



Study Support

Internal Control and Accounting Systems (ICAS)

Disclaimer

Study Support materials comprise **non live** assessments that were created for the **2003/2006 standards** and **do not** resemble assessments designed for the AAT Accountancy Qualification (launched July 2010).

There are some topic similarities between the 2003/2006 standards and the AAT Accounting Qualification (launched July 2010).

Practice assessments, guidance and standards for the AAT Accountancy Qualification (launched July 2010) can be found on the AAT website.

The Association of Accounting Technicians

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Simulation D1922 Case Study

Unit 10 Managing Systems and People in the Accounting Environment (MSP)

Source:

2003/2006 standards simulation D1922, **expired 01/11/09**

AAT Level 4 Technician Pathway/Diploma Pathway (2003/2006 standards)

SIMULATION

2003 standards

Technician

NVQ/SVQ in Accounting Level 4, Unit 10

R/101/8108



SIMULATION D1922

Managing Systems and
People in the Accounting
Environment

Case Study

To be completed by the candidate

Candidate name

Registration number

AAC code

Signed

Date

Note to assessors:

This booklet must be stored securely until it is handed out to your students.

Note to candidate:

This case study should only be used if you are unable to base your project on your workplace.

Candidate's briefing for a project report based upon this case study

Candidates who do not have the opportunity to undertake some form of work-based project are able to provide evidence of competence in this unit by writing a similar project report, but based on the material in this case study. The total length of the report should be between 3,000–4,000 words (excluding appendices).

Specifically candidates should write a report, which demonstrates their underpinning knowledge and understanding of:

The Business environment

- External regulations affecting accounting practices (10.2)
- Common types of fraud (10.2)
- The implications of fraud (10.2)

Management techniques

- Methods of work planning and scheduling (10.1)
- Personal time management techniques (10.1)
- Methods of measuring cost-effectiveness (10.2)
- Methods of fraud detection within accounting systems (10.2)
- Techniques for influencing and negotiating with decision makers and resource holders (10.2)

Management principles and theory

- Principles of supervision and delegation (10.1)
- Principles of creating effective inter-personal relationships, team building and staff motivation (10.1)

The organisation

- The impact on an accounting system of organisational structure, Management Information Systems, administrative systems and procedures and the nature of its business transactions (10.1, 10.2)
- The organisation's business and its relationships with external stakeholders (10.1, 10.2)
- The purpose, structure and organisation of the accounting system and its inter-relation with other internal functions (10.2)
- The control of resources by individuals within the organisation (10.1)

This can be demonstrated by writing a project report of between 3,000–4,000 words, addressed to Robert Allison, the Finance Director, which covers the following.

- **The co-ordination of work activities within PPL's accounting environment**

The candidate must demonstrate his/her ability to plan and co-ordinate the accounts department's work activities effectively, including setting and monitoring realistic objectives, targets and deadlines and managing people so that these can be met. In addition the candidate needs to show that he/she can develop contingency plans to deal with a range of problems that may detract from the organisation meeting these objectives, targets and deadlines.

- **Identification of opportunities to improve the effectiveness of PPL's accounting system**

The candidate must demonstrate his/her ability to identify weaknesses in the accounting system, and make recommendations to rectify these; to consider the impact that these would have on the organisation; to update the system to comply, for example, with legislative changes; and to subsequently check that the post-change output is now correct.

The project report should be both holistic and strategic in nature. That is, the candidate should report on each of the detailed areas listed below and then bring these together in an integrated way so that the overall position can be seen. From this he/she should then identify perhaps 4 to 6 major issues which are of strategic importance to PPL.

Guidance for assessors

The assessment process for the project produced from the case study should not differ to that of the project produced from the workplace. The AAT website contains guidelines and templates which assessors will find useful: www.aat.co.uk/students/mas_help.cfm

The guidance can also be found in section 5 of the AAT Assessment and Administration Manual.

Assessors should ensure that:

- the candidate's understanding of the project is discussed and recorded;
- the candidate is given relevant advice and support, which is recorded;
- candidate action plans are issued and recorded;
- a final interview with questioning takes place and is fully documented;
- paragraphs within the project are mapped to the Student Record – each performance criteria, range and knowledge item in the Student Record should be annotated with a paragraph number (or if that aspect has been covered by questioning, the appropriate page reference where details of the questioning can be found);
- an authentication statement is included from the assessor;
- all assessment records included in the project are also retained on the centre file.

In detail the project should include:

Manage people within the accounting environment

- How the candidate would plan and monitor work routines to meet PPL's organisational time schedules and to make the best use of both their human and physical resources (Performance criteria (PC A). Planning and scheduling this project report for completion to standard and on time will also provide evidence towards PC A).
- The systematic review of staff competencies and training needs, together with details of the training actually arranged (PC B).
- Contingency planning for possible emergencies (e.g. computer system not being fully functional, staff absences, and changes in work patterns and demands) (PC C).
- How the candidate would communicate work methods and schedules to colleagues so that they understand what is expected of them (PC D).
- How the candidate would monitor work activities sufficiently closely against quality standards to ensure they are being met (PC E).
- How the candidate would co-ordinate work activities effectively against work plans and contingency plans (PC F).
- How the candidate would encourage colleagues to promptly report issues beyond their authority and expertise. How he/she would resolve these where possible (PC G), or otherwise refer such issues to the appropriate person to resolve them (PC H).

Identify opportunities for improving the effectiveness of an accounting system

- A situation analysis of the accounting system under scrutiny (e.g. a SWOT analysis), will generate evidence towards PCs A and B.
- A cost benefit analysis, which could be quantitative or qualitative, will generate evidence towards PC C (and Knowledge and Understanding 6).
- Evidence of resulting recommendations made to the appropriate people in a clear understandable format and supported by a clear rationale. This will generate evidence towards PCs D and E. All assumptions made should be clearly listed.
- Evidence of research, pointing towards potential areas of fraud within the company's accounting system (e.g. teeming and lading, fictitious employees or suppliers). Research into appropriate fraud risk standards will generate evidence for PC B.
- How the candidate would undertake a regular review of methods of operating, providing evidence for PC C.
- How the candidate would update the system in accordance with both internal factors (e.g. changes in the organisational structure, responses to customer surveys) and external factors (e.g. changes in company law, VAT rates, FRSS) that require such updates to be made. This evidences PC F – SWOT and PEST analyses respectively would be useful here.

Any of the above evidence that does not sit naturally within the project report should be included as additional evidence in the appendices to it.

If the listed Performance Criteria, Range Statements and underpinning Knowledge/Understanding have NOT been addressed sufficiently by the project content, documented assessor questioning MUST be employed to address any gaps.

ALL Performance Criteria, Range Statements and underpinning Knowledge/Understanding must be evidenced.

In detail the project should include:

Manage people within the accounting environment

- How the candidate would plan and monitor work routines to meet PPL's organisational time schedules and to make the best use of both their human and physical resources (Performance criteria (PC) A). Planning and scheduling this project report for completion to standard and on time will also provide evidence towards PC A.
- The systematic review of staff competencies and training needs, together with details of the training actually arranged (PC B).
- Contingency planning for possible emergencies (e.g. computer system not being fully functional, staff absences, and changes in work patterns and demands) (PC C).
- How the candidate would communicate work methods and schedules to colleagues so that they understand what is expected of them (PC D).
- How the candidate would monitor work activities sufficiently closely against quality standards to ensure they are being met (PC E).
- How the candidate would co-ordinate work activities effectively against work plans and contingency plans (PC F).
- How the candidate would encourage colleagues to promptly report issues beyond their authority and expertise. How he/she would resolve these where possible (PC G), or otherwise refer such issues to the appropriate person to resolve them (PC H).

Identify opportunities for improving the effectiveness of an accounting system

- A situation analysis of the accounting system under scrutiny (e.g. a SWOT analysis), will generate evidence towards PCs A and B.
- A cost benefit analysis, which could be quantitative or qualitative, will generate evidence towards PC C (and Knowledge and Understanding 6).
- Evidence of resulting recommendations made to the appropriate people in a clear understandable format and supported by a clear rationale. This will generate evidence towards PCs D and E. All assumptions made should be clearly listed.
- Evidence of research, pointing towards potential areas of fraud within the company's accounting system (e.g. teeming and lading, fictitious employees or suppliers). Research into appropriate fraud risk standards will generate evidence for PC B.
- How the candidate would undertake a regular review of methods of operating, providing evidence for PC C.
- How the candidate would update the system in accordance with both internal factors (e.g. changes in the organisational structure, responses to customer surveys) and external factors (e.g. changes in company law, VAT rates, FRSs) that require such updates to be made. This evidence PC F – SWOT and PEST analyses respectively would be useful here.

Any of the above evidence that does not sit naturally within the project report should be included as additional evidence in the appendices to it.

If the listed Performance Criteria, Range Statements and underpinning Knowledge/Understanding have NOT been addressed sufficiently by the project content, documented assessor questioning MUST be employed to address any gaps.

ALL Performance Criteria, Range Statements and underpinning Knowledge/Understanding must be evidenced.

Coverage of performance criteria

The following performance criteria are covered in this simulation.

Element	PC Coverage
10.1	Co-ordinate work activities within the accounting environment
(a)	Plan work activities to make the optimum use of resources and to ensure that work is completed within agreed timescales.
(b)	Review the competence of individuals undertaking work activities and arrange the necessary training.
(c)	Prepare, in collaboration with management, contingency plans to meet possible emergencies.
(d)	Communicate work methods and schedules to colleagues in ways that help them understand what is expected of them.
(e)	Monitor work activities sufficiently closely to ensure that quality standards are being met.
(f)	Co-ordinate work activities effectively and in accordance with work plans and contingency plans.
(g)	Encourage colleagues to report to you promptly any problems and queries that are beyond their authority or expertise to resolve, and resolve these where they are within your authority and expertise.
(h)	Refer problems and queries to the appropriate person where resolution is beyond your authority or expertise.
10.2	Identify opportunities for improving the effectiveness of an accounting system
(a)	Identify weaknesses and potential for improvements to the accounting system and consider their impact on the operation of the organisation.
(b)	Identify potential areas of fraud arising from control avoidance within the accounting system and grade the risk.
(c)	Review methods of operating regularly in respect of their cost-effectiveness, reliability and speed.
(d)	Make recommendations to the appropriate person in a clear, easily understood format.
(e)	Ensure recommendations are supported by a clear rationale which includes an explanation of any assumptions made.
(f)	Update the system in accordance with changes that affect the way the system should operate and check that your update is producing the required results.

Instructions

This case study is designed for candidates to be able to use in order to demonstrate their competence in managing systems and people in the accounting environment.

You should read the whole case study before you start work, so that you are fully aware of what you will have to do.

Case Study

THE PREMIER PRINT LTD. CASE STUDY

THE COMPANY'S BACKGROUND AND MANAGEMENT

It is now April 2004. Your name is James Brierley, and you are employed as an Accounting Systems Technician with Premier Print Limited (PPL).

The company was formerly part of Rexmore Printing and Packaging Plc, but was the subject of a management buyout (MBO) from its previous owners seven years ago by five of its Directors - John Mannion, Reece Jones, Xing Chang, Caroline White and Susan Ellis. These five had formed the majority of the board of PPL when it was a fully owned subsidiary of Rexmore Printing and Packaging Plc.

Three years ago Robert Allison joined PPL as Finance Director, replacing Caroline White who left the company at that time.

The current board composition of PPL is:

John Mannion	Managing Director
Robert Allison	Finance Director
Reece Jones	Sales Director
Xing Chang	Production Director
Susan Ellis	HRM Director

The company is entirely owned by the five Directors, who own the following percentages of its equity:

John Mannion	30%
Robert Allison	25%
Reece Jones	20%
Xing Chang	15%
Susan Ellis	10%

In the mid 1990s Rexmore was faced with evermore intensive competition for its printing and packaging products from companies in the far east. PPL at that time was a generalist printer, printing a full range of hard and soft back books, magazines and papers and suffered as badly from loss of market share as did any of the Rexmore subsidiary companies.

The PPL Directors at the time of the MBO had managed the company for many years. They believed that their extensive contacts in the printing industry, together with their production expertise and the excellent reputation of PPL, would enable them to re-position the company and make it a successful player in their chosen niche market. Their strategy, after negotiating the MBO, was to steadily exit the general printing sector (where competition was the most fierce and, therefore, margins the lowest) and replace this work with specialist printing of high quality hard back books. This type of printing has the downside of requiring increased capital expenditure on specialist equipment and a highly skilled (and more costly) workforce. However it has less competition and enjoys much higher gross margins than general printing.

Seven years after the MBO the company has maintained its turnover (in real terms) at around the £30 million figure, but has improved its gross profit margin from around 20% in the mid 1990s to around 35% today. Net assets over the same period have, however, increased from £8 million to £14 million. The workforce has in the meantime been reduced from around 300 to around 250 employees.

Details of PPL's accounts for the year to 31/3/04 are given in Appendix 1 on pages 24 to 25. ACCOUNTING AND OTHER IT SYSTEMS

The main financial accounting system was replaced in early 2003 and is still being "bedded in". The rest of the company's accounting and information systems have been in place for between three to five years and some are now in need of updating.

As at April 2004 the principal systems are:

- The main financial accounting system which operates using the Microsoft Office System to integrate and automate all the processes involved in the period end closure routines. At the end of each month this updates the integrated general, purchase and sales ledgers.
- A stand-alone full absorption costing system running on proprietary Skill software, which was installed some five years ago.
- PPL uses a traditional standard costing and variance analysis system to monitor and control the company's performance month by month. Standards are set at the start of each financial year and then remain unchanged for the remainder of that year. Monthly actual costs and revenues are then compared to the pre-set standards and a full range of variances is calculated. All adverse variances are then investigated by the Chief Accountant and the relevant budget holder.
- An integrated payroll and personnel database management system running in HRM Soft, which was installed three years ago.
- A computer aided design/computer aided management (CAD/CAM) system, which is used for the type-set design and control of the printing of PPL products.
- The inventory control system which is used to book in goods (predominantly paper) received in the warehouse and to issue out goods to the production areas.

ACCOUNTING PERSONNEL

ROBERT ALLISON, BSc, FCCA, FINANCE DIRECTOR:

Robert, aged 52, joined the company three years ago when he bought Caroline White's 25% equity stake in the business. He is, therefore, the owner of a substantial stake in the business.

In addition to obviously being a Senior Director with overall board level responsibilities for the strategic direction of the company as a whole, Robert's primary specific responsibility is to plan and manage the financial strategy of the business. This involves him ensuring that PPL's large ongoing capital investment programme is professionally managed and appraised, and is in line with corporate strategy, and that PPL is funded by the optimal mix of debt and equity. He also has overall responsibility for taxation planning; for ensuring that PPL's credit rating is maximized, and that its working capital levels are kept to a minimum.

In addition to his controlling activities Robert personally produces the annual company report, including its statutory accounts; deals with all banking and finance issues; fulfils the role of Company Secretary and handles all legal issues.

He also has, of course, overall responsibility for all accounting, finance, legal and IT issues and personnel. In practice, however, many of these day-by-day responsibilities are delegated to the Chief Accountant.

GEORGE ROPER, MAAT, ACMA, CHIEF ACCOUNTANT

George, aged 46, is responsible to Robert Allison for the day-by-day responsibility of running the PPL accounts department. He has been employed as Chief Accountant for the past five years and is AAT and CIMA qualified.

The role of the Chief Accountant at PPL involves supervising the work of the Accounting Technicians and Clerks running the transaction accounting systems (the general ledger, purchase ledger, and sales ledger), together with the costing system and the payroll and personnel database management system. George personally produces the monthly management accounts and carries out the resulting variance investigations. He also approves all payments to suppliers.

George personally produces the management accounts each month, which are then reviewed and agreed by Robert Allison before they are issued to the other board members and senior managers. After producing the accounts George then spends much of the following week in reviewing the performance of the different parts of the business with the appropriate departmental managers. All adverse variances are investigated and a programme of remedial action is agreed upon.

Another of George's major areas of responsibility is the production of the annual budget, where his role is to co-ordinate the process, which is intended to be bottom-up - based on the information which the budget holding Departmental Managers input to the accounts department.

Two of his other key responsibilities are to ensure that working capital levels (in particular paper inventories) are kept to the level set by the Finance Director, and that the company's trade credit rating with its suppliers is maximized.

He is also personally responsible for managing the company's day-by-day cashflow; approving all payments to suppliers, and making VAT, NIC and PAYE payments.

One of George's great strengths is that he is personally able to operate the general, purchase or sale ledgers in a reasonably efficient way, and he can also run the payroll. This provides a very useful degree of sickness and holiday cover. He does not, however, have any real understanding of the costing system.

The remaining Accounts Department staff, who all report to George Roper, are:

ROBERT JONES, PURCHASE LEDGER CLERK:

Robert, aged 46, is responsible for entering all suppliers' invoices and credit notes into the purchase ledger; for issuing debit notes where necessary; for reconciling suppliers' statements to the purchase ledger; and for controlling creditor payments.

Robert has been in this job for the past eight years since joining the company. He has intermediate level AAT qualifications, which were obtained during his time with a previous employer, but he has undertaken no accounting related study during his time at PPL. Before joining PPL Robert was employed as a General Ledger Clerk with what was then another group company in Rexmore Plc.

WINSTON OKOBE, SALES LEDGER CLERK AND CREDIT CONTROLLER:

Winston, aged 47, is responsible for all data input into the sales ledger. This involves him raising sales invoices and credit notes, producing monthly statements and reconciling debtor payments. He is also responsible for carrying out the company's credit control procedures. This requires him to online credit check all new credit customers and to recommend a limit to Robert Allison and to the relevant Sales Manager; and to chase up slow payers by telephone, e-mail or letter.

Winston has been in this job for the past four years since joining PPL, from a travel agency where he was a General Accounts Clerk. He has neither accounting nor credit control qualifications, but has expressed an interest in acquiring some form of formal qualification in either area. Nothing has, however, yet been done to start the process off, and Winston himself is uncertain as to which qualification he would be best to study for.

DEBORAH CLARKE, GENERAL LEDGER CLERK:

Deborah, aged 32, is responsible for all data which requires direct input into the general ledger, and for producing the end of month, end of quarter and year-end trial balances. She is also responsible for recommending the monthly provisions figures, for prepayments, accruals and stock provisions to Robert Allison. In addition Deborah maintains the company's cash book and its petty cash imprest system.

Deborah has been in this job for the past two years. She joined PPL four years ago as Purchase Ledger Clerk, and carried out this role very satisfactorily until moving to her present position. She took foundation level AAT qualifications before joining PPL and has regularly expressed her interest in taking further qualifications since then. Before her employment with PPL Deborah had worked as a Purchase Ledger Clerk with the local education authority.

Deborah is currently studying for her intermediate level AAT qualifications, and is then keen to complete her studies and achieve the full qualification. She is given every Thursday afternoon off to attend the local college, where the AAT syllabus is taught on an afternoon and evening basis (1-8pm), and the company funds Deborah's studies. Whilst she is not expected to make up the time given off for day release in anyway, she is however, sometimes required to work rather than attend college when the department is exceptionally busy.

SHEILA HEWLETT, COSTING TECHNICIAN:

Sheila, aged 37, is responsible for costing all PPL's products, using the Skill absorption costing system, and for recommending minimum cost plus selling prices to the company's salesforce for every batch order.

She has been in this job since joining the company five years ago from her only other previous employer, a pharmaceuticals company, where she had worked from leaving school. Her final position there was as Assistant Credit Controller.

Sheila considers the job as simply a means of earning a living and supporting her lifestyle. She is not interested in receiving any other than essential work-based training, and has no accounting qualifications. Sheila has on several occasions expressed her reluctance to undertake any form of personal development or training.

Sheila is generally viewed by her colleagues as something of a paradox. One difficulty is that she is seen as a moody individual - friendly and bright one day and hardly approachable the next. Another is that she is seen as having something of an attitude problem, and in particular can be surly towards George Roper, with whom she seems to have a personality clash. Similarly she always seems to avoid training sessions and has a poor attendance record. On the other hand she is generally considered to be very competent at her job when she is at work.

DIANE DEVLIN, PAYROLL & PERSONNEL DATABASE CLERK:

Diane, aged 29, is responsible for running the monthly payroll (for salaried staff) and weekly payroll (for hourly paid staff), and issuing P45s, P60s and so on. She is also responsible for maintaining the personnel database.

Diane was specifically recruited to do this job three years ago when the new integrated payroll and personnel database system was introduced. Diane joined the company with NVQ intermediate level qualifications and has subsequently taken her NVQ 4 technician level exams, but failed two papers at the last sitting which she is entered to resit in June. She was educated at Southampton University, where she obtained a 2.2 degree in English.

Adding to the complexities of Diane's life is the fact that she is a single mother with a young son, Peter, aged three, who she leaves with a childminder whilst she does her work at PPL. Although this works reasonably well, Diane sometimes has problems getting into work on time, because she has to use two local buses to get Peter to the childminders and then to get herself into work. At peak times they are often late and sometimes full. Diane does keep meaning to learn to drive but can't really afford the lessons. She has asked the company if it would be possible for her to change her hours so as to start and finish half an hour later.

Once she completes her AAT qualifications, Diane has told George Roper that she is keen on starting to study for a Chartered Institute of Management Accountants (CIMA) qualification. At her interview one of the reasons that she gave for leaving her previous employer was that it would not give her proper time off and financial support to study. As part of Diane's terms of employment with PPL the company undertook to provide her with day release and financial support. She is meant to attend the local college every Tuesday afternoon and evening from 1-8pm, with PPL giving her the afternoon off, but the problem is that she regularly has to miss classes because of work commitments. She has raised this issue twice already with George Roper, who has promised to provide some cover for Diane's job in the forthcoming work rescheduling exercise.

There is always a certain amount of tension between Diane's two roles of operating the payroll and maintaining the personnel database. Diane primarily sees her job as that of running quite a sizeable payroll singlehandedly and getting everyone paid on time, and the statutory forms and returns done on time. In her view maintaining the personnel database is a distraction from carrying out this job. Not only that but it is a source of added aggravation to her, because senior managers at the company quite often ask her to carry out special exercises using the personnel database. These often come at the most inconvenient times, such as at the end of the tax year or when she is trying to study for her exams, or when she is having particular problems with Peter.

The final member of the accounts team is yourself, JAMES BRIERLEY, ACCOUNTING SYSTEMS TECHNICIAN.

You report directly to Robert Allison, are aged 24, and are employed largely on reviewing accounting systems and procedures. This means you are often deployed on special project work that the Finance Director or Chief Accountant asks you to undertake. These usually involve reviewing parts of the accounting system or carrying out capital investment appraisals, both of which you are experienced and competent at.

You are also occasionally required to check that the company's standard operating practices and policies, as set out in the staff handbook, are being adhered to.

You have worked for PPL for the past three years and are hoping to complete your AAT qualifications this summer.

You have some limited experience of working on sales, purchases and general ledgers, but not hands-on experience of operating these at PPL. Your knowledge of standard costing, variance analysis, working capital management and operating a payroll system are purely theoretical since you have no practical experience in these areas.

BUSINESS & ACCOUNTING PRACTICES AND POLICIES

The following is a summary of the business and accounting practices and policies set out by PPL in its handbook of company standard operations, together with an explanation of how some of these policies work in practice.

Purchases and supplier payments:

Ross McEwart (Purchasing Manager) and Sheila Scott (Deputy Purchasing Manager), the company buyers, are responsible for identifying and liaising with suppliers, and negotiating all contracts and prices with them. Ross and Sheila have been employed in their existing positions for the past five and three years respectively.

Until two years ago the buyers had followed the policy, set by the PPL board, of buying "on spec" from the cheapest source available on the day of purchase. This had involved them dealing with around 250 suppliers and playing one off against another so as to buy materials or capital items at the lowest possible price available for that individual transaction. In March 2002, however, the policy was changed to one of "partnership sourcing". This means that the buyers now deal with a much smaller number of thoroughly vetted and approved suppliers on long-term contracts. PPL now operates with only around 60 regular suppliers, who are on two to four year contracts with prices set via annual price negotiations. The advantage of this policy to PPL is that it can get to know and understand 60 suppliers far better than it can 250, and can get the advantages of long-term stability in terms of product quality and prices.

All new suppliers are checked for perceived quality and reliability by Ross McEwart, and for financial stability by Robert Jones, the Purchase Ledger Clerk. Virtually all purchases are bought on 30-60 days open credit terms.

When the buyers place a purchase order they enter the details on the computerised inventory system. All subsequent goods received notes are then received in the warehouse by the goods inwards warehouseman, who checks against the computer that the correct quantities have been received. He also physically checks the condition of the goods in so far as their packaging permits. The warehouseman will then record on the system the actual quantities received and note any discrepancies. A copy of the goods received note is then sent to Ross McEwart, who will also later receive the supplier's invoice. Ross and Sheila are then responsible for confirming that the correct quantities have been received as ordered and invoiced, and that the invoiced prices are correct.

The buyers then pass the approved invoices to Robert Jones who enters them into the purchase ledger, and at the same time makes the appropriate general ledger postings. Every month the purchase ledger system automatically produces an aged creditors listing which identifies those suppliers who are now due for payment according to their agreed terms of supply. George Roper, the Chief Accountant, then considers the company's cash position at the time and approves the actual creditor payments to be made. PPL's stated policy is to pay all suppliers to terms, however, there are occasional times during the year when the company's cashflow does not permit this.

Once the list of approved payments has been decided upon the computer system produces the actual cheques, which are then signed by any two of the authorised signatories. These consist of the Directors and the Chief Accountant. In practice the cheques are always signed by the Chief Accountant and usually by the Finance Director, unless he is away on business which is quite often the case. In such circumstances any of the other Directors who happen to be available are asked to countersign the cheques. During the past year the company has introduced a policy of trying to pay as many suppliers as possible by BACs. However, there is still a substantial majority who are still paid by cheque. For those suppliers who are paid by BACS, the BACS payment authority is approved by the Chief Accountant and then countersigned by one of the other Directors. In the absence of the Finance Director, George Roper always has difficulty in persuading one of the other Directors to countersign all the individual cheques because of the time involved. They are all, however, usually prepared to put the one countersignature on the BACS payment authority form.

All company cheques for any other purpose are required to have two signatures from amongst the same authorised signatories (the Directors and the Chief Accountant).

Sales and customer receipts:

PPL operates with a small but highly professional and well paid sales force of six Sales Executives under the direction of Reece Jones, the Sales Director. This group is responsible for identifying potential new markets and customers and for all regular dealings with existing customers. The customer base is essentially UK and international publishers.

When a new publisher is found, the company's policy is generally to trade with them on a cash with order basis for a three month trial period and then to offer open credit up to an internally set limit. Winston Okobe, the Credit Controller, is responsible for credit checking these new customers and for taking up two trade credit references. Following discussions with the relevant Sales Executive, Winston then recommends the initial credit limit, which will apply after the three month trial period; and usually either he or the relevant sales executive recommends subsequent changes to this limit. All new credit limits and changes to existing limits are approved by the Finance Director, or in his absence by the Managing Director.

PPL has around 40 publishers for whom it regularly prints books, and this repeat business accounts for around 60% of the company's turnover. The remaining 40% of turnover comes from one-off orders which the company secures. PPL's policy is to steadily increase the proportion of its repeat business since this is the most profitable part of its turnover. The 60% of turnover from this source accounts for 80% of the company's gross profit margin.

Winston Okobe uses the goods dispatched listings as the trigger to produce sales invoices, which are sent out to customers on a weekly basis. Statements are issued on the last trading day of each month. Around half of the regular repeat business publishers pay by BACS, with the remainder of debtors paying by cheque. All cheque payments received in the post are directed to Winston who banks them on a daily basis. Winston is also responsible for raising any credit notes and for all the postings to the sales ledger (with the associated entries in the integrated general ledger).

All credit notes have to be approved by the relevant Sales Executive, and those over £5,000 by the Sales Director.

Winston Okobe produces a monthly aged debtors listing and all outstanding debtors more than one month overdue are reviewed with the relevant Sales Executive. All outstanding debtors more than two months overdue are reviewed both by the relevant Sales Executive and by the Sales Director.

Deborah Clarke, the General Ledger Clerk, produces a weekly bank reconciliation statement, which inter alia reconciles the cash book and paying-in book to the bank statement. The bank reconciliation statement is then checked by the Chief Accountant who initials it as being correct.

Payroll and personnel records:

PPL operates with two separate payrolls.

Diane Devlin, the Payroll and Personnel Database Clerk, runs the first payroll every week to pay the hourly paid, largely shop floor workers. Due to a long standing tradition in the printing industry, around one third of the hourly paid employees are still paid in cash. The remainder have payments made directly into their bank accounts via BACS.

Those paid in cash collect their pay packets from Diane's office every Thursday; either in person or by asking a work colleague to collect them on their behalf. Those paid via BACS have their pay credited to their accounts on the same day.

Four days before the last working day of each month the second payroll is run, which is used to pay the monthly paid staff, who are either management, supervisory, sales or office staff. All monthly paid employees are paid via BACS.

As soon as the two payrolls for the month have been finalised George Roper draws up manual cheques to the Inland Revenue in respect of income tax and NIC payments. These cheques are signed by two of the authorised signatories, as is the usual practice.

As well as running the payroll, Diane also maintains all the personnel records on the same integrated payroll and personnel database management system. This involves her in maintaining a limited up to date database of information such as employees' addresses, contact phone numbers, holidays and sickness records.

DIARY OF EVENTS WITHIN THE PPL ACCOUNTS DEPARTMENT OVER THE PAST TWELVE MONTHS

March/April 2003:

These two months were characterised by the usual peak in workload for any accounts department at this time of the year - 31 March being the company's financial year end. Difficulties in meeting the year end closure routines were experienced by a number of members of staff in several areas.

In particular the fairly new main financial accounting system was being operated with full year-end routines for the first time.

Deborah Clarke, the General Ledger Clerk, experienced several problems in meeting the required year-end deadlines. Deborah's workload throughout the year means that she is usually extremely busy during the week of the month-end period, but has relatively little to do during the rest of the month. She knows that the half year and year end periods in particular are going to stretch her to the limit, and always tries to get well ahead with her work on direct general ledger postings, the cash book and petty cash so that she can concentrate on producing the trial balance and the associated provisions. This month, however, both the sales ledger and the purchase ledger were closed off later than scheduled, which meant that Deborah, in turn, was unable to finalise the trial balance and the post-trial balance adjustments until ten days after the set date.

The inherent difficulties in attempting to balance the often conflicting requirements of two different roles caused Winston Okobe considerable problems this month. In his capacity as Credit Controller, he was instructed by Robert Allison to reduce year end debts outstanding to the lowest possible figure. This entailed him being almost fully occupied in chasing up debtors during the month, which in turn, however, prevented him from keeping up with his duties from his other role as Sales Ledger Clerk. The consequence of this was that by the end of the month Winston had only completed the postings for just over half of the transaction entries affecting the sales ledger, (and also, therefore, the integrated general ledger), and was working extensive paid overtime to try and catch up.

George Roper was in fact the only member of staff sufficiently experienced in operating the sales ledger to be able to provide any meaningful help, but this was, however, severely limited because as usual at the year-end George had enough work of his own to get through. Also he was extremely slow due to being out of practice in working in this area.

During March John Mannion, Managing Director, and Xing Chang, Production Director, were involved in trying to plan a new shift working system for the shopfloor. This required a lot of assistance from Diane Devlin, the Payroll and Personnel Database Clerk, who was asked to carry out several work planning analyses using the personnel records. The end of March, as well as being the company's financial year-end, is also effectively the end of the tax year (the UK tax year ends on 5 April). This makes this an extremely busy time for the Payroll Clerk since as well as having to complete the normal payroll routines, she has also to ensure that the payroll closure ties in with PPL's internal year-end timetable, and then produce the various forms and certificates required by the Inland Revenue. Like Deborah and Winston, Diane also fell behind schedule (in this case by four days) in terms of the PPL year-end timetable.

Due to the various delays in finalising the transaction accounting Robert Allison, who always personally produces the statutory accounts, was obliged to cancel or delay several important scheduled meetings with outside third parties in order to work full time on the statutory accounts.

In particular, he and the Managing Director had to postpone a key presentation to the company's bankers which had been organised to review the financial year 2002/3 accounts. This meeting was important because in addition to renewing its annual overdraft facility, the company was looking to raise a new £2 million seven year term loan to finance the acquisition of a new offset printing press.

You, James Brierley, were away on a two week holiday during the second and third weeks of April. Product costing was unable to be undertaken for two weeks because of the absence due to sickness of Sheila Hewlett, the Costing Technician. Normally Sheila is able to plan her work well enough ahead to cover her work before going away on holiday etc., but this unexpected sick leave obviously prevented her from doing this. Unfortunately no other member of staff had the detailed knowledge of the company's products to be able to stand in for Sheila.

May 2003:

Compared to the difficulties experienced in March and April, May proved a fairly quiet and uneventful month for the PPL accounts department.

As is normal practice at PPL, creditors are not generally paid the month before the full-year and half-year ends, but are then paid in the first two weeks of the following month. Since the company only operates with a relatively small number of suppliers, it is usually possible for Robert Jones, the Purchase Ledger Clerk, to ring them and advise that their payments will be a couple of weeks late. Most suppliers accept that this tends to be standard business practice, and have no real problem with it. George Roper, however, felt that a full review of the purchase ledger, and in particular of outstanding balances, would be a useful supervisory exercise, which he undertook this month.

One of the repercussions of the failure to meet the year-end calendar was that Robert Allison instructed James Brierley to undertake a work rescheduling and training review. This was to involve James initially in carrying out a systematic review of the competencies of all seven members of the accounts department (including George Roper), to recommend what their training needs are and to advise the Finance Director of the type of training that should be provided. Subsequently, he was to recommend ways of recheduling the work of the department in order to make the best possible use of both the people working in it and of the systems operated by it.

Other than briefing James Brierley, very little was seen of the Finance Director as he spent virtually the whole period off site - either with the company's auditors or in meetings with its bankers.

Sheila Hewlett was off sick again for a period of five days during the month. As Sheila seems to have regular periods of sick leave, George Roper asked the Personnel Database Clerk for a summary of Sheila's sick leave during her five years of employment with PPL. According to the computer records she had been off sick for a total of 85 days, i.e. an average of 17 days per year as compared to the mean average for all company employees of eight days per year. Almost all of Sheila's periods off sick were for five working days or less, which meant that she invariably self-certified herself as being sick, without the need to produce a medical certificate.

George Roper finally responded to Diane Devlin's request that she might be able to change her working hours so as to start and finish half an hour later. Whilst he said that he sympathised with her problems in getting her son to the childminders, he could not really be expected to re-organise the whole department around this issue. George's concern was that if he agreed to this request then it was possible that other members of staff would take this as a precedent and ask for their own individual arrangements to suit them too. This, George told Diane, was not practical in a small tightly knit department.

June 2003:

Towards the middle of the month George Roper finally decided to interview Sheila Hewlett regarding her poor attendance record. Although at first reluctant to discuss the problem at all, Sheila eventually explained that she regularly felt depressed and was always tired; that she tried her best at work but that sometimes the job felt just too demanding of her. These problems were exacerbated, she explained, by personal problems in her home life that she did not wish to discuss.

George Roper was not at all convinced by Sheila's explanations and decided to issue her with a

written disciplinary warning, which he duly did. He also sent an e-mail to Diane Devlin, the Personnel Database Clerk, summarising the interview and explaining his reason for issuing the warning (which basically was that he felt Sheila was making up fictitious illnesses to take days off work). Diane was instructed to place a copy of the e-mail and of the disciplinary notice in Sheila Hewlett's personnel records.

July 2003:

James Brierley reported back on the results of the first phase of the work rescheduling and training review, that is the review of the competencies and training needs of all members of the accounts department. Further to this James was then to work on the the second phase, the work rescheduling recommendations.

Preliminary discussions were held between John Mannion and Robert Allison to consider the implications of ending the practice of paying some employees in cash.

August 2003:

It is quite normal during August for there to be problems caused by staff holidays. Although some aspects of the accounts department's work can be left for a couple of weeks, others relating to the transaction accounting always cause difficulties when they are not done on a day-by-day basis.

For example, no invoices were raised during the second and third weeks of the month because Winston Okobe was on holiday.

Robert Allison announced to the staff that the seven year term loan for the new printing press had now finally been agreed with the company's bankers.

Diane Devlin went to see George Roper to try and agree the arrangements for her day release to start her CIMA studies, on the assumption that she would pass the remaining AAT exams which she had just sat. The local college where she had been undertaking her AAT study were running the appropriate CIMA courses from the start of October, and she was keen to enroll. George, however, told her that she would need to wait for the results of the work rescheduling and training review, as he could not authorise her starting before the results of this were known.

September 2003:

Diane Devlin had been to her local citizens' advice bureau to try and find out if she had any legal entitlement to change her hours so as to accomodate taking her son to the childminders. As a result of this she requested a meeting with George Roper to discuss the matter again. George confessed that he was unsure what the current legal position was but said that he would ask James Brierley to check out what entitlement if any now existed.

Sheila Hewlett was once again off sick for three days during the first week of the month. On returning to the office she was again summoned to see George Roper, who told her at this meeting that further disciplinary action would be taken if she were off sick again without a medical certificate of sickness.

October 2003:

Due to Autumn gales, there was a major problem mid-month caused by a power cut, resulting from fallen electricity cables, which lasted for nearly two days. Although the company does have a standby generator this is only sufficient to power the whole of the print room and offices for up to four hours.

Although the normal practice in the accounts department is to back up all systems at the close of business each day, the power failure occurred in the late afternoon which meant that all that entire day's work on all the ledgers, the costing system and the payroll was lost. The next day the accounts staff could do very little other than basic manual clerical work; and when it became clear that power would not be restored until late evening that day the Managing Director took the decision to close the entire factory - including the offices - for the rest of the day on health and safety grounds.

By working a large number of extra hours, as paid overtime, the accounts staff managed to effectively catch up their lost work by the end of the month. George Roper stated to James Brierley that staff being individually absent or unable to work for a day or so was never a real problem, except at the year-end and half year-ends, because there is usually sufficient slack in the system to allow for this. However, their being all effectively unable to work for two days had caused great difficulties because, in particular, of the integrated nature of the transaction accounting system.

Three members of the accounts department staff undertook some form of work rescheduling training this month. These were James Brierley, Robert Jones and Winston Okobe. Training had also been organised for Deborah Clarke, but unfortunately she missed it due to being away sick on the relevant three days.

After consulting her trade union Sheila Hewlett decided to invoke PPL's grievance procedure against the allegedly heavy handed way in which she thought George Roper was treating her. This involved her writing to Robert Allison, the Finance Director, with a copy to George Roper, and setting out her complaint in writing.

November 2003:

Robert Allison invited Sheila Hewlett to a meeting, which she duly attended with her trade union representative. She basically told the Finance Director the same story that she had previously told the Chief Accountant about her absences, and went on to complain about George Roper's "aggressive and unsympathetic attitude". Robert Allison then called in George Roper to give his side of the story, which in essence was that he could see no reason for Sheila having an absentee record that was over twice the company average; that if she was so regularly ill she should consult her GP and provide the company with sick notes; and that her frequent absences were affecting the operational efficiency of the department.

At the end of the meeting the Finance Director decided that he could not uphold the grievance, and advised Sheila Hewlett that further disciplinary action would be taken if she continued to be absent.

December 2003:

Sheila Hewlett wrote to Robert Allison stating that she wanted to appeal against his decision and requested a further meeting. He, however, wrote immediately back to her saying that his decision was final and that he was not prepared to meet with her to discuss the matter further.

January 2004:

Robert Allison, the Finance Director, has spent three days this week on an ICAEW professional update course. At the end of the course and on returning to PPL, Robert had his PA make copies of extracts from part of the course material. This is from a paper entitled "Employment Law Update for Accountants in Industry & Commerce", and extracts from this (pages 26 to 32) are included as Appendices 2 and 3 to this case study.

February 2004:

The Board of Directors finally decided at their regular monthly meeting to seek to end the practice of some employees still being paid in cash. This decision was by all accounts preceded by a lively discussion as to how best to persuade employees to accept this change, and exactly what the company's legal position was in respect of forcing through the change for any employee who still resisted it.

Robert Allison initiated a preliminary fraud prevention audit, and as part of this asked James Brierley to undertake a risk assessment of the business and accounting practices and policies adopted by PPL.

March 2004:

There were various problems with the payroll system, and Diane Devlin is getting very worried about coping with the end of tax year P60s, P11Ds and so on.

During the month James Brierley interviewed all members of the accounts department in order to formally report back to the Finance Director on the update from the work rescheduling and training review.

James Brierley also undertook an audit of the sales ledger. Of the 38 changes to credit limits since the previous audit, 15 had been approved by the Finance Director and 18 by the Chief Accountant.

Appendix 1

Summarised Profit and Loss Account and Balance Sheet for Premium Print Ltd for the year to 31 March 2004

Profit and Loss account for the year ended 31 March 2004

	2004 £000	2003 £000
Sales	<u>30,346</u>	<u>29,364</u>
Gross Margin	<u>10,642</u>	<u>8,665</u>
Operating Profit	<u>2,364</u>	<u>2,226</u>
Exceptional gain/loss	(367)	104
Net interest payable	(660)	(717)
Currency exchange gain/(loss)	<u>(215)</u>	<u>(106)</u>
Profit on ordinary activities before tax	1,122	1,507
Taxation on profit on ordinary activities	<u>(267)</u>	<u>(368)</u>
Profit on ordinary activities after tax	855	1,139
Dividends	<u>(255)</u>	<u>(340)</u>
Profit retained for the year	600	799

Balance Sheet as at 31 March 2004

	2004 £000	2003 £000
Fixed assets		
Intangible assets	512	464
Tangible assets	<u>14,556</u>	<u>13,218</u>
	<u>15,068</u>	<u>13,682</u>
Current assets		
Stocks	7,659	7,487
Debtors	10,746	11,330
Cash	<u>461</u>	<u>303</u>
	18,866	19,120
Creditors: amounts falling due within one year	<u>(8,969)</u>	<u>(8,650)</u>
Net current assets	9,897	10,470
Total assets less current liabilities	24,965	24,152
Creditors: amounts falling due after one year	<u>(11,040)</u>	<u>(11,236)</u>
Net assets	<u>13,925</u>	<u>12,916</u>
Capital and reserves		
Called up share capital	6,000	6,000
Profit and Loss account	<u>7,925</u>	<u>6,916</u>
Equity shareholders' funds	<u>13,925</u>	<u>12,916</u>

Appendix 2

2 New statutory dispute resolution proceedings from April 2003

2.1 The following statutory dismissal, disciplinary and grievance procedures will form part of every employees contact of employment. The object of these reforms is to encourage employers to follow a minimum set of standards to ensure that employees are treated fairly.

The standard procedures are as follows:

Dismissal and disciplinary procedures

- (a) **Step one: Statement of grounds for action and invitation to a meeting**
 - (i) The employer must set out in writing the employee's alleged conduct/characteristics/other circumstances, which lead it to contemplate dismissing or taking disciplinary action against the employee.
 - (ii) A copy of the statement must be sent to the employee and he must be invited to attend a meeting to discuss the matter.

- (b) **Step two: Meeting**
 - (i) The meeting must take place before action is taken except in the case where the disciplinary action consists of a suspension.
 - (ii) The employee must take all reasonable steps to attend the meeting.
 - (iii) After the meeting, the employer must inform the employee of its decision and notify him of his right to appeal against the decision if he is not satisfied with it.

- (c) **Step three: Appeal**
 - (iv) If the employee does want to appeal, he must inform his employer.
 - (v) If the employee informs his employer of his wish to appeal, the employer must invite him to attend a further meeting.
 - (vi) The employee must take all reasonable steps to attend the meeting.
 - (vii) The appeal meeting need not take place before the dismissal or disciplinary action takes effect.
 - (viii) After the appeal meeting, the employer must inform the employee of its final decision.

The procedure is however modified where an employee has been summarily dismissed for misconduct. In these circumstances the employer is required to set out in writing the employee's alleged misconduct which has led to his dismissal and the employee's right to appeal against the dismissal and send a copy of this to the employee. The provisions regarding appeals are identical to those contained in the standard procedure.

Grievance Procedures

(a) Step one: Statement of Grievance

The employee must set out the grievance in writing and send a copy to his employer.

(b) Step two: Meeting

(ix) The employer must invite the employee to at least one meeting to discuss the grievance.

(x) The employee must take all reasonable steps to attend the meeting.

(xi) After the meeting, the employer must inform the employee of its response to the grievance and notify him of his right to appeal against the decision.

(c) Step three: Appeal

(xii) If the employee does want to appeal, he must inform his employer.

(xiii) If the employee informs his employer of his wish to appeal, the employer must invite him to attend a further meeting.

(xiv) The employee must take all reasonable steps to attend the meeting.

(xv) After the appeal, the employer must inform the employee of its final decision.

The procedure is modified where the employee has already left the employment. In these circumstances, the employee is required to set out his grievance in writing and send a copy of it to his ex-employer. The employer is not required to conduct a meeting, but must reply to the grievance in writing and send a copy of its response to the employee.

General requirements

There are also a number of general requirements that apply to all statutory procedures.

These are as follows:

(a) Timetable

Each step and action under these procedures must be taken without unreasonable delay.

(b) Meetings

(xvi) The timings and location of meetings must be reasonable.

(xvii) Meetings must be conducted in a manner that enables both employer and employee to explain their cases.

(xviii) In the appeal meetings the employer should, as far as is reasonably practicable, be represented by a more senior manager than attended the first meeting (unless the most senior manager attended that meeting).

- 2.2** These new statutory procedures embody good practice and follow the basic requirements set out in the ACAS Code of Practice on Disciplinary and Grievance Procedures which came into effect on 4 September 2000. The ACAS Code provides useful advice to employers on how to handle disciplinary and grievance hearings and in particular encourages the practice of resolving minor cases of misconduct by the way of informal advice, coaching and counselling rather than through a formal disciplinary procedure. However, if statutory procedures are introduced, employers will still be able to take a view as to whether a matter is serious enough to invoke the statutory procedure. If the matter is not considered to be serious then an employer may still be able to deal with the matter informally, provided of course, no disciplinary sanctions are applied.
- 2.3** Employers will be able to introduce policies which exceed the statutory requirements provided that are not inconsistent with them. The statutory requirements are in effect a minimum set of standards that can not be diluted. Nor can an employer by agreement or otherwise contract out of the requirements.
- 2.4** Employers will have to continue to ensure that employees can ask a trade union representative or fellow worker to represent them at any stage of the statutory procedures. This right was introduced in the Employment Relations Act 1999 and will remain unchanged.
- 2.5** The statutory procedures will apply to all employers. The Act specifically removes the small employer exemption that currently exempts employers with less than 20 employees from the obligation to provide a written statement of disciplinary rules and procedures.
- 2.6 Failure to comply with the statutory procedures**
- The Act sets out a range of proposals aimed at penalising the party who fails to comply with a relevant procedure.
- 2.7 Automatic unfair dismissals**
- 2.8** There is an amendment to the substantive law on unfair dismissal. The Act will insert a new s98A into the Employment Rights Act 1996, which will address procedural unfairness. Where an employer has not complied with a relevant statutory procedure due to its own neglect or omission, the employee will be treated as having been unfairly dismissed. This will in effect, create a new category of automatically unfair dismissals that will arise where an employer has failed to comply with a relevant statutory procedure. Therefore if an employer dismisses an employee without following the statutory procedure then the employee will be deemed to have been unfairly dismissed. There is no express provision in the Act that states an employee will be able to claim unfair dismissal if he or she does not meet the qualifying conditions in regards to service. This will be either clarified by amendment or subject to interpretation by the courts (c/f TUPE unfair dismissals and the need to have one year's qualifying service).

- 2.9** The lack of detail set out in the statutory procedures may in itself (unless clarified) provide scope for employees to raise arguments about the way meetings have been conducted. As indicated above, the requirement where misconduct is suspected is simply that a meeting must take place before a decision is reached. An employee must be able to state his case and respond to any allegations against him. However, the procedures do not say whether an employee has the right to cross-examine witnesses. Whilst most sensible employers would allow an employee this opportunity, if it is denied, will it make any subsequent dismissal automatically unfair?. Employers should certainly expect more arguments about whether a dismissal is automatically unfair given that it will be in most employees' interests to try to broaden the scope of the statutory procedures in order to gain automatic protection.
- 2.10** Where a Tribunal finds that an employee has been automatically unfairly dismissed because of his employer's failure to follow a statutory procedure, it must make a minimum basic award of 4 weeks pay.
- 2.11** An employee would seem to have a breach of contract claim if the statutory procedures are not followed from day one of his employment. This will have potentially serious consequences for employers who protect their businesses by way of restrictive covenants. At present, employers can state that disciplinary and grievance procedures are non-contractual. This avoids the risk of employees alleging on dismissal that the employer committed a repudiatory breach of contract by its failure to properly follow its procedures, so rendering any post termination obligations unenforceable. The Government will clearly have to consider this matter further. It could avoid these consequences by removing the proposal to give the statutory procedures contractual status without in any way diluting their effect on the substantive law of unfair dismissal.
- 2.12** The right to claim automatic unfair dismissal only applies where the statutory procedures have not been followed. It does not apply to any additional non-statutory disciplinary or performance management procedures introduced by an employer. If an employer has not followed any additional procedures before dismissing an employee, it may nonetheless escape liability. The new proposals provide that an employee will not be treated as having been unfairly dismissed because of a failure by an employer to follow a procedure in relation to the dismissal, if it can show that it would have decided to dismiss the employee even if it had followed the procedure 'to the letter', providing the dismissal would otherwise have been fair. This is quite different to the current procedure where a Tribunal will make a finding of unfair dismissal if there has been a procedural defect, although it can reduce the compensatory award if it accepts that the outcome would have been the same (a "Polkey" reduction). In practice, it is rare for a Tribunal to reduce a compensatory award to nil and more usual for the award to be limited to compensate the individual for the amount of time it would have taken the employer to follow a proper disciplinary procedure. Under the new Act, an employer would not have to pay any compensation to an employee if it can establish this "no difference" defence.
- 2.13** The Government has attempted to downplay this aspect and has stated that "provided the minimum standards set out in the Act are met and the dismissal is otherwise fair, procedural shortcomings can be disregarded ... and employers will no longer be penalised for irrelevant mistakes beyond that".

Appendix 3

3 NEW RIGHT TO REQUEST CHANGES TO TERMS AND CONDITIONS OF EMPLOYMENT

3.1 Employers will now have a duty to consider requests by working parents of under 5 year olds to enable them to work more flexibly.

3.2 A qualifying employee will be able to apply to his employer to change certain terms and conditions of his employment relating to:

- (a) the hours he is required to work;
- (b) the times he is required to work;
- (c) his place of work; or
- (d) such other conditions as the Secretary of State may specify in Regulations.

3.3 The purpose of the request must be to enable him to care for a child under the age of 6 years, or 18 years if the child is disabled. The Secretary of State will have the right to substitute a different age other than where the child is disabled.

3.4 This right only applies to employees who have sufficient continuity of service. It does not apply to agency workers. The Amendment does not set out how long an employee has to have worked for an employer before he can make a request, but the recommendation of the Work and Parents Taskforce is that employees who have worked for their employers for a minimum of 6 months should qualify. The Government in its response accepted that proposal in principle and also went on to say that it would look at whether there are groups of workers who are not employees but who have an established and continuing relationship with employers to whom the duty to consider requests might usefully apply. It also indicated that it would consider whether the duty could be extended to older children.

3.5 Procedure requirements

A number of procedural requirements must be complied with when an employee exercises this right to request. The request must:

- (a) state that it is a request to change terms and conditions of employment;
- (b) specify the change applied for and the date on which it is proposed the change should become effective;
- (c) explain what effect, if any, the employee thinks making the change applied for would have on his employer and how, in his opinion, any such effect might be dealt with; and
- (d) give the age of the child.

3.6 Right to make further requests

A qualifying employee can make a number of requests. The only restriction is that an employee must wait 12 months from the date on which his last application was made before making any further requests.

3.7 Grounds of refusal

3.8 An employer will only be able to refuse a request if it can obviously show that one or more of the following grounds applies:

- (a) the additional costs involved will impose a burden;
- (b) it will have a detrimental effect on its ability to meet customer demand;
- (c) it is unable to re-organise work among existing staff;
- (d) it is unable to recruit additional staff;
- (e) it will have a detrimental impact on quality of performance;
- (f) there is insufficient work during the periods the employee proposes to work;
- (g) it has planned structural changes; and/or
- (h) such other grounds as the Secretary of State may specify.

- 3.9** An employer therefore has some scope properly to refuse an application. However an employer will have to consider each request objectively on its own merits in light of its current business requirements.
- 3.10 The procedure**
The Secretary of State will produce Regulations to set out the procedure to be followed when an application is made. These will require amongst other things:
- (a) a meeting between employer and employee to discuss the application within 28 days from the date of the application;
 - (b) a requirement that the employer give its decision with 14 days of that meeting;
 - (c) where an employer refuses an application, a requirement for the employer to set out reasons for its refusal;
 - (d) a right for the employee to appeal against the employer's decision, within 14 days of being notified of that decision;
 - (e) a right for the employee to be accompanied at any meetings by a trade union official or colleague, who will have the right to paid time off for that purpose.
- 3.11 Right to make a complaint to a Tribunal**
- 3.12** An employee will be able to make a complaint to the Tribunal in circumstances where his employer has refused his application on grounds other than those permitted, or where the employer's decision is based on incorrect facts.
- 3.13** An employee can not make a complaint until his employer has notified him of its decision to reject his application on appeal and any complaint has to be made within 3 months of the date upon which the employee is notified of his employer's decision on the appeal.
- 3.14** Where the Tribunal finds in favour of the employee, it shall make a declaration to that effect and may:
- (a) make an order for reconsideration of the application; and
 - (b) make an award of compensation (for such amounts as may be permitted by the Secretary of State).
- 3.15** An employee can also present a claim if he believes that he has been subjected to a detriment because he has:
- (a) made or proposed to make an application to change his terms and conditions of employment;
 - (b) exercised or proposed to exercise a right relating to the procedure for dealing with such applications (as outlined in paragraph 3.10 above);
 - (c) brought proceedings on the basis that his employer has refused his application on grounds other than those permitted, or that the employer's decision is based on incorrect facts;
 - (d) alleged the existence of any circumstance that would constitute a ground for bringing proceedings.
- 3.16** If an employee has been dismissed because of a reason set out in 3.15, he will be regarded as having been unfairly dismissed.
- 3.17 Effect on business**
The Government has estimated that the duty to consider requests to work more flexible hours will apply to approximately 3.8 million employees in the UK and that approximately 500,000 additional requests for flexible working will be made once the legislation comes into effect. The total cost of handling requests and accommodating changes to working patterns is estimated to be £278 million, which will according to the Government, be counterbalanced by savings of £102 million in recruitment costs on the basis that these proposals will induce parents to remain in the labour market which will in turn reduce turnover costs and increase skills retention.

3.18 Practical tips

3.19 This right is likely to come into effect in April 2003. Businesses should ensure that their HR departments are aware of these proposals and that consideration is given to the procedure to be adopted when a request is made.

3.20 This new procedure will not affect a female employee's existing rights to claim that a refusal by her employer to allow her to work on a part time basis amounts to indirect sex discrimination contrary to the Sex Discrimination Act 1975. An employer may therefore face two distinct claims arising out of a refusal to allow an employee to work on a part time basis and will have to justify its decision both in accordance with the 'list' provided in the Act and using the rather narrower grounds in the Sex Discrimination Act that require an employer to show that the impact of the refusal does not adversely affect one sex more than the other, or if it does, that it is justified in the circumstances.

End of case study

2003 standards

Technician

NVQ/SVQ in Accounting Level 4, Unit 10
R/101/8108

AAT
ASSOCIATION
OF ACCOUNTING
TECHNICIANS

SIMULATION
D1922 Managing Systems and
People in the Accounting
Environment

Information for assessors

Section:
A. Guidance
B. Assessment criteria

Assessors should review this booklet,
particularly Section A, prior to handing
out the case study

Please note that the case studies are for
individual assessment use only and are not
intended as teaching material

The completed project should be kept for at least 12 months

Guidance for Case Study D1922

Section A: Guidance

At Level 4 on the Technician and Diploma Pathway (2003/2006 standards) a unit 10 project is required. As with all portfolio evidence, the project should be based on 'live' evidence from an actual accounting system. This case study has been developed for candidates who do not work in an appropriate environment. Candidates who can meet the project requirements within the work place should do so. Candidates who use this case study should demonstrate the same level of analysis and understanding as those who complete the project within the work place.

These projects/reports are to be assessed in the same way as those of candidates who are basing their project on a system in their place of work. Assessment time needs to be given throughout the life of the report writing to ensure that the candidates are going to meet the required standards in terms of performance criteria, range and underpinning knowledge.

As each report should be individual there will be no one correct answer. The assessor needs to measure each individual report against the standards and look for evidence of understanding of analysis, evaluation and planning, just as they would with a candidate who has completed their project in the work place using a live system. This should not be just a description of current activities but should show strategic thinking.

Objective of the project

- To assess a candidate's understanding of the operation and management of a specific section of an accounting system, including methods of control.
- To provide evidence of competence in this unit in accordance with the performance criteria, range statements and underpinning knowledge/understanding.
- To provide evidence of communication and report writing skills, which are common to many other standards at the Technician level.
- Under the new standards, there is greater emphasis on the management of both people and systems, demonstrating management control and the delivery of results, rather than identification of issues. Projects will be expected to reflect the change of emphasis.

Format of the project

The AAT website has guidelines and a template for use in the project, and can be found at: www.aat.org.uk/students/mas_help.cfm Candidates should be made aware of this.

The project takes the form of a report to management of 3000–4000 words, not including appendices. It should define a real accounting system and describe how it has been, or might be, changed to improve its effectiveness and how this would be reviewed. Candidates will be expected to demonstrate competence by showing how they would coordinate work activities, and improve the effectiveness of an accounting system.

An appropriate assessor should attest to the authenticity and veracity of the project report (this should be a final 'project sign off' document from the assessor to confirm that the project is the candidate's own work and reflects the required processes).

The report should be set out in a logical manner starting with a contents page, terms of reference and/or objectives of the report, management summary of findings, details of research and considerations and conclusions, together with acknowledgments of help and lists of sources of material. It is essential that the candidate (with help from the assessor) shows where and how the performance criteria, range statements and underpinning knowledge are covered within the project. Numbering each paragraph within the project, and showing those paragraph numbers against the relevant performance criteria, range or knowledge item in the Student Record can achieve this. Thus it is not adequate simply to page number the project.

Using the case study scenario candidates should agree, with the AAC, terms of reference for the project that provide sufficient scope to demonstrate competence in the whole of the standards of competence for this unit. These terms of reference will provide the basis for the planning of the project. Whilst designing and constructing the project the candidate should continually ensure that:

- the project covers all performance criteria, range statements and knowledge/understanding as
- defined for the unit – these should eventually be cross-referenced to specific parts of the project;
- all of the objectives set out in the terms of reference of the project are covered;
- the project is well laid out and easy to read;
- there is clear progression of argument and reasoning;
- the main text is appropriately cross-referenced to the appendices;
- appropriate use is made of diagrams and flowcharts;
- issues and objectives in the report are clearly identified;
- a full and reasoned analysis of the current system is provided;
- a strategic rather than a descriptive approach is adopted;
- the project addresses the needs of the business, as laid out in the case study, and is not based on personal feelings.

It is recommended that candidates make use of the Student Project Checklist (see appendix 2 in the 2003 Assessment and Administration Manual) whilst designing and constructing the project. Appendix 2 details the standards specifications for unit 10. This should be completed and submitted with the project for assessment and verification purposes.

Selection and presentation of material for the project

The choice of material will depend on the scope and focus of the candidate's report and will not necessarily include all the items mentioned below.

The material chosen should be based on a specific section of an accounting system e.g. payroll, sales ledger, costing. The definition of a section will depend upon the organisational structure of the company or entity as set out in the assessment. It should be emphasised that a sophisticated analysis of the system's management is not required or expected. It is important to note that the performance criteria identify the relevant accounting competencies of supervising an accounts section. They are not a complete definition of the management competencies required.

The following notes are meant to be indicative rather than prescriptive of what should be included in the project.

- Description of the background to the topic being reviewed with an emphasis on the operating cycle (e.g. daily, weekly, monthly, etc.), where it fits into the accounting function, what checks and controls are in place, who are the internal and external customers, etc. The description of the background to the project should be sufficient to support the later arguments but should not be excessive.
- How mistakes, errors and unusual circumstances are dealt with, consideration of critical incident reports, who they are reported to.
- An audit of staff competency and analysis of any training needs.
- Comments on the weaknesses or potential for improvement within the section to improve its effectiveness. The emphasis here is on such issues as motivation, training, time management and work allocation rather than technical specification of the systems in the section.
- What supervisory experience, all be it hypothetical, the candidate has gained from the role and how this can be improved.
- Comments on the measures taken to ensure the prevention of fraud within the system.
- Detailed descriptions of the organisation as a whole are not required. The emphasis should be on strategic issues.
- All of the material included in the project should illustrate the points being made. Irrelevant 'padding' should be avoided since it contributes nothing to the report and may constrain the development of arguments important to the conclusions reached.
- A cost benefit analysis is not strictly required for this unit according to the performance criteria, but many candidates will find it useful to carry one out.

Guidance on research and report writing

As the collection of information for a project may be a new discipline for many candidates, it will be necessary for assessors to offer guidance and assistance on developing the required research techniques and report writing skills. This is probably best done as a whole class exercise at the start of the course.

In order for the candidate to collect and analyse the required information, an action plan should be developed and included as part of the project. The action plan should form the structure of the project, giving the candidate key dates and deadlines within which certain tasks must be completed. Regular one-to-one meetings between the assessor and the candidate will identify areas of weakness and possible difficulties in collecting sufficient relevant data and formulating appropriate responses. The inclusion of the action plan, suitably annotated, with the project will provide suitable evidence of the mentoring and assessment process.

Section B: Assessment Criteria

Element 10.1

Co-ordinate work activities within the accounting environment

Performance criteria

In order to perform this element successfully you need to:

- A** Plan work activities to make the optimum use of resources and to ensure that work is completed within agreed timescales.
- B** Review the competence of individuals undertaking work activities and arrange the necessary training.
- C** Prepare, in collaboration with management, contingency plans to meet possible emergencies.
- D** Communicate work methods and schedules to colleagues in ways that help them to understand what is expected of them.
- E** Monitor work activities sufficiently closely to ensure that quality standards are being met.
- F** Co-ordinate work activities effectively and in accordance with work plans and contingency plans.
- G** Encourage colleagues to report to you promptly any problems and queries that are beyond their authority or expertise to resolve, and resolve these where they are within your authority and expertise.
- H** Refer problems and queries to the appropriate person where resolution is beyond your authority or expertise.

Range statement

Performance in this element relates to the following contexts:

Contingency plans allowing for:

- Fully functioning computer system being available
- Staff absence
- Changes in work patterns and demands

Element 10.2

Identify opportunities for improving the effectiveness of an accounting system

Performance criteria

In order to perform this element successfully you need to:

- A** Identify weaknesses and potential for improvements to the accounting systems and consider their impact on the operation of the organisation.
- B** Identify potential areas of fraud arising from control avoidance within the accounting system and grade the risk.
- C** Review methods of operating regularly in respect of their cost-effectiveness, reliability and speed.
- D** Make recommendations to the appropriate person in a clear, easily understood format.
- E** Ensure recommendations are supported by a clear rationale which includes an explanation of any assumption made.
- F** Update the system in accordance with changes that affect the way the system should operate and check that your update is producing the required results.

Range statement

Performance in this element relates to the following contexts:

Weaknesses:

- Potential for errors
- Exposure to possible fraud

Accounting system:

- Manual
- Computerised

Recommendations:

- Oral
- Written

Changes affecting systems:

- External regulations
- Organisational policies and procedures

Knowledge/understanding

To perform this unit effectively you will need to know and understand:

The Business Environment

- 1 The range of external regulations affecting accounting practice (Element 10.2)
- 2 Common types of fraud (Element 10.2)
- 3 The implications of fraud (Element 10.2)

Management Techniques

- 4 Methods for scheduling and planning work (Element 10.1)
- 5 Techniques for managing your own time effectively (Element 10.1)
- 6 Methods of measuring cost-effectiveness (Element 10.2)
- 7 Methods of detecting fraud within accounting systems (Element 10.2)
- 8 Techniques for influencing and negotiating with decision-makers and controllers of resources (Element 10.1)

Management Principles and Theory

- 9 Principles of supervision and delegation (Element 10.1)
- 10 Principles of fostering effective working relationships, building teams and motivating staff (Element 10.1)

The Organisation

- 11 How the accounting systems of an organisation are affected by its organisational structure, its Management Information Systems, its administrative systems and procedures and the nature of its business transactions (Elements 10.1 & 10.2)
- 12 The overview of the organisation's business and its critical external relationships (customers/clients, suppliers, etc.) (Elements 10.1 & 10.2)
- 13 The purpose, structure and organisation of the accounting function and its relationships with other functions within the organisation (Element 10.2)
- 14 Who controls the supply of resources (equipment, materials, information and people) within the organisation (Element 10.1)

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Unit 10: How to structure your report

Chief Assessor Lynn Shannon offers her advice on effective ways to set out your Unit 10 project

Once you have decided on the topic for your report and you have collected the information you need, the next challenge you may face is the layout. Listed below are some suggestions for sections that you may find useful in putting your report together.

Terms of reference: these are the reasons why you are writing the report. For example, to investigate cost-saving benefits available by computerisation of a manual system and to research benefits to the clients if the system is computerised. This can include completion of the Unit 10 report for the AAT qualification, but this should not be the only reason.

Management (or executive) summary: this should be an overview of the benefits to be gained by the organisation if the recommendations made within the report are implemented. It should not be just a copy of the recommendations within the report – but should meet the terms of reference and summarise the advantages of the recommendations.

Methodology: this is how and why you will go about collecting the information you need to write the report. This could include questionnaires to clients to discover their thoughts, meetings with various groups and individuals, internet research and use of professional texts and journals.

Introduction: this is a short piece to give some company background of the organisation, including any references to the management structure. It should not be a full company history but just a few paragraphs to give some context to the area in the organisation that is being reviewed.

Analysis of the current system: this is where you look at the current systems that are in place and evaluate them. Are they user friendly, cost effective, up to date, and do they give the required information on which management can base decisions? (The findings from a SWOT analysis here may be useful, but the analysis itself should be in the appendix.) The written evaluation should help you to identify the weaknesses.

Weaknesses: care must be taken to ensure that the weaknesses are not just written as a list. Once you have highlighted areas for improvement, you need to identify the impact that any weaknesses you have discovered have on the organisation and the way in which it is managed.

Recommendations: this is where you make suggestions for improvements to the accounting system. If you have only identified one weakness, then you need to give three or four recommendations for improvement. For example, there are many errors in the invoicing system because invoices are all written manually. This has an impact on the organisation as the invoices are being returned by customers for correction, it gives an unprofessional image, it impacts on cash flow as there is a delay in payment, it costs the organisation money as many invoices have to be written up twice and there are increased costs because of the extra postage.

The options recommended could be:

- a) use a spreadsheet package such as Excel
- b) use a proprietary accounts package such as Sage
- c) use a tailor-made package for your particular organisation, for example Innsite – a package specific to hotel accounting.

Each of these options needs to be explored with the advantages and disadvantages being reviewed. If you use this method, you then need to identify which is the best option.

If you have more than one or two weaknesses, you should just make one recommendation for each weakness (to keep within the 4,000 approximate word count).

Do not give recommendations for weaknesses you have not identified or highlight weaknesses without giving recommendations. If you have more than one weakness, it is better to match your writing so that for the first weakness identified you give the first recommendation, the second weakness matches the second recommendation, and so on.

Cost benefit analysis: this is where you formally analyse the costs to the organisation of one or more of the recommendations made and the benefits to be gained. Remember, all recommendations will have some elements of cost to them. Consider the training needed for staff to use a new system. Do you send everyone on a course or just one person? How is this shared throughout the team? Time spent training others has a cost factor. If you do not know all the costs you can 'guesstimate' some. For example, researching training courses you find that the cost is £400 per day. However, you can send one person on this and they can spend four half-days showing three other people how to use the system. This would cost the two days' salary (say £100 per person) for the four people involved.

Remember, you should be able to quantify, that is put a price on all the costs – but some benefits may not have an actual cost saving. For example, presenting a more professional image to the clients is a benefit.

Conclusion: you may want to reiterate here what your recommended solutions are and any timescales you want to suggest for the implementation.

Appendices: these should be numbered and referred to in the main text by the number. The index should be numbered by sections:

Section 1 – Terms of referencepage 1
Section 2 – Management summarypage 3
Section 3 – Methodology
... and so on.

Cross referencing: Each paragraph in each section must be numbered, by section number and paragraph and then these numbers can be entered into the student record as cross-referencing. For example, section 1 would start with 1.1, then the next paragraph would be 1.2, then 1.3 and so on. Section 2 would then start with 2.1, then 2.2, then 2.3 until that section is finished, and so on.

This should give a full overview of all the parts to be covered in the report. It does not matter if you call the sections something else as long as they are all covered – if you cover these points then you should end up with a complete report that meets AAT requirements, and be on your way to gaining competence in this unit.

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Unit 10: Where to begin...

Unit 10 shouldn't be scary, says Lynn Shannon, in the first of a series of articles on the unit students find most challenging

A new academic year has begun and you are relieved to have passed your exams in the summer and progressed to the final stage of the AAT qualification – only one more year to go. However, this year is not just about exams and skills tests, there is also the Unit 10 Managing Systems and People in the Accounting Environment project to complete. It's a 4000-word report and you don't know where to start. So what are you going to do?

A common reaction is to leave it and concentrate on the exams, which appear to be more important. You can always do the report in the Christmas break, after the December exams. But December becomes January and you leave it until the Easter break, but then you are studying for the June exams, so you think you will wait until the summer. However, now your centre will charge you to return for another year to complete the report, so you leave it again. This is one of the main reasons for students not completing the full qualification – they pass their exams, leave the Unit 10 report unfinished and never return to it. Therefore they remain unqualified and unable to attain full AAT membership.

The importance of Unit 10

Why do students dislike this unit so much? Some say it's because they want to be accountants and only work with numbers. However, in today's working environment everyone needs to be able to communicate – both orally and in writing – and this unit proves your ability to do this. Other students state that it's because it's so different from all the other units and is not taught in the same way. However, by relying on you to do so much more, this unit proves your ability to work independently. Some students say it's because there is little guidance on what to write about, but again this unit puts the onus on you and proves you can analyse a situation and decide what is of importance.

Therefore, completing this unit shows that you have many of the skills that are necessary for the workplace – skills that should have developed at this level of your studies. Plus, completing it on time shows your ability to prioritise work and plan your time. So what are the most common problems encountered by students?

Some people are not registered with a centre and do not have an assessor. If this is the case, you need to register as soon as possible so that you can start working on ideas with your assessor and planning the target dates for completion. The AAT cannot assess the project for you, but if you need to identify a centre, the Unit 10 helpline has a list available.

Plan ahead

Students often complain about not having enough time for this unit. It is important that you work with your assessor and agree a plan for your report that you feel is realistic and manageable. It is pointless agreeing to have a final draft of your report in by Christmas if you know that you have other commitments in the months running up to this that would prevent you from doing so.

It is much better to postpone your final draft to January if you know you can achieve it by then. You do need to fit this in with your studies, but do remember that this unit is just as important as those assessed by examinations. Realistically, even if you only write 100 words a day for three days every week for three months, you will have met the word count and yet not have committed too many days to it.

Next, students often say they can't complete this unit because they are not working in an accounts position. If you are employed in accounting then the workplace could be the best option for the focus of your report. Remember, it doesn't have to be paid employment; if you are working in a voluntary capacity in accounting then you may base the report on this. If you are unemployed – or not in relevant employment – then the case study route may be your choice. Regardless of the route you choose, you must still write a report based on a work environment and the case study option is no easier or more difficult than the work-based route.

Finding a theme

The biggest problem that students seem to encounter is choosing a theme for the report. There are many different ways to do this:

- Discuss with a manager and agree to work on a theme that the company has already identified as a weak area. Are there any problems in the workplace or are there many customer complaints? Is this something you could analyse for the report?
- Prepare a SWOT (strengths, weaknesses, opportunities and threats) analysis and consider the weaknesses that have been identified. Can you make any recommendations to remedy them?
- Try brainstorming with colleagues to consider what could be improved within a particular area. Consider what you would do differently if you were a manager. Are there any changes you would make?

When choosing a theme for a report based on a case study, you must approach this in the same manner as if you were employed, as the case study is just a fictitious workplace, with problems within it. But you must make sure you don't merely describe every problem. Instead look for a theme that interests you. There may be weaknesses in payroll, cash flow, stock holdings and credit control. Concentrate on one area as the theme, and remember that you can make any assumptions if you need to, as long as these are identified. The other option when using the case study is to identify the problems and select three or four, which you try and improve as a matter of priority.

Give your report a title

It's a good idea to give the report a title. Then if you are uncertain about whether to include something in the report, look back at the title and see if it fits.

Here are some ideas for titles:

- Improvements to the cash flow of an organisation
- Methods to optimise use and reduce levels of inventory holdings in a manufacturing company
- Recommendations for the computerization of a payroll department
- Improvements to invoicing procedures to aid customer satisfaction
- Review of security procedures for protection against fraud in a large organisation
- Review of working methods in a local council cash office
- An analysis of debt recovery and recommendations for improvement.

Secrets of success

So, to be successful in this unit you need to:

- have a centre and an assessor to work with
- have a plan or timetable
- decide whether it is going to be based on a workplace or case study
- choose a theme for the report.

Hopefully, there is enough information here to get you started. In future articles we will consider the layout of the report and what should be included and how the report is assessed.

Lynn Shannon is a simulation writer and external verifier for Unit 10

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