

Business Awareness: Summary of corrections to course materials

These changes affect version V003 of the materials.

Course Notes & Questions

Page 148	<p>We have deleted the following sentence, because it is now out-of-date:</p> <p><i>Currently it is voluntary for businesses to undertake and report on sustainable measures, but the government is debating whether to make sustainable reporting and assurance mandatory.</i></p> <p>Some reporting is now mandatory for plc's (but you do not need to know the detail).</p>
Page 162	<p>Chapter 7 Practice Example 3 – Solution</p> <p>The bottom row (scrap aluminium) should have a tick in both the environmental and the financial columns.</p>
Page 289	<p>We have added some examples of cyber-attacks:</p> <ul style="list-style-type: none">▶ Key logging – recording a user's keystrokes as they type▶ Malware – <u>malicious software</u> that steals data or damages computer systems▶ Password attack – hacking a user's password▶ Phishing – tricking a user into sharing data or downloading malware▶ File hijacking – gaining unauthorised access to a file

Task Bank & Mocks

Page 107	<p>Task 4 revision example 2 – solution</p> <p>The answer to part (d) (i) should be:</p> <p>The process by which the proceeds of crime, and the true ownership of those proceeds, are changed so that the proceeds appear to come from a legitimate source.</p>
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Extra handouts

The content from the two extra handouts at the end of this document have now been incorporated into our course notes.

We have also added the reference material, which is available to access in the assessment.

Business Awareness Reference Materials

The following information is available to access in the assessment:

Introduction and code of fundamental principles

100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, your responsibility as a member is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest members shall observe and comply with the *Code* of ethical requirements set out in this *Code*.

100.2 This *Code* is in three parts. Part A establishes the *Code* of fundamental principles of professional ethics for members and provides a conceptual framework for applying those principles. The conceptual framework provides guidance on fundamental ethical principles. Members are required to apply this conceptual framework to enable them to identify threats to compliance with the fundamental principles, to evaluate their significance and, if such threats are not clearly insignificant, to apply safeguards to eliminate them or reduce them to an acceptable level such that compliance with the fundamental principles is not compromised.

100.3 Parts B and C describe how the conceptual framework applies in certain situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. They also describe situations where safeguards are not available to address the threats and where the activity or relationship creating the threats shall be avoided. Part B applies to Licenced members. Part C applies to members in business. Licenced members may also find Part C relevant to their particular circumstances.

100.4 In this *Code* the use of the word 'shall' imposes a requirement on the member to comply with the specific provision in which 'shall' has been used. Compliance is required unless an exception is permitted by this *Code*.

Fundamental principles

100.5 A member shall comply with the following fundamental principles:

- Integrity: to be straightforward and honest in all professional and business relationships.
- Objectivity: to not allow bias, conflict of interest or undue influence of others to override professional or business judgements.
- Professional competence and due care: to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A member shall act diligently and in accordance with applicable technical and professional standards when providing professional services.
- Confidentiality: to, in accordance with the law, respect the confidentiality of information acquired as a result of professional and business relationships and not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships shall not be used for the personal advantage of the member or third parties.
- Professional behaviour: to comply with relevant laws and regulations and avoid any action that discredits the profession.

Conceptual framework approach

100.6 The circumstances in which members operate may give rise to specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates such threats and specify the appropriate mitigating action. In addition, the nature of engagements and work assignments may differ and consequently different threats may exist, requiring the application of different safeguards. Therefore, this *Code* establishes a conceptual framework that requires a member to identify, evaluate and address threats to compliance with the fundamental principles. The conceptual framework approach assists members in complying with the ethical requirements of this *Code* and meeting their responsibility to act in the public interest. It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and can deter a professional accountant from concluding that a situation is permitted if it is not specifically prohibited.

Threats and safeguards (Part 1)

100.12 Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a member's compliance with the fundamental principles. A circumstance may create more than one threat, and a threat may affect compliance with more than one fundamental principle.

Threats fall into the following categories:

- Self-interest threats, which may occur where a financial or other interest will inappropriately influence the member's judgement or behaviour
- Self-review threats, which may occur when a previous judgement needs to be re-evaluated by the member responsible for that judgement
- Advocacy threats, which may occur when a member promotes a position or opinion to the point that subsequent objectivity may be compromised
- Familiarity threats, which may occur when, because of a close or personal relationship, a member becomes too sympathetic to the interests of others
- Intimidation threats, which may occur when a member may be deterred from acting objectively by threats, whether actual or perceived.

Parts B and C of this *Code* explain how these categories of threats may be created for Licenced members and members in business respectively. Licenced members may also find Part C relevant to their particular circumstances.

Threats and safeguards (Part 2)

100.13 Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. These fall into two broad categories:

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

100.14 Safeguards created by the profession, legislation or regulation include, but are not restricted to:

- Educational, training and experience requirements for entry into the profession
- Continuing professional development requirements
- Corporate governance regulations
- Professional standards
- Professional or regulatory monitoring and disciplinary procedures

- External review of the reports, returns, communications or information produced by a member and carried out by a legally empowered third party

100.16 Certain safeguards may increase the likelihood of identifying or deterring unethical behaviour. Such safeguards, which may be created by the accounting profession, legislation, regulation or an employing organisation, include, but are not restricted to:

- Effective, well publicised complaints systems operated by the employing organisation, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behaviour
- An explicitly stated duty to report breaches of ethical requirements.

Conflicts of interest

100.17 A member may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The member undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict or
- The interests of the member with respect to a particular matter and the interests of a party for whom the member undertakes a professional activity related to that matter are in conflict.

Ethical conflict resolution

100.19 In evaluating compliance with the fundamental principles, a member may be required to resolve a conflict in the application of fundamental principles.

100.20 When initiating either a formal or informal conflict resolution process, a member shall consider the following, either individually or together with others, as part of the resolution process:

- relevant facts
- ethical issues involved
- fundamental principles related to the matter in question
- established internal procedures
- alternative courses of action.

Having considered these factors, a member shall determine the appropriate course of action that is consistent with the fundamental principles identified. The member shall also weigh the consequences of each possible course of action. If the matter remains unresolved, the member may wish to consult with other appropriate persons within the firm or employing organisation for help in obtaining resolution.

100.21 Where a matter involves a conflict with, or within, an organisation, a member shall determine whether to consult with those charged with governance of the organisation, such as the board of directors or the audit committee.

100.22 It may be in the best interests of the member to document the substance of the issue and details of any discussions held or decisions taken concerning that issue.

100.23 If a significant conflict cannot be resolved, a member may consider obtaining professional advice from the relevant professional body or legal advisers on a confidential basis and thereby obtain guidance on ethical issues without breaching confidentiality. For example, a member may suspect that he or she has encountered a fraud and may need to discuss confidential information in order to satisfy themselves as to whether their suspicions are justified. In such circumstances, the member shall also consider the requirement under the anti-money laundering legislation to submit a report to NCA or to the firm's Money Laundering Reporting Officer (MLRO).

100.24 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a member shall, where possible, refuse to remain associated with the matter creating the conflict. The member shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement, the firm or the employing organisation.

Integrity

110.1 The principle of integrity imposes an obligation on all members to be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness.

110.2 A member shall not be associated with reports, returns, communications or other information where they believe that the information:

- contains a false or misleading statement
- contains statements or information furnished recklessly
- omits or obscures information required to be included where such omission or obscurity would be misleading.

When a member becomes aware that they have been associated with such information they shall take steps to be disassociated from the information.

110.3 A member will not be considered to be in breach of paragraph 110.2 if the member provides a modified report in respect of a matter contained in paragraph 110.2.

Objectivity

120.1 The principle of objectivity imposes an obligation on all members not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others.

120.2 A member may be exposed to situations that may impair objectivity. It is impractical to define and prescribe all such situations. Relationships that bias or unduly influence the professional judgement of the member shall be avoided. A member shall not perform a professional service if a circumstance or relationship biases or unduly influences their professional judgement with respect to that service.

Professional competence and due care

130.1 The principle of professional competence and due care imposes the following obligations on members:

- to maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service and
- to act diligently in accordance with applicable technical and professional standards when providing professional services.

130.2 Competent professional service requires the exercise of sound judgement in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:

- attainment of professional competence and
- maintenance of professional competence.

130.3 The maintenance of professional competence requires continuing awareness and understanding of relevant technical, professional and business developments. Continuing professional development (CPD) develops and maintains the capabilities that enable a member to perform competently within the professional environment. To achieve this, Council expects all members to undertake CPD in accordance with the *AAT Policy on Continuing Professional Development*. This requires members to assess, plan, action and evaluate their learning and development needs. Licensed members should also refer to paragraph 200.3.

130.4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

130.5 A member shall take reasonable steps to ensure that those working under the member's authority in a professional capacity have appropriate training and supervision.

130.6 Where appropriate, a member shall make clients, employers or other users of the professional services aware of limitations inherent in the services to avoid the misinterpretation of an expression of opinion as an assertion of fact.

Confidentiality (Part 1)

In general terms, there is a legal obligation to maintain the confidentiality of information which is given or obtained in circumstances giving rise to a duty of confidentiality. There are some situations where the law allows a breach of this duty.

The following sections help to explain what this means in practice for members as well as giving guidance on the standards required of members from an ethical perspective.

140.1 The principle of confidentiality imposes an obligation on members to refrain from:

- disclosing outside the firm or employing organisation confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose and
- using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

Information about a past, present, or prospective client's or employer's affairs, or the affairs of clients of employers, acquired in a work context, is likely to be confidential if it is not a matter of public knowledge.

140.2 A member shall maintain confidentiality even in a social environment. The member shall be alert to the possibility of inadvertent disclosure, particularly in circumstances involving close or personal relations, associates and long established business relationships.

140.3 A member shall maintain confidentiality of information disclosed by a prospective client or employer.

140.4 A member shall maintain confidentiality of information within the firm or employing organisation.

140.5 A member shall take all reasonable steps to ensure that staff under their control and persons from whom advice and assistance is obtained respect the principle of confidentiality. The restriction on using confidential information also means not using it for any purpose other than that for which it was legitimately acquired.

140.6 The need to comply with the principle of confidentiality continues even after the end of relationships between a member and a client or employer. When a member changes employment or acquires a new client, the member is entitled to use prior experience. The member shall not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.

Confidentiality (Part 2)

140.7 As a fundamental principle, confidentiality serves the public interest because it facilitates the free flow of information from the client to the member. Nevertheless, the following are circumstances where a member may be required to disclose confidential information or when such disclosure may be appropriate:

- where disclosure is permitted by law and is authorised by the client or the employer (or any other person to whom an obligation of confidence is owed) for example:
 - production of documents or other provision of evidence in the course of legal proceedings or
 - disclosure to the appropriate public authorities (for example, HMRC) of infringements of the law that come to light
 - disclosure of actual or suspected money laundering or terrorist financing to the member's firm's MLRO or to NCA if the member is a sole practitioner, or
- where there is a professional duty or right to disclose, which is in the public interest, and is not prohibited by law. Examples may include:
 - to comply with the quality review of an IFAC member body or other relevant professional body
 - to respond to an inquiry or investigation by AAT or a relevant regulatory or professional body
 - to protect the member's professional interests in legal proceedings
 - to comply with technical and professional standards including ethics requirements.

This is a difficult and complex area and members are therefore specifically advised to seek professional advice before disclosing confidential information under (c) above.

140.8 In deciding whether to disclose confidential information, members should consider the following points:

- whether the interests of all parties, including third parties, could be harmed even though the client or employer (or other person to whom there is a duty of confidentiality) consents to the disclosure of information by the member
- whether all the relevant information is known and substantiated, to the extent that this is practicable. When the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgement should be used in determining the type of disclosure to be made, if any
- the type of communication or disclosure that may be made and by whom it is to be received; in particular, members should be satisfied that the parties to whom the communication is addressed are appropriate recipients.

Members who are in any doubt about their obligations in a particular situation should seek professional advice.

Professional behaviour

150.1 The principle of professional behaviour imposes an obligation on members to comply with relevant laws and regulations and avoid any action that may bring disrepute to the profession. This includes actions which a reasonable and informed third party, having knowledge of all relevant information, would conclude negatively affect the good reputation of the profession.

Members should note that conduct reflecting adversely on the reputation of AAT is a ground for disciplinary action under AAT's *Disciplinary Regulations*.

150.2 An example of this principle is that in marketing and promoting themselves and their work, members shall be honest and truthful. They may bring the profession into disrepute if they:

- make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained
- make disparaging references or unsubstantiated comparisons to the work of others.

Taxation (Part 1)

160.1 Members performing taxation services in the UK, Ireland and in other member states of the EU will be dealing with compliance and advice on direct and indirect taxes based on income, gains, losses and profits. The administrative authorities and the legal basis for direct and indirect taxes vary substantially.

160.2 Professional members working in tax must comply with the fundamental principles of behaviour outlined in *Professional Conduct in Relation to Taxation (PCRT)*. It is beyond the scope of this *Code* to deal with detailed ethical issues relating to taxation services encountered by members. The guidance that follows consists therefore of general principles for members which apply to both direct and indirect taxation.

160.3 A member providing professional tax services has a duty to put forward the best position in favour of a client or an employer. However, the service must be carried out with professional competence, must not in any way impair integrity or objectivity and must be consistent with the law.

160.4 A member shall not hold out to a client or an employer the assurance that any tax return prepared and tax advice offered are beyond challenge. Instead the member shall ensure that the client or the employer is aware of the limitations attaching to tax advice and services so that they do not misinterpret an expression of opinion as an assertion of fact.

160.5 A member shall only undertake taxation work on the basis of full disclosure by the client or employer. The member, in dealing with the tax authorities, must act in good faith and exercise care in relation to facts or information presented on behalf of the client or employer. It will normally be assumed that facts and information on which business tax computations are based were provided by the client or employer as the taxpayer, and the latter bears ultimate responsibility for the accuracy of the facts, information and tax computations. The member shall avoid assuming responsibility for the accuracy of facts, etc. outside his or her own knowledge.

160.6 When a member submits a tax return or tax computation for a taxpayer client or employer, the member is acting as an agent. The nature and responsibilities of the member's duties should be made clear to the client or employer, in the case of the former, by a letter of engagement.

160.7 Tax advice or opinions of material consequence given to a client or an employer shall be recorded, either in the form of a letter or in a memorandum for the files.

160.8 In the case of a Licenced member acting for a client, the member shall furnish copies of all tax computations to the client before submitting them to HMRC.

Taxation (Part 2)

160.9 When a member learns of a material error or omission in a tax return of a prior year, or of a failure to file a required tax return, the member has a responsibility to advise promptly the client or employer of the error or omission and recommend that disclosure be made to HMRC. If the client or employer, after having had a reasonable time to reflect, does not correct the error, the member shall inform the client or employer in writing that it is not possible for the member to act for them in connection with that return or other related information submitted to the authorities. Funds dishonestly retained after discovery of an error or omission become criminal property and their retention amounts to money laundering by the client or employer. It is also a criminal offence in the UK for a person, including an accountant, to become concerned in an arrangement which he knows or suspects facilitates (by whatever means) the acquisition, retention, use or control of criminal property by or on behalf of another person. Other EU states have equivalent provisions. In each of these situations, the member shall comply with the duty to report the client's or employer's activities to the relevant authority, as explained in the following paragraph.

160.10 (i) A Licenced member whose client refuses to make disclosure of an error or omission to HMRC, after having had notice of it and a reasonable time to reflect, is obliged to report the client's refusal and the fact surrounding it to the MLRO if the member is within a firm, or to the appropriate authority (NCA in the UK) if the member is a sole practitioner. The member shall not disclose to the client or anyone else that such a report has been made if the member knows or suspects that to do so would be likely to prejudice any investigation which might be conducted following the report.

160.11 An employed member in business whose employer refuses to make disclosure of an error or omission to HMRC:

- where the employed member in business has acted in relation to the error or omission, he or she should report the employer's refusal and the surrounding facts, including the extent of the member's involvement, to the appropriate authority as soon as possible, as this may provide the member with a defence to the offence of facilitating the retention of criminal property
- where the employed member in business has not acted in relation to the error or omission, he or she is not obliged to report the matter to the authorities. However, if the member does make a report to the appropriate authority, such will not amount to a breach of the member's duty of confidentiality.

Taxation (Part 3)

160.12 Where a member in business is a contractor who is a 'relevant person' for the purposes of the *Money Laundering Regulations* in the UK or equivalent legislation in another EU State or other overseas jurisdictions, the member shall act in accordance with paragraph 160.10, as though he were a Licenced member. However, where the member in business is not a 'relevant person', he should act in accordance with paragraph 160.11.

160.13 All members have a responsibility to make themselves familiar with anti-money laundering and terrorist financing legislation, sector specific guidance and guidance issued by AAT in this regard.

160.14 The tax authorities in many countries have extensive powers to obtain information. Members confronted by the exercise of these powers by the relevant authorities should seek appropriate legal advice.

AAT LEVEL 3

Business Awareness (BUAW)

Extra notes on partnerships

Chapter 1 – Understanding business types

Your notes cover the two most common types of partnership: unlimited liability partnerships (sometimes called general partnerships) and limited liability partnerships (LLPs). However there is a third type of partnership that you need to be aware of called a limited partnership.

Limited partnerships

In a limited partnership, there will be at least one **general partner** and at least one **limited partner**. The partners have different responsibilities and levels of liability for the partnership's debts. A person cannot be a general and a limited partner at the same time.

General partners	Limited partners
<ul style="list-style-type: none"> • Are liable for any debts that the business cannot pay. • Control and manage the business on a day to day basis. 	<ul style="list-style-type: none"> • Are only liable for business debts up to the amount that they have contributed to the partnership. (Like shareholders of a company). • Cannot take part in the management of the business.

All partners pay income tax on their share of the profits.

Limited partnerships must be registered with Companies House.

Comparison of the three types of partnership:

	Unlimited liability (or general) partnerships	Limited partnerships	Limited liability partnerships (LLPs)
Separate legal entity from its owners?	No	No	Yes
Formation regulations	None, except a partnership agreement	Must register with Companies House	Must register with Companies House
Number of members	At least two	At least two, comprising at least one general partner and at least one limited partner	At least two
Liability for business debts	Unlimited liability	General partners – unlimited liability Limited partners – liability limited to the amount they have contributed to the partnership	Liability limited to capital member agrees to contribute

AAT LEVEL 3

Business Awareness (BUAW)

Extra notes on economics – types of goods

Chapter 5 – The micro-economic environment

In economics, there are several types of goods that we can classify based on consumer behaviour and market demand.

Normal Goods

Normal goods are goods that experience a change in demand as consumer income increases. For example, if a person's income rises, they are likely to increase their demand for goods such as clothing, food, and entertainment. Normal goods can be further divided into two categories: **inferior goods** and **superior goods**.

Inferior goods are goods that experience a **decrease** in demand as consumer income increases. An example of an inferior good might be generic or store-brand food products, as consumers may choose to purchase more expensive name-brand products as their income increases.

Superior goods are goods that experience an **increase** in demand as consumer income increases. Examples of superior goods include higher-quality food products or clothing items, or more reliable or durable household appliances.

The demand for normal goods is said to be income elastic. This means that the percentage change in the quantity demanded of a normal good is greater than the percentage change in income. For example, if consumers' income increases by 10%, their demand for normal goods may increase by 15%. This shows that normal goods have a relatively high demand elasticity.

Luxury Goods

Luxury goods are the goods that have a higher demand elasticity than normal goods. Luxury goods are defined as goods that are not necessary for a person's basic needs and are associated with high income levels. Examples of luxury goods include expensive cars, jewellery, designer clothing, and high-end electronics.

The demand for luxury goods is said to be income elastic as well, but to a greater extent than normal goods. When consumers' income rises, they are more likely to purchase luxury goods as they can afford them. However, the increase in demand for luxury goods is much greater than the increase in income. For example, if consumers' income increases by 10%, their demand for luxury goods may increase by 20%.

Necessity Goods

Necessity goods are goods that are essential for daily life, such as food, water, and housing. These goods are typically priced lower than luxury goods and are marketed towards consumers of all income levels. Because they are essential for daily life, demand for necessity goods is relatively stable, regardless of changes in consumer income.

Substitute Goods

Substitute goods are goods that can be used as alternatives to each other. For example, if the price of one brand of soft drink increases, consumers may switch to a different brand of soft drink that is priced lower. Similarly, if the price of beef increases, consumers may choose to purchase chicken or pork instead. The degree to which one good can be substituted for another depends on factors such as price, availability, and consumer preferences.

Complementary Goods

Complementary goods are goods that are typically purchased and used together. For example, if a person purchases a video game console, they may also need to purchase video game controllers in order to use the console. In this case, the video game console and video game controllers are complementary goods. Similarly, if a person purchases a printer, they may also need to purchase ink cartridges in order to use the printer. The demand for complementary goods is often interconnected, as changes in the demand for one good can affect the demand for the other good.

Common areas of confusion

Are superior goods and luxury goods the same thing?

- No, superior goods and luxury goods are not the same thing in economics, although there is some overlap between the two concepts.
- Superior goods are goods for which demand increases as income increases, but not as much as for luxury goods. In other words, superior goods are goods that people are more likely to buy as their income rises, but they are still considered necessary or essential goods, rather than luxury items. Earlier we used the examples of higher-quality food products or clothing items, or more reliable or durable household appliances.
- Luxury goods, on the other hand, are goods for which demand increases significantly as income increases. Luxury goods are typically high-end, expensive products that are considered to be non-essential or highly discretionary. Earlier we used the examples of designer clothing, high-end sports cars, or expensive jewelry.
- So while both superior goods and luxury goods may be associated with higher income levels, superior goods are more necessary or essential, while luxury goods are more discretionary or indulgent.

Are luxury goods also classed as normal goods?

- Yes, a luxury good is also a normal good, but a normal good isn't necessarily a luxury good.
- Luxury goods can be considered normal goods because their demand increases with rising income levels.