

Candidate Name _____

Centre Number	Candidate Number

UNIVERSITY OF CAMBRIDGE ESOL EXAMINATIONS

English for Speakers of Other Languages

INTERNATIONAL CERTIFICATE IN FINANCIAL ENGLISH

D020/1

Test of Reading

Test S001

SAMPLE PAPER 2006

1 hour 15 minutes

Additional materials:
Answer sheet

TIME 1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

Do not open this question paper until you are told to do so.

Write your name, Centre number and candidate number in the spaces at the top of this page and on the separate answer sheet if they are not already printed.

There are fifty-four questions in this paper.

Read the instructions carefully.

Answer **all** questions.

Write your answers on the separate answer sheet. Use a soft pencil.

You may write on the question paper, but you must transfer your answers to the separate answer sheet **within the time limit**.

At the end of the examination, hand in both the question paper and the answer sheet.

INFORMATION FOR CANDIDATES

Questions **1 – 36** carry one mark.

Questions **37 – 54** carry two marks.

This question paper consists of 12 printed pages and 4 blank pages.

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Part 1A

Questions 1 – 6

Read the following extract from an article about accounting ratios.
Choose the best word to fill each gap from **A, B, C** or **D** below.
For each question **1 – 6**, mark one letter (**A, B, C** or **D**) on your answer sheet.
There is an example at the beginning (**0**).

FINANCIAL STATEMENTS AND PROFITABILITY RATIOS

The financial statements of a business provide important information for people outside the business who do not **(0)** access to the internal accounts. For example, existing and **(1)** shareholders can see how much profit a business made, the value of its assets and the level of cash **(2)** Although these figures are useful, they do not mean a great deal by themselves. In order to **(3)** any real sense of the figures in the final accounts, they need to be properly analysed using accounting ratios and then **(4)** with either the previous year's ratios or against averages for the industry.

The profitability of a company is important and a key **(5)** of its success. In the profit and loss account the figures shown for gross profit and net profit mean very little by themselves. However, by **(6)** them as a percentage of sales they become much more useful. The figures can then be evaluated against those of previous years, or with those of similar companies.

Example:

0 **A** hold **B** have **C** grant **D** keep

0	A	B	C	D
	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 1** **A** eventual **B** promising **C** aspiring **D** potential
- 2** **A** reserves **B** stocks **C** quantities **D** stores
- 3** **A** reach **B** find **C** take **D** make
- 4** **A** differentiated **B** opposed **C** compared **D** balanced
- 5** **A** measure **B** evidence **C** mark **D** proof
- 6** **A** indicating **B** expressing **C** outlining **D** pronouncing

Part 1B

Questions 7 – 12

Read the following article about the use of graphs in annual reports.

Choose the best word to fill each gap from **A**, **B**, **C** or **D** below.

For each question **7 – 12**, mark one letter (**A**, **B**, **C** or **D**) on your answer sheet.

GRAPHS IN ANNUAL REPORTS

Increasing attention is being paid to the visual **(7)** of corporate annual reports – the charts, photographs and graphs. Academics and practitioners alike **(8)** the immense power of good visuals in the communication process – a well-designed graph is worth a thousand words.

The existence of graphs of key financial **(9)** in corporate annual reports is a critical element of communication with stakeholders, especially non-experts. But graphs are not formally audited and there is the potential for graphs to be **(10)** so that they give too positive a picture of a company's fortunes.

A recent study has provided evidence that those responsible for annual reports consciously or unconsciously do indeed select graphical designs that tend to convey a more favourable impression than is **(11)** We, therefore, urge those who prepare reports to pay close attention to the basic principles of graph design and to seek clarity of meaning, before users lose **(12)** in the graphs displayed.

- | | | | | | | | | |
|----|---|-----------------|---|-------------|---|--------------|---|------------|
| 7 | A | components | B | factors | C | constituents | D | facets |
| 8 | A | conclude | B | distinguish | C | declare | D | appreciate |
| 9 | A | transformations | B | variables | C | permutations | D | varieties |
| 10 | A | manipulated | B | influenced | C | controlled | D | operated |
| 11 | A | entitled | B | rated | C | warranted | D | earned |
| 12 | A | assurance | B | confidence | C | belief | D | conviction |

Part 2

Questions 13 – 24

Read the following extract from an article about evaluating company performance.

Think of the best word to fill each gap.

For each question **13 – 24**, write **one** word in CAPITAL LETTERS on your answer sheet.

There is an example at the beginning **(0)**.

Example:

0	T	H	E	R	E												
---	---	---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--

EVALUATING COMPANY PERFORMANCE

It is clear that **(0)** is a need for companies in both the public and private sectors to develop appropriate performance measures. Setting performance targets and then evaluating achievements against these targets should provide a basis **(13)** improved management. It is important that these measures are not concerned simply **(14)** financial issues.

However, many difficulties will confront anyone **(15)** is tasked with developing a system aimed **(16)** setting up such targets. For example, the way in **(17)** objectives are set can present serious problems. In many cases, objectives are **(18)** vaguely drafted that useful performance measures can rarely **(19)** developed. Also, there is the difficulty of measuring quality, where the danger is that quantity rather **(20)** quality is emphasised, because, in almost **(21)** cases, quantity is easier to evaluate. Therefore, we get a somewhat distorted picture **(22)** easily measurable aspects of performance take precedence over those that are more difficult to measure.

(23) the importance of evaluating performance is recognised, the difficulties involved should not be overlooked. An awareness of these difficulties and an understanding of their possible impact should, however, lead **(24)** the development of more effective and better balanced systems.

Part 3A

Questions 25 – 30

Read the following introduction to a book about international standards of accounting. Use the words in the box to the right of the text to form one word that fits in the same numbered gap in the text.

For each question 25 – 30, write the new word in CAPITAL LETTERS on your answer sheet. There is an example at the beginning (0).

Example:

0	D	E	V	E	L	O	P	M	E	N	T				
---	---	---	---	---	---	---	---	---	---	---	---	--	--	--	--

IMPLEMENTING INTERNATIONAL STANDARDS

A financial reporting system supported by strong governance, high-quality standards and sound regulatory frameworks is key to economic (0) Indeed, high quality standards of financial reporting, auditing and ethics underpin the trust that investors place in financial and non-financial information and, thus, play an integral role in a country’s economic growth and financial (25)

As the forces of (26) prompt more and more countries to open their doors to foreign investment, and as business (27) across borders becomes common, both the public and private sectors are (28) recognising the benefits of having a widely understood financial framework supported by strong, globally accepted auditing standards.

The benefits of a global financial reporting framework are numerous and include: greater comparability of financial information for investors; greater (29) on the part of investors to invest across borders; lower cost of capital; greater (30) in the allocation of resources; and higher economic growth.

- 0 DEVELOP
- 25 STABLE
- 26 GLOBAL
- 27 EXPAND
- 28 INCREASE
- 29 WILLING
- 30 EFFICIENT

Part 3B

Questions 31 – 36

Read the following extract from a website about the future of accountancy.

Use the words in the box to the right of the text to form one word that fits in the same numbered gap in the text.

For each question **31 – 36**, write the new word in CAPITAL LETTERS on your answer sheet.

THE FUTURE FOR ACCOUNTANCY

The profession's future is certain to be more structured, ever more governed by global standards and under more scrutiny from a **(31)** of national and international bodies.

Therefore accountants, particularly those working in small and medium practices, must change their mindset. They must start leading change; embrace **(32)** ; continuously improve their skills; invest in technology and demonstrate a fundamental **(33)** to professional ethics.

Audit will be subjected to unprecedented scrutiny and auditors will have to expect to report on the **(34)** of their judgement and their lack of bias. Auditors will have to expect that they will be reporting on an organisation's internal control **(35)** , but will also have to move rapidly to include detection of fraud as part of their audit report, otherwise markets will remain **(36)** about the value of audit.

- 31 VARY**
- 32 INNOVATE**
- 33 COMMIT**
- 34 DEPENDENT**
- 35 PROCEED**
- 36 SCEPTIC**

Part 4

Questions 37 – 42

Read the questions below and the extract on the opposite page from an article discussing the value of an MBA qualification for accountants.

Which section (**A**, **B**, **C** or **D**) does each question **37 – 42** refer to?

For each question **37 – 42**, mark one letter (**A**, **B**, **C** or **D**) on your answer sheet.

You will need to use some of these letters more than once.

There is an example at the beginning (**0**).

Example:

0 The type of work that people in accountancy undertake is changing.

0	A	B	C	D
	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 37** Some people want to do an MBA because they do not already have a university degree.
- 38** An MBA can help people working in finance not to rely on purely numerical information.
- 39** People on an MBA course engage in practical as well as academic learning.
- 40** Possessing an MBA does not automatically lead to promotion.
- 41** An important part of doing an MBA is the contacts made on the course.
- 42** Where you take an MBA is of considerable importance.

IS IT WORTH ACCOUNTANTS STUDYING FOR AN MBA?

- A** As a business qualification the MBA (Master of Business Administration) degree has immense appeal to accountants. It is a highly respected qualification that can open many doors to the employment market, which were previously firmly shut. In general, business schools aim to provide MBA programmes that offer students from all backgrounds a thorough knowledge of the mechanics of management theory, encompassing human resources, finance, operations management, marketing and information systems. Lectures are coupled with regular group discussions, case studies and simulations.
- B** Jane Baldwin, head of training with a large accountancy firm, is under no illusion that the market place for financial services is experiencing a period of transformation. 'No-one can stand still. As accountants, we've got to continue to develop our knowledge and skills. An MBA from any business school will equip graduates with a business element, a specialist element, and also help them to develop their interpersonal skills because the work that is done is not just as an individual but as a team as well,' says Baldwin. She also cites networking as a distinct advantage of an MBA programme.
- C** As managing director of an international recruitment consultancy for finance professionals, Graham Simpson, however, has reservations about the importance of an MBA in the employment market. 'A lot of accountants ask us whether they should study for an MBA,' he begins. 'I would say that a number of them want to go for an MBA to compensate for some inadequacy they perceive themselves as having in the employment market.' The inadequacy he is referring to is the lack of a graduate qualification. Simpson admits that an MBA does have some value, but argues that the status of the business school is much more likely to get you a job than the MBA itself.
- D** Someone who has recently completed an MBA is Michael Taylor, an international corporate tax specialist. Taylor chose to study for an MBA for the sake of his own personal development. Although he was recently made head of his department, he admits that, in his line of work, an MBA would not greatly enhance career progression. That said, he stresses that his studies enable him to empathise with his clients and offer a better service. 'I feel that taking an MBA prevents one from taking too narrow a view of one's professional duties. Having an MBA has allowed me to move away from just dealing with figures. If I use figures to back up what I say, then that's fine; but it doesn't matter if I don't as the qualitative issues may well be more important.'

Part 5

Questions 43 – 48

Read the following article on investigative due diligence and non-financial risk.

Choose the best sentence from the opposite page to fill each of the gaps.

For each gap **43 – 48**, mark one letter (**A – H**) on your answer sheet.

Do not use any letter more than once.

There is one extra sentence which you do not need to use.

There is an example at the beginning (**0**).

INVESTIGATIVE DUE DILIGENCE AND NON-FINANCIAL RISK

Recent public disclosures of corporate fraud, unexpected company failure and business malpractice and corruption among well-known multinational companies highlight the need for transparency and solid understanding of the major risk from 'off balance sheet' issues. **(0)** This is especially true in areas where reliable, accurate business information is often unavailable and where a heavy reliance is placed on personal relationships and consequently on personal integrity. Managers are under considerable pressure to move to emerging markets and locations where core costs can apparently be reduced. But the evidence is that, in many such cases, key decisions are made based on incomplete or poor quality information, especially as regards people and politics.

When companies are considering a possible business partner, it is important that they know and understand the risks involved and how to eliminate, or at least minimise them. **(43)** Its specific goals are to unmask misrepresentation, reveal the undisclosed, clarify who you are dealing with and assess associated political and security risks.

Common problems that companies face include being overcharged for raw materials, billing discrepancies, unauthorised disposal of materials, fraudulent staff welfare claims and dummy employees, high transaction costs and other corrupt practices. **(44)** The key focus must be the people and entities involved in any potential transaction or joint venture: their background, reputation, track record and litigation history must be investigated. Today there are many new entrepreneurs who have excellent qualifications, skills and connections. **(45)**

Investigative due diligence involves the collection, collation and analysis of information from a wide variety of sources. **(46)** This research should be supplemented by in-depth and discreet investigative field enquiries. The minimum that should be achieved through this is a thorough understanding of the actual corporate structure and the background and current activities of the professional management, key officers, shareholders and subsidiaries. Additionally, it will bring to light detailed information on the character, integrity and reputation of key individuals, as well as the company's reputation with associates in the same industry and its level of political support. **(47)** Other undisclosed issues, such as the use of 'sweatshop' labour or significant environmental issues that could lead to future losses or difficulties with licensing or permits, should also emerge.

Often these enquiries provide a completely different perspective from their conventional counterpart. Off balance sheet risk is manageable if companies are willing to adopt a robust approach to due diligence. Negative findings need not be a deal killer. **(48)** Due diligence is particularly cost-effective when undertaken early on in the deal-making process and not as an afterthought. It will identify issues to be addressed before committing to investing considerable financial expenditure and management resources.

Example:

0	A	B	C	D	E	F	G	H
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

- A** To do this, they cannot just rely on introductions and meetings with middlemen, there has to be a process of investigative due diligence.
- B** Such information can offer opportunities for more favourable terms to be negotiated and contracts structured to mitigate the risks identified.
- C** As a result of this, it should be possible to identify any liabilities which do not appear on the balance sheet.
- D** To avoid pitfalls such as these, it is critical that companies examine more than spreadsheets and legal documents.
- E** It fails in its aim to identify business and political risks that are not visible or obvious.
- F** However, this is not true of all of them and the lesson from many financial disasters is that it is vital to know the genuine people in business.
- G** It starts with extensive multilingual data mining of publicly available material – specialist trade publications, online resources, media, public records, and corporate filings.
- H** Such high profile cases mean that investors worldwide are discovering the danger of relying solely on audit reports and certified statements in making investment decisions.

Part 6

Questions 49 – 54

Read the following extract from a text about budgeting and the questions on the opposite page. For each question **49 – 54**, mark one letter (**A, B, C** or **D**) on your answer sheet for the answer you choose.

COMPANY BUDGETS

Most senior executives know that the competitive battles ahead will involve not only ensuring that their company gets better at what it does, but is also different from others. To achieve this they need talented managers who can produce more imaginative strategies for growth and improvement, make faster decisions, be more flexible, be better prepared to anticipate threats and opportunities, and who can consistently improve quality and customer satisfaction. To this list you can add any number of other key competitive issues that are becoming more important as the service economy gathers speed.

But executives also know that none of these aspirations are attainable without changing the way the business is run. While most companies have tried to address these issues by reducing management layers and focusing on the customer, few have been successful. One of the reasons is the inability to shift the management philosophy from one of top-down control to bottom-up empowerment. It is because budgets are most commonly used by organisations to exercise control that they are at the centre of this thorny issue.

Budgets are, in effect, barriers to change and fail to do well what most managers think they do well – that is, provide order and control. They are barriers for many reasons. Firstly, they reinforce the command-and-control management model and thus undermine attempts at organisational change, such as delegation and empowerment. In addition, they tend to set a ceiling on growth potential and a floor for cost reductions, thus stifling real improvement breakthroughs. Strong brands, skilled people, excellent management processes, strong leadership, and loyal customers are assets that are outside the measurement orbit of the accounting system. Budgets are typically extrapolations of existing trends, with little attention being paid to anticipatory models. What is more, they act as barriers to exploiting co-operation across the business units.

If asked why we use budgets, most managers would probably answer, 'to set targets and control business operations'. But budgets evolved in the 1920s to help growing businesses manage their capital resources and plan their cash requirements. It was not until the 1960s that budgets were used to set targets, control operations and evaluate managerial performance. While planning remains an important part of the management process, it is widely believed that setting targets and controlling and evaluating performance using budgets is fundamentally flawed because it directs managerial behaviour towards achieving predetermined financial targets rather than harnessing the energy of people at all levels towards continuously improving competitive strategies and customer-oriented processes.

So, if existing budgeting systems have such crucial weaknesses, why do we still rely on them? In fact, accountants have tried to improve them. Zero-based budgeting and activity-based budgeting represent valiant efforts to update the process, but they tend to be complex project-driven approaches that fail to evolve into standard management practices. Basically, though, budgeting has not changed because it is a part of unchallenged tradition. Some companies are re-engineering their budgeting processes to make them faster and cheaper, but such an approach fails the test, as it leaves the behavioural weaknesses in place.

What does all this mean for the role of management accountants? Many accountants now accept that setting fixed financial targets and measuring performance against them makes little sense when the competitive environment is subject to continuous change. Plans and strategies need to unfold continuously as new knowledge emerges. Above all, management accountancy should be concerned with the future and ensuring that the right questions are asked and the right decisions are taken that add maximum long-term value. It is hard, though, to see how these changes can be managed successfully while leaving the current budgeting system in place.

- 49** To deal with the competition they are likely to meet in the future, companies should look for managers who will
- A** recognise and reward talented people.
 - B** bring considerable experience to the job.
 - C** respond immediately to financial difficulties.
 - D** take a creative approach to developing the business.
- 50** According to the second paragraph, why have companies failed in their response to key competitive issues?
- A** Authority for decision-making is too restricted.
 - B** Customer needs are not given sufficient priority.
 - C** There are too many layers of management.
 - D** Budgets are not adequately monitored.
- 51** One problem resulting from the way budgets are usually set is that
- A** they give too optimistic a view of a company's growth potential.
 - B** they allow staff to avoid taking responsibility for their decisions.
 - C** they tend to produce too many targets for the workforce to meet.
 - D** they limit innovative behaviour because they focus on past experience.
- 52** According to the writer, changes in the use of budgets since the 1960s have prevented managers from
- A** giving enough time to planning.
 - B** concentrating on motivating the workforce.
 - C** working out realistic targets.
 - D** assessing the competence of their employees.
- 53** According to the writer, why have new budgeting systems not been widely adopted?
- A** Traditional systems are relatively easy to operate.
 - B** New systems have proved slow and expensive.
 - C** Traditional systems are part of accepted practice.
 - D** New systems have proved unpopular with managers.
- 54** According to the final paragraph, many management accountants now believe that
- A** companies should be prepared to modify their strategies.
 - B** budgeting should not influence management decisions.
 - C** too many company decisions are taken with a short-term view.
 - D** targets should reflect recent trends in an industry sector.

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