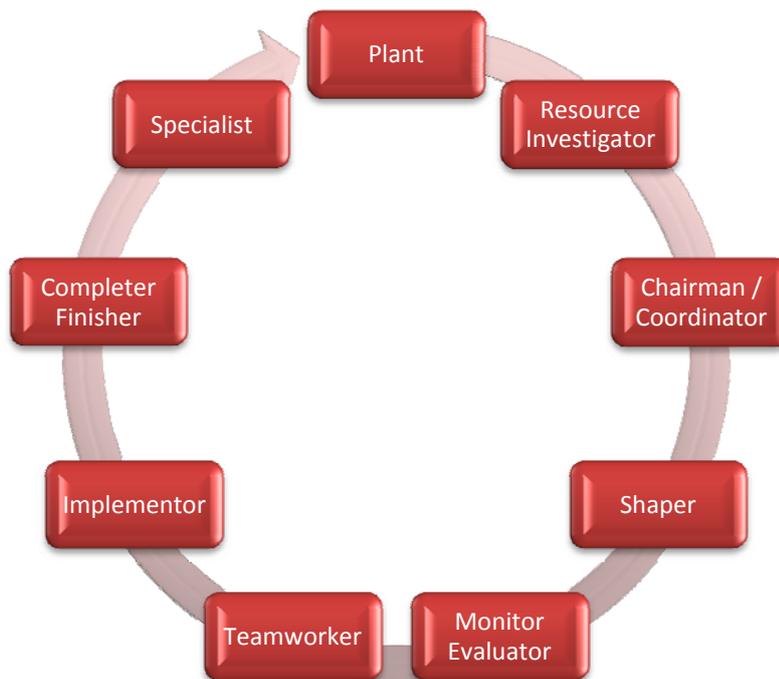




## KEY KNOWLEDGE

### Team formation, development and management

**Belbin** identified 9 “roles”. A successful team needs a good balance between the different roles.



**Tuckman’s** stages of team development:

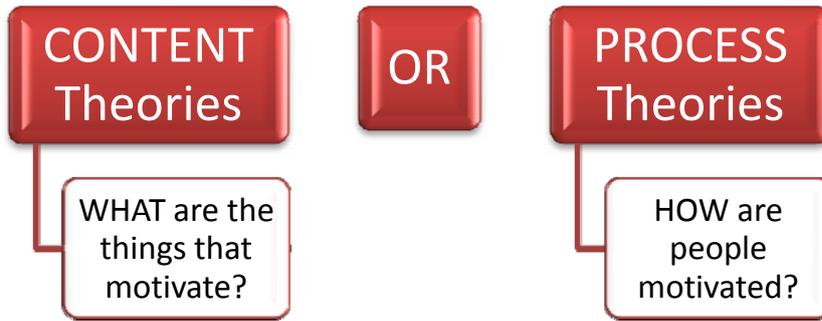


Tuckman identified the first four stages whilst other writers identified “dorming”

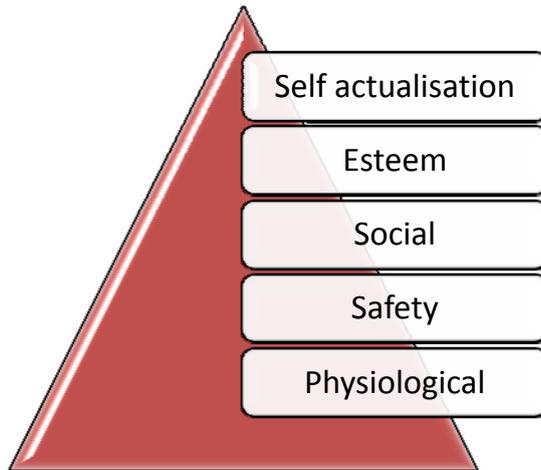


**KEY KNOWLEDGE**  
**Motivating individuals and groups**

Theories of **motivation** can be classified as either:



**Maslow's** hierarchy of needs:

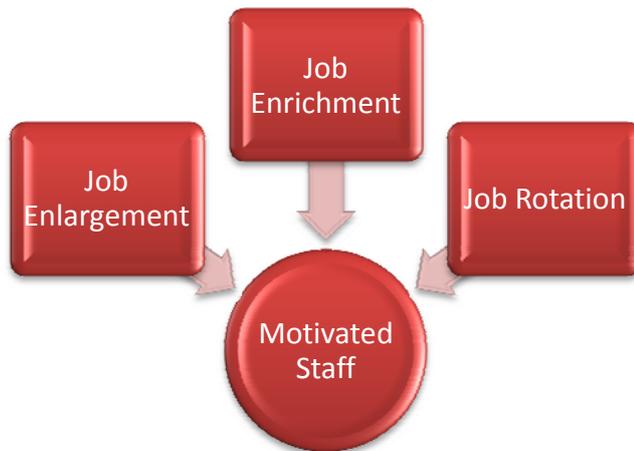


**Herzberg's** two factor theory:

**Hygiene factors** are expected to be present. If they are, they do NOT motivate. If they are not present, their absence will de-motivate.

**Motivating factors** are factors which motivate.

Herzberg also identified 3 ways of motivating staff:



**McGregor** identified two types of individuals:

- Theory X – dislike work and have to be closely monitored.
- Theory Y – like work and can be given more freedom.

**Vroom's** Expectancy Model



Valence = value placed on outcome.

Expectancy = likelihood that a given effort will provide the desired outcome.

### Extrinsic vs. Intrinsic Rewards

Extrinsic rewards are dependent on others (e.g. salary, benefits)

Intrinsic rewards come from the satisfaction of doing a job well. They come from within the individual.



**B**ackground  
**A**chievements  
**D**isposition  
**P**hysical  
**I**nterests  
**G**eneral intelligence  
**S**pecial aptitudes

There are various selection methods including:

- Application forms
- CV
- Selection interviews
- Assessment centres

**Equal opportunities** states that organisations should not discriminate on the basis of age, sex, race or religion.

To do so would not only be morally wrong but could result in an organisation missing out on good quality people.



## KEY KNOWLEDGE

### Techniques for improving personal effectiveness at work and their benefits

A **personal development plan** is an action plan for an individual that identifies development opportunities for the future.

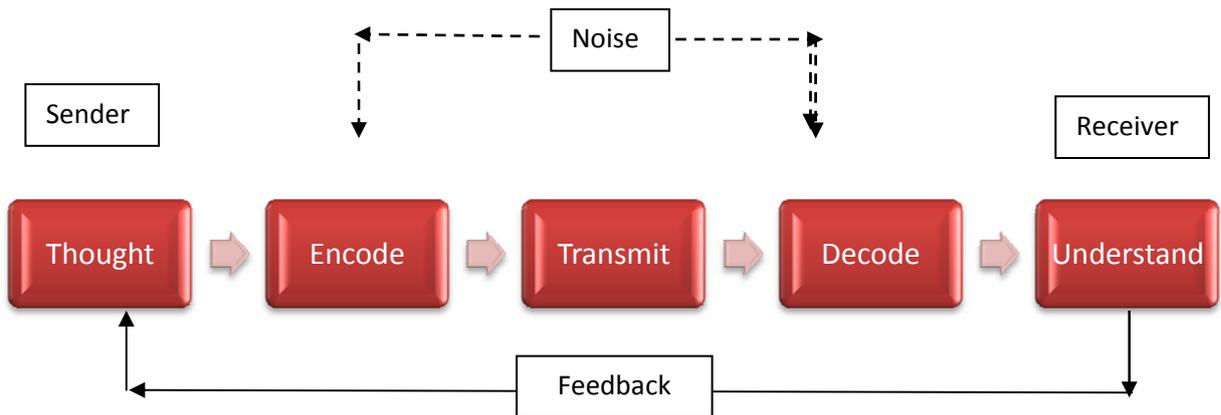
The plan can involve analysing the current position, setting targets and identifying methods of achieving these targets. Targets or objectives should be set on a SMART basis.

**S**pecific  
**M**easurable  
**A**chievable  
**R**ealistic  
**T**imely



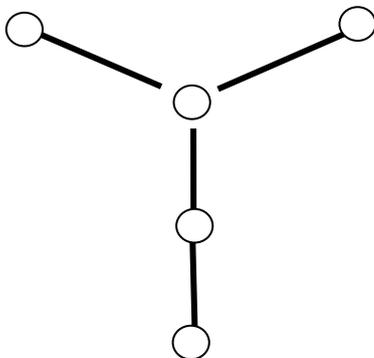
**KEY KNOWLEDGE**  
Features of effective communication

**Communication process:**

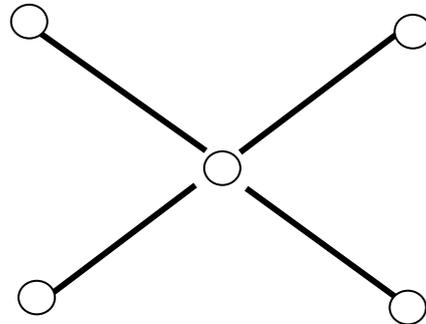


**Communication patterns:**

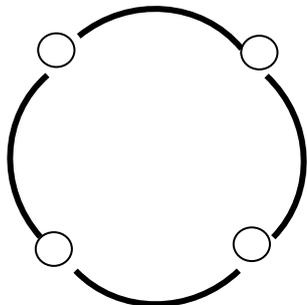
**Y**



**Wheel**



**Circle**



**Chain**

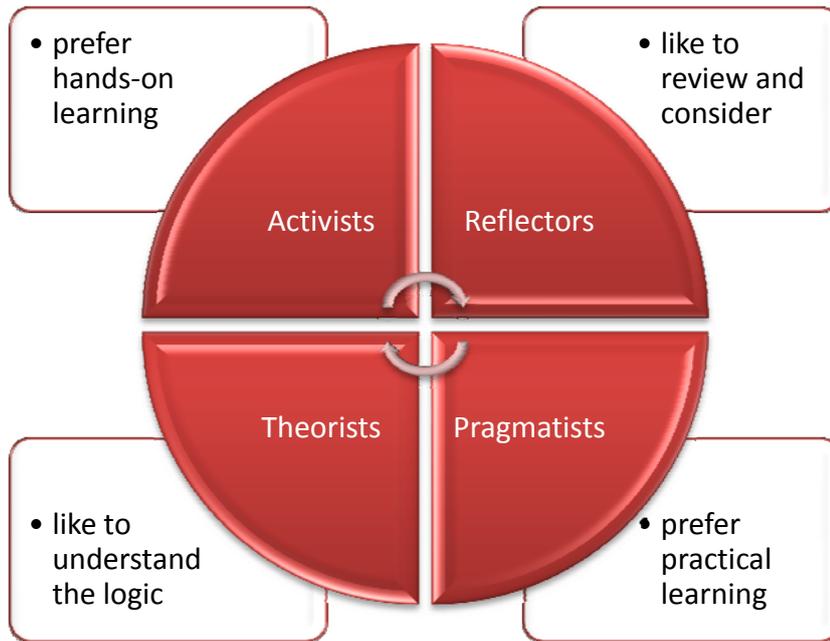




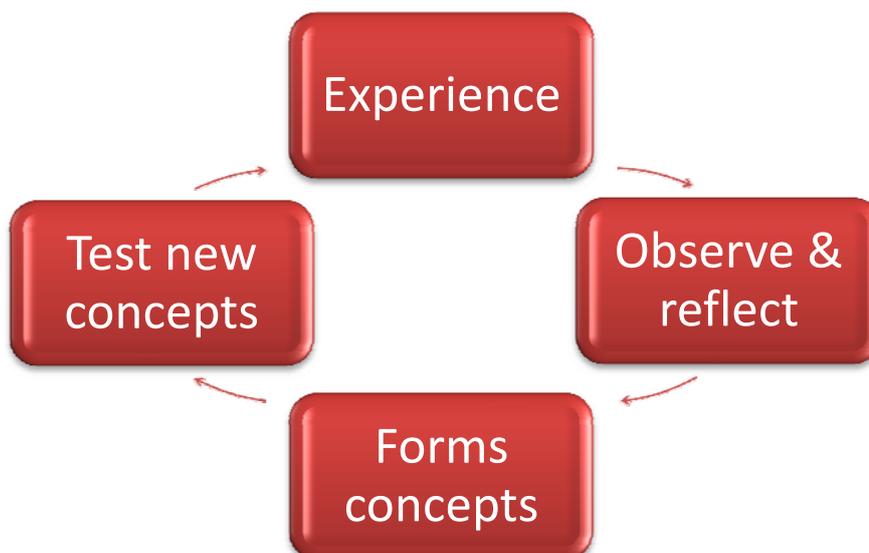
**KEY KNOWLEDGE**

Training, development, and learning in the maintenance and improvement of business performance

**Honey and Mumford** identified four learning styles:



**Kolb's** Experiential Learning theory argues that learning is based on experience.



The benefits of training include:

#### Individuals

- Enhanced skills
- Better job prospects
- Improved understanding of their job

#### Organisation

- More motivated staff
- More flexible staff
- Higher productivity



### KEY KNOWLEDGE

#### Review and appraisal of individual performance

Performance appraisals are important as they aim to improve the efficiency and effectiveness of the organisations performance.

Appraisals are used to measure an individual's performance to date including identifying strengths and weaknesses. They can help with identifying the best way forward for an individual in terms of utilising his strengths and removing weaknesses.

*(end of ExPress Notes)*