



Answering Scenario-based questions

The following extract comes from the June 2006 examiner's report for ACCA paper 2.6:

"The overall standard for this question was therefore disappointing. The content of many answers showed that candidates are not always familiar with the use of scenarios in auditing questions. Question practice on how to apply scenario information to specific question requirements is needed."

Scenario-based questions crop up in almost all exam papers (certainly not just in auditing). Examiners like them because they can turn a question into a stricter test of understanding if they make you apply knowledge to a practical situation. They also provide a source of variety and novelty in setting questions.

One of the worst things about marking professional exam scripts is that candidates rarely read the question properly. You might be sick of reading that, but it's a major problem for markers. Typically, markers are under more pressure to find marks than you might imagine. If you make your answer stand out from the rest by sticking to the point and writing something sensible when many of the others have clearly written a "brain dump" of everything they know that is vaguely relevant to that topic then you might be pleasantly surprised at the outcome.

The first thing to remember about scenarios is that they have to be reasonably simple and straightforward. The examiner would not, for example, get away with setting a question that required a detailed knowledge of a particular industry or one that was rooted in one particular culture. That means that **scenario-based questions usually only ask you to draw a very few conclusions about the nature of the business and the implications of these should be obvious.** For example, if you have been asked to interpret a set of financial statements relating to a service-based business (a school, a law firm, a recruitment company) then it should be obvious that there is unlikely to be any significant physical inventory. If that is the case then don't try to calculate an inventory turnover ratio. In the same way, don't write about trade receivables if the business is cash-based (a small shop that doesn't accept credit cards, a bus company, a snack bar).

Sometimes the factor that you were supposed to pick up has very little to do with the type of business, but might be just as obvious. For example, if you are asked to comment on the control system of a small business it probably will not be worth writing at great length about the ways in which duties might be allocated to different members of staff in the personnel

department. If the business is really small then there is unlikely to be more than one person responsible for organising personnel. Similarly, if the scenario makes it very clear that a business is faced with a very particular problem (cash flow problems, a shortage of qualified staff, quality control problems) then you should focus on that unless the question specifically asks for a broader analysis.

Remember that markers do have discretion to award marks for points that were not anticipated in the marking scheme, but the quality control processes that apply behind the scenes mean that anything that you write that is “correct but irrelevant” or possibly even very obscure is unlikely to get any credit, even if the marker has a sneaking sympathy with your position. **Try to think about what the examiner is looking for and concentrate on providing that, rather than writing as much as possible on “automatic pilot” in the time allotted to that question.**

Finally, **there is no need to start from scratch and reinvent the wheel just because you are faced with a specific scenario.** The chances are that most of the material that you studied and revised is still relevant. You just need to make sure that it is tweaked to make the fullest possible use of the pointers in the question.

Practising on as many questions as possible is always going to be the best preparation for any exam. If scenario-based questions are likely to be set then you should always ask why a piece of information has been given and whether it should affect your approach to the question. Go so far as to write out a full answer and then re-read it and critique it.

One other piece of advice is to **read a good business newspaper** (most can be read on-line and so you don't necessarily have to buy a copy). Examiners are only human and they often use stories that they have read as the basis for a question. If, for example, there has been an accounting scandal associated with applying a particular standard to a particular topic then that might be the inspiration for a question in next year's exam. This is a long-term investment, but thinking as much as possible about the real world is a good way to supplement your studies.

Example - *Based on an extract from ACCA paper 2.6 (International variant), June 2006*

Please bear with this example, even if you have no particular interest in ACCA paper 2.6. Our interest is in the approach to scenario-based questions.

Question 2 starts with a brief statement that the company in question extracts and sells building materials. A schedule of non-current assets is provided, one category of which is described as “railway trucks”. The opening balances at the start of the year for the cost and depreciation of railway trucks are all zero.

Requirement (a), worth 10 marks, asks for a list of the audit work that should be done on railway trucks.

Studying the examiner's answer makes it clear that the answer to part (a) required a relatively standard description of the audit tests that would be carried out on non-current assets, except that:

- All of the assets are new – the company did not have any at the start of the year. That makes the authorisation of the additions even more important than usual because of their materiality. It also means that the standard audit test of comparing this year's opening balances with last year's closing balances is pretty pointless because there were no balances brought forward from last year.
- The assets are of a specialist nature. The auditor has to be careful because very few businesses own railway trucks and some care should be taken to ensure that the costs recorded by the company are, at the very least, realistic. There could also be problems associated with physically checking such specialised assets because most auditors will not be able to distinguish one type of railway truck from another.

We'll leave the final word on this matter to the examiner:

"In Part (a), many candidates obtained a good pass standard by stating six or seven clear audit tests on fixed assets. The tests were clearly related to the scenario and in many cases used the information with a degree of originality; for example, recognising that as physical verification would be difficult, invoices from the railway provider for use of the railway tracks for specific trucks could be used to show evidence of existence of those trucks.

Given that this was meant to be a relatively 'easy' question, it was disappointing that a number of candidates simply stated every possible test on fixed assets with no regard at all for the scenario. Examples of tests that were simply not relevant for this class of assets (because they were new this year) included obtaining the brought forward balances, analytical procedures comparing depreciation rates, and revaluation of assets. Spending a little time thinking and checking the scenario was advisable prior to writing out the answer."

If you wish, you can download the whole of this question and answer and the full examiner's report from the ACCA's web site.