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Fundamentals of Ethics, Corporate Governance and Business Law

Cima BA4

Version Demo

Total Demo Questions: 71

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Topic Break Down

Topic	No. of Questions
Topic 1, Ethics and business	257
Topic 2, Corporate governance	96
Topic 3, General principles of the legal system, contract and employment law	191
Topic 4, Company administration	171
Total	715

QUESTION NO: 1

Which of the following is incorrect?

A. A private company must have at least two directors.

B. The board usually has the power to appoint a managing director.

C. A board usually reaches its decisions by majority vote.

D. The first directors of the company are those persons who are named as directors on Form IN01.

ANSWER: A

Explanation:

“A private company must have at least two directors.” is the incorrect statement. Under section 154 of the Companies Act 2006, a private company is required to have at least one director, whereas a public company must have at least two directors. The statutory minimum is therefore based on the company’s status as private or public, not a universal two-director requirement. A private company may, of course, choose to appoint more than one director if its articles of association or its practical governance arrangements call for this, but that is a matter of choice rather than the minimum legal requirement. The company must also have at least one director who is a natural person, ensuring that there is an identifiable individual responsible for performing the office of director. This rule is set out in section 155 of the same Act. The distinction is important in CIMA BA4 because it reflects the different legal and governance requirements imposed on private and public companies. The legislation can be read directly at Companies Act 2006, section 154; Companies House also summarises director requirements at Company directors.

QUESTION NO: 2

Which of the following is NOT one of the main requirements of the UK Corporate Governance Code?

A. The separation of the roles of Chairman and Managing Director

B. The appointment of competent accountants in the finance function

C. The establishment of an audit committee

D. The reporting to shareholders of risks and internal controls

ANSWER: B

Explanation:

The appointment of competent accountants in the finance function is the correct answer because the UK Corporate Governance Code does not prescribe particular staffing appointments or professional qualifications within a company’s finance department. The Code is principles-based: it places responsibility on the board for establishing effective governance, maintaining sound systems of risk management and internal control, and ensuring that the company has appropriate financial and reporting processes. However, decisions about the recruitment, competence and deployment of finance personnel remain matters for the company’s management and board, rather than a specific Code requirement.

The Code’s requirements and provisions are directed at the governance framework of listed companies, including board leadership and division of responsibilities, accountability, audit, risk, internal control and shareholder reporting. In particular, the board is expected to explain how it has assessed and monitored principal risks and the effectiveness of relevant systems, while audit committees have specified oversight responsibilities concerning financial reporting and audit. These governance outcomes do not translate into a mandatory requirement to appoint accountants to finance-function roles. The Financial Reporting Council publishes the authoritative version of the Code at UK Corporate Governance Code; its supporting guidance on audit committees is available through the FRC corporate governance resources.

QUESTION NO: 3

IFAC member firms or bodies:

A. Are entitled to use the IFAC Code of Ethics as an optional approach for their own organization

B. Must, by law, adhere to the IFAC Code of Ethics

C. Must prosecute any individual who fails to adhere to any part of the IFAC Code of Ethics

D. Must not apply less stringent standards than those stated in the IFAC Code of Ethics

ANSWER: D

Explanation:

"Must not apply less stringent standards than those stated in the IFAC Code of Ethics" is correct because IFAC's membership obligations require member organisations to support and implement high-quality ethical requirements for professional accountants. In particular, IFAC's Statement of Membership Obligations on the International Code of Ethics requires member organisations to use their best endeavours to adopt and implement ethical standards that are no less stringent than those in the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants. This promotes a consistent global baseline for integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

The Code is issued by the International Ethics Standards Board for Accountants, which operates under the IFAC framework. National professional bodies may supplement the international requirements with additional provisions that reflect local law, regulation, or public-interest needs. However, their ethical requirements should preserve at least the level of rigour established by the international Code. This obligation supports public confidence in the accountancy profession across jurisdictions and is reflected in IFAC's membership-compliance framework. See IFAC's Statements of Membership Obligations and the International Code of Ethics for Professional Accountants.

QUESTION NO: 4

Which TWO of the following are features of a compliance-driven framework?

A. Fear driven

B. Mandatory

C. Discretionary

D. Implicit

ANSWER: A B

Explanation:

A compliance-driven ethical framework is founded on prescribed rules, policies and procedures that individuals are required to follow. It is therefore accurately described as **Mandatory**: the organisation sets explicit standards of permitted and prohibited conduct, communicates them through such mechanisms as codes, training and controls, and expects staff to comply. Monitoring, reporting routes, investigations and disciplinary processes support this framework by identifying and responding to breaches.

It may also be **Fear driven**, because adherence can be motivated principally by concern about the consequences of non-compliance. Those consequences may include disciplinary action, loss of employment, professional sanctions, fines or legal liability. This does not mean every compliance programme should intentionally create a culture of fear; effective governance should encourage people to raise concerns safely. Rather, it identifies that deterrence and the risk of sanctions are central mechanisms in a compliance-led approach, as distinct from an approach that relies primarily on personal commitment to shared ethical values.

CIMA's ethical requirements stress both compliance with professional standards and the importance of acting with integrity and professional behaviour. The relevant professional framework is available in the CIMA Professional Code of Ethics. Further guidance on creating ethical organisational culture is provided by the Institute of Business Ethics.

QUESTION NO: 5

Which TWO of the following are NOT directly relevant to a system of professional ethics?

A. Religious morality

B. Political morality

C. Career development

D. Personal friendships

E. Family commitments

ANSWER: A B

Explanation:

Religious morality and **Political morality** are not directly relevant to a system of professional ethics because a professional code is established by the profession to govern conduct in the professional role, rather than to apply the personal religious or political beliefs of individual members. Its authority comes from the profession's standards, its responsibility to serve the public interest, and the duties members accept in return for professional status. This enables the same core expectations—such as integrity, objectivity, professional competence, confidentiality and professional behaviour—to be applied consistently among members with different faiths, political views and personal moral perspectives. CIMA's ethical requirements are based on the International Ethics Standards Board for Accountants' international code and use a principles-based framework to identify, evaluate and address threats to compliance with those professional duties. The framework is therefore concerned with maintaining trust in the profession and making sound professional judgments, rather than promoting a particular religious doctrine or political programme. See the CIMA Code of Ethics and the IESBA International Code of Ethics.

QUESTION NO: 6

A business that behaves ethically may experience which of the following benefits; Select ALL that apply.

A. Little or no legal action

B. Improved reputation

C. Improved staff morale

D. Competitive advantage

E. Increased market penetration

F. Higher productivity levels

G. Increased profits

ANSWER: A B C D F G

Explanation:

Ethical conduct can create both risk-reduction and performance-related benefits for a business. "Little or no legal action" reflects the reduced likelihood of breaches, disputes and regulatory sanctions where an organisation acts responsibly and complies with applicable laws. "Improved reputation" is a key benefit because stakeholders are more likely to trust an organisation that demonstrates integrity, transparency and accountability. This trust can strengthen relationships with customers, suppliers, investors and communities, creating "Competitive advantage" where ethical standards differentiate the business from less responsible competitors.

"Improved staff morale" is also a significant benefit: employees are more likely to feel committed and treated fairly when their employer's values are consistently applied. That commitment can support "Higher productivity levels" through stronger engagement, cooperation and retention. In turn, stakeholder trust, employee commitment, customer loyalty and lower costs associated with misconduct can contribute to "Increased profits." These outcomes are not guaranteed, but the question correctly uses "may," recognising that ethical behaviour can support them while commercial results also depend on effective strategy and execution. CIMA's ethical framework emphasises integrity, professional behaviour and acting in the public interest; these principles underpin the organisational value of ethical conduct. See AICPA & CIMA Ethics resources and the IESBA International Code of Ethics.

QUESTION NO: 7

Agency theory is often cited as an explanation for the development of corporate governance Which TWO of the following statements are correct?

A. Agency theory assumes that the goals of the managers of the company are the same as the owners of the company

B. Agency theory requires that the managers of the company act in the interests of the owners of the company

C. Agency theory assumes that the goals of the managers of the company are different from the owners of the company

D. Agency theory explains the issues which arise from the separation between the owners of the company and those who control it

E. Agency theory defines the problems that arise from the dependency of an organisation on resources

ANSWER: C D

Explanation:

Agency theory assumes that the goals of the managers of the company are different from the owners of the company because ownership and day-to-day control are commonly held by different parties. Shareholders, as principals, provide capital and seek sustainable value creation, whereas directors and managers, as agents, make operational decisions on their behalf. Agency theory recognises that agents may have incentives, information, and priorities that do not always fully align with those of the principals. This potential divergence creates agency costs and the need for mechanisms that promote accountability, transparency, monitoring, and appropriate incentives.

Agency theory explains the issues which arise from the separation between the owners of the company and those who control it. It is therefore a central rationale for corporate governance structures, including board oversight, internal controls, performance-related remuneration, reporting to shareholders, and audit arrangements. These mechanisms help shareholders oversee management and gain assurance that company resources are being managed consistently with owners' interests. The UK Corporate Governance Code similarly emphasises an effective board, accountability, and transparent reporting as key elements of sound governance. See the UK Corporate Governance Code and CIMA's study hub for governance and agency-related learning resources.

QUESTION NO: 8

Who is entitled to sue the directors for a breach of statutory duty?

A. The board.

B. Any shareholder.

C. The company.

D. The holders of the majority of the company's shares.

ANSWER: C

Explanation:

The company. is entitled to sue because directors' statutory duties under the Companies Act 2006 are owed to the company itself, rather than to individual shareholders, the board collectively, or a majority group of shareholders. This reflects the separate legal personality of a company: it is a distinct legal person and owns its own rights of action when it suffers loss through a director's breach of duty. Accordingly, the proper claimant in proceedings for breach is ordinarily the company.

This rule is expressly stated in section 170(1) of the Companies Act 2006, which provides that the general duties of a director are owed by the director to the company. A claim may therefore be brought in the company's name through its authorised decision-making processes. In limited circumstances, a shareholder can seek the court's permission to continue a derivative claim on the company's behalf, but the underlying claim remains the company's claim and any remedy is granted to the company. The statutory framework for derivative claims is set out in Part 11 of the Act. See Companies Act 2006, section 170 and Part 11 of the Companies Act 2006.

QUESTION NO: 9

V is an accountant for HIJ company. This large international jewelry manufacturer and retailer both mines, designs and sets and retails its gemstones It has significant mining operates in Country A and Country Z.

It has been a key player in the development of ethical employment mining practices especially in advanced safety policies and it received a United Nations award for action against Blood Diamonds It publishes a detailed CSR report which highlights how its approach to safety is a core business value and how its KPIs around employee turnover and accident have improved annually.

Vs company has recently appointed a new CEO who is taking an aggressive stance to improving profit margins and wants to reduce the expenditure on safety, a key aspect of the approach to ethical mining practices in HIJ company

Which THREE of the following statements would V use to support the continuation of the ethical policy in this new culture? The ethical treatment of the mining workforce

A. increases productivity through fewer accidents and lower staff turnover

B. reduces the risk of accidents and HIJ company's insurance premiums

C. reflects HIJ company's core business values

D. improves HIJ company's reputation and access to investment from a wider range of investors

E. is the right thing to do

ANSWER: A C D

Explanation:

The ethical treatment of the mining workforce **increases productivity through fewer accidents and lower staff turnover** because effective health and safety arrangements protect workers while also reducing operational disruption, absence, recruitment costs and the loss of experienced employees. This gives V a direct commercial argument for retaining the policy when profit margins are under scrutiny. HIJ's reported improvements in accident and turnover KPIs provide company-specific evidence for this argument.

It also **reflects HIJ company's core business values**. HIJ has publicly presented safety as a core value, so continuing the policy supports consistent corporate behaviour and governance. Ethical commitments are most credible when management decisions, resource allocation and public reporting remain aligned.

Finally, ethical treatment **improves HIJ company's reputation and access to investment from a wider range of investors**. Its United Nations recognition and CSR reporting can strengthen stakeholder trust and demonstrate responsible management of social and supply-chain risks. This may make HIJ more attractive to investors who use environmental, social and governance considerations in their investment decisions. The UN Guiding Principles explain businesses' responsibility to respect human rights, including in their operations and value chains: OHCHR Guiding Principles on Business and Human Rights. CIMA's ethics resources similarly emphasise embedding ethical values in organisational decision-making: AICPA & CIMA Ethics and Independence.

QUESTION NO: 10

Which of the following need NOT be submitted in order to register a private company limited by shares?

(i) Articles of association

(ii) The name of the company secretary

(iii) A statement of share capital

A. (i) only

B. (i) and (ii) only

C. (ii) only

D. (ii) and (iii) only

ANSWER: B

Explanation:

(i) and (ii) only is correct. On incorporation, a private company limited by shares must provide a statement of capital and initial shareholdings. This records key information about the company's share structure, including the total number of shares, their aggregate nominal value, prescribed particulars of rights attached to them, and details of the initial shareholders. It is therefore a required part of the incorporation application for this type of company.

A company does not necessarily need to submit bespoke articles of association. It may instead adopt the applicable model articles, in which case a copy of separate proposed articles need not accompany the application. The Companies Act 2006 expressly allows this exception. In addition, a private company is not required to appoint a company secretary. Consequently, where no secretary is appointed, no secretary's name or particulars need be submitted. The application must identify the company's directors, but the secretary is only relevant if the company chooses to have one.

These requirements reflect the incorporation provisions in the Companies Act 2006 and Companies House guidance: Companies Act 2006, section 9 and GOV.UK: Register your company.

QUESTION NO: 11

S Ltd has an issued share capital of 1000 ordinary shares of Â£1 each.Â Â Some of the shareholders would like to change the name of the company.Â Â What is the minimum number of votes which must be cast in favor of the resolution to make it effective?

A. 501

B. 500

C. 750

D. 1,000

ANSWER: C

Explanation:

750 is correct because a UK company changes its name by passing a special resolution of its members. Under the Companies Act 2006, a special resolution must be passed by a majority of not less than 75% of the votes cast by members entitled to vote on the resolution. The company has 1,000 ordinary shares, which normally each carry one vote. Therefore, where the full issued share capital is voting, 75% of 1,000 votes is 750 votes. Once the special resolution has been passed, the company must give notice of the change of name to the registrar. The name change takes effect when the registrar issues the certificate of incorporation on change of name, rather than merely when the members approve the resolution. This question is testing the required voting threshold for the members' resolution: the required minimum is three quarters of the votes, giving 750 votes in favour. See Companies Act 2006, section 77 on changing a company's name and section 283 on special resolutions: Companies Act 2006, s.77 and Companies Act 2006, s.283.

QUESTION NO: 12

Which of the following are benefits a company might gain from having NEDs on their audit committee? Select ALL that apply.

A. Independent review of risk and reporting.

B. Independence in dealing with auditors.

C. They are fairly paid (not too high or low).

D. New directors are fairly appointed.

ANSWER: A B

Explanation:

Independent review of risk and reporting is a key benefit of non-executive directors serving on an audit committee. Because non-executive directors are not involved in the company's day-to-day executive management, they can provide objective challenge over the integrity of financial statements, significant accounting judgements, internal controls and the company's risk-management arrangements. This independent perspective supports sound governance and increases confidence that reporting reflects a balanced and properly scrutinised view of the business.

Independence in dealing with auditors is also a central benefit. An audit committee made up of independent non-executive directors provides a forum in which the external auditor can raise concerns without undue influence from executive management. The committee is able to oversee the appointment, remuneration and independence of the external auditor, review the scope and effectiveness of the audit, and consider matters the auditor identifies. This helps safeguard auditor objectivity and promotes transparent, high-quality financial reporting. The UK Corporate Governance Code states that the board should establish an audit committee of independent non-executive directors, while the Financial Reporting Council's guidance describes its role in maintaining appropriate relationships with auditors and overseeing financial reporting and controls. See the UK Corporate Governance Code and the FRC's Guidance on Audit Committees.

QUESTION NO: 13

Which of the following type of committee is NOT required by the UK Combined Code?

A. Investment committee

B. Audit committee

C. Remuneration committee

D. Nominations committee

ANSWER: A

Explanation:

Investment committee is correct because the UK Combined Code did not prescribe that listed-company boards establish a separate committee to make or oversee investment decisions. Decisions on investment strategy, capital allocation and significant transactions remain matters for the board, which may delegate aspects of its work where appropriate but is not required by the Code to use a dedicated investment committee.

The Combined Code set out specific expectations for board committees that support accountability, remuneration and board composition. Its committee provisions were therefore focused on core governance safeguards rather than on a particular operating or strategic decision-making structure. A company could choose to create an investment committee—for example, because of its size, sector, portfolio complexity or internal governance arrangements—but this would be a voluntary governance choice, not a Code requirement.

The Financial Reporting Council's archived publication page provides the historical Combined Code materials. The subsequent UK Corporate Governance Code continues to distinguish required governance functions from arrangements boards may adopt voluntarily; see the FRC's UK Corporate Governance Code resources.

QUESTION NO: 14

You work for an oil company and your company is negotiating a contract with the government of another country. During the course of the negotiations, your managing director has run up a very substantial expenses bill for entertaining personnel from the country's government. This scenario suggests which TWO of the following ethical issues?

A. Harassment

B. Data protection

C. Gifts and hospitality

D. Bribery and corruption

ANSWER: C D

Explanation:

Gifts and hospitality is an ethical issue because substantial entertainment provided to government personnel during contract negotiations can create, or appear to create, an improper obligation. Organisations should have proportionate policies, approval processes, expense records and monetary limits so that hospitality is legitimate, transparent, and not capable of influencing an official decision. The timing, value and recipients are particularly important where a public contract is being negotiated.

Bribery and corruption is also directly engaged. Providing an advantage, including lavish hospitality, to a public official in order to influence the award or handling of business may amount to bribery. This risk applies even where the benefit is not cash and even if it is channelled through entertainment expenses. CIMA's ethical framework requires members to act with integrity and to comply with relevant laws and regulations; businesses should assess corruption risk and maintain effective anti-bribery controls. The UK Bribery Act guidance specifically recognises that bona fide, reasonable and proportionate hospitality may be legitimate, while excessive hospitality intended to secure business is a bribery concern. See the UK Bribery Act 2010 guidance and CIMA's Code of Ethics.

QUESTION NO: 15

Your boss knows that you will always strive to deliver a project on time and on budget. Which TWO of the personal qualities identified by the CIMA Code of Ethics does this demonstrate?

A. Reliability

B. Courtesy

C. Timeliness

D. Respect

ANSWER: A C

Explanation:

Reliability and timeliness are the relevant personal qualities. Delivering consistently on a commitment—here, completing projects within the agreed budget—shows that others can depend on the professional to carry out responsibilities and meet agreed expectations. This is reliability: acting in a dependable and consistent manner, including following through on commitments made to an employer or client. Striving to complete the project on time directly demonstrates timeliness, because the professional recognises and meets deadlines and provides work when it is needed. Together, these qualities support the CIMA ethical principle of professional behaviour. Members and students are expected to act diligently, comply with applicable professional requirements, and behave in a way that maintains confidence in the profession. Dependable delivery against agreed cost and time constraints is therefore an important practical expression of ethical professional conduct, provided that quality, competence and other ethical obligations are maintained. CIMA's Code of Ethics is based on the International Ethics Standards Board for Accountants' code and frames the standards expected of CIMA members and students. See CIMA Code of Ethics and the IESBA International Code of Ethics.

QUESTION NO: 16

Jo is employed as management accountant of a large retailer. Jo has been asked to make a payment to a bogus supplier that she believes would constitute money laundering. If Jo accepts the request, which of the following 'fundamental principles' of CIMA's Code of Ethics will be compromised?

A. Integrity

B. Objectivity

C. Confidentiality

D. Professional behavior

ANSWER: D

Explanation:

Professional behavior is the applicable fundamental principle because it requires a professional accountant to comply with relevant laws and regulations and to avoid any conduct that the accountant knows, or should know, could discredit the profession. Making a payment to a supplier known to be bogus, where there is a belief that the payment constitutes money laundering, would involve participating in conduct that conflicts directly with this obligation. The requirement is not limited to avoiding public reputational damage; it requires accountants to act lawfully and to avoid facilitating improper financial arrangements. A management accountant must therefore not process the payment merely because it has been requested internally. The ethical response includes following the organisation's escalation procedures, documenting the concern appropriately, and considering applicable legal reporting duties while respecting the Code's guidance on dealing with suspected non-compliance. CIMA's ethical framework is based on the International Ethics Standards Board for Accountants' code and expressly includes professional behavior as a fundamental principle. Further guidance is available from AICPA & CIMA Ethics resources and the UK's Proceeds of Crime Act 2002.

QUESTION NO: 17

Which of the following statements is correct in relation to a public company limited by shares?

(i) A public company cannot commence trading until it has received a certificate from the Registrar of Companies confirming that it has satisfied the minimum requirements as to authorized and issued share capital.

(ii) If a public company commences trading without a trading certificate, and fails to meet its obligations, the directors may be held jointly and severally liable for those obligations.

(iii) A public company must have a minimum of one shareholder.

A. (i) and (ii) only

B. (ii) and (iii) only

C. (i) and (iii) only

D. (i), (ii) and (iii)

ANSWER: D

Explanation:

The correct answer is **(i), (ii) and (iii)**. Under the Companies Act 2006, a public company is prohibited from doing business or exercising borrowing powers until it has obtained a trading certificate from the registrar. The certificate is issued only after the statutory conditions are met, including the requirement that the nominal value of the company's allotted share capital is at least the authorised minimum, which is £50,000. In this context, "issued" capital is commonly used to describe the shares that have been allotted by the company.

Where a public company trades or borrows without the required certificate, the legislation provides an important creditor-protection measure. If the company does not satisfy an obligation arising from that unauthorised activity, each director who was responsible for the contravention can be jointly and severally liable for the obligation. This means a creditor may pursue a responsible director for the full amount, subject to the statutory provisions.

A public company limited by shares must also have at least one member (shareholder). UK company law permits a company to be formed with one or more members; this applies to public as well as private companies. The relevant rules are set out in the Companies Act 2006, section 7 and the public-company trading-certificate provisions in section 761.

QUESTION NO: 18

Which of the following might a company experience if they were to implement internal control measures?

Select ALL that apply.

A. Reduced risk

B. More control

C. A requirement to hire external auditors

D. Less paper work

E. Less bureaucracy

ANSWER: A B

Explanation:

“Reduced risk” is a central outcome of implementing internal control measures. Internal controls are the policies, procedures, approval processes, reconciliations, segregation of duties, access restrictions, and monitoring activities that help an organisation manage risks that could prevent it from meeting its objectives. They provide reasonable, rather than absolute, assurance that significant risks—including error, fraud, asset loss, unreliable reporting, and non-compliance—are identified and managed appropriately.

“More control” is also correct because a properly designed control system gives management clearer direction over how transactions are authorised, recorded, reviewed, and reported. It establishes accountability, makes exceptions more visible, and enables management to monitor whether operations are being conducted in accordance with agreed policies and risk tolerances. In the COSO Internal Control—Integrated Framework, internal control is explicitly described as a process designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. This directly supports both improved organisational control and risk reduction. CIMA’s ethics and governance syllabus likewise treats effective internal control as an essential element of sound corporate governance and risk management. See the COSO guidance on internal control and CIMA Study Hub.

QUESTION NO: 19

Which of the following increase the likelihood of having a successful ethical code? Select ALL that apply.

A. Active leadership

B. Buy-in

C. Training programmes

D. Staff helplines

E. Communication with staff

F. Consistency of conduct

ANSWER: A B C D E F

Explanation:

A successful ethical code is not simply a written policy: it must be embedded in how the organisation is led, managed and supported. **Active leadership** establishes the tone from the top, showing through decisions and behaviour that ethical standards apply in practice. **Buy-in** means that people across the organisation understand, accept and feel responsible for the code, making it more likely to guide everyday judgement. **Training programmes** help staff recognise ethical issues and apply the code to realistic situations, rather than treating it as a document to be read once.

Staff helplines provide a practical confidential channel for seeking advice or raising concerns. **Communication with staff** keeps the code visible, understandable and relevant as risks and circumstances change. **Consistency of conduct** is equally essential: leaders and employees must see that the same principles are applied fairly, including when decisions are difficult or commercially inconvenient. Together, these measures create an ethical culture in which the code is understood, trusted and used. The CGMA Global Ethical Accounting Principles emphasise integrity, accountability and a values-led organisational culture; the professional code also stresses the importance of identifying and addressing ethical threats. See AICPA & CIMA Ethics and Standards and Global Ethical Accounting Principles.

QUESTION NO: 20

Section 13 of the Sale of Goods Act 1979 implies a condition into contracts for the sale of goods that the goods supplied will correspond to the description. What remedies are available to the innocent buyer in the event of a breach of Section 13?

A. The buyer is entitled to damages only

B. The buyer has the option of retaining the goods and claiming damages or repudiating the contract and claiming damages

C. The contract between the buyer and the seller is automatically cancelled

D. The buyer is entitled to specific performance of the contract

ANSWER: B

Explanation:

“The buyer has the option of retaining the goods and claiming damages or repudiating the contract and claiming damages” is correct because the requirement that goods correspond with their description is an implied *condition* of a contract of sale under section 13 of the Sale of Goods Act 1979. A condition is a term that goes to the root of the contract. Where it is breached, the innocent buyer generally has a choice of remedies: they may affirm the contract, keep the goods and recover damages for the loss caused by the non-conformity; or they may treat the breach as repudiatory, reject the goods, terminate their future contractual obligations and claim damages. This reflects the statutory distinction between conditions and warranties in section 11: breach of a condition gives rise to a right to treat the contract as repudiated, as well as a right to damages. The buyer’s election matters: once the buyer has accepted the goods, or otherwise lost the right to reject, the remedy will normally be damages instead. The statutory wording of the description obligation is available in section 13 of the Sale of Goods Act 1979, while the remedies associated with breach of condition are set out in section 11.

QUESTION NO: 21

R and P are the only shareholders in RP Ltd, each holding 100 ordinary £1 shares. They have both paid half the nominal value of the shares. The company has been placed in creditors' voluntary liquidation on the ground that it is unable to pay its debts.

Which of the following is correct?

A. As it is a limited company, RP Ltd is not obliged to pay its debts.

B. As the liability of R and P is limited they are not obliged to pay anything towards the company's debts.

C. Rebecca and Paul must each pay 50% of the company's debts.

D. Rebecca and Paul are each obliged to pay the other half of the nominal value of their shares, and no more.

ANSWER: D

Explanation:

Rebecca and Paul are each obliged to pay the other half of the nominal value of their shares, and no more. Their ordinary shares have a nominal value of £1 each, but only £0.50 per share has been paid. Each shareholder therefore has an unpaid amount of £0.50 on each of 100 shares: a total outstanding liability of £50 each. In a winding-up, this unpaid share capital is a debt owed to the company and may be called by the liquidator so that it becomes part of the assets available for distribution to creditors.

The key feature of a company limited by shares is that a member's ordinary statutory liability is limited to the amount, if any, unpaid on the shares they hold. That limit applies even where the company's total debts substantially exceed its assets. Accordingly, the fact that RP Ltd is in creditors' voluntary liquidation does not make each shareholder personally responsible for half of all company debts; their contribution is confined to the £50 unpaid on their respective shareholdings, assuming no separate personal guarantees or exceptional liability have arisen. This principle is set out in section 74 of the Insolvency Act 1986, which makes present and past members liable to contribute to company assets only to the extent required by the Act and subject to the amount unpaid on their shares. See Insolvency Act 1986, section 74 and Companies Act 2006, section 3.

QUESTION NO: 22

Under section 172 of the Companies Act 2006, which TWO of the following matters must a director have regard to when promoting the success of the company?

A. The likely consequences of any decision in the long term

B. The personal financial interests of each director

C. The interests of the company's employees

D. The requirement to guarantee dividends to shareholders

ANSWER: A C

Explanation:

A director must have regard to the likely consequences of decisions in the long term. This supports responsible stewardship by requiring directors to consider sustainable success rather than focusing solely on immediate financial results.

A director must also have regard to the interests of the company's employees. Employees are an important stakeholder group because decisions on strategy, investment, restructuring and working practices can directly affect their welfare, security and ability to contribute to the company's success.

Section 172 also refers to matters including the interests of suppliers, customers and others, the impact of operations on the community and environment, the need to maintain a reputation for high standards of business conduct, and fair treatment of members. See Companies Act 2006, section 172.

QUESTION NO: 23

Which of the following are situations involving conflicts of interest? Select ALL that apply.

A. Nina - Receives a large boxful of chocolate delivered to her house from the chocolate factory she is due to audit

B. Shannon - A department manager at an IT firm who regularly goes out drinking with her team members.

C. Ben - Regularly works two hours later than he should because his boss constantly gives him large amounts of work to do.

D. Tyrone - Works standard hours, though is usually unable to do any overtime due to family commitments.

E. Tina - A personal accountant who actively tries to build a rapport with her clients, though doesn't engage with them outside working hours.

ANSWER: A B C

Explanation:

A conflict of interest, or an ethical threat arising from personal or workplace relationships, exists where an individual's objectivity or professional judgement could be influenced by a competing interest, incentive, or source of pressure. "Nina - Receives a large boxful of chocolate delivered to her house from the chocolate factory she is due to audit" creates a clear self-interest threat: accepting a significant gift from an audit client may affect, or appear to affect, independence and impartiality. "Shannon - A department manager at an IT firm who regularly goes out drinking with her team members." can create a familiarity threat, because a close social relationship with staff may compromise the manager's ability to make objective decisions about performance, discipline, promotion, or work allocation. "Ben - Regularly works two hours later than he should because his boss constantly gives him large amounts of work to do." involves pressure from a superior that may compromise Ben's ability to act in accordance with professional duties and exercise independent judgement. CIMA's ethical approach requires members to identify such threats to compliance with the fundamental principles and apply appropriate safeguards where necessary. The IESBA Code discusses threats arising from gifts and hospitality, close relationships, and undue pressure within its conceptual framework; see the International Code of Ethics for Professional Accountants and CIMA's ethics resources.

QUESTION NO: 24

AB (Wholesalers) Ltd contracted to sell a quantity of television sets to DC (Retailers) Ltd. The contract contained a term excluding liability for any breach of the condition implied by the Sale of Goods Act 1979 that the goods should comply with their description.

Which of the following is correct?

A. The term is illegal as it is a criminal offence to attempt to exclude any terms implied by the Sale of Goods Act 1979.

B. The term is void unless it can be shown to be reasonable, as this is a non-consumer sale.

C. The term is void.

D. The term is absolutely valid as it has been agreed by the parties to a non-consumer sale.

ANSWER: B

Explanation:

The term is void unless it can be shown to be reasonable, as this is a non-consumer sale. The implied condition that goods correspond with their description is set out in section 13 of the Sale of Goods Act 1979. Since both AB (Wholesalers) Ltd and DC (Retailers) Ltd are acting in the course of business, this is a business-to-business transaction rather than a consumer sale. The Unfair Contract Terms Act 1977 therefore governs the effectiveness of an attempt to exclude liability for breach of this implied condition. Under section 6(3) of that Act, a seller may exclude or restrict liability for obligations arising under section 13 only to the extent that the contractual term satisfies the statutory requirement of reasonableness. In practice, the term's effect depends on whether it was fair and reasonable to include it having regard to the circumstances known or contemplated when the contract was made. Relevant matters can include the parties' relative bargaining strength, whether the buyer had an alternative source of supply, and whether the buyer knew or ought reasonably to have known of the term. The statutory provisions can be read at Unfair Contract Terms Act 1977, section 6 and Sale of Goods Act 1979, section 13.

QUESTION NO: 25 - (SIMULATION)

The Global Reporting Initiative (GRI) has produced Sustamability Reporting Guidelines, setting out categories and aspects which should be addressed through sustainable reporting.

Place the GRI categories next to the appropriate aspect of sustamability below.

Aspects of sustainability	GRI categories
Child labour	
Equal remuneration for women and men	
Local communities	
Customer health and safety	

Categories
Product responsibility
Society
Human rights
Labour practices and decent work

ANSWER: See the explanation for the answer

Explanation:

Match the GRI categories as follows:

Child labour — Human rights
Equal remuneration for women and men — Labour practices and decent work
Local communities — Society
Customer health and safety — Product responsibility

These classifications reflect the GRI sustainability-reporting aspects: child labour is a human-rights issue; equal pay is covered by labour practices; local-community impacts are societal; and customer safety is a product-responsibility matter.

QUESTION NO: 26

Rank the following, starting with the highest court:

(i) Court of Appeal (Civil)

(ii) Supreme Court

(iii) County Court

(iv) High Court

A. (ii), (i), (iv), (iii)

B. (i), (ii), (iv), (iii)

C. (i), (ii), (iii), (v)

D. (ii), (iv), (i), (iii)

ANSWER: A

Explanation:

The correct ranking is **(ii), (i), (iv), (iii)**. In the court hierarchy for civil cases in England and Wales, the Supreme Court is the highest appellate court. It hears appeals on points of law of general public importance, usually from the Court of Appeal or, in limited circumstances, directly from the High Court through the "leapfrog" procedure. The Court of Appeal (Civil Division) is immediately below the Supreme Court and hears appeals principally from the High Court, as well as certain appeals from the County Court. The High Court is a senior court with jurisdiction over higher-value, complex, or legally significant civil matters; it also hears appeals in some civil proceedings. The County Court is below the High Court and deals with a large proportion of first-instance civil claims, including many contract, tort, debt, and housing disputes. Therefore, arranging the named courts from the highest to the lowest produces Supreme Court, Court of Appeal (Civil), High Court, then County Court. The UK judiciary provides an overview of the civil justice structure at https://www.judiciary.uk/courts-and-tribunals/civil/, while the Supreme Court's role is described at https://www.supremecourt.uk/about/the-role-of-the-supreme-court.html.

QUESTION NO: 27

Which of the following statements is INCORRECT?

A. The ratio decidendi is the legal principle underpinning the decision of the court.

B. When a court departs from a previous decision on the basis of different material facts the court is said to have â€œdistinguishedâ€ the case.

C. If an appellate court reaches a different decision to the court which first heard the case, the decision is said to have been â€œreversedâ€.

D. Obiter dicta of the Supreme Court is binding on all lower courts.Â Â

ANSWER: D

Explanation:

"Obiter dicta of the Supreme Court is binding on all lower courts." is the incorrect statement. In the doctrine of judicial precedent, the binding part of a judgment is its *ratio decidendi*: the legal principle necessary for the court's decision on the material facts. A statement made by a judge that is not necessary to decide the case is *obiter dictum* (plural: *obiter dicta*). Even where it comes from the Supreme Court, obiter dicta does not create a strictly binding precedent for lower courts. It can, however, be highly persuasive because it represents a considered view of the United Kingdom's final court of appeal.

This distinction matters when applying earlier cases. Courts must identify the legal rule that was essential to the earlier outcome, rather than treating every observation in a judgment as a compulsory rule. The Supreme Court's own procedural materials explain its role as the final court of appeal and the authority of its decisions: UK Supreme Court – Role of the Supreme Court. The longstanding approach to precedent, including the special status of binding judicial decisions, is also reflected in the Practice Statement (Judicial Precedent) [1966] UKHL 1.

QUESTION NO: 28

Which ONE of the following resolutions is no longer legally effective?

A. An elective resolution

B. A special resolution

C. An ordinary resolution

D. A written resolution

ANSWER: A

Explanation:

An elective resolution is the resolution type that is no longer legally effective under the current UK company-law framework. It was a feature of the Companies Act 1985, under which a private company could elect to modify certain statutory administrative requirements, such as rules concerning meetings or accounts. The Companies Act 2006 modernised and simplified company decision-making procedures and did not retain elective resolutions as a category that companies can use. Instead, the Act recognises ordinary resolutions and special resolutions as the principal member resolutions, with many eligible decisions also capable of being taken by written resolution in private companies. This reflects the Act's aim of making company administration more straightforward while preserving appropriate shareholder approval requirements for significant decisions. The statutory basis for the current categories is found in section 281 of the Companies Act 2006, which defines ordinary and special resolutions: Companies Act 2006, section 281. The wider legislative text and current provisions can be accessed through the official legislation database: Companies Act 2006. Therefore, an elective resolution is an obsolete form and is the correct answer.

QUESTION NO: 29

Which of the following are cases where the veil should be lifted? Select ALL that apply.

A. The pink company - Failed to disclose the full company name on official documents.

B. The orange company - Continues to trade even though it knows it is in irrevocable debt

C. The white company - An investigative journalist reveals that the company has been deliberately avoiding tax.

D. The red company - Continues to trade despite being having small debts.

E. The black company - Trades with a company based in a country experiencing civil war.

ANSWER: A B C

Explanation:

The corporate veil normally separates a company's legal personality and liabilities from those of its shareholders and directors. It may be set aside, or statutory personal liability may arise, where the corporate form is misused or where legislation specifically imposes liability on those acting for the company. Failure to disclose the full company name on official documents can make an officer who authorises the document personally liable in relation to it. This reflects the Companies Act requirement for a company to disclose its name on business documents and the associated consequences of non-compliance. See the Companies Act 2006, section 84.

Continuing to trade when the directors know, or ought to know, that there is no reasonable prospect of avoiding insolvent liquidation is wrongful trading. The court can order a director to contribute to the company's assets, thereby overriding the normal protection of limited liability. This is governed by the Insolvency Act 1986, section 214. Deliberately using a company to avoid tax obligations is also an abuse of separate corporate personality: the courts will not permit the company structure to be used as a device for evading an existing legal obligation. In each situation, the relevant people cannot rely on the company's separate personality to escape responsibility.

QUESTION NO: 30

Mr X's wife is gravely ill. He accepts money from a client to falsify some accounts. The client is a contractor, being paid by the Government to build a bridge over a river. The accounts now state that more expensive materials were used to build the bridge. The money helps Mr X pay for his wife's medical treatment. Is this an example of a 'victimless crime'?

A. No. The contractor is being paid to build a bridge with tax payers' money. If it is built with poor quality materials it may collapse, wasting money, and potentially causing an accident

B. Yes. Mr X used the money to get help for his wife. The bridge was built anyway

C. Yes. Mr X needed the money to help his wife - family is more important

D. Yes. Mr X has a duty to do as his client asked

ANSWER: A

Explanation:

No. The contractor is being paid to build a bridge with tax payers' money. If it is built with poor quality materials it may collapse, wasting money, and potentially causing an accident is correct. This conduct is not victimless because falsifying the accounts disguises the use of cheaper materials while public funds are charged as though more expensive materials had been supplied. The immediate financial victim is the public body funding the project, and ultimately taxpayers whose money is misappropriated. There is also a wider public-interest victim: people who will use, maintain, or live near the bridge may be exposed to danger if the substituted materials compromise its quality or safety. The fact that Mr X's motive is to obtain treatment for his wife may evoke sympathy, but it does not remove the dishonest nature of accepting payment to produce false accounting information or the resulting harm and risk. Ethical professional conduct requires integrity and objectivity, including refusing to be associated with misleading information. CIMA's Code of Ethics explains the fundamental principle of integrity and the obligation to be straightforward and honest in professional relationships: CIMA Code of Ethics.

The UK government also identifies fraud as involving false representation for gain or causing loss or risk of loss to another: [Fraud Act 2006, section 2].

QUESTION NO: 31

Which of the following is NOT one of the 'seven principles of public life', as defined by the Committee of Standards in Public Life?

A. Integrity

B. Objectivity

C. Leadership

D. Learning

ANSWER: D

Explanation:

Learning is correct because it is not included in the Seven Principles of Public Life, also known as the Nolan Principles. The Committee on Standards in Public Life established these principles to articulate the ethical standards expected of people who hold public office and those delivering public services. The principles are selflessness, integrity, objectivity, accountability, openness, honesty and leadership. They provide a common framework for decisions and conduct in public life, helping office-holders act in the public interest, make impartial decisions, accept responsibility for their actions, and demonstrate ethical leadership. Although learning and professional development can be valuable qualities in public-sector organisations, they are not one of the seven formally defined principles. The Committee's official guidance explains both the purpose of the principles and their application across public service roles. See the [UK Government publication on the Seven Principles of Public Life] and the [Committee on Standards in Public Life].

QUESTION NO: 32

In regards to a claim of misrepresentation, which of the following must be proved to show that the defending party induced the other party into entering the contract?

Select ALL that apply.

A. The other party knew of the existence of the representation

B. The other party allowed the representation to affect their judgement.

C. The other party was unaware of the representation's falsity.

D. The other party was of a sound mind.

E. The other party had no relationship with the offending party when the representation was made.

ANSWER: A B C

Explanation:

To establish inducement in a misrepresentation claim, the claimant must show that they knew of the representation, because a statement that never came to their attention cannot have influenced their decision to contract. Therefore, “The other party knew of the existence of the representation” is required. The claimant must also have relied on the statement in deciding to enter the agreement; this is captured by “The other party allowed the representation to affect their judgement.” The representation need not be the sole or dominant reason for contracting, but it must have been a real and material influence on the claimant's decision. Finally, “The other party was unaware of the representation's falsity” is required for inducement: a person who knows a statement is false cannot logically be said to have relied upon its truth when entering the contract. These requirements reflect the common-law principle that the false representation must actually operate on the representee's mind and contribute to the contractual decision. The statutory framework governing remedies for actionable misrepresentation is set out in the Misrepresentation Act 1967. The principle that reliance can exist despite an opportunity to discover the truth is illustrated by Redgrave v Hurd (1881).

QUESTION NO: 33

Which ONE of the following statements is correct?

A. Adherence to legislation is always mandatory

B. Adherence to codes of ethics is always mandatory

C. Adherence to social responsibility policies is always mandatory

D. Adherence to charitable donation policies is always mandatory

ANSWER: A

Explanation:

“Adherence to legislation is always mandatory” is correct because legislation comprises binding legal requirements enacted by a jurisdiction’s competent authorities. An organisation and its employees must comply with the laws that apply to their activities, such as requirements concerning contracts, employment, taxation, financial reporting, health and safety, competition, and data protection. Compliance is not optional: a failure to meet an applicable legal duty can expose the organisation and individuals to enforcement action, civil liability, fines, disqualification, or criminal sanctions, depending on the law and circumstances.

For management accountants, legal compliance is also a foundational element of ethical professional conduct. Professional ethical standards require members to comply with relevant laws and regulations while carrying out their work, and to act in the public interest. This recognises that ethical decision-making operates alongside, rather than instead of, the legal framework governing the organisation. The relevant legislation will vary according to the country, sector, and facts of the situation, but where a legal requirement applies, it must be followed. The International Ethics Standards Board for Accountants’ International Code of Ethics sets out this expectation of compliance with laws and regulations; related professional guidance is available from AICPA & CIMA Ethics.

QUESTION NO: 34

Which TWO of the following are true of the CIMA Code of Ethics?

A. It covers every possible dilemma that an accountant might face

B. It is based on values rather than compliance

C. It is a financial requirement of accountants

D. It establishes the fundamental principles of professional ethics for professional accountants

ANSWER: B D

Explanation:

The statements “It is based on values rather than compliance” and “It establishes the fundamental principles of professional ethics for professional accountants” accurately describe the CIMA Code of Ethics. The Code is principles-based: it is intended to help members apply professional judgement when facing ethical matters, rather than operate as a checklist of detailed rules for every circumstance. This approach recognises that professional accountants encounter varied and sometimes novel situations, so ethical conduct requires evaluating threats and safeguards in the context of the fundamental principles.

The Code sets out those fundamental principles: integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. CIMA members and registered students are expected to comply with the Code and use its conceptual framework to identify, evaluate and address threats to compliance with these principles. The requirements support the public-interest role of the accountancy profession and provide a consistent ethical foundation across professional activities. CIMA's ethics resources and the current Code are available at AICPA & CIMA Ethics and Independence. The underpinning international ethics framework is also published by the International Ethics Standards Board for Accountants.

QUESTION NO: 35

You always take the time to be polite to colleagues and listen to the opinions of others, even if you might disagree with their views. Which TWO of the personal qualities identified by the CIMA Code of Ethics does this demonstrate?

A. Responsibility

B. Reliability

C. Respect

D. Courtesy

ANSWER: C D

Explanation:

Respect and **Courtesy** are the relevant personal qualities. Respect is demonstrated by listening to colleagues' opinions and recognising that others are entitled to hold views that differ from one's own. Ethical professional behaviour requires consideration for other people, including in situations where there is disagreement. Courtesy is demonstrated by taking time to be polite in professional interactions. It involves treating colleagues with good manners, consideration and civility, helping to maintain constructive and professional working relationships. Together, these qualities support the CIMA Code's emphasis on acting professionally and maintaining the reputation of the profession. They are particularly important because ethical conduct is reflected not only in major decisions, but also in the everyday way a finance professional communicates, responds to disagreement and works with others. CIMA's ethics resources explain that members and students must comply with the fundamental principles and apply professional judgement in their conduct; the International Ethics Standards Board for Accountants' code also addresses professional behaviour and the obligation to act in a manner consistent with the profession's reputation. See AICPA & CIMA Ethics and Independence and the IESBA International Code of Ethics.

QUESTION NO: 36

Which of the following accountants have breached CIMA ' s ethical principle of professional behaviour: Select ALL that apply.

A. Kara - Recently got a new job as a management account by lying about the number of accountancy qualifications she has.

B. Mike - Posted a series of disparaging tweets about a rival external auditing firm.

C. Tim - Told his friends at the pub how much money one of his clients had made in the last financial quarter.

D. Sara - Accepted an offer of a free week ' s stay at a hotel she was due to audit.

E. Dave - Most recent set of financial reports were found to contain inaccuracies because he didn ' t check them when he was finished.

ANSWER: A B

Explanation:

The ethical principle of professional behaviour requires a CIMA member to comply with relevant laws and regulations and to avoid any conduct that the member knows, or should know, might discredit the profession. It protects the reputation of both the individual accountant and the accountancy profession more broadly, including conduct in employment, business dealings and public communications.

"Kara - Recently got a new job as a management account by lying about the number of accountancy qualifications she has." breaches this principle because deliberately misrepresenting qualifications to obtain employment is dishonest conduct and is liable to bring the profession into disrepute. Employers and the public must be able to rely on an accountant's claimed credentials.

"Mike - Posted a series of disparaging tweets about a rival external auditing firm." also breaches professional behaviour. Publicly making disparaging remarks about another professional firm is conduct liable to damage confidence in the profession and fails to maintain the professional courtesy expected of members. The CIMA Code's fundamental-principles framework identifies professional behaviour as an obligation to avoid discrediting the profession. See the CIMA Code of Ethics resources and the International Code of Ethics for Professional Accountants.

QUESTION NO: 37

The UK Corporate Governance Code is primarily concerned with the effective control, business efficacy and accountability of the management of public listed companies for the benefit of which of the following?

A. Shareholders

B. Stakeholders

C. Investors

D. Employees

ANSWER: A

Explanation:

Shareholders is correct. The UK Corporate Governance Code is principally a framework for how listed-company boards should direct, control and be accountable for the company in a way that promotes its long-term sustainable success and generates value for shareholders. This reflects the shareholder ownership model of a company: shareholders provide equity capital, appoint directors through voting rights, and hold the board accountable for stewardship of the company's resources and performance.

The Code does not treat shareholder value as a narrow or short-term objective. Its first principle states that a successful company is led by an effective and entrepreneurial board whose role is to promote the long-term sustainable success of the company, generating value for shareholders while contributing to wider society. In pursuing that success, directors must also take account of relevant stakeholder interests, consistent with their statutory duty under section 172 of the Companies Act 2006. Nevertheless, the primary accountability relationship addressed by corporate governance in a listed company is between the board and its shareholders.

See the Financial Reporting Council's UK Corporate Governance Code and Companies Act 2006, section 172.

QUESTION NO: 38

You work for a company that is constructing a major football stadium. The day that the stadium is finished, large cracks appear in the supporting walls. It turns out that your company's purchasing director bought cement from a new and inexperienced company. You find out that the cement supplier was no cheaper than the other suppliers who had bid for the contract but that the son of your purchasing director happens to run the cement company. Is this an ethical issue and why?

A. Yes - the cement supplier clearly knew that it was providing faulty materials

B. Yes - your purchasing director has had a conflict of interest in this matter

C. No - there is no evidence to show that the company knew that the cement was faulty

D. No - the cement supplier was clearly chosen on the basis of value for money rather than personal connections

ANSWER: B

Explanation:

"Yes - your purchasing director has had a conflict of interest in this matter" is correct because the purchasing director had a personal connection to the owner of a supplier being considered for a business contract. Their son ran the cement company, creating a personal-interest threat: the director's family relationship could influence, or reasonably be perceived to influence, their professional judgement when selecting a supplier. This is particularly significant because the supplier was new and inexperienced and was not offering a lower price than competing bidders. The selection therefore raises a serious concern that the company's procurement decision may not have been made solely in the organisation's best interests, using objective criteria such as quality, competence, safety, reliability, and value for money.

Ethical conduct requires conflicts to be identified and appropriately managed, normally through disclosure to the relevant decision-makers and removal of the conflicted individual from the selection process. The issue exists even without proof that the director intended wrongdoing or that the supplier knowingly supplied defective cement. A conflict may be actual, potential, or perceived; the undisclosed family relationship is enough to require safeguards. CIMA members are required to apply the fundamental principles and address threats to compliance with them, including threats arising from personal interests. See the CIMA Code of Ethics and the International Code of Ethics for Professional Accountants.

QUESTION NO: 39

Which of the following are fundamental characteristics of useful information? Select ALL that apply.

A. Relevance

B. Faithful representation

C. Understandability

D. Verifiability

E. Comparability

F. Timeliness

ANSWER: A B

Explanation:

Relevance and faithful representation are the two fundamental qualitative characteristics of useful financial information under the IFRS Conceptual Framework, which underpins the financial-reporting principles relevant to CIMA BA4. Information is relevant when it is capable of making a difference to decisions made by users of financial statements. This includes information with predictive value, confirmatory value, or both. For example, information about expected future cash flows may help users assess future performance, while reported results can confirm or revise previous expectations.

Faithful representation means that financial information depicts the economic phenomena it purports to represent as completely, neutrally and free from material error as possible. A depiction does not have to be perfectly accurate in every respect, particularly where estimates are necessary, but the reporting process must apply appropriate methods and disclose estimation uncertainty where material. Together, these characteristics ensure that reported information both matters to users' decisions and represents the underlying economic reality reliably. The IFRS Foundation explains this distinction in its Conceptual Framework for Financial Reporting; see also its Conceptual Framework overview.

QUESTION NO: 40

Which ONE of the following requires the approval of a simple majority of all the company's shareholders who are entitled to vote?

A. A written special resolution.

B. A special resolution.

C. A written ordinary resolution.

D. An ordinary resolution

ANSWER: C

Explanation:

A written ordinary resolution is correct because the Companies Act 2006 measures approval of a written ordinary resolution against the eligible voting rights of the company's members, rather than only the votes actually cast at a meeting. It is passed when members representing a simple majority of the total voting rights of eligible members signify their agreement. "Simple majority" means more than half: therefore, consent from members holding over 50% of the relevant voting rights is required. This is an important distinction in company decision-making. The written-resolution procedure enables private companies to make certain member decisions without convening a general meeting, while still requiring an appropriately defined level of member approval. The statutory rule is set out in section 282 of the Companies Act 2006: an ordinary resolution is passed as a written resolution when it is agreed by members representing not less than a simple majority of the total voting rights of eligible members. The applicable definition of eligible members and voting rights is provided in the written-resolutions provisions. See Companies Act 2006, section 282 and the UK government's guidance on company resolutions.

QUESTION NO: 41

Which of the following is correct?

(i) Purchasing a "shelf company" enables business to commence more quickly.

(ii) It is generally cheaper to purchase a "shelf company", than to arrange for a solicitor or accountant to register a new company.

(iii) Incorporating a company by registration enables the company's documents to be drafted to the particular needs of the incorporators.

A. (i) and (ii) only

B. (ii) and (iii) only

C. (i) and (iii) only

D. (i), (ii) and (iii)

ANSWER: D

Explanation:

(i), (ii) and (iii) is correct. A shelf company is a company that has already been incorporated, usually by a company-formation agent, but has not traded. Its existing legal incorporation means that, once it is bought and the necessary ownership, officer and registered-office changes are made, a business can use an already-created corporate vehicle rather than wait for a new application to be processed. This can make commencement quicker where immediate availability is valuable.

Shelf companies have also traditionally provided a cost-effective route where the alternative is instructing a solicitor or accountant to manage an individual incorporation. Formation agents can incorporate and maintain companies in volume, enabling the buyer to obtain a ready-made company without paying for the professional time associated with a bespoke registration process. The UK government confirms that companies can be incorporated through an authorised agent as well as directly with Companies House: https://www.gov.uk/limited-company-formation.

By contrast, incorporating a new company permits the incorporators to select and prepare the constitutional documents and initial company details for their own intended governance and commercial arrangements. Companies House requires incorporation information, including a memorandum of association and articles of association; tailored articles can therefore be adopted at formation: https://www.gov.uk/limited-company-formation/company-formation.

QUESTION NO: 42

Which of the following requires the approval of a simple majority of all the company's shareholders who are entitled to vote?

A. A written special resolution

B. A special resolution

C. A written ordinary resolution

D. An ordinary resolution

ANSWER: C

Explanation:

A written ordinary resolution is correct because it is passed only when members representing a simple majority of the total voting rights of the eligible members signify their agreement. For a written resolution, the threshold is therefore measured against the voting rights held by all shareholders entitled to participate in that written-resolution process, rather than merely against votes actually cast. This distinction matters: shareholders who are eligible but do not respond are still included in the total against which the required majority is calculated. The Companies Act 2006 expressly provides that a written ordinary resolution is passed when it is agreed to by members representing a simple majority of the total voting rights of eligible members. It also defines eligible members as those entitled to vote on the resolution at the relevant date. This rule gives written resolutions a clear and objective approval threshold and ensures that the necessary majority reflects the company's full eligible voting base. The statutory requirements can be read in sections 282 and 289 of the Companies Act 2006, section 282 and the Companies Act 2006, section 289.

QUESTION NO: 43

Which of the following are situations in which the accountant is permitted to disclose confidential information?

Select ALL that apply.

A. The company is being investigated for legal infringement.

B. One of the company ' s clients permits the disclosure of their financial records.

C. A family member wants to know the details of the company ' s clients ' finances.

D. A similar firm wants to take a look at the company ' s most recent financial report.

ANSWER: A B

Explanation:

“The company is being investigated for legal infringement” is a permitted disclosure situation where the investigation creates a legal requirement to provide information to the relevant authority. The ethical duty of confidentiality is fundamental, but it is not absolute: accountants may disclose confidential information when disclosure is required by law or regulation. In practice, the accountant should disclose only information that is relevant to the lawful request, ensure that the recipient is authorised to receive it, and document the basis for the disclosure.

“One of the company ' s clients permits the disclosure of their financial records” is also permitted because the client has given authority for disclosure. Authorisation should be clear and preferably documented, and the accountant must remain alert to the scope of that consent. For example, permission to provide records to a named bank or adviser does not automatically permit wider distribution. These exceptions balance the profession's obligation to protect information acquired through professional relationships with its duties to comply with the law and act properly where the information owner has consented. CIMA members are expected to apply the fundamental principle of confidentiality in line with the CIMA Code of Ethics and the International Ethics Standards Board for Accountants' requirements. See CIMA Code of Ethics and the IESBA International Code of Ethics.

QUESTION NO: 44

Steve manages the accounts for a large software company. He's good at his job, though it has recently emerged that he is going through quite a messy divorce.

Why should the company's senior management be most concerned?

A. Because Steve could be motivated to steal from the company.

B. Because Steve might not work as hard.

C. Because there is a risk Steve could get aggressive with other employees within the company.

D. Because Steve might start to be untruthful and not disclose information that he should.

ANSWER: A

Explanation:

Because Steve could be motivated to steal from the company is the most significant concern. A difficult divorce can create acute personal and financial pressure, for example through legal costs, division of assets, maintenance obligations, or a sudden change in living costs. Financial pressure is a recognised fraud-risk factor. Where a person has responsibility for accounting records or access to company assets, that pressure may increase the risk that they rationalise dishonest conduct or exploit weaknesses in controls.

Senior management should not assume that Steve will act improperly merely because of a personal situation. Instead, they should respond proportionately through sound governance and internal control: ensure appropriate segregation of duties, independent review of reconciliations and unusual journals, properly controlled access rights, and timely management oversight. These measures protect both the organisation and Steve by reducing opportunity and ensuring that concerns are addressed objectively rather than through speculation. CIMA's ethical framework emphasises integrity and professional behaviour, while fraud-risk guidance commonly identifies pressure, opportunity and rationalisation as conditions that can contribute to occupational fraud. See the AICPA & CIMA ethics resources and the Association of Certified Fraud Examiners' overview of the fraud triangle.

QUESTION NO: 45

Which of the following is the main legislature within the European Union?

A. The Council of the European Union

B. The European Parliament

C. The European Court of Justice

D. The European Commission

E. The European Parliament and the Council of the European Union jointly

ANSWER: E

Explanation:

The European Parliament and the Council of the European Union jointly exercise the European Union's principal legislative function. Under the ordinary legislative procedure, which applies to most EU policy areas, the European Commission normally proposes legislation and both the directly elected European Parliament and the Council must agree on the same text before it can become an EU regulation, directive, or decision. This shared role reflects the EU's institutional balance: Parliament represents EU citizens, while the Council represents the governments of Member States through the relevant national ministers. It is therefore not technically accurate to identify either institution alone as the EU's sole or "main" legislature. The European Commission also has an important role because it generally initiates legislative proposals, but it does not ordinarily enact legislation itself. The Court of Justice of the European Union interprets and ensures the application of EU law rather than serving as a legislature. The EU's own institutional information confirms that Parliament jointly adopts EU laws with the Council, and its explanation of the ordinary legislative procedure describes their equal legislative role. See the European Parliament's EU institution profile and the European Parliament's legislative powers guidance.

QUESTION NO: 46

Which of the following statements refer to the Sarbanes-Oxley Act?

A. Known as Sarbox or SOX

B. Rules-based approach

C. Only applies to the US

D. Established in 1992

E. Adherence is not compulsory

ANSWER: A B

Explanation:

"Known as Sarbox or SOX" is correct because the Sarbanes-Oxley Act of 2002 is widely referred to in business, audit, and regulatory practice as "SOX" or "Sarbox." The Act was enacted in response to major corporate reporting failures and introduced substantial requirements intended to improve the reliability of public-company financial reporting, strengthen auditor independence, and increase the accountability of senior management.

"Rules-based approach" is also correct. SOX is commonly contrasted with the UK Corporate Governance Code's principles-based model because it contains detailed statutory obligations and associated Securities and Exchange Commission requirements. A central example is the requirement for management to assess, and external auditors to report on, internal control over financial reporting for relevant issuers. Its provisions also require chief executive and chief financial officers to certify periodic reports and establish the Public Company Accounting Oversight Board to oversee audits of public companies. These formal, specified compliance duties are why SOX is appropriately described as rules-based. The enacted legislation is available from the U.S. Government Publishing Office, and the SEC provides an overview of Sarbanes-Oxley rulemaking and resources.

QUESTION NO: 47

Which of the following are situations involving familiarity threats? Select ALL that apply.

A. Steve - A business manager who hires his 18-year-old son for a managerial level job.

B. Kay - A department manager who doesn 't reprimand one of her team members for doing a job wrong because they are friends.

C. Angela - Has worked on the production line for the past seven years.

D. Steve - Conducts monthly reviews of his team's performance (the team hasn't changed for the past five years).

E. Bryan - Has worked as an accountant for the past ten years. He always makes sure he is up-to-date with changes in the industry.

ANSWER: A B D

Explanation:

A familiarity threat arises when a professional's objectivity, professional judgement or willingness to challenge conduct is compromised because of a close personal relationship, family connection, or a lengthy association. "Steve - A business manager who hires his 18-year-old son for a managerial level job." involves a family relationship that can affect impartial recruitment and management decisions. "Kay - A department manager who doesn 't reprimand one of her team members for doing a job wrong because they are friends." directly shows personal friendship influencing the manager's judgement and willingness to act appropriately. "Steve - Conducts monthly reviews of his team's performance (the team hasn't changed for the past five years)." presents a long-standing relationship with the same staff, which can make the reviewer overly sympathetic, less sceptical, or less willing to challenge performance issues. These circumstances require safeguards such as independent oversight, rotation of responsibilities where practicable, transparent recruitment controls, and escalation of conflicts. The International Ethics Standards Board for Accountants describes familiarity threats as arising from a long or close relationship that causes a professional accountant to become too sympathetic to another person's interests or too accepting of their work. See the IESBA International Code of Ethics and CIMA's Code of Ethics resources.

QUESTION NO: 48

Which of the following are reasons why regulatory frameworks may differ between countries: Select ALL that apply.

A. Differences in law and tax

B. Differences in history and culture

C. Differences in types of shareholder

D. Difference in language

E. Difference in GDP

ANSWER: A B C

Explanation:

Differences in law and tax, differences in history and culture, and differences in types of shareholder are all important reasons that regulatory frameworks vary internationally. A country's legal tradition shapes the mechanisms through which rules are made, interpreted and enforced. For example, company law, securities regulation, creditor protection and tax policy influence reporting, governance duties and the incentives faced by businesses. Historical development and cultural expectations also affect the balance a jurisdiction adopts between detailed mandatory rules, principles-based regulation, self-regulation and stakeholder protection. Corporate governance frameworks are consequently rooted in national institutional contexts rather than being identical worldwide. The ownership structure of companies is also significant. Jurisdictions with widely dispersed share ownership tend to focus strongly on accountability between directors and numerous external investors, whereas jurisdictions with concentrated or family, state, or institutional ownership may place greater emphasis on controlling-shareholder influence, minority-investor protections and related-party transactions. These factors help explain why governance and regulatory approaches legitimately differ even where countries pursue common objectives such as transparency, accountability and sustainable value creation. This is consistent with CIMA's BA4 coverage of corporate governance and with the OECD's recognition that governance frameworks operate within differing legal, regulatory and institutional environments. See CIMA qualification syllabus and the G20/OECD Principles of Corporate Governance.

QUESTION NO: 49

Which of the following is correct?

(i) A contract of guarantee is unenforceable unless it is evidenced in writing.

(ii) A contract to sell land must be in writing.

(iii) A contract of employment must be in writing.

A. (i) and (ii) only

B. (i) and (iii) only

C. (ii) and (iii) only

D. (i), (ii) and (iii).

ANSWER: A

Explanation:

(i) and (ii) only is correct under English contract law. A guarantee is a promise to answer for another person's debt, default or miscarriage. Section 4 of the Statute of Frauds 1677 provides that an action cannot be brought on a special promise of this kind unless there is a written note or memorandum of the agreement, signed by the party to be charged (or an authorised person). The statutory requirement concerns enforceability rather than whether the parties have in fact reached an agreement. The legislation is available at legislation.gov.uk: Statute of Frauds 1677, section 4.

A contract for the sale or other disposition of an interest in land must also comply with a formal writing requirement. Under section 2 of the Law of Property (Miscellaneous Provisions) Act 1989, the contract must be made in writing, incorporate all expressly agreed terms, and be signed by or on behalf of each party. This formal requirement gives certainty for land transactions and means an informal oral bargain will generally not constitute a valid land contract. See legislation.gov.uk: Law of Property (Miscellaneous Provisions) Act 1989, section 2.

QUESTION NO: 50

Michael is conducting a social and environmental audit on a chemicals factory. Which of the following should he review?

A. Emissions levels and the procedures the factory has in place to manage them.

B. Wastage levels and the procedures the company has in place to manage them.

C. Recycling targets and procedures.

D. Adherence to health and safety procedures.

E. Operational efficiency.

F. Suitability of the project plan, and project management process.

G. Adherence to rules and procedures.

ANSWER: A B C D

Explanation:

A social and environmental audit examines whether an organisation identifies, controls and reports the significant impacts of its activities on the environment and on people affected by its operations. For a chemicals factory, “Emissions levels and the procedures the factory has in place to manage them” is central because releases to air, water and land can create material environmental and public-health impacts. The audit should consider both measured performance and the effectiveness of controls, monitoring and corrective processes.

“Wastage levels and the procedures the company has in place to manage them” and “Recycling targets and procedures” are also appropriate review areas. They address resource use, waste prevention, recovery and disposal arrangements, which are key elements of environmental management. “Adherence to health and safety procedures” belongs in scope because the social dimension includes employees’ welfare, safe working conditions and the management of occupational risks, particularly where hazardous substances may be present.

These areas align with recognised environmental-management practice, which requires organisations to manage environmental aspects, compliance obligations, risks and operational controls. They also reflect the International Labour Organization’s emphasis on safe and healthy working environments. See ISO 14001 environmental management and the ILO occupational safety and health resources.

QUESTION NO: 51

Zed plc contracted to build an apartment block for Exe Ltd. Which of the following would provide Zed with a valid excuse not to proceed with the contract?

(i) A key employee who was to manage the project has resigned.

(ii) The price of the materials to be used by Zed plc have increased to such an extent that the building can only be completed at a loss to Zed plc.

(iii) Planning permission has been refused.

A. (i) only

B. (i) and (ii) only

C. (i) and (iii) only

D. (iii) only

ANSWER: D

Explanation:

(iii) only is correct because refusal of planning permission can frustrate a building contract. Frustration applies where, after the contract has been made and without either party being at fault, an unforeseen supervening event makes the agreed performance impossible, illegal, or fundamentally different from that originally undertaken. A final refusal of the necessary planning permission means that constructing the proposed apartment block lawfully cannot proceed. This is a change in the legal circumstances surrounding performance rather than simply a more inconvenient or less profitable project, and it can therefore discharge the parties automatically from their future contractual obligations, provided that the risk of refusal was not expressly allocated by the contract and Zed did not cause the refusal.

The principle is illustrated by the strict approach to frustration in *Davis Contractors Ltd v Fareham UDC*, where the House of Lords confirmed that the event must transform the obligation into something radically different from that undertaken: BAILII: Davis Contractors Ltd v Fareham UDC. Where frustration does occur, the financial consequences are addressed by the Law Reform (Frustrated Contracts) Act 1943.

QUESTION NO: 52

Which of the following is a civil action?

i. An action by a local authority against a restaurant for selling impure food.

ii. An action by a taxpayer against Her Majesty ' s Revenue and Customs ("HMRC") in relation to an expenses claim which has been refused by the Inspector of Taxes.

iii. An action by Exe Ltd against Zed Ltd for supplying equipment which was found to be dangerous.

A. (i) only

B. (ii) only

C. (i) and (ii) only

D. (i) and (iii) only

E. (ii) and (iii) only

ANSWER: E

Explanation:

(ii) and (iii) only is correct because both matters concern the determination or enforcement of private civil rights rather than a prosecution for an offence. A taxpayer who challenges an HMRC decision concerning a refused expenses claim is pursuing a tax appeal. Such disputes are dealt with through the tax tribunal system, which considers appeals against specified HMRC decisions and determines the taxpayer's liability or entitlement. HM Courts & Tribunals Service explains the relevant process at First-tier Tribunal (Tax).

Exe Ltd's claim against Zed Ltd similarly has the characteristics of a civil claim. Supplying dangerous equipment may give rise to contractual remedies, such as damages for breach of contract, and may also potentially involve civil liability in tort where loss has resulted. The purpose of such proceedings is ordinarily to establish responsibility between the parties and provide a remedy, commonly compensation, rather than to impose a criminal punishment. The Civil Procedure Rules govern civil litigation in England and Wales; see the Civil Procedure Rules. Therefore, the taxpayer's challenge and the company's claim for dangerous supplied equipment are civil actions.

QUESTION NO: 53

Which of the following have made an error of principle? Select ALL that apply.

A. Svetlana - Recorded a payment of £530 in the company's expenses account rather than its sales account.

B. Jim - Recorded a payment of £1,000 in both the company's expenses account and the sales account.

C. David - Forgot to record a payment of £50 in the company's sales account.

D. Jean - Recorded a customer payment as £120 when they actually paid £150.

E. Janet - Recorded the payment made by one customer in another customer's account.

ANSWER: A B

Explanation:

An error of principle occurs when a transaction is entered in an account of the wrong accounting class, so that its economic nature is misclassified. This is distinct from a simple arithmetic or amount error: the issue is that the bookkeeping treatment does not reflect whether the transaction represents income, expenditure, an asset, a liability, capital, or revenue. "Svetlana - Recorded a payment of £530 in the company's expenses account rather than its sales account." is an error of principle because sales revenue has been treated as an expense. This confuses income with expenditure and therefore misstates the nature of the transaction in the financial records. "Jim - Recorded a payment of £1,000 in both the company's expenses account and the sales account." also makes an error of principle because the recording uses expense and sales accounts for the same payment, treating the transaction as both expenditure and revenue rather than recording it according to its proper accounting nature. Correct classification is essential to producing meaningful profit figures and financial statements. The CIMA Certificate qualification includes foundational financial-accounting knowledge within its syllabus framework; see CIMA Certificate in Business Accounting. Further guidance on the accounting equation and classifying transactions is available from AccountingCoach's accounting equation explanation.

QUESTION NO: 54

Why should accountants be up-to-date with developments in the profession?Choose TWO options.

A. To ensure that clients or employers receive a competent professional service

B. To avoid accusations of negligence

C. To ensure successful career development

D. To earn the respect of their colleagues

ANSWER: A B

Explanation:

Accountants must keep their professional knowledge and skills current so that clients or employers receive a competent professional service. Professional competence is not fixed at the point of qualification: changes in accounting standards, tax rules, legislation, technology, regulation, and accepted professional practice can all affect the quality and appropriateness of advice or work. Maintaining current knowledge enables an accountant to apply relevant standards correctly and exercise sound professional judgement in the circumstances.

Keeping up to date also helps an accountant avoid accusations of negligence. A professional may be expected to perform work with the level of reasonable care, skill and competence applicable to their role. Where a loss or error results from failing to take account of developments that a competent accountant should reasonably have known about, that failure may expose the accountant or their organisation to allegations of negligent work. Ongoing learning and development therefore support both the quality of professional service and the fulfilment of the duty of professional competence and due care. The International Ethics Standards Board for Accountants explains this fundamental principle in its International Code of Ethics; CIMA members can also access ethical and professional guidance through AICPA & CIMA Ethics and Independence resources.

QUESTION NO: 55

According to the CIMA Code of Ethics, which of the following categories describe common threats to compliance with the fundamental principles? Please select all that apply.

A. Self-interest threats

B. Self-review threats

C. Familiarity threats

D. Intimidation threats

E. Advocacy threats

ANSWER: A B C D E

Explanation:

The applicable threat categories are self-interest threats, self-review threats, familiarity threats, intimidation threats, and advocacy threats. CIMA's Code of Ethics uses a conceptual framework: professional accountants must identify threats to compliance with the fundamental principles, evaluate whether those threats are at an acceptable level, and address them when necessary. The threat categories provide a structured way to perform that assessment. A self-interest threat arises where a financial or other personal interest could inappropriately influence professional judgement. A self-review threat can arise when an accountant must evaluate previous work or a judgement they made. Familiarity threats arise from a long or close relationship that creates excessive sympathy or trust. Intimidation threats arise where actual or perceived pressure deters objective action. An advocacy threat occurs where promoting a client's or employer's position compromises, or appears to compromise, objectivity. Because advocacy threats are also an expressly recognised category, they must be included for the question to be complete. CIMA members and students should apply this framework in the context of their professional activities and take appropriate safeguards or other actions where threats are not at an acceptable level. See CIMA's Code of Ethics resources and the International Code of Ethics for Professional Accountants.

QUESTION NO: 56

Which of the following terms can be defined as follows?

"How an organization manages its relationships in the wider community"

A. Ethics

B. Social responsibility

C. Corporate governance

D. Professional behavior

ANSWER: B

Explanation:

Social responsibility is the appropriate term because it concerns an organisation's accountability for, and management of, the effects it has on people, communities and the environment beyond its immediate commercial objectives. It encompasses the way the organisation builds and maintains relationships with external stakeholders in the wider community, including employees, customers, suppliers, local residents, government and society generally. In practice, this involves considering social and environmental consequences alongside financial performance, engaging openly with affected groups, and acting responsibly in areas such as employment practices, community impact, human rights, environmental stewardship and ethical supply chains.

This understanding is consistent with internationally recognised guidance on social responsibility. ISO 26000 describes social responsibility as an organisation's responsibility for the impacts of its decisions and activities on society and the environment, exercised through transparent and ethical behaviour. CIMA's BA4 syllabus also includes corporate social responsibility within its coverage of business ethics, stakeholder relationships and the responsibilities of organisations to society. Therefore, the definition focusing on management of relationships in the wider community identifies **Social responsibility**. See ISO 26000 social responsibility guidance and CIMA Professional Qualification information.

QUESTION NO: 57

Why does life-long learning require commitment? Choose TWO options.

A. Rapid advances in technology

B. Evolving regulations

C. Career progression

D. Computer virus-protection

ANSWER: A B

Explanation:

Rapid advances in technology and **Evolving regulations** are correct because maintaining professional competence is an ongoing responsibility rather than something achieved once through initial study or qualification. Technology continually changes how finance professionals collect, analyse, protect and report information. Commitment to life-long learning helps a professional remain capable of using relevant systems, understanding emerging digital risks, and applying sound judgement in a changing business environment.

Regulatory requirements also develop over time in response to economic conditions, new business practices, public-policy changes and lessons from corporate failures. A professional must keep their technical knowledge current so that advice, decisions and reporting continue to comply with applicable rules and professional standards. This directly supports the ethical principle of professional competence and due care: professionals should maintain the knowledge and skill needed to provide competent services. CIMA's ethics resources emphasise the need for members and students to act competently and diligently, while continuing professional development provides a structured way to maintain and develop relevant capability throughout a career. See the CIMA Code of Ethics resources and CIMA's continuing professional development guidance.

QUESTION NO: 58

Which THREE of the following are disadvantages of rules-based approaches to ethical standards?

Rules-based approaches:

A. are inflexible and expensive

B. motivate compliance through value and judgment

C. are subject to precise definitions of wording and hence become contentious

D. have subjective standards which may cause confusion.

E. require objective enforcement by an independent party.

F. are inconsistently applied due to the need for judgment.

ANSWER: A C E

Explanation:

Rules-based approaches can be **inflexible and expensive** because they require detailed requirements to be drafted, kept current as circumstances change, communicated, monitored and enforced. In an ethical context, an extensive rulebook can also encourage a compliance-focused mindset: individuals may concentrate on satisfying the literal wording rather than considering the broader ethical purpose of professional conduct.

They are also **subject to precise definitions of wording and hence become contentious**. Where compliance depends on whether particular facts fit within a prescribed rule, significant effort can be spent interpreting terms, identifying exceptions and debating technical boundaries. This can make ethical decision-making overly legalistic rather than centred on integrity and professional judgement.

Finally, rules-based approaches **require objective enforcement by an independent party** if they are to operate credibly and consistently. Establishing investigation, monitoring and disciplinary processes creates administrative cost and can make the framework less adaptable. CIMA's ethical framework places professional conduct within a wider principles-based code, while recognising the importance of procedures for responding to non-compliance. See the CIMA Code of Ethics and CIMA's ethics and independence resources.

QUESTION NO: 59

ABC Accountants has taken out an advert in its local paper to promote its services. Mr B, an account manager, is uncomfortable, as the advert says that ABC is expert in charitable tax issues, and he knows that none of the partners have that expertise. However, Mr B does not want to be thought of as a 'trouble maker' by bringing the matter up with his manager. Which TWO things should Mr B do?

A. Seek guidance from CIMA's Code of Ethics

B. Seek guidance from his line-manager

C. Do nothing

D. Speak to the local paper

ANSWER: A B

Explanation:

"Seek guidance from CIMA's Code of Ethics" and "Seek guidance from his line-manager" are the appropriate actions. A public claim that the firm has specialist charitable-tax expertise when it does not have that capability raises a professional-behaviour issue. CIMA members and students must comply with laws and regulations and avoid conduct that they know, or should know, might discredit the profession. Marketing must therefore be honest and must not make misleading claims about the firm's skills, knowledge, or services.

Consulting CIMA's Code of Ethics helps Mr B identify the applicable fundamental principles and use the Code's ethical conflict-resolution approach. The Code supports gathering the facts, considering the ethical issue, considering available internal procedures, and documenting significant matters. Raising the concern with his line manager is an appropriate initial internal escalation step. It gives the firm an opportunity to review, correct, or withdraw the advertising claim through its normal management and governance processes. Mr B's concern about being labelled a troublemaker does not remove the professional responsibility to address a credible ethical issue in an appropriate manner.

See the CIMA Code of Ethics resources and the International Ethics Standards Board for Accountants ethics resources.

QUESTION NO: 60

Company B wants to implement ethical control over its staff. It wants to do this by implementing a strong organisational culture.

Which of the following are ways in which the organisation could exercise control in regards to its organisational culture?

Select ALL that apply.

A. Introduce a statement of values which outlines what the organisation stands for.

B. Ensure the company's ethical expectations are thoroughly communicated.

C. Ensure that the company's chairman and CEO lead by example.

D. Ensure that the company's organisational systems encourage adherence to its ethics.

E. Ensure that disciplinary action is taken when the company's ethical code is broken.

F. Only employ directors who have proven strong moral values.

ANSWER: A B C D E

Explanation:

Introducing a statement of values which outlines what the organisation stands for gives employees a clear, shared foundation for expected behaviour. Values become an ethical control when they are made meaningful in everyday decisions rather than treated simply as a written declaration. Ensuring the company's ethical expectations are thoroughly communicated embeds those values throughout the organisation, so staff understand both the standards expected and their relevance to their roles.

Ensuring that the company's chairman and CEO lead by example is particularly important because senior conduct signals what behaviour is genuinely accepted and rewarded. Ethical culture is strengthened when leaders' decisions consistently reflect the organisation's stated values. Ensuring that the company's organisational systems encourage adherence to its ethics also aligns recruitment, training, performance management, incentives, reporting arrangements, and decision processes with those expectations.

Ensuring that disciplinary action is taken when the company's ethical code is broken makes the ethical standards credible and consistently enforceable. Fair, proportionate enforcement demonstrates that the organisation takes its commitments seriously and helps maintain trust in its culture. This reflects the emphasis in the UK Corporate Governance Code on a board establishing and assessing the desired culture, values and behaviours, supported by policies and practices throughout the workforce. See the Financial Reporting Council's UK Corporate Governance Code and its corporate governance guidance.

QUESTION NO: 61

Miss B is working closely with Mr L to deliver an important report on the efficiency of Mr L's department. They have had to work late together several times, and last night they went out to dinner afterwards. Miss B is starting to think she may have feelings for Mr L. Could her independence be called into question?

A. Yes, her feelings could be influencing her independence of mind

B. No, she is not actually dating Mr L so her independence of appearance is not compromised

C. No, provided she does not act on her feelings and continues to be professional

D. Yes, having dinner with a work colleague can affect her independence of appearance

ANSWER: A

Explanation:

Yes, her feelings could be influencing her independence of mind. Independence of mind means being able to make professional judgments without being affected by influences that could compromise objectivity, integrity or professional scepticism. Miss B is preparing a report that evaluates Mr L's own department, so the possibility of a developing personal attachment is directly relevant: it could consciously or unconsciously affect the rigour of her work, the issues she chooses to investigate, or how critically she assesses evidence concerning the department. The question is not whether a relationship has formally begun or whether Miss B intends to behave professionally. A threat to independence can arise as soon as circumstances create a real risk that judgment may be biased. She should recognise the personal-interest or familiarity threat, disclose it through the appropriate internal process, and consider safeguards such as an independent review, reassignment, or changes to her role on the engagement. This supports objective reporting and protects confidence in the report's conclusions. The CGMA profession's ethics resources emphasise integrity, objectivity and identifying and addressing threats to compliance with ethical principles; see AICPA & CIMA Ethics resources and International Code of Ethics for Professional Accountants.

QUESTION NO: 62

While working as an accountant, you are asked to overlook certain irregularities in your company's accounts. This is likely to result in tensions described by which TWO of the following four options:

A. Personal and societal values

B. Personal and corporate values

C. Professional and corporate values

D. Professional and societal values

ANSWER: B C

Explanation:

“Personal and corporate values” is correct because an accountant’s individual moral beliefs, such as honesty, fairness and unwillingness to conceal wrongdoing, may conflict with an employer’s request to disregard accounting irregularities. The request creates a direct practical tension between what the individual considers ethically acceptable and the conduct apparently expected by the organisation.

“Professional and corporate values” is also correct. Accountants are required to act in accordance with professional ethical principles, particularly integrity, objectivity and professional behaviour. A direction to overlook irregularities threatens those obligations and can place the accountant’s professional responsibilities in conflict with a corporate culture, objective or instruction that prioritises concealing the issue. The appropriate professional response is to recognise the ethical conflict, avoid association with misleading information, and use relevant escalation or reporting procedures where necessary.

This reflects the ethical framework used in professional accountancy, in which personal, organisational and professional values can create competing pressures. The International Ethics Standards Board for Accountants’ Code sets out the fundamental principles applicable to professional accountants, including integrity and objectivity. See the IESBA International Code of Ethics and CIMA’s ethics resources.

QUESTION NO: 63

If a professional accountant believes that he or she will not be able to comply with all the legal frameworks, regulations and standards for business in a particular circumstance, what does he or she have a duty to do? Please select TWO of the following:

A. Obey the law

B. Disregard conflicting standards

C. Act in the interests of his or her employer

D. Raise his or her concerns by speaking up

ANSWER: A D

Explanation:

A professional accountant’s first duty in this situation is to obey the law. CIMA’s ethical requirements make clear that members must comply with applicable laws and regulations, and professional behaviour requires avoiding any action that discredits the profession. Where legal requirements conflict with other frameworks, the accountant cannot treat professional or organisational standards as permission to breach the law. The appropriate response is therefore to establish the relevant legal obligations and ensure that conduct remains lawful.

The accountant also has a duty to raise his or her concerns by speaking up. Identifying a potential inability to comply should not be ignored or handled privately without escalation. Concerns should be communicated through appropriate internal channels, such as a line manager, senior management, those charged with governance, compliance, legal, or whistleblowing arrangements. Speaking up supports ethical decision-making, enables the organisation to assess and address the conflict, and creates an appropriate record that the issue was raised. This approach is consistent with the CIMA Code of Ethics, particularly its emphasis on integrity, professional behaviour, and responding appropriately to non-compliance with laws and regulations. See the CIMA Code of Ethics and the IESBA International Code of Ethics.

QUESTION NO: 64

Which of the following is incorrect?

A. A director may be removed from office for any reason by an ordinary resolution.

B. A special resolution is needed to dismiss a director if the Articles of Association provide that he is to be a director for life.

C. The company must be given 28 days' notice of a proposed resolution to dismiss a director.

D. A director who is under threat of removal has the right to speak at the meeting, whether or not he is a member.

ANSWER: B

Explanation:

“A special resolution is needed to dismiss a director if the Articles of Association provide that he is to be a director for life.” is incorrect. Under section 168 of the Companies Act 2006, shareholders may remove a director before the end of the director’s period of office by passing an ordinary resolution at a meeting. This statutory power applies notwithstanding anything in the company’s articles of association or in an agreement between the company and the director. Therefore, even where the articles purport to appoint someone for life, that provision cannot displace the members’ statutory ability to remove that director through an ordinary resolution. The removal procedure does have important safeguards: the proposed resolution requires special notice, and the director is entitled to make written representations and to be heard at the meeting. These procedural protections do not alter the type of members’ resolution required for removal. The statutory rule protects shareholder accountability by ensuring that directors remain removable by the members, rather than being insulated from removal by an entrenched appointment term in the articles. See Companies Act 2006, section 168 and Companies Act 2006, section 169.

QUESTION NO: 65

Which of the following is correct in relation to the UK Corporate Governance Code?

(i) The Code gives rise to a disclosure requirement

(ii) Breach of the Code gives rise to criminal penalties

(iii) Breach of the Code gives rise to civil liability

A. (i) only

B. (i) and (ii) only

C. (ii) and (iii) only

D. (iii) only

ANSWER: A

Explanation:

(i) only is correct. The UK Corporate Governance Code operates through a principles-based “comply or explain” framework. Companies within its scope, principally those with a premium listing on the London Stock Exchange, are required by the FCA’s Listing Rules to state in their annual financial report how they have applied the Code’s principles and whether they have complied with its provisions. Where a provision has not been followed, the company must identify the provision and provide a clear, reasoned explanation of the alternative governance arrangements used. This makes the Code a source of corporate-governance disclosure obligations rather than a statute that automatically creates direct criminal sanctions or civil claims for every instance of non-compliance. The purpose is to promote transparency and enable shareholders and the market to assess the quality of a company’s governance and the adequacy of any explanation for departure. The Financial Reporting Council publishes the Code and explains that it is applied on a comply-or-explain basis, while the FCA’s rules provide the regulatory framework for the related reporting by listed companies. See the Financial Reporting Council’s UK Corporate Governance Code page and the FCA Listing Rules disclosure provisions.

QUESTION NO: 66

Which TWO of the following remedies may be available to an innocent party following a breach of contract?

A. Damages

B. Specific performance

C. Criminal imprisonment of the party in breach

D. A financial penalty imposed unilaterally by the innocent party

ANSWER: A B

Explanation:

Damages may be awarded to compensate the innocent party for loss caused by the breach, subject to rules concerning causation, remoteness and mitigation. The purpose is generally to place the innocent party, so far as money can do so, in the position they would have been in had the contract been performed.

Specific performance may also be available in appropriate circumstances. It is an equitable remedy requiring the party in breach to perform its contractual obligation. A court is more likely to grant it where damages would not be an adequate remedy, for example where the contract concerns unique property. It is not granted automatically.

Criminal imprisonment is not an ordinary civil remedy for breach of contract, and an innocent party cannot unilaterally impose a financial penalty on the other party without a contractual or legal basis.

QUESTION NO: 67

Which of the following are the TWO main differences between the structure and function of company boards in Germany and the UK?

A. In Germany, boards often have a two-tier structure, wheras in the UK they are normally unitary.

B. In Germany, employees are usually represented on the board, whereas in the UK they are not.

C. In Germany, the board reports on corporate governance issues, whereas in the UK it does not.

D. In Germany, boards are responsible for both management and governance, whereas in the UK they are responsible only for one or the other.

ANSWER: A B

Explanation:

The correct distinctions are that German companies commonly operate a two-tier board system and that employee representation is embedded in the governance structure of many larger German companies. In the two-tier model, the management board (Vorstand) runs the company's day-to-day operations, while the supervisory board (Aufsichtsrat) appoints, oversees and advises the management board. These functions are institutionally separated. By contrast, the UK Corporate Governance Code is framed around a unitary board: executive and non-executive directors serve on one board, which is collectively responsible for the company's long-term sustainable success, strategy, performance and oversight. The UK system can therefore combine executive management participation and independent challenge within the same board structure.

German co-determination law also requires employee representatives on supervisory boards once specified workforce thresholds are met. In particular, companies generally have one-third employee representation at the relevant threshold, while larger companies can have parity representation, subject to the statutory framework. UK company law and the UK Corporate Governance Code encourage boards to consider workforce views and engagement, but they do not normally require employees to be appointed as board members. These structural and employee-participation features are the key comparative differences. See the German Corporate Governance Code and the UK Corporate Governance Code.

QUESTION NO: 68

Which of the following is correct in relation to damages?

(i) The victim of a breach of contract may claim damages in respect of losses caused by the breach which were within the contemplation of the contract breaker.

(ii) As a general rule damages cannot be claimed for annoyance and inconvenience caused by the breach of contract.

(iii) Where there is a breach of contract, damages are available to the innocent party as of right.

A. (i) only

B. (i), (ii) and (iii)

C. (ii) only

D. (ii) and (iii) only

ANSWER: B

Explanation:

(i), (ii) and (iii) is correct. Contract damages are intended to compensate the innocent party for loss caused by the breach, placing that party, so far as money can, in the position they would have occupied had the contract been performed. A recoverable loss must not be too remote. The foundational rule in *Hadley v Baxendale* permits recovery where loss arises naturally from the breach or was within the reasonable contemplation of the parties when they made the contract. Thus, a contract breaker may be liable for losses of which they had the necessary contractual knowledge. The case is available at BAILII: Hadley v Baxendale.

The usual purpose of a commercial contract is economic rather than emotional, so the normal compensatory measure does not include damages for mere annoyance or inconvenience. This is a general rule, expressed in the leading authority of *Addis v Gramophone Co Ltd*, while the law recognises limited circumstances in which the contract's object makes non-financial enjoyment or freedom from inconvenience significant. Finally, an innocent party has a legal right to seek damages following breach; unlike equitable remedies, an award of damages is not generally dependent on the court exercising a discretionary remedy jurisdiction. Where no substantial loss is proved, nominal damages may still vindicate that right. See the UK Supreme Court's discussion of the compensatory contractual measure in The New Flamenco judgment.

QUESTION NO: 69

SuperSole eventually decides to outsource its internal audit.

Which of the following are benefits it might experience from doing so?

Select ALL that apply.

A. Flexibility to increase or reduce in size

B. Readily available expertise

C. Lower costs

D. More independent auditing process

E. Less time taken

F. Less risk of confidential information leaking

ANSWER: A B C D

Explanation:

Outsourcing internal audit can give SuperSole the flexibility to increase or reduce in size because the engagement can be adjusted to reflect changes in the audit plan, business activity, specialist projects, or periods of higher assurance need. Rather than maintaining every capability permanently in-house, the organisation can draw on readily available expertise from a provider with staff experienced in areas such as technology risk, fraud, data analytics, and particular industries.

It may also achieve lower costs, especially where maintaining a full internal audit department would require continuous spending on recruitment, salaries, training, systems, and specialist skills that are needed only intermittently. Cost benefits should be assessed over the full contract and governance arrangements, but they are a recognised potential advantage of outsourcing. Finally, an external provider can support a more independent auditing process because its personnel are outside the operational management structure being reviewed. This can strengthen objectivity, provided the provider has no conflicting advisory or management role and reports appropriately to those charged with governance. The board or audit committee nevertheless remains accountable for ensuring that internal audit is effective. See the Institute of Internal Auditors' Global Internal Audit Standards and its professional guidance resources.

QUESTION NO: 70

Which of the following is INCORRECT in relation to the recommendations of the Greenbury Committee Report of 1995?

A. All the recommendations were incorporated into the Stock Exchange Listing Rules.

B. Directors should never be given discounted share options.

C. Annual bonuses should not be pensionable.

D. Any long-term incentive schemes to be offered to directors should first be approved by the shareholders.

ANSWER: A

Explanation:

"All the recommendations were incorporated into the Stock Exchange Listing Rules." is the incorrect statement. The Greenbury Committee's 1995 report established a Code of Best Practice on directors' remuneration and called for listed companies to provide disclosure about their application of that code. Its approach was not that every individual recommendation became a directly mandatory, detailed Stock Exchange Listing Rule. Instead, the London Stock Exchange incorporated a requirement for listed companies to report on compliance with the Code and to explain instances of non-compliance. This was an early form of the UK's principles-based corporate-governance approach, commonly described as "comply or explain". Consequently, the recommendations retained their character as best-practice provisions, supported by reporting and disclosure obligations, rather than all being converted wholesale into binding Listing Rules. This distinction is important in CIMA's corporate-governance syllabus: governance codes encourage transparency, shareholder accountability, and informed market discipline, while listing rules may impose specific formal obligations. The Greenbury report also became an important precursor to later UK corporate-governance developments, including the Combined Code and the current UK Corporate Governance Code. The original report is available via the European Corporate Governance Institute; the continuing UK governance-code framework is maintained by the Financial Reporting Council.

QUESTION NO: 71

A professional accountant is NOT accountable to:

A. The public

B. His or her clients

C. His or her employer

D. His or her company's competitors

ANSWER: D

Explanation:

His or her company's competitors is correct because a professional accountant's professional and ethical accountability arises from duties to the public interest, the organisation or client for whom they work, and the profession. Those duties require integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. In practice, an accountant employed by a business must provide reliable information, act lawfully, protect confidential information, and support sound governance for their employer. Where the accountant provides services to a client, they must similarly meet their professional obligations while maintaining an overriding duty to the public interest.

Competitors are not parties to the accountant's professional engagement, employment relationship, or ethical accountability framework. An accountant must of course avoid unlawful conduct that could affect competitors, such as misuse of confidential information or anti-competitive behaviour, but that does not create a direct professional accountability to those competitors. The IESBA Code explains that professional accountants serve the public interest and establishes the fundamental ethical principles that govern their conduct. CIMA members and students are expected to apply these principles in their professional work. See the International Code of Ethics for Professional Accountants and CIMA Code of Ethics.