FAE Exam

GUIDE 2023

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Welcome

I am pleased to again have the opportunity to introduce this very important and timely publication, now in its fourth year, and to commend it to you on the final lap of your preparation for FAE Summer 2023.

This initiative, building upon the success of the 2022, 2021 and 2020 FAE Exam Guides, is a further demonstration of the shared commitment the Education and Examinations departments have in making FAE as transparent and fair an examination process as possible.

The articles that follow contain valuable insights into the priorities and concerns of the Examination Teams and build on a series of interviews, which formed an important initiative in FAE Summer 2020, FAE Summer 2021 and FAE Summer 2022.

A note of personal thanks to John Munnelly for his unswerving commitment and enthusiasm in bringing together all the contributions to this year's FAE Exam Guide.

No doubt many of you will have heard from your predecessors how helpful this guidance has been to them in previous years, as frequently noted in the Chartered Accountants Student Society of Ireland report.

My advice is to ensure that you fully understand the points being made (which are designed to guide and help you) and relate them to cases, notes and questions you are already familiar with. I wish you every success in FAE Summer 2023.

Paul Monahan
FAE Academic Coordinator

Contents

JULY/AUGUST 2023


7


14


9

In conversation with the FAE Core Examiner

Paul Monahan, Lead FAE Educator at Chartered Accountants Ireland, sits down with the FAE Core Examiner to talk through some important topics ahead of this year's Final Admitting Examination. Here's how it went

FAE 2023: overall context

Paul Monahan (PM): Last year's FAE Core paper contained a number of themes that were current at the time, including sustainability and post-pandemic supply chains. Would it be fair to assume that, in framing this year's paper, you continue to recognise the complexity and multi-factorial nature of the external environment, and the varying impact on different industries?

FAE Core Examiner (FCE): Yes, that assumption is still valid. FAE Core has always reflected the current external environment and it is important to bear in mind that the forces that were dominating the external environment last year are still lingering and will continue to do so for the foreseeable future.

The era of low interest rates is over, and we will not see a return to this in the next decade or two. Our world will be shaped by an increased burden of legislation and macro events that are in a constant state of flux. Take, for example, the

Suggested study listening

"I don't know where I'm going, but I sure know where I've been". This line by David Coverdale, lead singer of Whitesnake, is from the eternal rock group's acclaimed hit "Here I Go Again". Given all that's going on right now in the wider world, it's a reasonable assumption that similar themes will face this year's FAE students to those in 2022. And it's a great listen! – John Munnelly

war in Europe – its impact on this economy is very real in terms of energy price inflation, food inflation and social issues that exacerbate housing stock shortages.

Naturally, these issues are going to influence the writing in some way, and there is the opportunity for an informed student to reference these real-world examples providing they are relevant to the answer.

Topic Area 1: Financial Reporting and journals

PM: Within Financial Reporting, we continue to place a significant focus on journal entries in our case study teaching. Is that reflective of the importance that you ascribe to this aspect of Financial Reporting?

FCE: This is the third year we have specifically called out Financial Reporting, and it still remains a missed opportunity for those students who are ultimately unsuccessful in passing FAE Core at their first attempt. Students who fail typically present weaker Financial Reporting answers in their scripts.

Journals remain essential to resolving Financial Reporting issues in a working environment and FAE Core Financial Reporting questions will reflect that.

Since the inception of the FAE Exam Guide, we have regularly written articles on the topic of journals. We have often fed back through the various FAE Committee reports the variance of quality in journals over the sittings ranging from woeful to excellent. We have witnessed improvement and deterioration in the quality of journals over the past number of years.

This is why we constantly call it out and refer to it. If any student was to read past FAE Exam Guides, they would see the many articles that speak to the subject. It is not repetition on our part. The number of marks available for good practice regarding journals cannot be overstated.

Topic Area 2.3 and 2.4: Strategic Management and Leadership

PM: My colleagues and I would see the introduction of 2.3 The Characteristics Required for Entity Transformation (including the specifically referenced STRONG model for 2023) and 2.4 Integration – Considering the Wider Impact of Strategic Activity in Strategic Management and Leadership, as a further step towards integrating different subject areas to better reflect the reality of commercial life. Would you agree?

FCE: These are important topic areas and welcome additions to the Strategic Management and Leadership topic material. We are actively blending the Indicators we develop for the FAE Core paper. It is more reflective of what happens in reality.

Topic Area 3.1: DAAIET

PM: The clarifications to the DAAIET Competency Statement and in particular the inclusion of 3.1 could be seen as moving DAAIET more towards the core (no pun intended) of typical FAE case studies. Would that be a reasonable interpretation?

FCE: With the advent of generative AI and its possible impact on the future of work, technology has been a regular feature of the news in the past few months.

I welcomed the move of the old

FAE Core Topic 2.5 material to FAE Core Topic Area 3 as I had long felt that really was its natural home.

IT strategy is as important as company strategy, but it has a more natural fit with the technology topic, and it is a great way to link the technology topic with strategy.

This Topic Area 3.1 remains of particular interest given the mentioned advances in technology. Technology is actually forcing large organisations to actively reconsider their strategy in response to these advances.

Indicators in this area tend to blend with other elements of the syllabus; we are actively starting to do this in exam questions.

It is encouraging to see that certain teaching Indicators in the Integrated Case Days demonstrate this blending of Data Analytics, Artificial Intelligence, Emerging Technologies (DAAIET) with other Core subjects, and we would commend these to students.

Topic Area 4: Risk Management and Sustainability

PM: Sustainability and related issues feature regularly in FAE Core papers, given that every second media headline contains a climate-related topic. What are your views on this?

FCE: The realities of financial decision-making will be a lived experience for the current crop of FAE students. The Corporate Sustainability Reporting Directive (CSRD) is only being absorbed by professional bodies such as the Institute and will feature in future syllabi.

However, I feel it is as important to point out to students that ethics and ethical behaviour are as important as anything to do with sustainability. I see both sets of subject matter as being related to each other.

FAE students are going to go on to be decision-makers and guardians of financial resources. The ability to act with responsibility to all stakeholders is going to have increasing importance especially in light of sustainability.

Students will have to consider and examine the ethical implications and dimensions of colleagues' behaviour.

Last year's FAE Core paper had an ethical implication in a number of areas, especially in the overworking of a key employee, and the potential working conditions of employees in third-party suppliers.

The onus will always be on the student to consider the potential for an ethical dilemma and advise accordingly.

The importance of professional competence

PM: My lecturing colleagues and I continue to emphasise the importance of professional competence, in both the FAE and in students' careers. We make the point that advice is judged partially on how it is couched, how it is communicated, and how well it is provided in the context of the situation outlined in the exam. Would you agree, and what insights would you offer here?

FCE: Our answer to this is consistent with the advice we offered in last year's FAE Exam Guide and worth repeating. The CIRRUS platform provides a clear opportunity to improve communication skills and, in general, we have seen better and more focused answers since its introduction.

Earning consistently strong professional competence marks comes down to practice and practice alone. We have seen the students who clearly believe they can knock it out of the park on the first question but then the rest of their paper is a mess.

It is essential that students practise on CIRRUS and make good use of the practice papers. The FAE Examining Team is acutely aware of the low levels of engagement with mock exams, practice papers and practice on-boarding.

We understand that this cohort of students has experience of the examination platform, but the point we would make is that thorough preparation is critical, so why would any student leave any variable of their exam preparation to chance?

There will always be changes to machine code updates, a student laptop may have any number of changes to Windows updates, Wi-Fi connectivity, firewall or anti-virus software, so our advice is simply this: engage with your Education Team.

Based upon thousands of exams undertaken to date, they will have built up an extensive library of questions and answers to support students. Leverage this resource.

Focusing specifically on the exam itself, success comes down to structure. Start by identifying what is being asked.

Yes, we are going to ask students to perform up to three or four pieces of work per Indicator and we will not apologise for that. So, structure is vital. Identify what is being asked. Start with an introduction, a sentence to frame the answer, then get to the requirements.

There will be plenty of hooks in the case upon which to frame the answer, so a skill is to determine which hooks to use.

If a question asks for a recommendation, give one. If you have done your analysis correctly and selected the appropriate facts, then your analysis should make your recommendation easier. It is worth mentioning that we often see a correlation between strong technical marks and scoring well on Professional Competence, so it has a reinforcing effect.

You can read last year's FAE Exam Guide here.

The multi-faceted role of the modern accountant

As a profession, accountants rarely operate in isolation. This is why topics such as ESG, Technology, and Strategic Management and Leadership form part of the FAE Core Syllabus, writes **John Munnelly**

Have you heard of the Fermi Paradox, named after the Italian-American physicist Enrico Fermi, who famously asked, "Where is everybody?"

The Fermi Paradox refers to the apparent contradiction between the high probability of extra-terrestrial civilisations existing in the universe, and the lack of conclusive evidence for this, or proven contact with such civilisations. Right now, therefore, we can only conclude that we are alone in the universe.

However, drawing an analogy between the Fermi Paradox and the role of accountants is an interesting way to explore the importance of the role of accountants beyond traditional financial domains.

The Fermi Paradox suggests that humanity may be alone in the universe, highlighting the necessity for us to collaborate, explore and connect with one another.

Similarly, in the field of accounting, it is crucial for accountants to recognise that they cannot operate in isolation, solely focusing on financial matters while disregarding the broader context their organisations operate in and society as a whole.

In the past, some accountants may have held the view that their

role was confined to financial reporting, bookkeeping and compliance, perceiving other areas of an organisation as unrelated to their responsibilities. This perspective has evolved significantly in recent years, however.

The current FAE teaching syllabus (FAE Core Topic Area 4) recognises the emphasis in modern accounting practice on the integration of financial information with non-financial data such as environmental, social and governance (ESG) factors.

Accountants now recognise the importance of understanding the broader impact of an organisation's activities on stakeholders including employees, customers, communities and the environment.

Moreover, accountants increasingly play a strategic role in decision-making processes in business and other sectors, by providing financial insights and analysis that inform strategies, risk management and performance evaluation (FAE Core Topic Area 2).

This requires accountants to collaborate with professionals from various disciplines, such as marketing, operations and sustainability, to ensure a holistic understanding of an organisation's activities and objectives.

Just as the Fermi Paradox challenges the notion of the isolation of humanity in the universe, the evolution of the accounting profession challenges the notion of accountants operating in isolation as a profession.

Today, accountants are expected to engage with, and contribute to, a wide range of business activities, promoting transparency, ethical practices and sustainable growth.

The analogy above highlights that accountants, like all professionals, are part of an interconnected system and must recognise their role in the larger context of organisations and society.

Embracing collaboration, expanding their knowledge beyond finance and considering the broader impact of their work are crucial for accountants to fulfil their role effectively in the modern business landscape.

Legislation and regulation will come and go. We are constantly at the advent of a technological advancement that will provide us with the tools to parse, analyse and synthesise any amount of regulatory burden or scrutiny (FAE Core Topic Area 3).

What remains is the importance of being a professional who acts with a duality firstly, to create sustainable value for the organisations that engage the services of a Chartered Accountant; and secondly, to the stakeholders whose voice does not feature in any conversation but who feel the impact of an organisation's economic activity.

This is why in FAE Core the questions in the exam are complementary to each other. Topic areas increasingly tend to blend into one another, demonstrating that silo learning is fine, but the student must consider a wider context and perspective for their learning (as demonstrated in FAE Core 2.4 Integration).

Much like the United States post-World War II, when the country asserted itself on a global stage after abandoning its pre-war isolationist policy through necessity and circumstance, this is that moment for the young accounting professional.

This recognition is encapsulated in the breadth of the examinable knowledge in Strategic Management and Leadership, mitigated by the fact that students have been exposed to much of this material before in their primary degrees or in CAP1 and CAP2. What is new perhaps is the way in which this material is interconnected, bringing us back to Fermi.

In my role at Chartered Accountants Ireland, I actively spend time each day wondering about how to make the accountancy profession extinct. But all I find from my thought experiments are infinite opportunities for the profession to lead and thrive. You are definitely not alone.

John Munnelly is FAE Paper Development Executive at Chartered Accountants Ireland

ESG and the tragedy of the horizon

John Munnelly discusses the role of accountants in ethical decision making and its implications for sustainable business

In last year's FAE Exam Guide, we discussed "the tragedy of the commons"; a concept whereby an individual's use of common resources, if left unchecked, will deplete the resources to the detriment of the wider group.

In 2015 Mark Carney, then Governor of the Bank of England, gave a speech in which he introduced the concept of "the tragedy of the horizon". So, how does the tragedy of the horizon relate to the pillars of environmental, social and governance (ESG)?

The concept of the tragedy of the horizon, often associated with climate change, refers to the potential ethical dilemma arising from the mismatch between the long-term consequences of certain actions and the short-term decision-making horizon of individuals, organisations or governments.

It highlights the challenge of addressing and taking appropriate actions to mitigate long-term risks that extend beyond immediate timeframes.

In the context of climate change, the tragedy of the horizon arises from the fact that the adverse impacts of greenhouse gas emissions and environmental degradation may not be fully experienced within the short-term decision-making cycles of businesses or political leaders.

The consequences of these actions, such as rising sea levels, extreme weather events and ecosystem disruptions, become more apparent and severe over longer time horizons.

The tragedy of the horizon gives rise to ethical implications that may seem disconnected from the immediacy of a business decision. Examples of these are:

Intergenerational equity – Climate change and environmental degradation have long-lasting effects that will disproportionately impact future generations. Failing to take action to mitigate these risks can be seen as an intergenerational injustice, as it transfers the burden of environmental consequences to people who had no part in creating them. Spare a thought for the decision makers if future generations ever develop time travel and decide to revisit their ancestors whose decision making contributed to the tragedy of the horizon!

***Responsibility and accountability* –** The tragedy of the horizon raises questions about the responsibility of current decision makers to address long-term risks. Ethically, there is an argument that leaders and organisations have a duty to consider the well-being of future generations and act in their best interests, even if this may not yield immediate benefits.

***Moral obligations to vulnerable populations* –** Climate change disproportionately affects marginalised and vulnerable communities, exacerbating social inequalities. Failing to address long-term risks can be seen as a violation of ethical obligations to protect and support these communities, particularly those who are most impacted by climate-related events.

***Environmental stewardship* –** The tragedy of the horizon challenges our ethical obligation to be good stewards of the environment. It highlights the need for a broader perspective that goes beyond short-term profit or gains and emphasises the long-term sustainability of ecosystems and the planet as a whole.

Where does ESG fit into the tragedy of the horizon?

ESG factors have been around since the 1960s. However, it took until the 1990s for them to gain real momentum.

The UN held its first ever 'Earth Summit' in 1992. In 1997, the Kyoto agreement was signed, pledging to reduce greenhouse gases, although it would take a further eight years for the protocol to be adopted into law.

In 2004, ESG was specifically referenced by the UN in a report titled 'Who Cares Wins' and it was incorporated into the 2006 Companies Act in the UK that introduced law regarding the governance element of ESG.

ESG was introduced as a non-financial reporting measure to require organisations to recognise the consequences of their economic activity on society. It is still a valuable starting point for any organisation against which to measure their activity.

ESG has endured a counter movement of criticism and backlash, however. Criticism of ESG can be summarised in four ways:

1 ***ESG is a distraction from the function of business* –** Milton Friedman once said that businesses ought to "make as much money as possible while conforming to their basic rules of the society". That aged well, yet there is evidence of organisations doing just that.

2 ***ESG is not possible because it is too difficult* –** This comes from a dogmatic observance of the mantra "maximise shareholder wealth". If the truth be told, it is realistic that shareholders will tolerate the ESG section of the annual report providing the cost of the measures

taken does not interfere with maximising shareholder wealth.

3 ***ESG is not measurable –*** It certainly feels like that, especially when many international bodies produce rules or legislation that contradict measurement. For example, the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) both measure employee training but do it differently, resulting in different metric scores.

4 ***Complaints that an organisation's ESG performance has no correlation with financial performance –*** In other words, it does not matter what is spent on ESG; it has no beneficial effect on the financial performance of the organisation.

In response to those widely banded criticisms of ESG, I would suggest addressing the following:

The new cost of doing business

In tomorrow's society, ESG will be the new cost of doing business, rather than being seen as merely a distraction. Shareholders in particular need to understand that ESG – its actions, measurement and subsequent reporting – is the new cost of doing business in the 21st century.

There is a societal expectation among ordinary people who are starting to pay more attention to the activities of business, and this trend will continue to grow.

Overcoming perceived challenges

To paraphrase former US president John F. Kennedy, "we do these things, not because they are easy, but precisely because they are hard".

Given the incoming burden of legislation and reporting ESG will present in the future, at Chartered Accountants Ireland we teach a wider concept of, not only maximising shareholder wealth, but also creating sustainable value.

Changing existing norms requires educating members who can challenge how value is created and sustained in the future.

Addressing measurability

With this, comes the challenge of measurability. Similar to the accounting standards in the 1990s and 2000s, legislation will eventually coalesce.

We may wish it to coalesce faster, but as a profession, we will have many tools at our disposal to allow us make sense of rules and measurement. This is an issue that will be resolved in the medium term.

Aligning strategy and reality

If organisations and their shareholders believe that ESG does not have any correlation with financial performance, they may be puzzled when their longer-term strategic objectives are not met.

Organisations may find the effects of societal expectations working against their objectives if they behave in a way that demonstrates disregard for the external environment.

The virtue signalling of 'keep cup' activism (fashionable back in 2018) will not earn marks with the FAE Examining Teams.

Food for thought:

A kilogram of emitted carbon has a lifespan of several decades to potentially a couple of centuries, depending on the processes of the earth that naturally break it down – for example absorption by vegetation, dissolution in the oceans – or man-made efforts to capture it. From your studies of cryptocurrency, students understand how money is an abstract concept, a medium that we all transmit value through. What is to stop us from having a future currency whereby we transmit value to each other by sequestering carbon?

Here are examples under each pillar that might be useful in framing discussion. Students should also draw on ESG activities and efforts they have come across in their own professional or personal lives.

ESG: Environment

Here are some discussion points on the physical environmental impact of an organisation's activity:

Pollution from greenhouse gas emissions (GHG) **–** Primarily through the emission of carbon dioxide via Scope 1, 2 or 3 perspectives. Understand the distinction between each of the three scopes. Scope 1 refers to emissions generated by an organisation's infrastructure and transport. Scope 2 refers to emissions generated through energy-purchased sources. Scope 3 emissions are those generated through upstream and downstream economic activities.

- **Upstream examples:** Emissions from purchased goods and services, capital goods or assets, fuel and energy-related activities, inbound logistics, waste generated on inbound goods and services, business travel or employee commuting.
- **Downstream examples:** Onward transport and distribution of products and services by third parties, further processing of sold produce, use of sold products and services, end-of-life treatment of sold products, investment activity or franchisees' activities.

Pollution from non-greenhouse gas sources **–** These include methane (natural gas and agriculture), nitrous oxide (industry and vehicles) and fluorinated gases (largely from industrial sources). These three gases are many times more potent at trapping heat in the atmosphere than carbon dioxide, though they tend not to have as long a lifespan as carbon.

Water and wastewater management **–** Very few people realise that the next imminent crisis facing humanity may come from the fact that we are rapidly running out of fresh water supplies. Industry is an enormous consumer of water and improper wastewater management that causes toxins to leach into water courses from industry and farming means that in our lifetimes our water systems will fail.

Waste and hazardous waste materials management **–** This starts with domestic waste. However, this pales in comparison with industrial waste. Plastic packaging is one of humanity's greatest inventions. It is also among the worst polluters. Have you ever noticed the packaging from your groceries and wondered why it is not recyclable? A lot of this packaging is called flow wrap and the packaging manufacturers use chemicals that cannot easily be separated during the recycling process. You should lobby your local politician about this. It all goes to landfill and will take between 20 and 500 years to degrade depending on the grade of packaging. Tragedy of the horizon?

Biodiversity and ecosystem rehabilitation **–** There is currently a pushback against concrete, another of humanity's great inventions, and one that releases masses of carbon at the point of creation. The rewilding of wetlands is currently being debated by the European Union. However, organisations can and should take responsibility for rehabilitation of areas displaced by their own activities.

ESG: Social

In this section, I will address some aspects of an organisation's potential social impact.

Inclusive workplace **–** When organisations take labour practices seriously, we can take for granted that there is adherence to labour laws and work practices such as Health & Safety. Building an inclusive workplace that has a positive social impact demands that organisations address inequalities so that their workforce reflects diversity in our society.

Sustainable employment **–** This focus involves the organisation adapting to the evolving business landscape and enabling employees to thrive in it. This should address the concept of providing 'fair work' that provides a fair income, social protection and freedom for employees to organise and participate in the decisions that affect them.

Community engagement – Responsible organisations have recognised community engagement as a way of making a meaningful contribution. However, in an increasingly complex world it might be more beneficial if we consider how an organisation engages via policies that cover community engagement, corporate giving and employee volunteering.

Human rights – Organisations must uphold the inherent rights of all their employees, regardless of race, sex, nationality, ethnicity, language, religion or any other status. The Corporate Social Reporting Directive (CSRD) will require companies to conduct due diligence of their operations and supply chains.

ESG: Governance

In this section I will address important aspects of governance, such as the quality of organisational decision making, governance structure and the distribution of responsibility across the organisation's stakeholders.

Business ethics – Organisation purpose matters to consumers; organisations that seek to incorporate sustainability into their long-term strategy will be considered more authentic and ethical in their behaviour. CSRD is going to force organisations to consider 'double materiality'. This means evaluating corporate information through the impact on the business's financial value, on society and on the environment. Reading a case study, students should be able to get a feel for the ethical undercurrents in the organisation. In the Strategic Management and Leadership mini cases, for example, compare the undercurrents revealed by the actions and attitudes of Tanya Brown in Facel Facilities and Ursula Simmonds in Neffus.

Fun fact: a manicured lawn can be more carbon intensive than a wild lawn given the care that goes into maintaining the former

Capital allocation – Boards will have to understand the limitations of traditional assessment tools and frameworks that allow for strategic decision making. Boards will further have to undertake risk assessment and impact assessment to evaluate the implications of capital allocation decisions. In case studies, companies that have cavalier attitudes towards growth through acquisition ought to be examined against the other two perspectives in ESG.

Governance structure – The structure ought to consist of members who have experience in the first instance, who develop policies that address sustainability issues that affect their organisation through relevant stakeholder engagement, and whose actions are transparent and open to scrutiny. Where students see members who talk about 'wink and nod' arrangements or preferential treatment, this ought to alert them to a potential issue.

Policies – Board policies will have to adhere to legal and regulatory compliance, as well as aligning to ESG principles that are consistent with an organisation's wider strategic aims. Students should be on alert for stagnation or lip service being paid to policies and be prepared to comment if appropriate to do so.

Conclusion

The concept of the tragedy of the horizon ought to be a useful way of reminding any organisation of the consequences of their decisions. Earlier in this article, I referred to the fact that the concept of ESG has been around since the 1960s, yet it is only now starting to gain legislative traction. Is this a perfect example of the tragedy of the horizon?

John Munnelly is FAE Paper Development Executive at Chartered Accountants Ireland

Mentorship:
a rich source of support

Leadership can be a lonely road for any professional under pressure to 'do the right thing', and this is where a mentor can help, writes **John Munnelly**

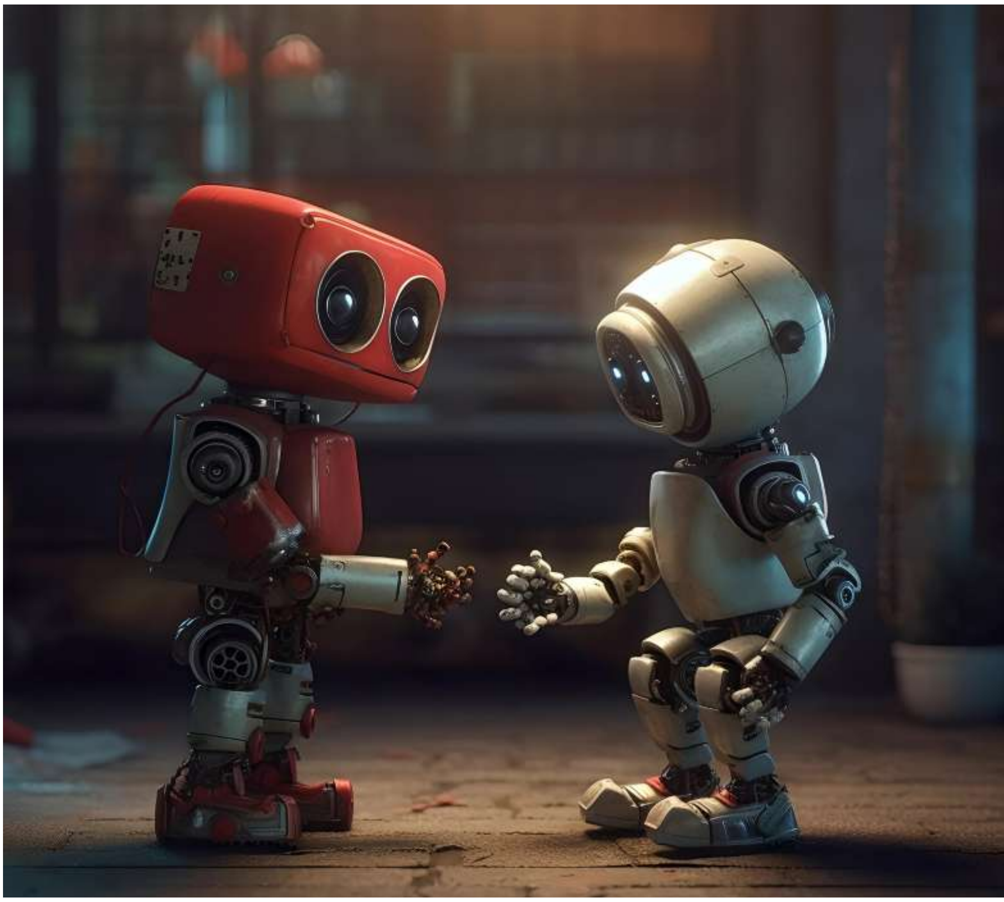
Mentoring is a collaborative and supportive relationship between a more experienced individual (the mentor) and the individual seeking mentoring (the mentee).

The mentor shares their knowledge, expertise and guidance to support the mentee's professional development, growth and success in their leadership role within the organisation. Mentoring is a serious undertaking that requires commitment from both parties.

Whilst the structure of the relationship between the mentor and mentee might be informal, a successful collaboration should contain some of the following elements to allow the mentee to get the best from the experience.

Knowledge transfer: Mentoring allows the mentor to share their knowledge, expertise and insights with the mentee. The mentor, based on their experience and understanding of the industry or organisation, provides guidance, advice and best practices to help the leader navigate challenges, make informed decisions and enhance their skills.

Skill development: Mentoring focuses on developing the specific skills and competencies needed for effective leadership. Mentors can provide guidance on areas such as strategic thinking, communication, team management, problem-solving and decision-making. They help leaders identify their strengths and weaknesses and work towards improving their leadership capabilities.



Career guidance: Mentors play a crucial role in providing career guidance to leaders. They can offer insights into different career paths within the organisation or industry, suggest development opportunities and provide advice on how to advance professionally.

Networking and relationship building: Mentoring often involves introducing leaders to new contacts, expanding their professional network and facilitating relationship building. Mentors may provide opportunities for the mentee to connect with industry experts, senior leaders or potential collaborators.

Emotional support and encouragement: Mentoring is not solely focused on technical skills and career advancement but also provides emotional support to leaders. Mentors offer a safe space for leaders to discuss challenges, seek advice and receive encouragement. They can provide reassurance, boost confidence and help leaders navigate the complexities of their roles.

Accountability and feedback: Mentoring relationships often involve regular check-ins and feedback sessions to assess the progress and development of the mentee. Mentors hold leaders accountable for their goals, challenge them to stretch their capabilities and provide constructive feedback to foster continuous improvement.

What are the benefits and drawbacks of a leader using mentoring as a means of furthering their professional development?

Potential benefits

Knowledge transfer: Mentoring allows leaders to tap into the experience and expertise of a mentor, gaining valuable insights, knowledge and lessons learned. Mentors can share their industry-specific knowledge, best practices and real-world examples, helping the mentee enhance their professional skills and decision-making abilities.

Personal growth: Mentoring fosters personal growth by providing a supportive environment for leaders to explore their strengths and weaknesses. Mentors can offer guidance, constructive feedback and help leaders identify areas for improvement. This self-awareness enables mentees to develop a growth mindset and work towards continuous improvement.

Expanded network: Mentoring relationships often result in the expansion of the mentee's professional network. Mentors can introduce mentees to new contacts, industry professionals and potential collaborators. These connections can lead to new opportunities, partnerships and access to valuable resources that can further enhance the mentee's professional development.

Career advancement: A mentor can provide career guidance, help mentees set goals, and assist in navigating the organisational landscape. They can share insights on career paths, provide exposure to new opportunities and advocate for the mentee's advancement within the organisation. Mentoring can significantly contribute to a mentee's career progression.

Suggested study listening

"When the road looks rough ahead and you're miles and miles from your nice warm bed, you just remember what your old pal said. Boy, you've got a friend in me", sings Randy Newman in "You've got a friend in me". Used as the theme song for the 1995 Disney/Pixar film *Toy Story*, Newman's song highlights the same values of support and collaboration we see in successful mentoring – John Munnelly

Potential drawbacks

Time commitment: Mentoring requires a significant time commitment from both the mentor and the mentee. Busy leaders may struggle to find sufficient time to engage in regular mentoring sessions and activities. This can be a challenge, especially if the mentor and mentee have conflicting schedules or if the mentee has multiple responsibilities demanding their attention.

Limited perspective: While mentoring can provide valuable insights, it is important to note that a mentor's perspective may be limited to their own experiences and knowledge. Mentees should seek multiple mentors or supplement mentoring with other forms of professional development to gain diverse perspectives and broaden their understanding of different approaches and strategies.

Compatibility issues: The effectiveness of a mentoring relationship can depend on the compatibility between the mentor and the mentee. If there is a lack of chemistry, communication issues or conflicting personalities, the mentoring experience may not be as beneficial. It is crucial to establish clear expectations and ensure a good fit between the mentor and the mentee.

Dependency risk: In some cases, mentees may become overly dependent on their mentors, relying on them for decision-making and guidance in every aspect of their professional development. This can hinder the mentee's ability to develop independent thinking and problem-solving skills. It is important for leaders to strike a balance between leveraging their mentor's expertise and developing their own capabilities.

Overall, mentoring can be a powerful tool for a leader's professional development, but it is essential to consider these benefits and drawbacks to make an informed decision and maximise the effectiveness of the mentoring relationship.

John Munnelly is FAE Paper Development Executive at Chartered Accountants Ireland

Price/earnings ratio: a market-based method for valuing a company

Part science, part art, full frustration for the student, valuing a company proves a challenge to any Advisory student. The FAE Advisory Examiner outlines their advice on how best to approach this recurring topic

Company valuations are examined frequently, not only because of the importance of this subject, but also because past students have often demonstrated a limited understanding of the basic components of the company valuation process. In particular, their exam technique has broken down when they were asked to manipulate the ratios involved in a market-based approach to valuation.

As a student preparing for the Final Admitting Advisory Examination, it is important to explore the various methods of valuing a company. This is something that appears in most sittings of the FAE Advisory Examination.

Company valuations are examined frequently, not only because of the importance of this subject, but also because past students have often demonstrated a limited understanding of the basic components of the company valuation process. In particular, their exam technique broke down when they were asked to manipulate the ratios involved in a market-based approach to valuation.

This article is going to examine some of the concepts involved, starting with a review of some of the relevant definitions, and then exploring the practical applications in the context of merger and acquisition (M&A) valuations.

Market-based company valuations

From a shareholder's perspective, the 'earnings' of the company are literally what is left over after everything else has been paid – for example, expenses, interest payments and taxation.

For valuation questions that utilise market-based methods, therefore, the Profit After Tax (PAT) is the key number for calculating the company's valuation.

Next, let us define the core components of this very commonly used – and often confused – market-based approach to company valuations.

1 ***Market price per share:*** The market price per share represents the current trading price of a company's shares. This price is influenced by many, and varying, factors such as the macro-economic environment and sector-specific conditions that influence the supply and demand dynamics for the company's shares.

2 ***Market capitalisation (company valuation):*** This is simply the market price per share multiplied by the number of ordinary shares in issuance. Therefore, all things being equal, the higher the market price, the higher the company's valuation.

3 ***Earnings per share (EPS):*** The earnings per share is a key financial metric that indicates a company's profitability on a per-share basis. It is calculated by dividing the company's bottom line net income (PAT) by the number of outstanding ordinary shares. The EPS calculates the portion of the company's overall earnings (PAT) per each share of company stock.

4 ***Price/earnings (P/E) ratio:*** The P/E ratio is arrived at by dividing the market price per share by the EPS. The P/E ratio gives us an understanding of what shareholders are willing to pay per share of the company.

To summarise:

The P/E ratio is the key market-based metric for understanding how the market values a company.

The EPS reflects the earnings (PAT) of the company on a per-share basis.

The market price per share reflects how much (in the moment) the market is willing to pay for a share.

The P/E ratio – a multiple – captures this relationship, and the higher the P/E ratio, the more the market 'values' the current – but perhaps more importantly, future – earnings of the company.

P/E ratios can be based on current earnings (EPS) or projected (future) earnings (EPS).

For example, if a company's P/E ratio is 10, this demonstrates that the market is willing to pay 10 times the current earnings per share. If the P/E ratio is 20, the market is prepared to pay twice as much (20 times) to own a share of the company.

Once again – see the definition of the market price of a share – the market price per share is determined by myriad factors that influence the supply and demand for a company's shares.

The market is comprised of a variety of institutional and individual investors/traders. If the market has greater demand than supply, then prices go up, and vice versa if there is more supply than demand. The market is simply a mechanism that matches the supply/demand of a company's shares at a certain price.

MANIPULATING THE RATIOS

Company valuation questions in the Advisory Exam push students' understanding of the relationship between EPS and P/E. In particular, students need to be comfortable with manipulating EPS in order to project the valuation of a company.

Remember the question must give 2/3 components in all of the following relationships:

PAT / Number of shares = EPS

Market price / EPS = P/E ratio

Market price per share / P/E ratio = EPS

EPS * P/E ratio = Market price per share

PAT * Number of shares = Company valuation

Market price per share * Number of shares = Company valuation

Merger and acquisition company valuations

The key concept in all things M&A is that the two companies involved (ABC and XYZ) are worth more after coming together than they would be if added together at present.

Think of this as: 2 (ABC) + 2 (XYZ) = 5 (ABC + XYZ)

This 'value' is primarily created through 'synergies' and it is critical to remember that synergies can be extra earnings created from additional revenue or cost savings.

In an Advisory Exam question, students will be provided with an estimate of synergies, and this should be added to the combined earnings (PAT) of the two companies going forward.

Valuation really is more of an art than a science!

With these types of M&A questions, the challenge is often to differentiate the current valuation based on current earnings and the post-acquisition valuation based on the projected earnings (including synergies) of the combined company.

The current valuation of the company being acquired (one company is always acquired by the other in M&A) is based on the valuation techniques defined previously plus a premium. The premium is effectively what is required to persuade the shareholders of the company that is being acquired to sell their shares.

The other critical part of the M&A valuation question is the form of compensation paid to the shareholders of the company being acquired. This is the 'valuation' as above, but could be paid in cash, shares, debt or a mix of these forms of consideration.

For the company that is acquiring (buying), using its own shares is often preferable. This is especially true if – as would often be the case – the acquiring company has a higher P/E ratio than the company being acquired.

If this is the case, there will effectively be a 'swap' of shares; for example: the shareholders of XYZ (acquired company) receive 'x amount' of ABC (acquiring company) shares to sell their company.

The 'x' number – the ratio – is based on the respective valuations of the two companies and this will determine the compensation paid – the valuation – of the company being acquired.

Once this valuation is known, a judgement (analysis) can be made on the merits of the acquisition – the 2 + 2 = 5.

For example: We can compare whether the cumulative (post-acquisition) EPS is higher and whether this translates (on the basis of the combined company's new P/E ratio) into a higher valuation of the combined company versus the valuation of the two companies pre-acquisition.

Having analysed the projected outcome of the acquisition, it is still important to assess whether the consideration paid justifies the value of the long-term synergies created.

Students should critically evaluate whether the premium paid justifies the value created. It is important to remember that this is very often a matter of judgement, taking into account the context of the acquiring company's overall financial position and outlook.

The importance of capital structures

Finally, it is also worth considering the 'capital structure' of both the respective companies, but especially the acquiring company.

A company's capital structure is how it finances itself in the long term. It is the mix – with some variations – of equity and debt.

Students ought to be familiar with the methods used to estimate the 'Cost of Equity (Ke)' and 'Cost of Debt (Kd)'. Students should also be familiar with the generic concept that Ke is more expensive than Kd as a source of capital.

Underpinning this concept is the reality that for several reasons, investing in equity is more risky than lending to a company (debt investing). This leads to the ultimate truism in finance – if there is more risk, the investors will expect/demand a higher return.

This leads to a very examinable question (related to the previous sections) as to whether companies should look to 'buyback' shares and by default increase the percentage of debt in their capital structure.

Another factor to consider is whether this 'buyback' could be financed through cash (retained profits) or the issuance of more debt – effectively swapping debt for equity in the capital structure.

The BIG question here is what level of debt – commonly measured as a ratio of EBITDA – can the company support?

The answer – another judgement call – is very dependent on the consistency of the current capital structure (percentage debt), the company's cash flows – required to support the interest payments associated with debt – and the company's long-term strategic objectives.

Additionally, debt has the benefit of tax-deductible interest – the true cost is (Interest – Tax Rate), so the effective tax rate of the company is another important factor to consider.

Overall, a careful analysis of the company is required, even if the proposed restructuring reduces the company's cost of capital.

In theory, more debt will lower the company's cost of capital, but we must always be conscious that more debt increases the financial risk to the company and, per Modigliani & Miller (M&M), there are trade-offs.

Conclusion

Students need to ensure they are comfortable with the above concepts. This article aims to provide some clarity and reinforce students' appreciation of the inter-related nature of the Advisory syllabus.

Exam questions in this area are designed to test students' ability to adapt to the circumstances presented in the scenario. The information needed will always be there; the challenge is to apply the knowledge in a time-sensitive fashion. Preparation is the key to this.

Charting the course for your career success

Your FAE exams will soon be a thing of the past, and **Barden** is here to guide you with real-time insights and a network of top employers. Ed Heffernan takes you through the finance and accounting market and helps you plan your future path.

In Barden, we're obsessed with sharing real-time insights to help Chartered Accountants make more informed decisions about their future.

That's why we spend so much time working with CASSI, the Young Professionals and Chartered Accountants Ireland on this FAE Guide. It's important to you, so it's important to us.

The earlier in your career you understand the market fundamentals, the more strategic you can be with your career decisions once you qualify. That's why we do what we do – Barden is here to guide you through those fundamentals so you can put yourself on the correct career path.

It also helps that all of the top employers in Ireland work with us here in Barden to help build their accounting, finance and tax teams – when you know what you want to do, we'll have the network to help you do it.

In this article, we wanted to share a couple of the basic insights to get you started and perhaps give you a feel for what might be there for you when you finish your training contract.

1 Choose your course

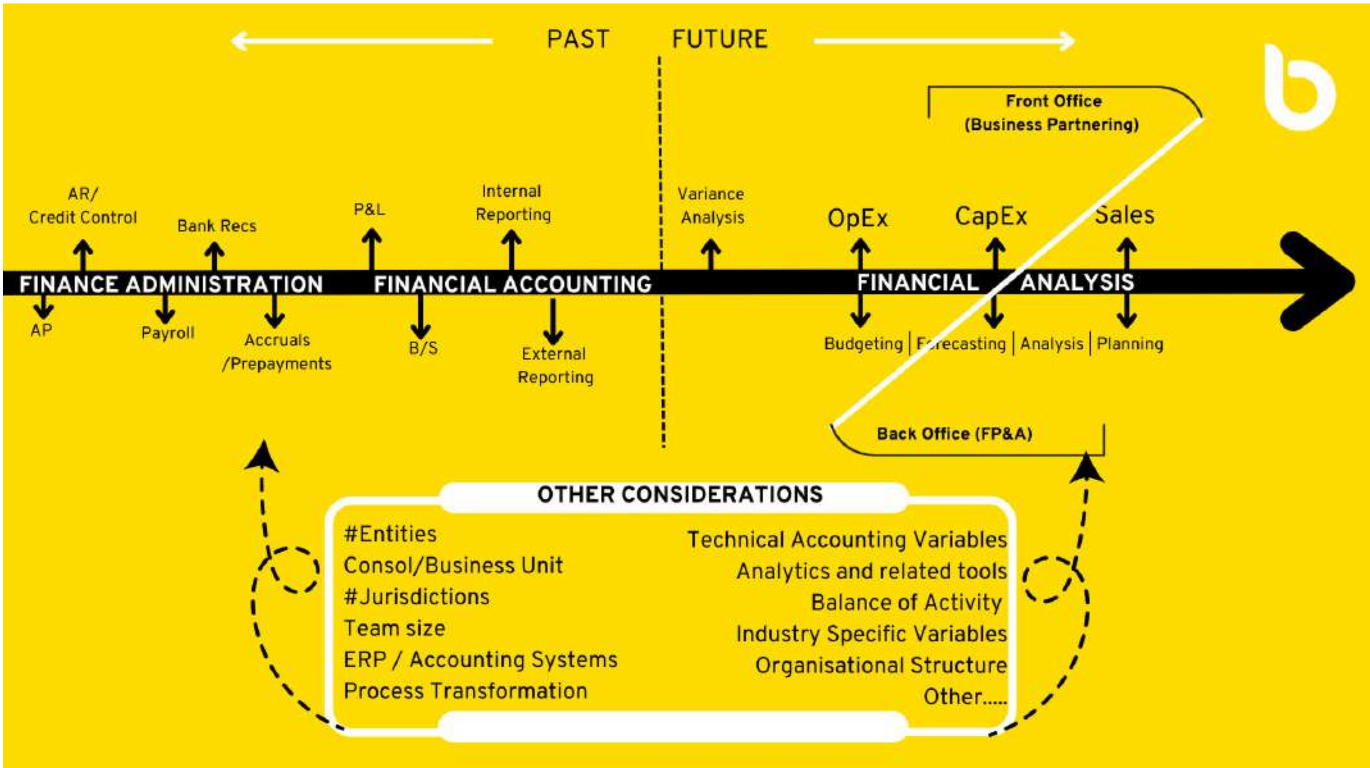
This is what we call the continuum of activity in Barden; it's a simple visual to help you map out the activity in a basic finance team and understand the context of the roles you will look at after you qualify.

There are a few things you should keep in mind.

Organisation size

Think of the continuum like a coiled spring – collapse it down for a smaller business/entity, and one person does everything. Expand it for a larger business, and you get specialisation emerging in various areas such as tax, stat reporting, and technical accounting. Overlap finance process transformation on any element.

Why does this change? With size comes complexity.



Path of least resistance
Most newly qualified accountants (roughly 80 percent) make their first move into financial accounting. With experience and understanding of how to produce a profit and loss statement comes the right to have an opinion on it.

By contrast, only about 10 percent move straight into financial analysis, and those who do often come from non-audit departments.

Why is financial accounting so common? It's where hiring managers see the easiest transition from an audit or related background.

Organisational structure
The nature of the financial accounting activity and how much of the continuum it covers will often be a manifestation of the organisational structure (group function v shared services sector v small and medium enterprise, for example).

Job titles mean nothing without context, and every financial accountant role will be subtly different depending on the structure in which it sits and the division of labour on the team.

The balance of activity in a job
The balance of activity in a job specification can be very telling. People list tasks in job postings but rarely do they give those tasks a weighting of time. Why? Because very few people think about jobs like we do in Barden.

This continuum can be very useful when reviewing job specs and understanding what the role you are going for actually involves. When the time is right for you, talk to the team in Barden to understand this continuum and a number of other lenses we use to help accountants navigate the jobs market.

2 It's all about the base

Frankly speaking, qualifying as a Chartered Accountant is worth it.

In Barden, we chart actual market data on a quarterly basis to make sure we know exactly what you should be paid in the external market. We also advise all of Ireland's top finance teams on how to structure rewards for their people.

If you want data, we got data.

Check in with us closer to the end of your contract to get real-time salary and package insights – supply and demand pressures do have an impact.

Right now, though, we can tell you that our clients are paying between €62,000 and €65,000 base salaries and circa 10 to 15 percent bonus as standard for financial accounting and related roles.

There are outliers for sure, but that range is where the majority land.

Curious about what package comes with the above? Want to know what the average annual leave is, how companies are dealing with hybrid and if healthcare coverage is the norm? When you're about three months out from finishing your training contract, drop us a line, and we'll get you that data in real-time.

3 We have more to share. Just ask.

Once you are on the other side of your FAEs and have the headspace to start seriously thinking about your future, then you should check out the Barden career guide for newly qualified accountants.

This guide is packed full of insights and has been used as a career compass by thousands of newly qualified accountants over the past decade.

If you want one-on-one advice on everything from CV formats to interview preparation, or if you want exclusive access to Ireland's top finance teams, make sure to drop us a line when the time is right for you, and we can take it from there. Simple.

For more information on what Barden can do for you, visit the website: barden.ie

BARDEN

Standards for non-audit engagements

The FAE Audit Examiner advises students on how to recognise and identify the correct standard for non-audit engagements in this year's FAE Audit Exam

Last year, the FAE Audit Examiner was critical of students who failed to recognise and identify the correct standard for non-audit engagements. Students who started out on the wrong footing subsequently scored very poorly in this question.

A key point of confusion appears to arise in discerning the difference between:

- review engagements (covered by ISRE 2400 and ISRE 2410);
- assurance engagements (covered by ISAE 3000); and
- agreed-upon procedures (AUP) engagements (covered by ISRS 4400).

Review engagements focus on evaluating financial information for compliance with the applicable financial reporting framework upon which they have been prepared.

Assurance engagements involve providing a conclusion on the subject matter against suitable criteria to enhance their credibility.

AUP engagements are factual in nature, involving the performance of agreed procedures with no assurance expressed.

Both review engagements and assurance engagements are distinctly different to AUP engagements, as both provide varying levels of assurance.

Key differences

ISRE 2400 and ISRE 2410 are two separate international standards on review engagements issued by the International Auditing and Assurance Standards Board (IAASB).

Both the Irish Auditing and Accounting Supervisory Authority (IAASA) and the Financial Reporting Council (FRC) have also issued local versions of ISRE 2410 for use in Ireland and the UK respectively, each based on the international versions with supplementation in places.

The distinction between the two standards is based on the role of the practitioner in performing the review engagement.

As noted below, ISRE 2410 is used where the review engagement is performed by the statutory auditor of the entity in question.

It is very common for the statutory auditor to be engaged to perform review engagements of this nature for public interest entities releasing interim financial information to the market.

ISRE 2400

ISRE 2400, titled 'Engagements to Review Historical Financial Statements', outlines the general principles and procedures to be followed when conducting a review engagement.

It establishes the objectives of a review engagement, which include obtaining limited assurance that no material modifications will be made to the financial statements in order that they conform to the applicable financial reporting framework. ISRE 2400 also provides guidance on the planning, performance and reporting of a review engagement.

ISRE 2410

ISRE 2410, titled 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', specifically focuses on review engagements of interim financial information.

Interim financial information refers to the financial statements prepared for a period shorter than a full financial year, often provided to stakeholders on a periodic, quarterly or semi-annual basis.

Although written in the context of 'interim financial information', the standard does allow an entity's auditor to adapt it as necessary in the circumstances, when the auditor undertakes an engagement to review historical financial information other than the interim financial information of their audit client.

ISRE 2410 provides additional guidance and considerations specific to the review of interim financial information, including the nature and timing of procedures to be performed and the reporting requirements for such engagements.

The standard is written in the context of the role of the statutory auditor who is performing the review engagement. In contrast, ISRE 2400 is written for a practitioner, who is not the statutory auditor, performing a review engagement.

A practitioner who is engaged to perform a review of interim financial information, and who is not the auditor of the entity, performs the review in accordance with ISRE 2400.

As the practitioner does not ordinarily have the same understanding of the entity and its environment, including its internal control, as the auditor of that entity, the practitioner needs to carry out different inquiries and procedures to meet the objective of the review.

It is important to emphasise that the objective of a review engagement is to obtain limited assurance, which is a lower level of assurance compared with an audit.

ISAE 3000 (Revised)

ISAE 3000 (Revised) is titled 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'. It provides guidance for assurance engagements that are not audits or reviews of historical financial information.

ISAE 3000, issued by the IAASB, establishes the principles and procedures to be followed when conducting assurance engagements.

The FRC in the UK has issued its own version of this international standard, ISAE(UK) 3000.

Assurance engagements are engagements in which an independent auditor provides a conclusion on the subject matter against suitable criteria, which can be related to various types of information or systems.

The standard defines the roles and responsibilities of both the responsible party (the entity being assessed) and the assurance practitioner in an assurance engagement.

It outlines the overall objective of the assurance engagement, which is to enhance the credibility of the subject matter through the issuance of an assurance report.

ISAE 3000 provides guidance on key aspects of assurance engagements, including the planning and performance of procedures to gather sufficient and appropriate evidence, assessing and documenting risks, determining suitable criteria for evaluation and preparing the assurance report.

It also addresses considerations related to the practitioner's professional competence, ethical requirements and the form and content of the assurance report.

There are two types of assurance that can be expressed under ISAE 3000. They are reasonable and limited assurance and can be more commonly referred to as "positive" vs "negative" assurance.

It is very important to understand the distinction between the two forms of assurance and how this impacts the form of conclusion provided by the practitioner.

The decision on what form of assurance to provide will depend on the explicit requirement of any law/regulation driving the need for the assurance engagement to be performed (if any) and – where there is no explicit requirement – an audit firm will consider the decision from a risk management perspective.

Providing limited/negative assurance is preferable from a firm risk point of view, as the conclusion is less explicit than would be the case with reasonable/positive assurance.

The application of ISAE 3000 can vary depending on the specific nature and context of the assurance engagement. ISAE 3000 can be related to various types of information or systems, not just financial information, such as cybersecurity assessments or sustainability reporting assurance.

Other examples of assurance engagements covered by ISAE 3000 include the examination of internal controls over financial reporting, and compliance engagements.

It is important to note that while ISAE 3000 provides guidance for assurance engagements, it does not specifically cover audits or reviews of historical financial information.

For those types of engagements, auditors would typically refer to other applicable standards such as the International Standards on Auditing (ISAs) or the ISREs as referenced earlier.

ISRS 4400

ISRS 4400 is titled 'Agreed-Upon Procedures Engagements' and is issued by the IAASB.

In an agreed-upon procedures (AUP) engagement, the practitioner performs procedures that have been agreed upon by the practitioner and the engaging party, in which the engaging party has acknowledged that the procedures performed are appropriate for the purposes of the engagement.

An AUP engagement is very mechanical in nature, with no assurance expressed. An AUP engagement is not an audit, review or other assurance engagement.

Based on the agreed procedures performed, the practitioner will communicate the related findings, which will be factual in nature.

In practice, issues do arise where engagements are structured inappropriately as AUP engagements when assurance is the ultimate objective, and it is critical to understand that no assurance can ever be expressed under the AUP standard ISRS 4400.

**Note: this article is written in the context of the FAE Competency Statement 2022/2023*

The importance of internal control

How would you describe the current business landscape? Challenging, exciting, revolutionary, perhaps out of control? The FAE Examiner tells **John Munnelly** how it affects the role of the auditor

Businesses are now operating in recovery mode post-pandemic, aiming to achieve a level of stability and operate in this new 'normal'. Growing inflation, interest rate hikes, supply chain disruptions, increased cyber-attacks, and sustainability challenges are among a very long list of principal and emerging risks on board agendas. The pandemic certainly tested business resilience, yet moving forward in the current landscape will require a lot more.

The role of corporate governance has never been so important, but with so much economic turmoil, ensuring robust governance practices is a significant challenge.

Our media headlines have been flooded with examples of how corporate governance can go wrong. Consider the recent collapse of Silicon Valley Bank and fraudulent activity at German payments processor Wirecard, among many others.

Causal factors behind these large corporate failures are a lack of governance and accountability and weak internal controls. Internal and external stakeholders have high expectations of a business in today's environment, and boards must recognise the growing importance and strategic power associated with internal control.

We have seen the damage caused by these large corporate failures, including job losses, uncertainty and a growing lack of public trust and confidence in governance and financial reporting.

Governments and regulators are taking action to attempt to restore credibility and trust. The UK Government has announced major reform by issuing proposals to strengthen UK governance practices, and the UK Financial Reporting Council has also consulted on a revised UK Corporate Governance Code.

In light of these corporate collapses and governance issues, the auditor's role is again in the spotlight.

As auditors, we have unique access to a business enshrined in company law, access to its financial information, people and processes. As independent auditors, we are responsible for protecting the integrity of financial reporting and the public interest.

Given the ongoing public challenge to the auditor's role amidst continued corporate failures and uncertainty, the auditor's role must evolve too.

ISA 315 (Revised)

Interestingly, we are starting to see a major shift as part of this evolution in our auditing standards. The recent revisions made to ISA 315 (Revised) regarding audit risk assessment are a testament to this need for change. Under the revised standard, there has been a significant enhancement in the level of work we must perform regarding internal control.

As a reminder, the components of an entity's internal control as per ISA 315 (Revised) are as follows:

1. ***Control environment –*** provides an overall foundation for the operation of the other components. It generally influences the effectiveness of controls in other components. It includes consideration of the culture within an organisation, the tone at the top, etc.

2. ***Risk assessment process –*** how management and those charged with governance have identified and taken action to deal with business risks relevant to preparing the financial statements.

3. ***Process to monitor the system of internal control –*** how the entity monitors and reviews the effectiveness of internal controls in place; for example, there may be an internal audit function.

4. ***Information system and communication –*** essentially the IT environment and controls.

5. ***Control activities –*** generally, all the directly responsive controls are in place to mitigate risks of material misstatement relevant to financial reporting.

These components are foundational to an entity's system of internal control. Any deficiencies in their operation could have a pervasive effect on the preparation of the financial statements.

Linked to what we discussed earlier, we know internal controls form the foundation of sound corporate governance. It is important to recognise that 'all' of these components must operate together and not in isolation to be effective.

A fundamental of audit is the performance of a robust audit risk assessment. To be robust requires an in-depth understanding of the business, its environment and, most importantly, its internal control.

We have always been required to obtain an understanding of each component of internal control, but we now must also 'evaluate' each of these components. To 'evaluate' a component essentially means assessing if the processes, procedures and controls an entity has implemented are appropriate in the context of the business size, scale, etc. In performing this in-depth evaluation, an auditor is expected to identify control deficiencies that will need to be communicated and remediated by those charged with governance. Doing so will contribute to the quality of the wider governance in place at an entity.

As ISA 315 (Revised) has just been implemented, it is worth noting that its enhanced requirements have been a significant mindset shift in audit scope, particularly on internal control procedures.

Although a major scope change, it has contributed to the quality of the audit performed and enabled auditors to provide invaluable insights and observations to a business on its internal control framework.

ISA 315 (Revised) is only one example of a major change in the expectation and responsibility of the auditor concerning internal control and audit risk assessment. Reflecting on the IAASB (International Audit & Assurance Standards Board) strategy work plan for the next few years, I believe there are more enhancements on the way, and the bar continues to rise for our profession as auditors.

[1]ISA 315 (Revised) – Identifying and Assessing the Risks of Material Misstatement – effective for audits of financial statements for periods beginning on or after 15 December 2021.

Manage time and attempt all questions

The FAE Financial Services Examiner tells **John Munnelly** why it is so important for students sitting this year's exam to manage their time and attempt all the exam questions

A record number of FAE students will sit the Financial Services Elective exam this year, so it is especially important that they take the right approach and avoid the mistakes made by students in past exam sittings.

The FAE Financial Services Examiner noted a continuing tendency among failing students to focus all their energy on 'set-piece' questions at the outset, to the detriment of later questions in the cases.

In fact, the examiner went so far as to say that all the unsuccessful candidates in the 2022 Financial Services examination sitting had not answered at least one exam question.

"The unsuccessful students are spending disproportionate amounts of time on questions two and three of the first case," the FAE Financial Services Examiner said.

These questions tend to examine the numerical areas of credit risk assessment. Students prepare meticulous answers that are very well laid-out and clearly explain the calculations.

"Whilst this is extremely welcome – and it is testament to the educator who clearly prepares students for these question types – it is always easy to spot this pattern of behaviour as the rest of the case questions are either rushed, badly laid out or are full of generic answers that are of little scoring value," the examiner said.

"It is a clear sign that the student is focusing on the set-piece answer to the detriment of their wider studies of the subject."

The problem with this approach is manifold. The examiner always has facets to the answer that these weaker students invariably miss, so the ability to score full marks is quite rare. The obvious knock-on is the time investment.

"The examining team often remarks that the failing students have poor time management skills. The effects of this are seen later when questions seven and eight of the second case are badly answered, or not answered at all," the examiner said.

So, what does 'good' look like in an exam script? According to the examiner, the answer is "balance".

In other words, the students who tend to perform best in the FAE Financial Services Exam are those who make a reasonable attempt at addressing all the moving parts in each question.

"It comes down to mathematics," the examiner told me. "For each part of a question that goes unanswered, the student must work harder to bring up their average grade in each of the other questions to compensate. This is where it pays to cover all the teaching material in the study until the student is comfortable with it."

There are eight questions in the Financial Services Elective examination. Each question contains a number of sub-parts or facets.

"It is up to the student to identify each facet and ensure they have a plan for answering each facet. When deciphering the questions, it can be as simple as looking for the conjunction or linking words used in the case questions," the examiner said.

"Examples of these conjunction or linking words are: 'and', 'also', 'in addition'. The question names are well flagged in the exam itself so students should be able to understand which area of the syllabus is being examined.

"Students ought to be familiar with the style of case from the sample and practice papers. These are representative of the style of questions that are developed for this paper. The examining team approves these sample and practice papers with the examination executive."

The examiner also pointed out that the macro backdrop has made this year a dramatic one for funds.

Pandemic effects, compounded by troubling geopolitical events and the inevitable market reactions, mean that it is a challenging time for funds.

Successful students will be able to apply real-world events in their answers. The European Union response to geopolitical events has a knock-on effect on the financial services sector. Well-prepared students will find opportunities to demonstrate this in the exam.

So, what to do next? My advice is to go through the mock examination debrief, and carefully examine each of the sample and practice papers that have been supplied.

John Munnelly is FAE Paper Development Executive at Chartered Accountants Ireland

Sustainable investing takes centre stage

The Financial Services Examiner outlines the importance of sustainable investing for securities markets participants ahead of this year's FAE exam

New regulatory developments and guidance, along with increased investor demand, are driving the integration of environmental, social and governance (ESG) factors into fund managers' investment considerations.

The EU Sustainable Finance Disclosure Regulation (SFDR) and Taxonomy Regulation impose new sustainable disclosure requirements on both manufacturers of financial products and financial advisors.

Sustainable investing

As the pace of climate change increases, the speed of transition to meet the goal of net-zero emissions has taken on greater significance.

Securities markets participants can assist in achieving this goal by reducing capital investment in carbon-intensive activities and by increasing investment in products that meet sustainable criteria in accordance with the SFDR and Taxonomy Regulation.

It is vital that such products are not mislabelled and that the flow of capital from investors is channelled towards genuinely sustainable activities.

Investment funds

Given the scale of the Irish funds sector and the number of Irish funds required to categorise as Article 6, 8 or 9 under SFDR, compliance with the requirements of SFDR is essential so that investors can have trust in funds labelled 'sustainable'.

The Central Bank of Ireland wants to ensure that investors are fully informed and in no way misled where investments or financial products are described as 'green' or 'sustainable'.

Investors have high expectations of asset management firms and funds regarding the veracity of their sustainable credentials.

The SFDR Level II obligations became applicable in January 2023 and require more detailed disclosures to be included in mandatory templates as part of an investment fund's pre-contractual documentation.

> **The Central Bank approved 753 prospectuses from issuers located in five continents in 2022**

Fund Management Companies (FMCs) are required to integrate sustainability risks into the management of their funds, their conflicts of interest procedures and their risk management processes.

'Tackling greenwashing and promoting transparency' is one of ESMA's priorities in the area of sustainable finance.

Green bonds

Green bonds can generally be defined as debt instruments that finance, in part or in whole, environmentally sustainable projects.

The Irish green bond market is small but growing. As at the end of Q3 2022, Irish residents held €28.8 billion of green bonds, compared with €17.1 billion in December 2020. As this market grows in tandem with investor demand, so too does the risk of mis-selling.

In the absence of harmonised EU standards, the Central Bank of Ireland is seeking disclosures pertaining to:

- sustainability and green frameworks of issuers; and
- the management of proceeds.

The Central Bank will continue to challenge issuers to include appropriate disclosures pending the application of the EU Green Bond Standard (EUGBS) and on an ongoing basis for securities for which there is no harmonised EU standard.

The EUGBS is proposed regulation aimed at tackling the regulatory gap for green bonds by setting a clear standard for the identification of green assets/projects and a regulatory framework for issuers and external reviewers.

It will act as a gold standard for green bonds that can be used by issuers and trusted by investors. It will be available to use on a voluntary basis by issuers once it comes into force.

The Central Bank expects financial service providers to:

- ensure they adhere to their regulatory obligations regarding the correct disclosure of sustainability-related information in product offerings; and
- have robust procedures and policies in place to ensure products marketed as 'green' or 'sustainable' meet the criteria to be described as such.

Financial management in the public sector

Financial management in the public sector involves the efficient and effective use of public funds to achieve objectives and deliver services, writes **John Munnelly**

It's a case of contrasting fortunes for the public sector finances in the Republic of Ireland versus Northern Ireland and the rest of the UK currently.

Enormous surpluses are being generated in the Republic of Ireland, whilst Treasury contributions to the public purse in Northern Ireland are reportedly declining.

On all fronts, however, civil servants are facing a barrage of demands from multiple stakeholders, and this naturally begs the question: What does good financial management look like in the public sector?

Financial management in the public services sector in the UK and Ireland refers to the planning, organisation, control and monitoring of financial resources within government departments, agencies and public sector organisations.

It involves the efficient and effective use of public funds to achieve the objectives and deliver services to the public. Financial management in the public services sector includes various activities and processes, such as:

Budgeting: Estimating revenue, projecting expenditure and setting financial targets for different programmes and activities.

Financial planning: Identifying funding sources, assessing financial needs and determining priorities for resource allocation.

Financial control: Establishing internal controls and procedures to ensure control mechanisms help prevent fraud, mismanagement and misuse of public funds.

Financial reporting: Producing accurate and timely financial reports that provide a transparent and comprehensive view of the financial performance and position of public sector organisations.

Auditing and assurance: Here, independent auditors, such as the National Audit Office (NAO) in the UK and the Office of the Comptroller and Auditor General (C&AG) in Ireland, conduct independent audits and reviews of financial statements and operations to assess compliance, accuracy and integrity.

Performance measurement: Setting key performance indicators (KPIs) and using performance frameworks to assess outcomes and impacts. Evaluating the performance of public sector organisations in terms of financial efficiency, effectiveness and value for money will never go out of fashion.

Risk management: Assessing and mitigating risks related to fraud, financial mismanagement, budget variances and external factors.

Compliance and governance: Public sector financial management operates within a framework of rules and standards to promote transparency, accountability and ethical practices.

Resource allocation: Making informed decisions on how public funds should be utilised to achieve the desired outcomes.

Aims and priorities

Financial management in the public services sector aims to optimise the use of public funds, ensure accountability and transparency, and support the effective delivery of public services.

It plays a vital role in maintaining financial integrity, safeguarding public resources and achieving value for money in the provision of services to citizens.

To achieve this aim within a complex and regulated environment, however, the public sector relies on a number of stakeholders to ensure it can deliver on its objectives.

These stakeholders include auditors, inspectors and regulators. Each plays an important role in ensuring accountability, transparency and effective financial management within public services.

1 *Auditors*

Auditors play a vital role in evaluating the financial practices and controls of public sector organisations. In the UK, the NAO is the independent external auditor for central government, departments, agencies and other public bodies.

In Ireland, the C&AG fulfils a similar role. These audit bodies provide independent assurance on the financial statements and performance of public sector entities.

They assess compliance with financial regulations, identify areas for improvement, and help in preventing and detecting financial mismanagement, fraud and corruption.

2 *Inspectors*

Inspectors in the public services sector have a specific focus on assessing the quality of services provided, and ensuring compliance with relevant regulations and standards. Their role includes evaluating the efficiency, effectiveness and value for money of public sector organisations.

In the UK, for example, organisations such as the Care Quality Commission (CQC) and the Office for Standards in Education, Children's Services and Skills (Ofsted) inspect and regulate healthcare and education services respectively.

In Ireland, the Health Information and Quality Authority (HIQA) oversees the regulation and inspection of healthcare and social care services. Inspectors provide valuable insights into the financial management practices of these organisations as part of their broader assessments.

3 *Regulators*

Regulatory bodies play a crucial role in overseeing financial management within the public services sector. In the UK, regulatory bodies such as the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) regulate the financial services and banking sectors.

They set standards, monitor compliance and enforce regulations to ensure stability, transparency and fair practices. In Ireland, the Central Bank of Ireland fulfils a similar role.

Regulators work to maintain financial integrity, protect the interests of stakeholders and mitigate risks within the public services sector.

Conclusion

Financial management within the public services sector in the UK and Ireland operates within a regulated environment that emphasises accountability, transparency and value for money.

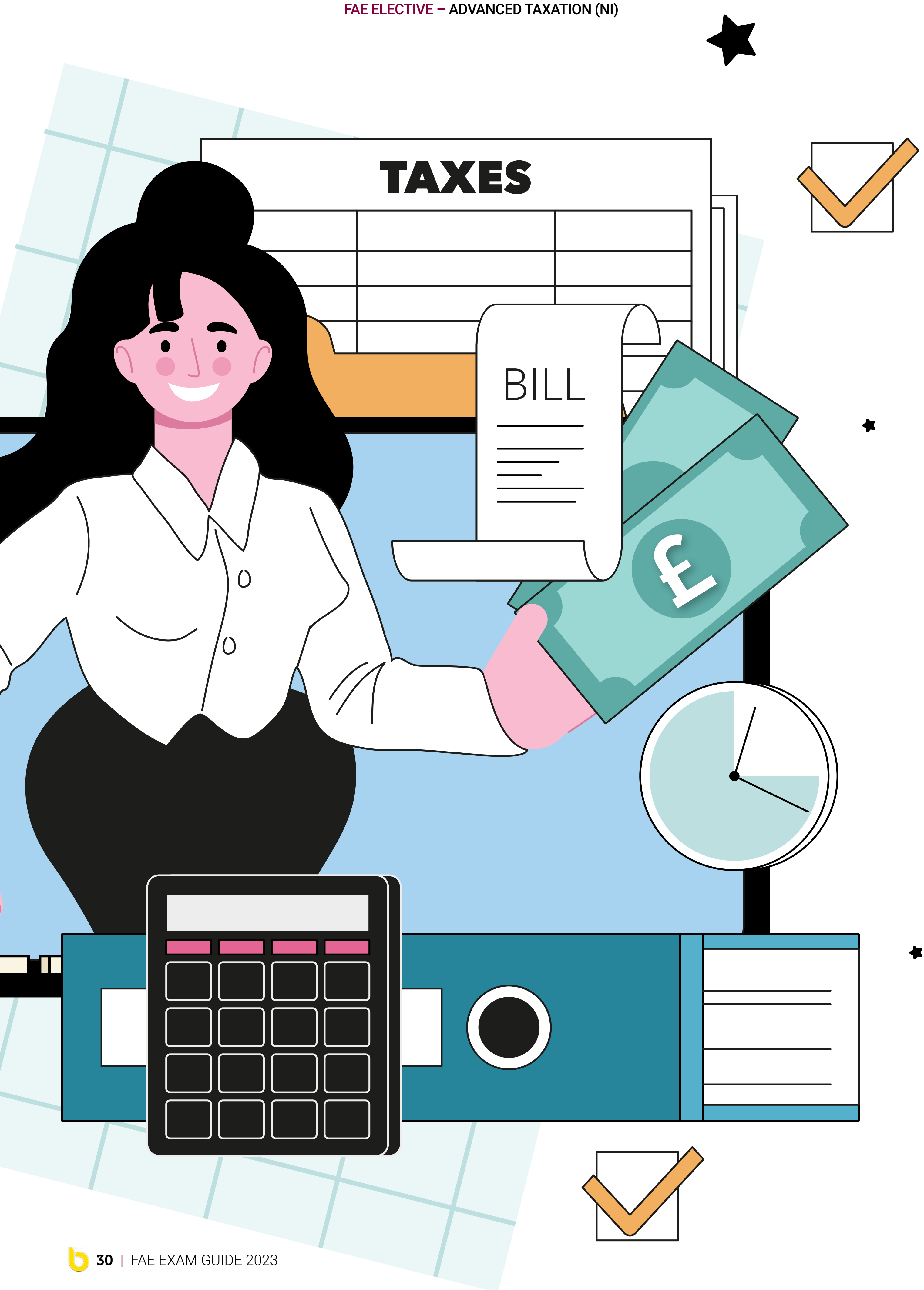
Auditors, inspectors and regulators play important roles in monitoring, evaluating and enforcing financial management practices.

Their involvement ensures that public sector organisations adhere to financial regulations and maintain high standards of governance.

John Munnelly is FAE Paper Development Executive at Chartered Accountants Ireland

Suggested study listening

"And the public wants what the public gets," sang Paul Weller, front man of The Jam in the band's classic hit "Going Underground". If we are to believe the reporting in the media, the public don't always feel they are getting what they want these days from public sector services – John Munnelly


TAXES
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Tax relief for research and development (NI)

John Munnelly talks to Leontia Doran, Lead FAE Advanced Taxation NI Educator and the Advanced Taxation NI Examiner, about topical areas in this year's exam.

Increasing the amount of research and development (R&D) carried out by UK companies is a key part of the UK Government's aim to boost productivity and promote growth. Ambitious targets have been set to raise total investment in R&D to 2.4 percent of UK GDP by 2027. Therefore, R&D tax reliefs have a key role in incentivising this investment, and it is crucial that Chartered Accountants can advise companies on the available tax reliefs in respect of their R&D spending.

The tax reliefs for R&D expenditure are examinable at CAP2. In addition, FAE candidates are required to apply their knowledge of the reliefs available for R&D expenditure (including the above-the-line credit/the R&D expenditure credit (RDEC)).

Candidates are reminded that for the 2022–2023 academic cycle, the new changes as introduced by the Spring Budget 2023 are not examinable in 2023.

This article is an overview of the key considerations when faced with an R&D tax relief question in the 2022–2023 cycle. It does not go into the specific details of what qualifying R&D activities are or the definition of a qualifying company. Such detail is covered in the Tax Elective NI course and in Chapter 3 Section 3.4 of the 2022–23 NI Elective Tax textbook. In addition, Chapter 8 Section 8.5 of the CAP2 Taxation 2 (NI) 2022–2023 refers to it.

Carefully read the case

Candidates are advised that they should read the case study carefully and first consider which R&D tax relief scheme is relevant.

Tax relief for qualifying expenditure on R&D may be claimed by companies of all sizes. However, there are two separate schemes for R&D relief: (1) the scheme for small and medium-sized enterprises (SMEs) and (2) the large company scheme.

For R&D purposes, a company is classed as a small and medium-sized enterprise (SME) if it has fewer than 500 staff and either a turnover of less than €100 million or a balance sheet total of less than €86 million.

If grant funding is received by an SME in relation to an R&D project, relief is not available under the SME regime if the grant is notified state aid or is identified as falling within the UK's subsidy control system. Instead, if such grant funding is received, relief under the large company regime must be claimed.

Quantify the amount of qualifying expenditure

Once the relevant R&D tax relief scheme has been established, candidates should quantify the amount of qualifying expenditure for the R&D tax relief calculation.

Qualifying revenue expenditure must be attributable to relevant R&D that is either directly undertaken by the company or on its behalf and includes items such as:

- staffing costs to include salaries and wages (but not redundancy payments);
- employer's NIC; employer's pension fund contributions (but not non-cash benefits in kind);
- consumable or transformable materials;
- software;
- externally provided workers, utilities (such as power, water and fuel); and
- payments to participants in clinical trials.

Subcontracted R&D costs can also qualify. However, there is a difference between the SME and large company regimes.

For SMEs, where the subcontractor is connected to the company, the whole of the payment is allowable but limited to the actual costs incurred by the connected company on the project. Otherwise, the enhanced deduction can be claimed on only 65 percent of qualifying subcontracted R&D costs unless an election is made to treat the company and subcontractor as connected.

Under the large company regime, the enhanced deduction is only allowable on subcontracted R&D costs where the subcontractor is a 'qualifying body' (e.g. an educational establishment or charity), an individual or a partnership.

Capital expenditure, including expenditure on buildings used for R&D purposes, qualifying as R&D expenditure is entitled to 100 percent capital allowances (with the exception of land).

Calculate tax relief

Once the relevant R&D tax relief scheme and the amount of qualifying expenditure have been established, candidates should calculate the amount of R&D tax relief available.

If the company can claim R&D tax relief available for SMEs, a total deduction from its trading profits of 230 percent of its qualifying R&D expenditure can be claimed. The tax relief is claimed as another deduction to the tax-adjusted trading income computation.

As the qualifying expenditure should already have been deducted from income in calculating profit before tax, an additional deduction of 130 percent of the qualifying revenue expenditure can then be claimed in the tax-adjusted trading income computation.

Where a company that qualifies for the SME regime has a trading loss in an accounting period in which it also claims relief under the SME R&D regime, the company may do either of the following:

- **Option 1 – Claim any loss relief that it may be entitled to,** i.e. set off against total profits in the current period, carry back against the profits of the prior year; carry forward against total profits (see Chapter 3 Section 3.2.1 of the 2022–23 NI Elective Tax textbook) OR

- **Option 2 – Surrender the loss for a cash payment of the lower of:**
  I. 14.5 percent of the surrenderable loss for the chargeable period or
  II. £20,000 plus 300 percent of its total PAYE and NIC liability for the period.

Should the company choose to claim the payable tax credit, the surrenderable loss is the lower of the unrelieved trading loss or 230 percent of the qualifying R&D expenditure.

A key point for candidates to consider when advising a company whether the losses created by virtue of claiming SME R&D tax relief should be surrendered for cash refunds (Option 2 above) or carried forward for normal loss relief purposes (Option 1 above) is the benefit of a cash inflow from the cash refund versus the value of the relevant loss relief should the company return to profit in the future. This will be particularly important when the rate of corporation tax for companies with profits above £50,000 rises from 1 April 2023.

If the company can claim R&D tax relief available for a large company, the RDEC can be claimed. The RDEC operates by providing an ‘above the line’ (i.e. taxable) credit equal to 13 percent of qualifying R&D expenditure incurred in calculating taxable profit. This credit is first included in taxable total profits and is then deducted from the corporation tax payable.

Where a company that qualifies for the large company regime is loss-making, it is still entitled to payment of the credit, albeit that corporation tax is effectively withheld from the payment.

A number of steps must be undertaken to calculate the value of the credit. Candidates should refer to Section 3.4.2 of the 2022–23 NI Elective Tax textbook for detailed guidance on this.

In summary, R&D drives significant economic growth in the UK economy, and it is crucial that candidates can advise on its availability and the mechanics of giving relief to companies that are undertaking R&D.

The information in this article is relevant as of the date of publication.

NB: *Students should tailor their answer accordingly to the scenario presented and cover any other relevant taxes as signposted in the case.*

John Munnelly is FAE Paper Development Executive at Chartered Accountants Ireland

Tax relief for research and development (ROI)

John Munnelly talks to Seán Arthur, the Lead FAE Advanced Taxation ROI Educator and FAE Advanced Taxation ROI Examiner, about topical areas facing students in this year's FAE

Any credit not given to key employees can be used to reduce the liability to corporation tax for the accounting period in which the qualifying R&D expenditure was incurred.

The 4 July 2023 publication of the Summer Economic Statement highlighted that corporation tax receipts in Ireland amounted to €10.5 billion in the first six months of 2023, an increase of €1.8 billion over the same period in 2022.

In part, the increased corporation tax take demonstrates Ireland's continued attractiveness as a knowledge-based economy with strong levels of foreign direct investment (FDI). The importance of Ireland's attractiveness for FDI has been widely publicised and enhanced with the availability of various corporation tax reliefs, including research and development (R&D) tax relief.

R&D tax relief is examinable at CAP2. In addition, FAE candidates are required to apply their knowledge of the tax reliefs available for expenditure on R&D (for companies and key R&D personnel).

This article is intended as an overview of the mechanics of how R&D tax relief can be availed of by an Irish tax resident company. It does not go into the specific details of what qualifying R&D activities are, the definition of a qualified company or what qualifying R&D expenditure is. Such detail is covered in the sessions of the Tax Elective ROI course and in Chapter 3 Section 3.7 of the 2022–23 ROI Elective Tax textbook. In addition, Chapter 23 Section 23.2 of the CAP2 Taxation 2 (ROI) 2022–2023 refers to it.


TAXES

Calculating the R&D credit

The R&D tax credit is calculated as 25 percent of the qualifying expenditure. Candidates should remember that qualifying expenditure does not only include revenue costs, but it can also include expenditure on plant and machinery and buildings used for R&D.

In addition, candidates should always remember to refer to the time limits of any claims. In respect of R&D tax relief, a company must file a claim for the R&D credit within 12 months of the end of the accounting period in which the expenditure was incurred.

Ways in which tax relief can be claimed for qualifying R&D expenditure

Option 1 – Surrender of R&D tax credit to 'key employees'

In order to help Irish companies involved in R&D activities attract and retain R&D staff, some or all of the R&D credit may be surrendered to 'key employees'. A 'key employee' is defined as an individual who:

- is not, or has not been, a director of the company and is not connected to a director of the company;
- does not have, or has never had, a material interest in the company or is not connected with a person who has a material interest in the company;
- performs at least 50 percent of their activities "in the conception or creation of new knowledge, products, processes, methods and systems"; and
- has 50 percent or more of their emoluments which qualify for the R&D tax credit.

Two limitations to this option include:

1. The company looking to surrender an amount to key employee(s) must be paying corporation tax in the first instance. That is, the amount of credit that can be surrendered to the employee is limited to the amount of corporation tax due by the company prior to taking the R&D credit into consideration.
2. The effective rate of tax payable by the individual employee cannot be reduced below 23 percent.

Option 2 – Reduce corporation tax payment for current/preceding accounting period

Any credit not given to key employees can be used to reduce the liability to corporation tax for the accounting period in which the qualifying R&D expenditure was incurred.

Where a company has insufficient corporation tax against which to claim the R&D tax credit in a given accounting period, the tax credit may be credited against the corporation tax for the preceding accounting period of equal length.

Option 3 – Claim a payable credit from Revenue

Where a company has offset the credit against the corporation tax of the current and preceding accounting periods and an excess amount remains, it may make a claim to have the amount of that excess paid to it by Revenue in three instalments over a period of 33 months from the end of the accounting period in which the expenditure was incurred.

Candidates are reminded that, before they advise on the amount and timing of any amounts payable by Revenue to the company, they must check: (1) the corporation tax payable by the company for accounting periods ending in the ten years prior to the relevant period and (2) the amount of payroll taxes remitted by the company to Revenue in the relevant period and the previous period. Any cash refund payable to the company in instalments will be limited to the greater of these two amounts.

Where a cash refund can be paid to the company, the timings and amounts are as follows:

- ***Instalment 1*** will amount to 33 percent of the excess and may be payable by the filing date for the accounting period in which the expenditure was incurred. The remaining balance will then be used to first reduce the corporation tax of the next accounting period.

- ***Instalment 2*** will be relevant if any excess remains and will amount to 50 percent of that remaining excess. This instalment will be paid to the company 12 months after the due date of the filing of the corporation tax return that gave rise to the original claim. Any further excess may then be used to reduce the corporation tax of the following accounting period.

- ***Instalment 3*** will be relevant if an excess remains, and that amount will be paid to the company 24 months after the filing of the corporation tax return that gave rise to the original R&D credit. Any credit that remains after instalment 3 is available to offset against corporation tax of future accounting periods.

In summary, R&D drives significant economic growth in the Irish economy, and it is crucial that candidates can advise on its availability and the mechanics of giving relief to companies that are undertaking R&D.

The information in this article is relevant as of the date of publication.

NB: *Students should tailor their answer accordingly to the scenario presented and cover any other relevant taxes as signposted in the case.*

John Munnelly is FAE Paper Development Executive at Chartered Accountants Ireland

A final word

"Will things ever be the same again?" sang Joey Tempest, lead singer of Europe, in their hit 80s rock anthem "The Final Countdown". The looming FAEs may feel ominous, but the time to shine is almost upon you, writes **John Munnelly**

I want to use this final article to explore a recurring feature of FAE examiner reports over the past number of years. All students, successful or not, miss out on facets of questions.

This has also been alluded to in many articles in the FAE Exam Guide also. There are eight questions in the FAE exam. Each question normally contains a number of elements, each requiring an answer.

In basic mathematics, by not attempting all parts of all questions, students reduce the maximum number of marks their script can be marked out of.

The obvious implication is that these students are effectively raising the pass mark for themselves, as they need to perform better in the parts of the exam they do respond to in order to compensate for the parts of questions they leave unanswered.

A straightforward yet often overlooked exam technique is the resolution to ensure that the student addresses everything the examiner requires of them. Let us look at an example of this technique – an old-fashioned list:

1. Break out each sub-ask/requirement of the question.
2. Write each sub-ask/requirement onto a separate line in a notepad beside you at your desk.
3. Prepare your answer as you normally would, but when you finish a part of the question, draw a line through that requirement on the notepad.

This is a simple approach, yet it can make the difference between passing and failing the exam. The exam format is usually conversational and conjoin words

such as 'and', 'also', 'in addition', 'will you also', which are frequently used to capture instructions that are being issued to you throughout the course of the case.

It is natural that a student under pressure may read one part of a question and forget to address a follow-on task. In fact, we have empirical data to demonstrate this. Students' own biases and heuristics kick in and they tend to 'see' the requirements that play to their strengths, or topic areas they are more readily familiar with.

This was discussed in Critical Thinking in FAE Core Topic Area 2, Strategic Management and Leadership.

Exam example

Let's look at an example of a question from FAE Core Practice Paper 1 and use a list to parse out its requirements:

Handing you a summary of foreign deposits currently held by CCL and relevant foreign exchange rates (see Appendix 2), Kate tells us that she is comfortable with the amounts of foreign deposits held at 31 December 2x20, but would like you to explain and quantify the impact of these deposits on CCL's financial statements for the year ended 31 December 2x21.

"I want you to clarify how we should account for these cash deposits and, given the foreign currency aspect, what impact this will have on CCL's year-end accounts," stresses Kate. She reminds you to refer to the appropriate international financial reporting standards and provide journals for accounting entries that might be required.

Kate continues, "We have just finalised the various foreign deposit amounts received in 2x21 (see Appendix 2). I was informed

Practice on-boarding session

We recommend that all students attend the practice on-boarding on Wednesday, 26 July between 2–4 pm.

Students will be sent a timeslot and link approximately one week in advance of this.

Students are also advised to complete their 'Equipment Test'. Students will either receive a pass or fail status on this 'Equipment Test'.

If the test indicates an equipment fail status, please reach out immediately to faeexam@charteredaccountants.ie. Please do not keep this result to yourself.

Finally, students should read all emails that are sent to them carefully and familiarise themselves with the exam rules that will be emailed to them but are also available on the website.

this morning that these 2x21 deposits have been translated to our functional currency using the year-end exchange rates and have been recorded as revenue for the year ended 31 December 2x21. Could you reflect on this and let me know your view? Also, you will note that CCL has paid commissions of €/£7 million in 2x21 to secure these and other bookings. I would like your thoughts on how we should account for this in our financial statements for the year ended 31 December 2x21.

"As always, Philip, reference to appropriate guidance from any relevant international financial reporting standards is important and appropriate journals are required."

Requirement #1 Kate would like you to explain and quantify the impact of these deposits on CCL's financial statements for the year ended 31 December 2x21. "I want you to clarify how we should account for these cash deposits and, given the foreign currency aspect, what impact this will have on CCL's year-end accounts.'

- The phrase 'she reminds you' is a conjoin phrase to bring in the next requirement:

Requirement #2 She reminds you to refer to the appropriate international financial reporting standards.

- A classic conjoin word, 'and', is used to describe the next requirement:

Requirement #3 "and provide journals for accounting entries that might be required."

- "Kate continues" is another conjoin indicating that there are more requirements to be answered:

Requirement #4 "Could you reflect on this and let me know your view?"

- The classic 'also' is the segue into the next requirement:

Requirement #5 "I would like your thoughts on how we should account for this in our financial statements for the year ended 31 December 2x21."

- The question uses the phrase 'as always, Philip'. This is to remind the student that two further things are required of them:

Requirement #6 "reference to appropriate guidance from any relevant international financial reporting standards is important".

- One more use of the word 'and':

Requirement #7 "and appropriate journals are required".

I have not yet seen a perfect answer to this question. This is why the list is so important. By breaking down each part of the requirements set out in each question, the student is giving themselves the best chance to earn marks for their work.

Using your checklist

If the student ticks off each item on their list as they answer the question – or pause at the end of their question and compare their answer with the requirements that they have listed out – then they can assure themselves that they have not missed anything.

It was mentioned earlier in the guide that you should not leave one iota of your upcoming FAE performance to chance.

Ensure that you consider every aspect of your preparation; from exercise to diet, your notes to your equipment – i.e. laptop, anti-virus software, Wi-fi router, anything that can impact your performance on the day – make a plan and address it now.

For those with duties and commitments, I absolve you of all responsibilities for the next few weeks!

I never formally wish any student good luck in their exams. I firmly believe that the FAEs are "a place where success occurs when opportunity meets preparation".

In a few weeks' time you will have an opportunity to demonstrate your preparation.

Best of luck,
John Munnelly
FAE Paper Development Executive

Preparing for e-assessment day

There is a wide range of videos and guides to e-assessment on our website. Here are some of the key things you can do to prepare:

- Make sure you have the current version of your web browser and download the ProctorU Chrome extension.
- Test your equipment in advance (especially if you have not done a practice on-boarding). Ensure that your camera and microphone are working.
- Check your internet speed. If you are testing in your workplace or in your home office, ensure that your network does not contain firewalls.
- Turn off your laptop each evening before your exam and start fresh each morning.
- Prepare a quiet environment for the exam where you will not be disturbed.
- If you plan to use a Mac, engage with the chat link for more advice.
- Always access your exam through your student portal, both to begin the exam and to reconnect to the exam should you disconnect.
- If you encounter issues on exam day, contact support using the link that will be emailed to you each exam day.

For more information, see the Resources set out on charteredaccountants.ie/Current-Student/Exams/E-assessment-info

Your exam platform has been extensively tested and used by thousands of students over the summer months. If you have any questions, please contact faeexam@charteredaccountants.ie

The FAE finals – Spotify playlist

A song for every mood. The musicians in this playlist all wanted to be accountants* and have all written songs that describe that tension before a big event. The theme of this playlist is: yes you can!

"Welcome to the Jungle" – Guns N Roses: Who knew Paul Monahan was such a fan!

"Here I Go Again" – Whitesnake: Once more unto the breach, dear friends, once more.

"Comfortably Numb" – Pink Floyd: "Hello? Is there anybody in there?" You may feel numb now; your career will not be!

"Beds are Burning" – Midnight Oil: If ever there was a call to arms for the environment, this is it. Released in 1987, tragedy of the horizon, etc. I'll say no more.

"You've Got a Friend in Me" – Randy Newman: All the greats, even Buzz and Woody, need someone.

"Anti-Hero" – Taylor Swift: No Spotify playlist is complete until it contains some TayTay. Her finest work.

"History Repeating" – The Propellerheads with Miss Shirley Bassey: When you are all Fellows, this song will make complete sense.

"Self Control" – Laura Brannigan: Governance begins with the self. Laura knows this – she sang a hit song about it.

"Sailing" – Rod Stewart: Idyllic. However, beware of icebergs, dead ahead!

"Buck Rogers" – Feeder: "I think we're gonna make it" – you are now!

"Going Underground" – The Jam: Glorious post-punk urgency with a social conscience.

"Taxman" – The Beatles: The forefathers of modern music with a very important social message.

"The Final Countdown" – Europe: For obsessive number counters everywhere!

"Not Over Yet" – Grace: A few more weeks, folks, a few more weeks!

"Stayin' Alive" – Bee Gees: A band who walked their talk. Over to you!

"Yes Sir, I Can Boogie" – Baccara: Absolutely!

"Hung up" – Madonna: Abba meets Madonna = pop perfection.

"Say Something" – Justin Timberlake featuring Chris Stapleton: Even if you don't understand the ask, you need to!

"You Got It" – Roy Orbison: The voice of an angel in your corner.

"Ready To Go" – Republica: "I'm standing on the rooftops, shout it out, Baby, I'm ready to go".

*(Well, maybe not!)


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