UNIVERSITY of CAMBRIDGE
ESOL Examinations

Experts in Language Assessment

International Certificate in Financial English

Past Examination Paper

Reading

May 2008

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ALTE

PART OF THE CAMBRIDGE ASSESSMENT GROUP

International Certificate in Financial English

May 2008

Test of Reading

Past Paper Pack

Contents

UNIVERSITY OF CAMBRIDGE ESOL EXAMINATIONS

English for Speakers of Other Languages

INTERNATIONAL CERTIFICATE IN FINANCIAL ENGLISH **D020/1**

Test of Reading

Saturday **10 MAY 2008** Morning 1 hour 15 minutes

Additional materials:
Answer sheet

Time 1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

Do not open this question paper until you are told to do so.

Write your name, Centre number and candidate number on your answer sheet if they are not already there.

There are fifty-four questions in this paper.

Read the instructions carefully.

Answer **all** questions.

Write your answers on the separate answer sheet. Use a soft pencil.

You may write on the question paper, but you must transfer your answers to the separate answer sheet **within the time limit**.

At the end of the examination, hand in both the question paper and the answer sheet.

INFORMATION FOR CANDIDATES

Questions **1 – 36** carry one mark.

Questions **37 – 54** carry two marks.

This question paper consists of 12 printed pages and 4 blank pages.

PV6

Turn over ►

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Part 1

Questions 1 – 6

Read the following extract from a website article about the work of internal auditors.
Choose the best word to fill each gap from **A**, **B**, **C** or **D** below.
For each question **1 – 6**, mark one letter (**A**, **B**, **C** or **D**) on your answer sheet.
There is an example at the beginning (**0**).

INTERNAL AUDIT

Internal audit has moved away from the traditional role of checking invoices as a compliance function towards a more business process/systems auditing (**0**) ..... .

In order to look at all (**1**) ..... of a business impartially, it is essential that internal auditors should, as far as possible, (**2**) ..... completely independent of management. Internal auditors look at all the risks that businesses face, going beyond the financial risks usually (**3**) ..... by external audit. The responsibility for managing risk resides with management; the role of internal audit is to identify (**4**) ..... problems and to recommend ways of improving risk management and internal control.

Internal auditors provide an independent assurance to senior management and non-executives on governance, the control environment and value for money in the use of resources. In addition, they (**5**) ..... change where change is needed. Internal auditors help an organisation accomplish its (**6**) ..... by bringing a systematic, disciplined approach to the improvement of risk management, control and governance processes.

Example:

0	**A** approach	**B** pattern	**C** access	**D** scheme

0	A	B	C	D
	▬	▭	▭	▭

1	**A**	factors	**B**	fields	**C**	properties	**D**	aspects
2	**A**	perform	**B**	continue	**C**	remain	**D**	behave
3	**A**	dealt	**B**	addressed	**C**	attended	**D**	supervised
4	**A**	forthcoming	**B**	ensuing	**C**	following	**D**	potential
5	**A**	facilitate	**B**	afford	**C**	empower	**D**	prosper
6	**A**	endeavours	**B**	objectives	**C**	directions	**D**	enterprises

Questions 7 – 12

Read the following extract about budgeting from a book about finance and accounting.
Choose the best word to fill each gap from **A**, **B**, **C** or **D** below.
For each question **7 – 12**, mark one letter (**A**, **B**, **C** or **D**) on your answer sheet.

Budgeting

It is generally agreed that the purpose of budgeting is to obtain the most productive and profitable use of a company's resources. Budgets need to be (**7**) ..... constantly under review so that plans and results can be compared with each other in order to evaluate performance. (**8**) ..... can then be made to previously established standards.

Budgets (**9**) ..... in an arbitrary fashion may represent unattainable targets at one extreme, or standards that are too low at the other. If standards are unrealistically high, frustrations will develop; if too low, costs will be out of control, and staff morale will suffer. However, budgeting that is linked to a careful analysis of a firm's operations can have very positive (**10**) ..... for a company.

Budgets provide a valuable guide to both high-level executives and middle-management personnel. Well-developed budgets make subordinates aware that (**11**) ..... management has a good understanding of the nature of operations in the firm. Thus, the budget can become an important communication (**12**) ..... between senior management and staff.

7	**A**	taken	**B**	kept	**C**	set	**D**	stood
8	**A**	Reference	**B**	Mention	**C**	Consideration	**D**	Regard
9	**A**	obliged	**B**	imposed	**C**	forced	**D**	compelled
10	**A**	improvements	**B**	assets	**C**	benefits	**D**	profits
11	**A**	top	**B**	superior	**C**	head	**D**	chief
12	**A**	instrument	**B**	agent	**C**	factor	**D**	tool

Part 2

Questions 13 – 24

Read the following website article about the way capital markets work.
Think of the best word to fill each gap.
For each question **13 – 24**, write **one** word in CAPITAL LETTERS on your answer sheet.
There is an example at the beginning (**0**).

Example:

0	H	O	W												

CAPITAL MARKETS

The term 'capital market efficiency' is used to describe (**0**) ……... the market absorbs information. An efficient capital market is one in (**13**) ……... all the available information relating (**14**) ……... a particular company is processed quickly and accurately and reflected in the share price. As (**15**) ……... as new information becomes available, expectations about the future prospects of a company (**16**) ……... altered and we can expect a reaction from the market (**17**) ……... the form of a revised share price.

When the market absorbs all the information concerning a company quickly and accurately, the assumption is that shares are fairly priced. However, many investors find such (**18**) ……... notion difficult to believe and so they scour the market looking for shares that are mis-priced, that is, shares whose market price does not reflect (**19**) ……... true worth. For (**20**) ……... reason, it is often said that the efficiency of capital markets is based (**21**) ……... a paradox. In order for a market to be efficient, (**22**) ……... have to be many investors who are prepared to examine the available information regarding a company in the hope (**23**) ……... finding mis-priced shares. However, investors will do this only when they believe the market to be inefficient, because (**24**) ……... the market were efficient, mis-priced shares would not exist.

Part 3

Questions 25 – 30

Read the following extract from a magazine article about taking control of your career.
Use the words in the box to the right of the text to form one word that fits in the same numbered gap in the text.
For each question **25 – 30**, write the new word in CAPITAL LETTERS on your answer sheet.
There is an example at the beginning (**0**).

Example:

0	D	E	V	E	L	O	P	M	E	N	T				

GETTING THE MOST FROM YOUR ACCOUNTANCY ROLE

Those who commit to a process of continuing (**0**) ……. will have the greatest opportunities to shape their careers. If you are currently employed in an accountancy or related role, you should be looking for opportunities within the workplace to gain wider experience and greater responsibility. Most organisations conduct a performance (**25**) ……. with each member of staff; this is an opportunity for you to discuss your training (**26**) ……. . You should approach this meeting with the (**27**) ……. of seeking feedback on how you can enhance those skills which contribute to the realisation of business goals. Often, personal needs can be matched with business needs to the advantage of both you and your employer.

The (**28**) ……. of such discussions is greatly enhanced by knowing where you are now – your current level of competence. Your training record should (**29**) ……. you to do this, and can be used to plan your career to help you gain the experience required for (**30**) ……. of professional organisations.

0 DEVELOP

25 APPRAISE

26 REQUIRE

27 INTEND

28 EFFECTIVE

29 ABLE

30 MEMBER

Questions 31 – 36

Read the following website article about the problems faced by people who have to study financial reports from different countries.
Use the words in the box to the right of the text to form one word that fits in the same numbered gap in the text.
For each question **31 – 36**, write the new word in CAPITAL LETTERS on your answer sheet.

International Reports

A major problem facing those financial analysts who need to study company statistics from around the world is that the statistics may have been prepared on the basis of accounting measurement rules which are unfamiliar to them. The (**31**) ……. that is found in national accounting measurements may be due as much to differences in national accounting principles as to differences in the underlying economies.

The continuing (**32**) ……. of agreed international reporting standards should be a major concern of policy makers around the world. Even ardent opponents of government (**33**) ……. in the marketplace recognise that a fundamental (**34**) ……. of public authority is to define business terms clearly. In a world where accounting practices differ widely from one country to the next, this entails developing commonly accepted definitions of the transactions that are (**35**) ……. of modern economies. Adherence to accepted universal accounting standards is essential to the process. The advantages of increased (**36**) ……. are clear and compelling. The time for international standards is now. Later may be too late.

31 DIVERSE

32 ABSENT

33 INTERVENE

34 OBLIGE

35 TYPE

36 TRANSPARENT

Part 4

Questions 37 – 42

Read the questions below and the reviews of accounting books on the opposite page.
Which section (**A**, **B**, **C** or **D**) does each question **37 – 42** refer to?
For each question **37 – 42**, mark one letter (**A**, **B**, **C** or **D**) on your answer sheet.
You will need to use some of these letters more than once.
There is an example at the beginning (**0**).

Example:

0 It is an accessible book where information can be found quickly.

	A	B	C	D
0	▭	▬	▭	▭

37 A range of experts have contributed to the book.

38 One part is less satisfactory than other sections of the book.

39 It uses many authentic examples to support its advice on one area of accountancy.

40 Purchasers of the book are supplied with additional information about revisions in accountancy practice.

41 It considers the impact on accountancy of a new development in the business world.

42 It explains the principles that guide one regulatory authority.

REVIEW OF BOOKS ABOUT ACCOUNTANCY

A International Accounting Standards

First, a word about the size of this book: it is over 2,000 pages long and, though it is printed on extremely thin paper, it is a brick of a book. At £95 it may seem expensive, but it is a bargain because it covers so much ground. Although a little weak on testing methodology of proposed hedges, the chapters on accounting for financial instruments are excellent. This is a book for both students and accountants in practice who wish to understand where we are and what directs the policies of the IASB (International Accounting Standards Board) with regard to fair value accounting. The author has done a first class job of explaining why fair value accounting has been introduced.

B A Legal Service for Accountants

This is an easy-to-use, time-saving source of advice and information, which can be used as a first point of reference by accountants who are faced with an unfamiliar problem or query. A word of warning: it costs £225. However, it refers extensively to legislation, cases and specialised journals in a variety of fields, which provides excellent evidence to illustrate any advice that is given. Several other features combine to make this service second to none: sections which include precedents and checklists; numerous examples illustrating points; regular updates to ensure the user is fully aware of all the latest developments in legislation and practice; and a full index and tables of statutes and cases.

C Guide to Risk Management

This is a practical, one-stop guide to all areas of risk management and draws on a great number of case studies from leading companies. It examines risk management from two different perspectives: practice management, covering the internal controls and checks an accountancy firm must put in place; and client service, including the provision of risk management strategies for clients. The book fully covers international issues regarding proceeds of crime, explaining what these mean for the accountant, and what procedures they should put in place to deal with them. Written by an industry expert and priced at £65, this text will help to ensure that accountants provide added-value consultancy for their clients.

D Accountancy and the Digital Economy

There is mounting evidence that the deployment of digital technologies by companies affects their functioning in more than economic terms. At a technical level, digitisation directly influences organisational processes. Digitisation impacts on the form, substance and provenance of internal accounting information, and this affects the actions of decision makers. This book provides an important analysis of the effect of communication technology on accounting. It is valuable because it offers a variety of opinions and each chapter has been written by a leading international accounting academic. The writers discuss accounting and management control systems and wider structural shifts connected with the advent of digital technology from their different perspectives. The book costs £50, and will be of interest to scholars and practitioners concerned with the growing importance of digital technologies in their field.

Part 5

Questions 43 – 48

Read the following website article about financing growth companies.
Choose the best sentence from the opposite page to fill each of the gaps.
For each question **43 – 48**, mark one letter (**A – H**) on your answer sheet.
Do not use any letter more than once.
There is one extra sentence which you do not need to use.
There is an example at the beginning (**0**).

Financing Growth Companies

There are many complexities involved in financing rapidly growing companies. (**0**) .....**H**..... . For one thing, complicated and unusual strategies designed to increase cash flow are unlikely to be profitable exercises for these companies. This is because young and rapidly growing firms whose credibility is not yet widely established are at a comparative disadvantage in obtaining finance relative to mature and long-established firms.

Secondly, the primary role of finance for a rapidly expanding company should be to preserve its principal source of value – namely its growth options. (**43**) ..... . The uncertainty involved adds to the credibility problem that any company faces whenever it issues new securities. Is management selling securities now, investors will ask, because it knows that they are overvalued? In addition, any possible conflicts of interest between management and investors are made worse when the company's future is difficult to forecast. (**44**) ..... . They also reduce the flexibility of the terms on which the securities can be sold. The task confronting the financing manager is to minimise the discount, while still providing the financial flexibility to allow the company to exercise its growth options at the most appropriate time.

One way to achieve this balance may be to develop a close working relationship with the providers of funds. (**45**) ..... . In the case of start-ups, venture capital will most likely be the principal source. In both of these cases, the close relationship between management and the provider of the funds allows for the exchange of information on a confidential basis, which is not possible with shareholders. (**46**) ..... . By their willingness to accept such tough conditions, management can in turn signal confidence in its ability to the providers of capital.

If a growth firm is able to acquire funds from the public capital markets in an economical manner, the security should be carefully designed to minimise the credibility and conflict problems outlined earlier. (**47**) ..... . These give bondholders an option to exchange shares for equity, and therefore reduce the incentive for management to exploit bondholders by undertaking riskier than expected projects. This factor increases the flexibility of the terms at which debt will be provided and reduces the discount demanded by investors.

Finally, a growing company cannot make financial policy without considering its non-investor stakeholders. If customers, suppliers, and distributors feel that the firm is so financially weak that its continued existence is in question, they will not be interested in developing a relationship with the firm. (**48**) ..... . For this reason, a growing firm must be able to demonstrate that it has financial strength and flexibility. Therefore, the analysis in this article points to two unavoidable conclusions – a growth company needs a good deal of equity up-front, despite the steep discount at which it might be forced to issue its securities, and debt should be used with care and moderation.

Example:

0	A	B	C	D	E	F	G	H
	▭	▭	▭	▭	▭	▭	▭	▬

A A company can avoid these debt problems by using internal funds, or retained earnings, instead of borrowing.

B For instance, an issue of convertible securities can be a good choice.

C These can be defined as opportunities to undertake future investments, and are different from on-going projects, in that their cash needs and their future pay-offs are generally more difficult to predict.

D This means that a bank loan, or some other sort of private debt, may be a more suitable option than issuing securities for those growth companies that have enough tangible assets to support moderate amounts of debt.

E Without commitment from these groups, the firm is likely to fail before it can fully develop its growth options.

F Such differences have the effect of increasing the discount at which the company must sell its securities.

G Moreover, these funding sources tend to negotiate financing terms which offer management considerable financial and operating flexibility, but at the same time apply strong pressure for performance.

H However, it is possible to make a few relatively straightforward suggestions for policy in this area.

Part 6

Questions 49 – 54

Read the following extract from a magazine article about risk management and the questions on the opposite page.
For each question **49 – 54**, mark one letter (**A**, **B**, **C** or **D**) on your answer sheet for the answer you choose.

Risk Management Is Becoming Better Organised

What is risk? It has been defined as 'the combination of the probability of an event and its consequences'. This definition embraces 'upside risk' as well as 'downside risk', but there is a tendency for businesses to focus on the downside, seeing risk simply as a negative event that may result in loss. This can blind managers to the equally important risk that the organisation will fail to meet its goals by being unable or unwilling to follow up an opportunity.

The organisation's strategy and goals must be the starting point for managing risk because, without considering them, no sensible assessment can be made as to which risks are important. Risk assessment should be 'bottom up', looking at risks by business unit and division; but it must also be 'top down', with the board assessing what they see as the key risks, and deciding how the risks that can't be eliminated or insured for are aligned against the organisation's strategy. Risk management is handicapped if it lacks leadership and support at the highest level. It is a serious mistake for the CEO to delegate risk management to the Finance Director, and to take no further interest in it.

When it comes to attempts to reduce risks, there has to be a balance. The question is how much should be spent on controlling risk. Too often a board of directors will listen to a report from management on risk, and blindly follow its recommendations. The board's role should be not only to receive a view from management, but also to challenge it, and to challenge the appropriateness of proposed measures to control risk. Management may after all be focusing on the wrong risks, or the likelihood of the risk occurring may not justify expenditure on preventing it.

The importance of risk management has been reinforced in recent years by reforms in governance. In the USA, Sarbanes-Oxley regulations require a compliance statement on internal financial controls – and only financial ones – including an assertion that the controls are 'effective'. The UK guidelines on risk management, however, do not apply purely to financial issues. Their great strength is that they are concerned with principles rather than detailed compliance, and are not prescriptive. They are designed to encourage people to think about what they are doing, not just tick boxes. A review of the UK guidelines revealed that there is little appetite in UK business for a statement that internal controls are 'effective': guaranteeing this for both financial and non-financial controls would be a huge task.

One change to the UK guidelines that has been proposed, however, is that companies confirm that, where they have identified significant failings or weaknesses in internal controls, they have taken the necessary action to remedy the situation. Opponents to change argue that defining 'necessary action' and 'significant failings or weaknesses' would be difficult, and could 'draw the company into an unnecessary debate with stakeholders', not to mention the risk that directors who comply with the guidelines by making such a claim could later find themselves targeted by a legal action for breach of fiduciary duty. Whether these criticisms are well founded or not, it is clear that this approach to reporting on internal controls runs the risk of turning into a paragraph tacked on to the directors' report because it has to be there, not necessarily because it is communicating very much.

Although the UK guidelines were drawn up for publicly listed companies, there is evidence that best practice in risk management is also being adopted by smaller, owner-managed enterprises, as many of them are suppliers and partners of larger corporations. In fact, identifying and assessing key risks is not something that should be restricted to businesses: it is just as applicable to public sector and not-for-profit organisations. It should be remembered, though, that the goal is not to eliminate all risk. That simply can't be done, and an attempt to do so may actually stop the organisation meeting its goals.

49 In the first paragraph, the writer criticises businesses for

A failing to calculate possible losses.
B having too limited an understanding of risk.
C missing opportunities for reducing risk.
D over-estimating the chances of harmful incidents occurring.

50 What point does the writer make in the second paragraph?

A Risks in different sections of a business can easily be overlooked.
B The Finance Director is in the best position to manage risk.
C Risk management should take into account the organisation's strategy.
D The organisation's strategy should be modified soon after risks are identified.

51 In the third paragraph, the writer argues that it is the responsibility of the board of directors to

A question proposals aimed at protecting against risks.
B accept that managers have better knowledge of the risks faced.
C attempt to give the organisation maximum protection against risk.
D ensure that adequate finance is budgeted for risk management.

52 What is the writer's opinion of the UK risk management guidelines?

A They should be revised in line with the US regulations.
B They require businesses to carry out actions which are too expensive.
C They are good because they do not tell businesses exactly what to do.
D They are effective because they involve consultation with businesses.

53 The writer criticises the proposed change to UK guidelines because

A companies would be strengthened at the expense of their shareholders.
B more restrictions would be placed on companies' freedom of action.
C legal action could be taken if companies fail to comply with the guidelines.
D statements concerning internal controls may not be wholly relevant.

54 What point is made in the last paragraph about risk management?

A Businesses face more serious risks than other organisations.
B The guidelines are more useful for businesses than for other organisations.
C Small businesses have less reason for concern than large companies.
D It can be approached in a similar way by organisations of all types.

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Candidate Name
If not already printed, write name in CAPITALS and complete the Candidate No. grid (in pencil).

Candidate's Signature

Centre No.

Candidate No.

Examination Title

Examination Details

Centre

Session

Supervisor:

If the candidate is ABSENT or has WITHDRAWN shade here

Reading Answer Sheet

Instructions **Use a PENCIL (B or HB).** Rub out any answer you wish to change with an eraser.

For **Parts 1, 4, 5** and **6:**
Mark ONE box for each question like this: 0 A B C

For **Parts 2** and **3:**
Write in CAPITAL LETTERS like this: 0 EXAMPLE

Part 1		Part 2		Do not write below here
1	A B C D	13		13 1 0 u
2	A B C D	14		14 1 0 u
3	A B C D	15		15 1 0 u
4	A B C D	16		16 1 0 u
5	A B C D	17		17 1 0 u
6	A B C D	18		18 1 0 u
7	A B C D	19		19 1 0 u
8	A B C D	20		20 1 0 u
9	A B C D	21		21 1 0 u
10	A B C D	22		22 1 0 u
11	A B C D	23		23 1 0 u
12	A B C D	24		24 1 0 u

Turn over for Parts 3 – 6

IC R DP564/410

Part 3

Do not write below here

25		25 1 0 u
26		26 1 0 u
27		27 1 0 u
28		28 1 0 u
29		29 1 0 u
30		30 1 0 u
31		31 1 0 u
32		32 1 0 u
33		33 1 0 u
34		34 1 0 u
35		35 1 0 u
36		36 1 0 u

Part 4

37	A B C D
38	A B C D
39	A B C D
40	A B C D
41	A B C D
42	A B C D

Part 5

43	A B C D E F G H
44	A B C D E F G H
45	A B C D E F G H
46	A B C D E F G H
47	A B C D E F G H
48	A B C D E F G H

Part 6

49	A B C D
50	A B C D
51	A B C D
52	A B C D
53	A B C D
54	A B C D

Answer Key

One mark is given for each question between 1 and 36 answered correctly. Two marks are given for each question between 37 and 54 answered correctly. The total score is then adjusted to give a score out of 50 representing 25% of the total for the examination.

Part 1

1	D	7	B
2	C	8	A
3	B	9	B
4	D	10	C
5	A	11	A
6	B	12	D

Part 2

13	WHICH
14	TO
15	SOON
16	ARE / GET
17	IN
18	A
19	THEIR
20	THIS / THAT
21	ON / UPON
22	THERE
23	OF
24	IF

Part 3

25	APPRAISAL	31	DIVERSITY
26	REQUIREMENT (S)	32	ABSENCE
27	INTENTION	33	INTERVENTION (S)
28	EFFECTIVENESS	34	OBLIGATION
29	ENABLE	35	TYPICAL
30	MEMBERSHIP	36	TRANSPARENCY

Part 4		**Part 5**		**Part 6**	
37	D	43	C	49	B
38	A	44	F	50	C
39	C	45	D	51	A
40	B	46	G	52	C
41	D	47	B	53	D
42	A	48	E	54	D

Acknowledgements

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