CIMA BA4 Ethics, Governance and Law

Mock exam: 85 questions in 120 minutes, with an answer key and explanations

How to use this mock

- Set a timer for **120 minutes** and answer every question without notes. Write your answers in the grid on the next page.
- Mark your answers using the answer key, then read the explanation for every question you got wrong or guessed.
- The questions cover every section of the syllabus, in proportion to the GoQualified question bank for BA4.
- Prefer to sit it on screen? The **Exam Sim** on **goqualified.co.uk/cima/ba4/** times you, marks the paper and shows your weakest section.
- All questions are original GoQualified practice questions, not past exam questions.

Free from GoQualified. Questions start on page 3; the answer key and explanations follow them. Download the latest version from goqualified.co.uk/cima/ba4/.

Your answers

1 _____	18 _____	35 _____	52 _____	69 _____
2 _____	19 _____	36 _____	53 _____	70 _____
3 _____	20 _____	37 _____	54 _____	71 _____
4 _____	21 _____	38 _____	55 _____	72 _____
5 _____	22 _____	39 _____	56 _____	73 _____
6 _____	23 _____	40 _____	57 _____	74 _____
7 _____	24 _____	41 _____	58 _____	75 _____
8 _____	25 _____	42 _____	59 _____	76 _____
9 _____	26 _____	43 _____	60 _____	77 _____
10 _____	27 _____	44 _____	61 _____	78 _____
11 _____	28 _____	45 _____	62 _____	79 _____
12 _____	29 _____	46 _____	63 _____	80 _____
13 _____	30 _____	47 _____	64 _____	81 _____
14 _____	31 _____	48 _____	65 _____	82 _____
15 _____	32 _____	49 _____	66 _____	83 _____
16 _____	33 _____	50 _____	67 _____	84 _____
17 _____	34 _____	51 _____	68 _____	85 _____

Questions

Question 1

Which of the following is one of the five fundamental principles in the CIMA Code of Ethics?

A Integrity
B Profitability
C Efficiency
D Growth

Question 2

The fundamental principle of integrity requires a professional accountant to:

A Maximise the client's profit at all times, regardless of rules
B Be straightforward and honest in professional and business relationships
C Keep all client information secret forever, without exception
D avoid ever expressing a professional opinion

Question 3

The fundamental principle of objectivity requires a professional accountant to:

A Always agree entirely with whatever the client's own point of view happens to be
B Work for only a single client at any one time
C Not allow bias or undue influence to override professional judgement
D disclose all client information publicly

Question 4

Under the fundamental principle of confidentiality, a professional accountant may disclose confidential information when:

A a friend asks about it out of curiosity
B the information is more than a year old
C it would be financially beneficial to the accountant
D there is a legal or professional right or duty to disclose

Question 5

A professional accountant holds shares in a company they are auditing. This creates which type of threat to the fundamental principles?

A A self-interest threat
B An advocacy threat
C An intimidation threat
D No threat at all

Question 6

A long and close relationship with a client, leading an accountant to become too sympathetic to the client's interests, is an example of:

A a self-review threat
B a familiarity threat
C an advocacy threat
D an intimidation threat

Question 7

If a professional accountant cannot resolve a significant ethical conflict through internal channels, an appropriate course of action may be to:

A ignore the matter and carry on as normal
B alter the records to make the conflict disappear
C Immediately contact the press about the matter without delay
D Obtain advice from their professional body and, if necessary, withdraw

Question 8

The fundamental principle of professional competence and due care requires a professional accountant to:

A maintain professional knowledge and skill at the required level and act diligently
B complete all work as quickly as possible regardless of quality
C rely only on knowledge gained during their original training
D delegate all technical work to unqualified staff

Question 9

The fundamental principle of professional behaviour requires a professional accountant to:

A behave ethically only when being observed
B Comply with relevant laws and avoid conduct discrediting the profession
C place personal gain above professional standards
D Follow any instruction given without question at all

Question 10

An accountant is asked to audit financial statements that they themselves prepared. This creates which type of threat?

A An intimidation threat
B An advocacy threat
C A self-review threat
D A familiarity threat

Question 11

Promoting a client's position, for example by representing them in a dispute or negotiation, creates which threat to objectivity?

A A self-interest threat
B A self-review threat
C An intimidation threat
D An advocacy threat

Question 12

An accountant is threatened with dismissal unless they agree to a misleading accounting treatment. This is an example of:

A an intimidation threat
B a self-review threat
C a familiarity threat
D an advocacy threat

Question 13

The CIMA Code of Ethics adopts a conceptual framework approach, which requires a professional accountant to:

A Follow only a fixed list of prohibited actions
B Identify, evaluate and address threats to the fundamental principles
C Apply ethics only when it is convenient
D Ignore any threat that is not specifically listed

Question 14

An accountant is asked to advise two clients who are bidding against each other for the same contract. This situation is:

A an example of money laundering
B always acceptable with no action required
C automatically a breach of professional competence
D a conflict of interest that must be identified and managed

Question 15

A corporate code of conduct (or code of ethics) is intended to:

A Completely replace the need for national law
B Set out ethical standards and expected employee behaviour
C Guarantee the company higher profits automatically
D Be kept entirely secret from all employees

Question 16

Money laundering is the process of:

A Making crime proceeds appear to come from a legitimate source
B reducing a company's tax bill by legal means
C Physically cleaning banknotes that are dirty
D Auditing the accounts of a registered charity

Question 17

An ethical approach that judges whether an action is right or wrong by its consequences or outcomes is known as:

A deontological (duty-based) ethics
B consequentialist (teleological) ethics
C Relativism — ethics depends on context
D Egoism — acting in one's own self-interest

Question 18

Ethical relativism is the view that:

A there are universal moral rules that always apply
B Ethics has no relevance to business decisions at all
C What is ethical depends on circumstances, culture or situation
D Only the law matters; ethics is irrelevant entirely

Question 19

An ethical approach that judges actions against moral duties or rules, regardless of their consequences, is known as:

A deontological (duty-based) ethics
B consequentialist ethics
C Ethical egoism, acting in self-interest
D Relativism, where ethics depends on context

Question 20

Virtue ethics focuses primarily on:

A The consequences that the action produces
B The character and moral virtues of the person
C strict adherence to written rules
D The legality of the action taken

Question 21

If an accountant becomes aware that their employer may have broken the law, an appropriate first step is usually to:

A Say nothing at all, since it is not their concern
B Immediately resign from the role without giving any explanation at all
C Raise the matter with appropriate management and seek to have it addressed
D Alter the records in an attempt to conceal the underlying issue entirely

Question 22

Ethical egoism is the view that:

A actions should produce the greatest good for the greatest number
B people should always act in their own self-interest
C there are universal moral duties that always apply
D ethics depends entirely on the situation

Question 23

Ethical absolutism holds that:

A ethics is purely a matter of personal opinion
B what is ethical varies with culture and circumstances
C there are universal moral principles that apply in all situations
D only the law determines right and wrong

Question 24

Kohlberg's theory of moral development describes:

A the process of risk assessment
B the steps in preparing financial statements
C the structure of a company's board
D Stages in the development of moral reasoning

Question 25

An accountant is assigned to audit a company where a close family member is the financial controller. This primarily creates:

A no threat, because they are different people
B a familiarity threat (and possibly a self-interest threat)
C An advocacy threat to independence specifically
D a professional competence threat

Question 26

Tucker's model for testing whether a business decision is ethical asks whether the decision is profitable, legal, fair, right and:

A popular with customers
B cheap to produce
C sustainable
D fast to deliver

Question 27

One potential business benefit of acting in a socially responsible way is that it can:

A Enhance reputation and build stakeholder trust
B guarantee an immediate rise in profits
C remove the need to comply with the law
D Completely eliminate all business risk faced

Question 28

A key role of non-executive directors (NEDs) on a company's board is to:

A manage the day-to-day operations of the company
B Prepare the company's corporation tax return
C Provide independent judgement and scrutiny of management
D act as the company's external auditors

Question 29

The audit committee of a listed company should normally be composed of:

A independent non-executive directors
B executive directors only
C the external auditors
D the company's shareholders

Question 30

The UK Corporate Governance Code operates on the basis of:

A strict legal rules with criminal penalties
B 'comply or explain'
C voluntary guidelines with no disclosure required
D government inspection of every company

Question 31

Compared with a principles-based approach, a rules-based approach to corporate governance (such as the US Sarbanes-Oxley Act):

A Applies only to very small private companies
B Is entirely voluntary, with no legal force
C Sets out detailed requirements in law, with penalties for non-compliance
D Allows companies to explain why they have not complied with a provision

Question 32

The main purpose of a remuneration committee is to:

A Manage the company's marketing activities
B approve the annual financial statements
C Carry out the company's external audit
D Set executive directors' pay independently of them

Question 33

A sound system of internal control is designed primarily to help a company:

A Safeguard assets and support reliable financial reporting
B Eliminate every possible risk completely
C guarantee an increase in its share price
D Avoid paying any corporation tax whatsoever

Question 34

Which of the following is a key difference between internal audit and external audit?

A Internal audit is always more expensive than external audit
B Internal audit reports to management/board; external audit reports to shareholders
C External audit only examines the staff canteen
D There is no meaningful difference between the two at all

Question 35

Corporate social responsibility (CSR) refers to:

A The duty to maximise short-term profit only, nothing else
B The legal requirement simply to file annual accounts
C A company's responsibility to society and environment beyond legal obligations
D The process of auditing the company's financial statements

Question 36
The OECD Principles of Corporate Governance are best described as:

A An internationally recognised good governance framework
B a legally binding set of rules in every country
C A specific type of tax avoidance scheme
D an accounting standard for inventory

Question 37
In a unitary board structure, as commonly found in the UK:

A there are two entirely separate boards
B Executive and non-executive directors sit on one single board
C Only executive directors are permitted to serve on it
D shareholders automatically sit on the board

Question 38
A two-tier board structure, common in countries such as Germany, separates:

A Shareholders as a group from the company's creditors
B the sales team from the finance team
C a supervisory board from a management board
D Auditors from other accountants in the same firm

Question 39
The nomination committee of a board is primarily responsible for:

A Setting executive directors' remuneration levels
B preparing the financial statements
C Conducting the company's external audit
D Recommending board appointments and planning succession

Question 40
The primary purpose of risk management within an organisation is to:

A Identify, assess and respond to risks affecting objectives
B Eliminate every possible risk completely and permanently
C increase risk in order to maximise returns
D transfer all decision-making to insurers

Question 41
The 'triple bottom line' approach measures an organisation's performance in terms of:

A Economic, social and environmental dimensions
B Past, present and future profits only
C Sales, costs and profit figures alone
D Assets, liabilities and capital only

Question 42
Integrated reporting (<IR>) aims to:

A Completely replace the need for an external audit
B Explain how an organisation creates value over time
C Report solely and exclusively on environmental matters
D Calculate the company's current share price

Question 43
Mendelow's matrix classifies stakeholders according to their:

A Age and geographic location of a stakeholder
B Income level and personal wealth of a stakeholder
C power and level of interest
D department and job title

Question 44

Diversity on a company's board is encouraged in corporate governance because it:

A Brings wider perspectives and helps avoid 'groupthink'
B reduces the number of meetings required
C guarantees higher dividends
D removes the need for non-executive directors

Question 45

To be effective, the internal audit function should ideally:

A Be independent of what it audits and report to the audit committee
B report to the finance team whose work it audits
C Audit only the company's marketing department specifically
D be carried out by the external auditors

Question 46

Taking out insurance against a possible loss is an example of which response to risk?

A Risk acceptance — retaining the risk
B Risk avoidance — not undertaking the activity
C risk transfer (sharing)
D Risk reduction — mitigating the risk

Question 47

Environmental reporting involves an organisation disclosing information about:

A Its detailed tax computations for the year
B its directors' salaries only
C Its historical share price movements
D its environmental impact and performance

Question 48

The Cadbury Report (1992) is significant in corporate governance because it:

A Laid the foundations of the modern UK governance framework
B Completely abolished the role of company auditors
C First introduced the concept of corporation tax
D Created the very first stock exchange in the world

Question 49

The role of the senior independent director (SID) on a board is to:

A Run the company's own day-to-day operations directly
B Provide a shareholder contact point and sounding board for the chair
C Prepare the company's own financial statements
D Carry out the company's own external audit

Question 50

Insider dealing involves:

A Holding shares in a company for the long term
B Buying shares through a registered stockbroker
C Trading shares using price-sensitive, non-public information
D Voting at the company's annual general meeting

Question 51

The risk that a company's chosen overall strategy proves to be flawed or fails to deliver is an example of:

A credit risk
B operational risk
C compliance risk
D strategic risk

Question 52

The external auditor's report expresses an opinion on whether the financial statements:

A Will absolutely guarantee the company future profits
B Give a true and fair view under the reporting framework
C are free from every possible error
D represent the best investment decision

Question 53

A primary responsibility of the board of directors is to:

A Perform the company's own external audit
B set the company's strategy and oversee its implementation
C Keep the accounting records on a day-to-day basis
D Represent the interests of the trade unions

Question 54

Risks are commonly assessed and prioritised according to their:

A Age and geographic origin of a stakeholder
B Colour and physical shape of an item
C likelihood (probability) and impact (consequences)
D department and location only

Question 55

In an internal control framework, the 'control environment' refers to:

A The physical security arrangements of the office building itself
B The company's overall marketing strategy
C The external economic conditions the business happens to face
D Management's overall attitude and actions on control ('tone at the top')

Question 56

The 'audit expectations gap' refers to the difference between:

A The gap between what the public believes auditors do and their actual role
B Budgeted audit fees versus actual audit fees charged
C Internal audit reports versus external audit reports
D The share price before and after an audit is completed

Question 57

Sustainable development is most commonly defined as development that:

A Maximises short-term profit above all else
B Meets present needs without compromising future generations' needs
C Avoids any use of natural resources whatsoever
D Focuses solely and exclusively on environmental issues

Question 58

The Nolan principles (the seven principles of public life) include:

A profit, growth, efficiency and market share
B planning, organising, leading and controlling
C Supply, demand, price and competition in a market
D Selflessness, integrity, objectivity, accountability and honesty

Question 59

The chairman of the board is primarily responsible for:

A managing the company's day-to-day operations
B leading the board and ensuring it works effectively
C conducting the external audit
D setting the company's product prices

Question 60

A director can generally be removed from office by:

A The external auditor acting alone
B The company secretary alone, without approval
C an ordinary resolution of the shareholders
D A single customer complaint received

Question 61

The risk that a customer or counterparty will fail to pay amounts they owe is known as:

A credit risk
B operational risk
C strategic risk
D reputational risk

Question 62

Liquidity risk is the risk that an organisation:

A will earn lower profits than budgeted
B Cannot meet short-term obligations as they fall due
C will lose market share to competitors
D Will face entirely new legislation in future

Question 63

Among its responsibilities, the audit committee:

A Sets the prices charged for the company's products
B Negotiates the wages paid to employees
C Designs the company's advertising campaigns
D Monitors financial statement integrity and internal controls

Question 64

In the context of company meetings, a proxy is:

A A director's company car provided as a benefit
B A specific type of company share issued
C Someone appointed by a shareholder to vote on their behalf
D A type of financial statement produced

Question 65

Goods displayed in a shop window with a price attached are generally regarded in contract law as:

A an invitation to treat
B a binding offer the shop must honour
C an acceptance
D consideration

Question 66

Unfair dismissal under employment law is primarily concerned with:

A the employee's annual holiday entitlement
B whether the employee was paid in cash
C Whether the employer had a fair reason and fair procedure
D The specific colour of the company's corporate logo

Question 67

Which of the following is a source of English law?

A A company's own press releases
B A company's internal policies
C Trade journals and industry publications
D Statute (Acts of Parliament) and case law

Question 68

In contract law, a 'condition' is:

A A fundamental term, breach of which allows termination and damages
B a minor term, breach of which allows only a claim for damages
C A term that carries no legal effect whatsoever
D a requirement that the contract be in writing

Question 69

The usual remedy awarded by the courts for a breach of contract is:

A imprisonment of the party in breach
B damages (monetary compensation)
C automatic cancellation of all the party's debts
D a public apology

Question 70

In the law of tort, the case of Donoghue v Stevenson is important because it established:

A The modern duty of care owed to one's 'neighbour'
B the principle of separate legal personality
C the rules on company share capital
D the comply or explain approach

Question 71

Under the postal rule in contract law, acceptance of an offer sent by post is generally effective:

A never, as postal acceptance is invalid
B only when the offeror actually reads it
C when the offer was originally made
D when the letter of acceptance is posted

Question 72

In contract law, the effect of a counter-offer is that it:

A rejects the original offer and replaces it with a new offer
B automatically forms a binding contract
C Has absolutely no legal effect at all whatsoever
D Must always and only ever be made in writing, never verbally

Question 73

The rule established in Hadley v Baxendale concerns:

A The formation and incorporation of a company
B The remoteness of damage in a breach of contract claim
C The appointment of a company's external auditors
D The rights attaching to preference shares

Question 74

A contract entered into by a minor (a person under 18) is generally:

A Fully binding on the minor in absolutely every case
B Not binding on the minor, except for necessaries and similar contracts
C automatically binding on the minor's parents
D Always illegal and unenforceable in any jurisdiction

Question 75

A 'representation', as distinct from a term of a contract, is:

A A legally binding promise contained within the contract
B The written heading appearing at the top of the contract
C A statement inducing entry, but not itself part of the contract
D A specific clause excluding one party's liability

Question 76

In employment law, redundancy occurs when:

A An employee resigns entirely voluntarily from the role
B An employee simply takes their annual leave entitlement
C An employee receives a promotion within the company
D An employee is dismissed because their role has ceased or diminished

Question 77

The principle established in Salomon v Salomon & Co Ltd is that:

A shareholders manage the company directly
B directors are personally liable for all the company's debts
C A company can never own any property in its own name
D A company is a separate legal person, distinct from members

Question 78

In a company limited by shares, a shareholder's liability for the company's debts is limited to:

A the amount unpaid (if any) on their shares
B the whole of the company's debts
C all of their personal assets
D nothing in any circumstances

Question 79

The articles of association of a company:

A Set out the internal rules for managing and running the company
B List every single transaction the company has made
C Are prepared entirely by the external auditors
D Record the company's daily cash flow movements

Question 80

The company secretary of a company is primarily responsible for:

A setting the company's sales targets
B auditing the financial statements
C Ensuring compliance with statutory obligations
D Managing the company's production line directly

Question 81

The external auditor of a company is usually appointed by:

A the shareholders (members), typically at a general meeting
B The company's finance director acting alone
C the external auditor themselves
D The company's own bank, on its own authority

Question 82

A limited liability partnership (LLP):

A Is a separate legal entity where partners have limited liability
B has partners with unlimited personal liability
C Cannot enter into contracts of any kind at all
D Is treated exactly the same as a sole trader

Question 83

'Called-up share capital' refers to:

A the maximum capital a company is ever allowed to issue
B The amount of issued share capital that shareholders must pay
C The company's total assets held at year end
D the dividends declared in the year

Question 84

A company may generally only pay a dividend out of its:

A Share capital contributed by shareholders
B distributable (accumulated realised) profits
C Revaluation reserve arising from asset revaluation
D Secured loans owed to lenders

Question 85

A company comes into legal existence when:

A Its very first sale is made to a customer
B Its very first bank account is opened
C Its very first director is formally appointed
D The Registrar issues its certificate of incorporation

Answer key

1 A	**18** C	**35** C	**52** B	**69** B
2 B	**19** A	**36** A	**53** B	**70** A
3 C	**20** B	**37** B	**54** C	**71** D
4 D	**21** C	**38** C	**55** D	**72** A
5 A	**22** B	**39** D	**56** A	**73** B
6 B	**23** C	**40** A	**57** B	**74** B
7 D	**24** D	**41** A	**58** D	**75** C
8 A	**25** B	**42** B	**59** B	**76** D
9 B	**26** C	**43** C	**60** C	**77** D
10 C	**27** A	**44** A	**61** A	**78** A
11 D	**28** C	**45** A	**62** B	**79** A
12 A	**29** A	**46** C	**63** D	**80** C
13 B	**30** B	**47** D	**64** C	**81** A
14 D	**31** C	**48** A	**65** A	**82** A
15 B	**32** D	**49** B	**66** C	**83** B
16 A	**33** A	**50** C	**67** D	**84** B
17 B	**34** B	**51** D	**68** A	**85** D

Score: count your correct answers out of 85. Then work through the explanations below.

Answers and explanations

Question 1: A Integrity

Integrity is one of the five fundamental principles in the CIMA Code of Ethics, alongside objectivity, professional competence and due care, confidentiality, and professional behaviour. Profitability, efficiency and growth are business objectives, not ethical principles for professional accountants. The fundamental principles set the standard of behaviour expected of members and are applied through a conceptual framework that identifies and addresses threats.

Section A, Fundamental principles · Ref A1a · ba4001

Question 2: B Be straightforward and honest in professional and business relationships

Integrity requires a professional accountant to be straightforward and honest in all professional and business relationships, including fair dealing and truthfulness. It does not require maximising profit, indefinite secrecy, or refusing to give opinions. An accountant should not be knowingly associated with information that is false or misleading. Integrity underpins the trust placed in the accountancy profession.

Section A, Integrity · Ref A1a · ba4002

Question 3: C Not allow bias or undue influence to override professional judgement

Objectivity requires accountants not to let bias, conflicts of interest or the undue influence of others compromise their professional or business judgement. It is not about agreeing with clients, limiting the number of clients, or disclosing information. Maintaining objectivity is essential to credible, impartial professional work, which is why threats to it must be identified and safeguarded against.

Section A, Objectivity · Ref A1a · ba4003

Question 4: D there is a legal or professional right or duty to disclose

Confidentiality may be overridden where there is a legal or professional right or duty to disclose — for example, when required by law, to comply with legal proceedings, or to protect the public interest. Personal curiosity, financial gain, or the mere passage of time do not justify disclosure. Confidential information must also never be used for the personal advantage of the accountant or third parties.

Section A, Confidentiality · Ref A1b · ba4004

Question 5: A A self-interest threat

Holding a financial interest such as shares in an audit client creates a self-interest threat, because the accountant could benefit from, or be influenced by, the client's financial performance. An advocacy threat arises from promoting a client's position, and an intimidation threat from being deterred by pressure. A direct financial stake in the outcome is the classic self-interest threat, which must be safeguarded against or removed.

Section A, Self-interest threat · Ref A1c · ba4005

Question 6: B a familiarity threat

A familiarity threat arises when a long or close association with a client makes the accountant too trusting or sympathetic toward the client's interests, reducing professional scepticism. A self-review threat involves reviewing one's own previous work, advocacy involves promoting a client's position, and intimidation involves pressure or threats. Rotating personnel on long-standing engagements is a common safeguard against familiarity threats.

Section A, Familiarity threat · Ref A1c · ba4006

Question 7: D Obtain advice from their professional body and, if necessary, withdraw

Where an ethical conflict cannot be resolved internally, an accountant may seek confidential advice from their professional body or legal advisers and, as a last resort, withdraw from the engagement or employment. Ignoring the matter, going straight to the press, or altering records would all breach the fundamental principles. Documenting the issue and the steps taken to resolve it is also an important part of the process.

Section A, Resolving ethical conflict · Ref A1d · ba4008

Question 8: A maintain professional knowledge and skill at the required level and act diligently

Professional competence and due care requires accountants to maintain their professional knowledge and skill at the level needed to give competent service, keep up to date, and act diligently in accordance with applicable standards. Working hastily at the expense of quality, never updating one's knowledge, or delegating to unqualified staff would all breach this principle. Ongoing competence is essential to serving clients and employers properly.

Section A, Professional competence and due care · Ref A1a · ba4026

Question 9: B Comply with relevant laws and avoid conduct discrediting the profession

Professional behaviour requires accountants to comply with relevant laws and regulations and to avoid any conduct that they know, or should know, might discredit the profession. Acting well only when watched, prioritising personal gain, or following improper instructions would all undermine this principle. It protects the reputation of, and public confidence in, the accountancy profession.

Section A, Professional behaviour · Ref A1a · ba4027

Question 10: C A self-review threat

Auditing or reviewing one's own previous work creates a self-review threat, because the accountant may be unwilling, or unable, to evaluate that work objectively and identify their own errors. An advocacy threat involves promoting a client's position, intimidation involves pressure, and familiarity involves a close relationship. Having someone else perform the review is a common safeguard against a self-review threat.

Section A, Self-review threat · Ref A1c · ba4028

Question 11: D An advocacy threat

An advocacy threat arises when an accountant promotes a client's or employer's position to the point where objectivity is compromised — for instance, acting as their representative in a dispute. A self-interest threat stems from a financial or other personal interest, intimidation from pressure, and self-review from checking one's own work. Advocacy is specifically about championing a position so strongly that impartiality is at risk.

Section A, Advocacy threat · Ref A1c · ba4029

Question 12: A an intimidation threat

Being deterred from acting objectively by actual or perceived pressures — such as a threat of dismissal — is an intimidation threat. A familiarity threat comes from a close relationship, self-review from checking one's own work, and advocacy from promoting a position. Intimidation undermines the accountant's ability to exercise independent judgement, and resisting it may require escalating the matter or, ultimately, resigning.

Section A, Intimidation threat · Ref A1c · ba4030

Question 13: B Identify, evaluate and address threats to the fundamental principles

The conceptual framework approach requires accountants to identify threats to the fundamental principles, evaluate their significance, and address them by eliminating the circumstances that create them, applying safeguards to reduce them to an acceptable level, or declining or ending the activity. It is deliberately not a rigid rulebook, because no list could anticipate every situation. Applying ethics selectively, or ignoring unlisted threats, would defeat the purpose of a principles-based framework that relies on judgement.

Section A, Conceptual framework approach · Ref A1d · ba4031

Question 14: D a conflict of interest that must be identified and managed

Acting for two clients with competing interests creates a conflict of interest, which must be identified and managed — through disclosure and consent, separate teams, or declining to act. It is not automatically acceptable without safeguards, nor is it a competence issue or money laundering. Managing conflicts of interest protects the objectivity and confidentiality owed to each client.

Section A, Conflict of interest · Ref A1d · ba4033

Question 15: B Set out ethical standards and expected employee behaviour

A corporate code of conduct sets out the ethical standards and behaviour expected of employees, helping to embed values and guide decisions in difficult situations. It supplements, rather than replaces, the law, cannot guarantee profits, and must be communicated to employees to be effective. A well-designed code, supported by leadership and training, helps build an ethical culture within the organisation.

Section A, Corporate code of conduct · Ref A1d · ba4051

Question 16: A Making crime proceeds appear to come from a legitimate source

Money laundering is the process of disguising the proceeds of crime so that they appear to derive from a legitimate source, typically through stages described as placement, layering and integration. It is distinct from legitimate tax planning, has nothing to do with physically cleaning cash, and is not auditing. Accountants have legal obligations to be alert to, and report, suspicions of money laundering.

Section A, Money laundering · Ref A1d · ba4054

Question 17: B consequentialist (teleological) ethics

Consequentialist (teleological) ethics judges the rightness of an action by its consequences — for example, utilitarianism seeks the greatest good for the greatest number. Deontological ethics, by contrast, judges actions against duties or rules regardless of outcome. Relativism holds that ethics depends on circumstances, and egoism focuses on self-interest. Distinguishing outcome-based from duty-based reasoning helps in analysing ethical dilemmas.

Section A, Consequentialist ethics · Ref A1b · ba4055

Question 18: C What is ethical depends on circumstances, culture or situation

Ethical relativism holds that there are no absolute, universal moral rules; what is considered ethical depends on the situation, culture or society. This contrasts with absolutism, which maintains that certain principles always apply. Relativism is not the view that ethics is irrelevant, nor that only law matters. The debate between relativism and absolutism shapes how cross-border ethical questions are approached.

Section A, Ethical relativism · Ref A1b · ba4056

Question 19: A deontological (duty-based) ethics

Deontological ethics judges the rightness of an action by reference to duties, rules or principles, irrespective of the outcome — for example, the duty to tell the truth holds even if a lie might produce a better result. Consequentialism, by contrast, focuses on outcomes; egoism on self-interest; and relativism on circumstances. The duty-based versus outcome-based distinction is central to analysing ethical reasoning.

Section A, Deontological ethics · Ref A1b · ba4076

Question 20: B The character and moral virtues of the person

Virtue ethics centres on the character of the moral agent — the cultivation of virtues such as honesty, courage and integrity — rather than on rules or consequences. It asks what a person of good character would do. Consequentialism looks to outcomes, deontology to rules, and legality is a separate matter from ethics. Virtue ethics complements the rules-based and outcome-based approaches by emphasising who we should be, not just what we should do.

Section A, Virtue ethics · Ref A1b · ba4077

Question 21: C Raise the matter with appropriate management and seek to have it addressed

On becoming aware of possible non-compliance with laws and regulations, an accountant should normally raise the matter internally with an appropriate level of management or those charged with governance, seeking to have it addressed or rectified. Ignoring it, resigning straight away, or concealing it would all be inappropriate. Further steps — including disclosure or withdrawal — may follow if the response is inadequate, depending on the circumstances.

Section A, Responding to suspected wrongdoing · Ref A1d · ba4082

Question 22: B people should always act in their own self-interest

Ethical egoism holds that the right action is the one that best serves the individual's own self-interest. It contrasts with utilitarianism, which seeks the greatest good for the greatest number, with deontology, which is based on universal duties, and with relativism, which makes ethics situation-dependent. Egoism is often criticised in a professional context, where accountants are expected to act in the public interest rather than purely for themselves.

Section A, Ethical egoism · Ref A1b · ba4101

Question 23: C there are universal moral principles that apply in all situations

Ethical absolutism maintains that certain moral principles are universal and apply in all situations, regardless of culture or context. It is the opposite of relativism, which holds that ethics depends on circumstances. Absolutism is not the same as reducing ethics to personal opinion or to legal compliance alone. The tension between absolutism and relativism is especially relevant when organisations operate across different countries and cultures.

Section A, Ethical absolutism · Ref A1b · ba4102

Question 24: D Stages in the development of moral reasoning

Kohlberg's theory sets out stages through which an individual's moral reasoning develops, commonly grouped into pre-conventional, conventional and post-conventional levels — moving from self-interest and obedience toward principled reasoning. It does not describe financial statement preparation, board structure, or risk assessment. The model helps explain why people at different stages may approach the same ethical situation in different ways.

Section A, Kohlberg's moral development · Ref A1b · ba4103

Question 25: B a familiarity threat (and possibly a self-interest threat)

A close family relationship with someone in a key position at an audit client creates a familiarity threat — the auditor may be too trusting or insufficiently sceptical — and potentially a self-interest threat. It is not threat-free simply because they are different individuals. It is not primarily an advocacy or competence issue. Safeguards such as reassigning the accountant to a different engagement are typically needed.

Section A, Familiarity threat from family · Ref A1c · ba4105

Question 26: C sustainable

Tucker's five-question model evaluates a decision by asking whether it is profitable, legal, fair, right and sustainable — combining commercial, legal and ethical perspectives. Popularity, low cost and speed are not part of the test. The model is useful because it forces explicit consideration of fairness, rightness and sustainability alongside profitability and legality, rather than letting commercial factors dominate the decision.

Section A, Tucker's ethical model · Ref A1d · ba4126

Question 27: A Enhance reputation and build stakeholder trust

Behaving responsibly can enhance reputation, strengthen relationships with customers, employees and investors, and build trust — which can support long-term success. It does not guarantee an immediate profit rise, replace the duty to obey the law, or eliminate risk. Recognising the business case for responsible behaviour helps explain why many organisations pursue CSR beyond any strict legal requirement, alongside the ethical reasons.

Section A, Business case for CSR · Ref A1a · ba4132

Question 28: C Provide independent judgement and scrutiny of management

Non-executive directors bring independent judgement, experience and objectivity to the board, scrutinising the performance of executive management and helping to protect shareholders' interests. They do not run day-to-day operations (the executives' role), prepare tax returns, or act as external auditors. Their independence is central to their contribution, which is why governance codes set criteria for assessing it.

Section B, Non-executive directors · Ref B1b · ba4011

Question 29: A independent non-executive directors

An audit committee should be made up of independent non-executive directors, so it can oversee financial reporting, internal control and the external audit free from the conflicts of interest that executives might face. It is not composed of executives, the external auditors (whose work it oversees), or shareholders. Its independence is what enables it to provide effective, objective oversight on behalf of shareholders.

Section B, Audit committee · Ref B1b · ba4013

Question 30: B 'comply or explain'

The UK Corporate Governance Code uses a 'comply or explain' approach: companies should either comply with its provisions or explain to shareholders why they have not. This principles-based approach offers flexibility and leaves judgement to shareholders, unlike a rigid rules-based system enforced by legal penalties. It is not purely voluntary with no disclosure, nor does it rely on government inspection of companies.

Section B, Comply or explain · Ref B1c · ba4014

Question 31: C Sets out detailed requirements in law, with penalties for non-compliance

A rules-based approach, such as the US Sarbanes-Oxley Act, sets out detailed legal requirements that companies must comply with, backed by penalties (option C). A principles-based approach, such as the UK Corporate Governance Code, relies instead on broad principles and judgement, with flexibility through 'comply or explain', which is what option D describes. Rules-based regimes are mandatory rather than voluntary (B), and they are not limited to small or private companies (A): Sarbanes-Oxley applies to companies listed in the US.

Section B, Rules-based vs principles-based · Ref B1c · ba4015

Question 32: D Set executive directors' pay independently of them

A remuneration committee, made up of independent non-executive directors, determines the pay of executive directors so that directors do not effectively set their own remuneration — avoiding a clear conflict of interest. It does not approve the financial statements, conduct the audit, or run marketing. Linking reward to performance while keeping the decision independent is a key governance safeguard.

Section B, Remuneration committee · Ref B1b · ba4016

Question 33: A Safeguard assets and support reliable financial reporting

Internal control systems help to safeguard assets, support reliable financial reporting and compliance, and assist in achieving the company's objectives by managing risk. They cannot eliminate risk entirely — they reduce it to an acceptable level — and they do not guarantee a higher share price or lower tax. Effective internal control is a key element of good corporate governance and risk management.

Section B, Internal control · Ref B2a · ba4017

Question 34: B Internal audit reports to management/board; external audit reports to shareholders

Internal audit is an internal function reporting to management and those charged with governance, reviewing controls and operations on an ongoing basis, whereas external audit is independent and reports to the shareholders on whether the financial statements give a true and fair view. The two differ in who they report to and in their purpose; they are distinct functions, and cost is not the defining difference.

Section B, Internal vs external audit · Ref B2b · ba4018

Question 35: C A company's responsibility to society and environment beyond legal obligations

Corporate social responsibility is a company's recognition of its responsibilities to society, stakeholders and the environment beyond its strict legal obligations — for example through ethical, social and environmental considerations. It is not the same as filing accounts, maximising short-term profit, or auditing. CSR is closely linked to sustainability and the idea that businesses should consider their wider impact, not only financial returns.

Section B, Corporate social responsibility · Ref B3a · ba4019

Question 36: A An internationally recognised good governance framework

The OECD Principles of Corporate Governance provide an internationally recognised, non-binding framework that benchmarks good governance and influences national codes around the world. They are not directly binding law in every country, nor a tax scheme or an accounting standard. They help promote consistent standards of transparency, accountability and shareholder protection across different jurisdictions.

Section B, OECD principles · Ref B1a · ba4034

Question 37: B Executive and non-executive directors sit on one single board

In a unitary board structure, executive and non-executive directors serve together on a single board with collective responsibility for the company. This contrasts with a two-tier structure, which has separate supervisory and management boards. A unitary board includes non-executives (not only executives), and shareholders do not automatically sit on it — they appoint directors to act on their behalf.

Section B, Unitary board · Ref B1b · ba4035

Question 38: C a supervisory board from a management board

A two-tier structure splits governance into a supervisory board, which oversees and appoints management and often includes employee representatives, and a management board, which runs the business day to day. It is not a division between departments, between shareholders and creditors, or between auditors and accountants. The separation is intended to strengthen oversight of management.

Section B, Two-tier board · Ref B1b · ba4036

Question 39: D Recommending board appointments and planning succession

The nomination committee leads the process for board appointments, considering the balance of skills, experience and diversity, and plans for succession. Setting executive pay is the remuneration committee's role, the external audit is performed by the auditors, and preparing the statements is management's responsibility. A structured, independent nomination process helps ensure the board has the right composition.

Section B, Nomination committee · Ref B1b · ba4037

Question 40: A Identify, assess and respond to risks affecting objectives

Risk management is the process of identifying, assessing and responding to the risks that could affect an organisation's ability to achieve its objectives, keeping them within an acceptable level. It cannot eliminate all risk, deliberately increasing risk is not its aim, and it does not hand decisions to insurers. Effective risk management supports informed decision-making and is a key part of governance.

Section B, Purpose of risk management · Ref B2a · ba4038

Question 41: A Economic, social and environmental dimensions

The triple bottom line broadens performance measurement beyond financial results to include economic, social and environmental dimensions — often summarised as profit, people and planet. It is not about profit over different periods, nor purely financial figures. The concept reflects the view that organisations should account for their wider impact on society and the environment, not only their financial returns.

Section B, Triple bottom line · Ref B3a · ba4042

Question 42: B Explain how an organisation creates value over time

Integrated reporting brings together financial and non-financial information to explain how an organisation creates and sustains value over the short, medium and long term, considering the various 'capitals' it uses. It does not replace the audit, confine itself to environmental matters, or calculate the share price. The aim is a more complete, connected picture of performance and prospects for providers of capital and other stakeholders.

Section B, Integrated reporting · Ref B3b · ba4043

Question 43: C power and level of interest

Mendelow's matrix maps stakeholders by their power (ability to influence the organisation) and their level of interest in its activities, guiding how each group should be managed — for example, keeping high-power, high-interest 'key players' closely engaged. It does not classify by age, income, or job title. The matrix helps prioritise stakeholder relationships when developing strategy.

Section B, Mendelow's matrix · Ref B3a · ba4044

Question 44: A Brings wider perspectives and helps avoid 'groupthink'

A diverse board brings a wider range of skills, experiences and perspectives, which improves the quality of debate and decisions and helps avoid 'groupthink', where a like-minded board fails to challenge assumptions. Diversity is not about meeting frequency, does not guarantee dividends, and does not remove the need for non-executives. Governance codes increasingly emphasise diversity of thought as well as background.

Section B, Board diversity · Ref B1b · ba4058

Question 45: A Be independent of what it audits and report to the audit committee

For internal audit to be objective and effective, it should be independent of the activities it reviews and report to the audit committee, preserving its independence from the management it scrutinises. Reporting to the team it audits would compromise that independence, and its remit covers the whole organisation, not one department. It is also distinct from external audit, which serves shareholders.

Section B, Internal audit independence · Ref B2b · ba4062

Question 46: C risk transfer (sharing)

Insuring against a loss transfers (shares) the financial impact of the risk to another party — the insurer — in exchange for a premium. Risk acceptance means tolerating the risk, avoidance means not undertaking the activity at all, and reduction means taking action to lessen the likelihood or impact. The common 'transfer, avoid, reduce, accept' (TARA) responses help frame how each identified risk is managed.

Section B, Risk transfer · Ref B2a · ba4064

Question 47: D its environmental impact and performance

Environmental reporting discloses information about an organisation's impact on the environment and its environmental performance — for example, emissions, energy and resource use, and waste. It is not about directors' pay, share prices, or tax computations specifically. Such reporting supports accountability for sustainability and is increasingly expected by investors, regulators and other stakeholders.

Section B, Environmental reporting · Ref B3b · ba4065

Question 48: A Laid the foundations of the modern UK governance framework

The Cadbury Report addressed the financial aspects of corporate governance following a series of corporate failures and produced an influential Code of Best Practice that became the basis of the modern UK framework, later developed into the Combined Code and the UK Corporate Governance Code. It did not abolish auditors, introduce tax, or create a stock exchange. Cadbury is regarded as a landmark in the development of governance.

Section B, The Cadbury Report · Ref B1c · ba4084

Question 49: B Provide a shareholder contact point and sounding board for the chair

The senior independent director provides an alternative channel for shareholders if normal contact through the chairman or executives is inappropriate, and acts as a sounding board for the chairman and a counterweight where needed. The SID does not run operations, prepare the accounts, or audit them. The role strengthens board balance and shareholder access, supporting effective independent oversight.

Section B, Senior independent director · Ref B1b · ba4085

Question 50: C Trading shares using price-sensitive, non-public information

Insider dealing is trading in securities on the basis of inside, price-sensitive information that has not been made public, giving the insider an unfair advantage. It is a criminal offence and a form of market abuse. Ordinary share dealing through a broker, long-term investment, and voting at meetings are all legitimate activities. Prohibiting insider dealing helps maintain confidence in the fairness and integrity of the markets.

Section B, Insider dealing · Ref B1c · ba4086

Question 51: D strategic risk

Strategic risk arises from high-level decisions about the direction of the business — entering a new market or launching a major product, for example — and the possibility that the strategy is wrong or poorly executed. Operational risk concerns day-to-day processes and systems, compliance risk concerns breaching laws and regulations, and credit risk concerns non-payment. Classifying risks by type helps assign responsibility and choose responses.

Section B, Strategic risk · Ref B2a · ba4087

Question 52: B Give a true and fair view under the reporting framework

The external auditor expresses an opinion on whether the financial statements give a true and fair view (or are presented fairly) and comply with the applicable reporting framework. The opinion is not a guarantee of future profits, a certificate that the statements contain no errors at all, or investment advice. Audit provides reasonable assurance based on testing, which is why it is an opinion rather than a guarantee.

Section B, External audit opinion · Ref B2b · ba4093

Question 53: B set the company's strategy and oversee its implementation

The board is collectively responsible for the long-term success of the company, including setting its strategic direction, overseeing management's implementation of that strategy, and ensuring sound risk management and control. The external audit is the auditor's role, day-to-day bookkeeping is operational, and the board represents the company as a whole rather than one interest group. Strategic leadership and oversight are central board duties.

Section B, Responsibilities of the board · Ref B1b · ba4109

Question 54: C likelihood (probability) and impact (consequences)

Risks are typically assessed by combining their likelihood (how probable they are) and their impact (how serious the consequences would be), often plotted on a risk map or matrix to prioritise attention. High-likelihood, high-impact risks demand the most urgent response. Age, appearance, or department alone do not determine priority. This likelihood-impact assessment guides where to focus risk management effort.

Section B, Assessing risk · Ref B2a · ba4114

Question 55: D Management's overall attitude and actions on control ('tone at the top')

The control environment is the foundation of internal control: the overall attitude, awareness and actions of the board and management toward control and ethical conduct, setting the 'tone at the top'. It is not merely physical security, external conditions, or marketing. A strong control environment, where leaders model integrity and value control, makes the other components of internal control far more effective.

Section B, Control environment · Ref B2b · ba4115

Question 56: A The gap between what the public believes auditors do and their actual role

The audit expectations gap is the difference between what users of financial statements believe an audit provides — for example, a guarantee against all fraud or future failure — and what auditors actually do and are responsible for, which is to give reasonable assurance that the statements give a true and fair view. It is not about fees, internal versus external reports, or share prices. The gap can lead to misplaced reliance and criticism of auditors.

Section B, Audit expectations gap · Ref B2b · ba4116

Question 57: B Meets present needs without compromising future generations' needs

The widely used definition describes sustainable development as meeting the needs of the present without compromising the ability of future generations to meet their own needs, balancing economic, social and environmental considerations. It is not about maximising short-term profit, avoiding all resource use, or focusing only on the environment. The concept underpins corporate sustainability and much CSR and reporting practice.

Section B, Sustainable development · Ref B3a · ba4117

Question 58: D Selflessness, integrity, objectivity, accountability and honesty

The Nolan principles set out seven standards expected of those in public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. They are about ethical conduct in public office, not commercial objectives, economic concepts, or general management functions. The principles are widely referenced in public-sector governance and ethics and influence expectations of conduct more broadly.

Section B, The Nolan principles · Ref B3a · ba4119

Question 59: B leading the board and ensuring it works effectively

The chairman leads the board, sets its agenda, and ensures it operates effectively — including that directors receive accurate information and that adequate time is given to important issues. Day-to-day operations are the chief executive's responsibility, the audit is the auditor's, and pricing is operational. Separating the chairman's leadership of the board from the chief executive's running of the business is a key governance recommendation.

Section B, Role of the chairman · Ref B1b · ba4133

Question 60: C an ordinary resolution of the shareholders

Shareholders can generally remove a director from office by passing an ordinary resolution (a simple majority), subject to proper notice and procedure. The external auditor, the company secretary acting alone, and customers have no such power. This right is an important accountability mechanism, allowing the owners of the company to remove directors in whom they have lost confidence.

Section B, Removal of a director · Ref B1b · ba4134

Question 61: A credit risk

Credit risk is the risk that a borrower, customer or counterparty will default on amounts owed, causing financial loss. Operational risk concerns internal process failures, strategic risk concerns high-level direction, and reputational risk concerns damage to standing. Managing credit risk involves measures such as credit checks, credit limits and monitoring of receivables, and it is especially important for businesses that sell on credit or lend money.

Section B, Credit risk · Ref B2a · ba4136

Question 62: B Cannot meet short-term obligations as they fall due

Liquidity risk is the risk that an organisation is unable to meet its short-term financial obligations as they fall due, even if it is profitable overall, because it lacks accessible cash. Lower profits, loss of market share and new legislation are different types of risk. Managing liquidity — through cash flow forecasting and access to funding — is vital, since a liquidity crisis can threaten an otherwise viable business.

Section B, Liquidity risk · Ref B2a · ba4137

Question 63: D Monitors financial statement integrity and internal controls

The audit committee monitors the integrity of the financial statements, reviews the company's internal control and risk management systems, and oversees the relationship with the external auditors, including their independence and effectiveness. Pricing, advertising and wage negotiation are operational matters outside its remit. Composed of independent non-executive directors, the audit committee provides crucial oversight of financial reporting and control.

Section B, Audit committee responsibilities · Ref B1b · ba4139

Question 64: C Someone appointed by a shareholder to vote on their behalf

A proxy is a person appointed by a shareholder to attend a general meeting and vote in their place, enabling shareholders who cannot attend in person to still exercise their votes. It is not a car, a class of share, or a financial statement. Proxy voting is an important means by which shareholders, especially smaller or distant ones, can participate in company decisions and governance.

Section B, Proxy voting · Ref B1d · ba4142

Question 65: A an invitation to treat

A display of goods with a price is normally an invitation to treat — an invitation for customers to make an offer — rather than an offer itself. The customer makes the offer at the till, which the shop may accept or decline. Treating the display as a binding offer would oblige the shop to sell even where, for example, the price was wrongly marked. Acceptance and consideration are separate elements of contract formation.

Section C, Invitation to treat · Ref C1b · ba4021

Question 66: C Whether the employer had a fair reason and fair procedure

Unfair dismissal focuses on whether the employer had a fair (legally permitted) reason for dismissal and followed a fair procedure in carrying it out. It is distinct from wrongful dismissal, which concerns breach of the contractual notice terms. Pay arrangements, holiday entitlement and branding do not determine unfairness. Eligible employees who are unfairly dismissed may bring a claim to an employment tribunal.

Section C, Unfair dismissal · Ref C1c · ba4023

Question 67: D Statute (Acts of Parliament) and case law

The principal sources of English law include statute (Acts of Parliament) and case law (precedent developed by the courts, also called common law). Company press releases, trade journals and internal policies are not sources of law, though internal policies may bind employees contractually. Understanding the sources of law underpins the rest of business law, including how contract and employment rules arise and are interpreted.

Section C, Sources of law · Ref C1a · ba4045

Question 68: A A fundamental term, breach of which allows termination and damages

A condition is a fundamental term going to the root of the contract; its breach entitles the injured party to treat the contract as repudiated (terminate it) and to claim damages. A warranty is a lesser term, breach of which gives only a right to damages, not termination. A condition is not without legal effect, nor merely a writing requirement. Classifying terms determines the remedies available for breach.

Section C, Conditions and warranties · Ref C1b · ba4046

Question 69: B damages (monetary compensation)

The standard remedy for breach of contract is damages — monetary compensation intended to put the injured party in the position they would have been in had the contract been performed. Imprisonment is a criminal sanction, not a contract remedy, and cancelling debts or ordering an apology are not standard remedies. Equitable remedies such as specific performance or injunctions are available only in limited circumstances.

Section C, Remedy for breach of contract · Ref C1b · ba4047

Question 70: A The modern duty of care owed to one's 'neighbour'

Donoghue v Stevenson established the modern law of negligence and the 'neighbour principle' — the idea that a person owes a duty of care to those so closely and directly affected by their acts that they ought reasonably to have them in mind. Separate legal personality comes from Salomon, share capital rules from company law, and comply or explain from governance codes. The case underpins the duty-of-care element of negligence.

Section C, Negligence and duty of care · Ref C1d · ba4070

Question 71: D when the letter of acceptance is posted

The postal rule provides that, where post is a reasonable means of acceptance, the acceptance takes effect when the letter is properly posted, not when it is received or read by the offeror. This is an exception to the general rule that acceptance must be communicated. Postal acceptance is valid, and timing runs from posting. The rule can be displaced if the offer requires actual receipt of acceptance.

Section C, The postal rule · Ref C1b · ba4095

Question 72: A rejects the original offer and replaces it with a new offer

A counter-offer rejects the original offer and puts a new offer in its place, so the original offer can no longer be accepted unless it is renewed. It does not by itself form a contract, is legally significant rather than ineffective, and need not be in writing. The principle, illustrated by the case of Hyde v Wrench, means that haggling over terms can destroy an earlier offer.

Section C, Counter-offer · Ref C1b · ba4096

Question 73: B The remoteness of damage in a breach of contract claim

Hadley v Baxendale established the rules on remoteness of damage in contract: a claimant can recover losses that arise naturally from the breach, or that were within the reasonable contemplation of both parties when the contract was made. It does not concern company formation, auditors, or preference shares. The remoteness rule limits the losses recoverable, so that defendants are not liable for unforeseeable consequences.

Section C, Remoteness of damage · Ref C1b · ba4121

Question 74: B Not binding on the minor, except for necessaries and similar contracts

As a general rule, contracts made by a minor are not binding on the minor, to protect them, although exceptions exist — notably contracts for 'necessaries' (such as essential goods and services) and certain beneficial contracts of employment or training. Such contracts are not automatically binding in every case, do not bind the parents simply because the contractor is a minor, and are not illegal. Capacity is an essential element of a valid contract.

Section C, Capacity (minors) · Ref C1b · ba4145

Question 75: C A statement inducing entry, but not itself part of the contract

A representation is a statement made during negotiations that induces a party to enter the contract but does not become a term of it; if it proves false, the remedy lies in misrepresentation rather than breach of contract. A term is a binding promise within the contract, breach of which gives a contractual remedy. A representation is not a heading or an exclusion clause. Distinguishing terms from representations affects the remedies available.

Section C, Terms and representations · Ref C1b · ba4146

Question 76: D An employee is dismissed because their role has ceased or diminished

Redundancy is a form of dismissal arising where the employer's need for employees to carry out particular work has ceased or diminished — for example, because of a business closure, relocation or reduced demand — so the job no longer exists. It is not a resignation, a promotion, or annual leave. Eligible redundant employees may be entitled to a statutory redundancy payment and a fair selection and consultation process.

Section C, Redundancy · Ref C1c · ba4147

Question 77: D A company is a separate legal person, distinct from members

Salomon v Salomon established that a properly incorporated company is a separate legal person, distinct from its shareholders and directors — the principle of separate legal personality. As a result, the company (not its members) owns its assets and owes its debts. Directors are not generally personally liable for company debts, the company can own property in its own name, and shareholders do not manage it directly.

Section D, Separate legal personality · Ref D1a · ba4024

Question 78: A the amount unpaid (if any) on their shares

In a company limited by shares, a shareholder's liability is limited to any amount still unpaid on the shares they hold; once the shares are fully paid, they have no further liability for the company's debts. They are not liable for all the company's debts or their personal assets generally — that protection is the essence of limited liability. It flows directly from the company's separate legal personality.

Section D, Limited liability · Ref D1a · ba4025

Question 79: A Set out the internal rules for managing and running the company

The articles of association are the company's internal rulebook, governing matters such as the rights of shareholders, the conduct of meetings, and the powers and appointment of directors. They are not a transaction listing, prepared by the auditors, or a cash record. The articles form the main part of the company's constitution and regulate the relationship between the company, its members and its directors.

Section D, Articles of association · Ref D1c · ba4050

Question 80: C Ensuring compliance with statutory obligations

The company secretary is an officer of the company responsible for ensuring it complies with its statutory and regulatory obligations — such as maintaining statutory registers, filing documents, and arranging board and general meetings. The role is administrative and compliance-focused, not concerned with setting sales targets, auditing the accounts (the auditor's role), or running production. A competent company secretary supports good governance.

Section D, Company secretary · Ref D1e · ba4075

Question 81: A the shareholders (members), typically at a general meeting

The external auditor is normally appointed by the shareholders, usually at the general meeting, reflecting that the auditor reports to the members on the stewardship of the directors. Allowing the finance director or management to appoint and remove the auditor would undermine the auditor's independence. The auditor cannot self-appoint, and the bank has no such role. Member appointment reinforces the auditor's accountability to shareholders.

Section D, Appointment of the auditor · Ref D1e · ba4100

Question 82: A Is a separate legal entity where partners have limited liability

A limited liability partnership is a separate legal entity, distinct from its members, in which the partners (members) generally have limited liability for the LLP's debts — combining features of a partnership and a company. It is therefore unlike a traditional general partnership, where partners have unlimited liability. An LLP can contract in its own name and is quite different from a sole trader. The LLP form is popular among professional firms.

Section D, Limited liability partnership · Ref D1a · ba4124

Question 83: B The amount of issued share capital that shareholders must pay

Called-up share capital is the portion of the issued share capital that the company has required shareholders to pay (whether or not it has yet been received). It differs from issued capital (the shares allotted), paid-up capital (the amount actually received), and any historic notion of authorised capital. It is not the company's total assets or its dividends. Understanding these share-capital terms is important in reading a company's equity.

Section D, Called-up share capital · Ref D1d · ba4125

Question 84: B distributable (accumulated realised) profits

Under the principle of capital maintenance, a company may pay dividends only out of distributable profits — broadly its accumulated realised profits less accumulated realised losses — to protect creditors by preserving the company's capital. Dividends may not be paid out of share capital, an unrealised revaluation reserve, or borrowings. This rule prevents companies returning to shareholders the capital that creditors rely upon.

Section D, Distributable profits · Ref D1g · ba4149

Question 85: D The Registrar issues its certificate of incorporation

A company is formed and acquires its separate legal personality when the Registrar of Companies, having received the required documents, issues a certificate of incorporation — the company's 'birth certificate'. Making a sale, appointing a director, or opening a bank account do not, by themselves, bring the company into existence. From the date of incorporation, the company exists in law as a distinct legal person capable of contracting in its own name.

Section D, Incorporation of a company · Ref D1c · ba4150