



UNIVERSITY of CAMBRIDGE
ESOL Examinations

Experts in Language Assessment

International Certificate in Financial English

Past Examination Paper Reading

May 2007

University of Cambridge ESOL Examinations
1 Hills Road
Cambridge
CB1 2EU United Kingdom

Tel. +44 1223 553355
Fax. +44 1223 460278
e-mail ESOL@CambridgeESOL.org
www.CambridgeESOL.org



International Certificate in Financial English

May 2007

Test of Reading

Past Paper Pack

Contents

Test of Reading, Question paper

Test of Reading, Answer sheet

Test of Reading, Answer key

Acknowledgements

UNIVERSITY OF CAMBRIDGE ESOL EXAMINATIONS

English for Speakers of Other Languages

INTERNATIONAL CERTIFICATE IN FINANCIAL ENGLISH D020/1

Test of Reading

Saturday

12 MAY 2007

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.

BLANK PAGE

Part 1A

Questions 1 – 6

Read the following extract about the appointment of an auditor in Poland from a book about corporate governance.

Choose the best word or phrase 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**).

GDANSK CODE

The seventh principle of corporate governance outlined in what is **(0)** as the ‘Gdansk Code’ **(1)** the process by which a company’s auditor is appointed in Poland. The auditor is appointed by the supervisory board and a minimum of two independent board members should support the appointment resolution. The board may appoint an audit committee, **(2)** mainly of independent board members, to monitor the company’s financial situation and its accounting system.

In the code, there are also some interesting provisions, which are designed to help ensure auditor independence. These **(3)** appointing a new auditor every five years, and publishing the financial **(4)** of services provided by the auditor, or its subsidiaries and affiliates, in the accounting year. It should be noted that, **(5)** appointing a new audit firm, the company may continue to use the same firm with a change of personnel to **(6)** a completely different audit team.

Example:

0 **A** known **B** called **C** named **D** referred

0	A	B	C	D
	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 1** **A** respects **B** applies **C** relates **D** concerns
- 2** **A** composed **B** built **C** combined **D** made
- 3** **A** contain **B** include **C** consist **D** enclose
- 4** **A** worth **B** profit **C** value **D** rate
- 5** **A** just as **B** except for **C** rather than **D** even so
- 6** **A** create **B** reach **C** cause **D** bring

Part 1B

Questions 7 – 12

Read the following newspaper article about a British travel company.

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.

TRAVEL FIRM'S DEBT COSTS RISE

In recent weeks there has been considerable speculation in the financial press about Sky International Travel, the troubled British package-tour operator. The company has now admitted that its debt costs are set to **(7)** by a figure in the region of £10 million a year. This **(8)** a change in the terms of its bonding and letter of credit facilities, which govern £550 million of debt. The terms **(9)** that once the company's market capitalisation reaches £943 million or more for thirty **(10)** days, which it did on Tuesday of this week, Sky International Travel is **(11)** to pay fees for the facilities at rates of 2 per cent for drawn and 1 per cent for undrawn facilities. The company has also restated its financial results for the last financial year to **(12)** new accounting standards.

- | | | | | | | | | |
|----|---|-------------|---|-------------|---|-------------|---|------------|
| 7 | A | extend | B | increase | C | develop | D | advance |
| 8 | A | arises | B | results | C | relates | D | follows |
| 9 | A | declare | B | report | C | express | D | state |
| 10 | A | consecutive | B | succeeding | C | progressive | D | sequential |
| 11 | A | accountable | B | responsible | C | liable | D | answerable |
| 12 | A | comply | B | reflect | C | regard | D | abide |

Part 2

Questions 13 – 24

Read the following market report about the performance of investments.

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	F	O	R												
---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--

MARKET REPORT

Period: for the six months ended 31 October

The period was profitable **(0)** investors in financial assets, with strong returns from the world's stock markets. For **(13)** most part, investors chose not to focus on the macro-economic environment **(14)** rather on the impressive performance of companies as evidenced by strong profit growth around the world. Returns from fixed income assets were somewhat **(15)** impressive but still strong **(16)** historical terms. Europe was the region that provided returns towards the upper end of the spectrum, as ongoing successes in efforts to increase competitiveness by **(17)** of cost cutting and restructuring activity impacted favourably on profits.

At the economic level, commentators spent much of the period focusing on whether or **(18)** economic activity around the world remained on an upward trend, in particular in the USA. Overall, however, the consensus was that, in **(19)** of some worrying indications in the first half of the year, expansion remained broadly **(20)** track.

Looking ahead, **(21)** is widely expected that the environment will be a challenging one for financial assets. The US economy, **(22)** looks set to slow during the coming year, will, as always, have an effect on the direction of the world economy. Most analysts agree that oil prices **(23)** remain high – in the near term **(24)** least – a fact that is likely to have an impact on corporate profitability.

Part 3A

Questions 25 – 30

Read the following extract from a report about Financial Shared Services Centres. Use the words in the box to the right of the text to form one word that fits in the 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	M	E	R	G	E	R	S									
---	---	---	---	---	---	---	---	--	--	--	--	--	--	--	--	--

FINANCIAL SHARED SERVICES CENTRES

The market in which multinational companies operate is characterised by globalisation, (0) , acquisitions and consolidation. All of these factors require companies to standardise operations so as to stay (25) One way of keeping costs down and improving (26) is by moving financial functions to one (27) location: a Financial Shared Services Centre (FSSC).

When companies extended their presence across national borders, it became (28) uneconomical to maintain a duplicate accounting infrastructure within each country of operation. Decentralised companies, therefore, began to combine processes such as payroll and purchasing in one FSSC, and to sell back those services at cost to individual business units.

One problem that FSSCs have faced is keeping staff motivated, as the work tends to be repetitive. Nevertheless, the indications are that FSSCs have become a firmly established part of most businesses and this is (29) to change in the foreseeable future. Companies which have set up FSSCs report a (30) in staff costs in the order of 35%.

- (0) MERGE
- (25) COMPETE
- (26) EFFICIENT
- (27) CENTRE
- (28) INCREASE
- (29) LIKELY
- (30) REDUCE

Part 3B

Questions 31 – 36

Read the following notification of a company's Annual General Meeting of shareholders. Use the words in the box to the right of the text to form one word that fits in the numbered gap in the text.

For each question **31 – 36**, write the new word in CAPITAL LETTERS on your answer sheet.

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of shareholders will be held on 25 January at the company's registered office for the following purposes:

- To approve the annual report comprising the audited accounts of the company for the financial year ended 30 September and to approve the auditor's report thereon.
- To approve the balance sheet and profit and loss account as of 30 September and the **(31)** of net profits.
- To elect persons as directors, each to hold office until the next Annual General Meeting of shareholders and until his or her **(32)** is duly elected.
- To elect an auditor for the ensuing year.
- To deal with any other business which may **(33)** be brought before the meeting.

Only shareholders on record at the close of business on 23 January are **(34)** to vote at the Annual General Meeting of shareholders and at any adjournment thereof.

Shareholders are advised that the **(35)** are not subject to specific quorum or majority **(36)**

(31) ALLOCATE

(32) SUCCESS

(33) PROPER

(34) TITLE

(35) RESOLVE

(36) REQUIRE

Part 4

Questions 37 – 42

Read the questions below and the extract on the opposite page about social responsibility accounting from a book about accounting and management.

Which section (**A**, **B**, **C** or **D**) does each question **37 – 42** refer to?

For each question, 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 The number of companies adopting social responsibility accounting has grown.

0	A	B	C	D
	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 37** Companies do not have to wait until they are forced to adopt socially responsible policies.
- 38** It is possible for social responsibility accounts to be presented in addition to standard financial reports.
- 39** The reputation of a company can be enhanced if it takes into account non-profit-making policies.
- 40** People are beginning to question previously held views about the main purpose of companies.
- 41** Some companies may produce reports that omit important details.
- 42** Socially responsible policies may prevent the closure of part of a company.

SOCIAL RESPONSIBILITY ACCOUNTING

- A** It is normally assumed that a company's overriding objective is profit maximisation. However, there are situations where profitability as the sole determinant of a company's policy is increasingly being challenged and even threatened. Public opinion and media reports are forcing companies to recognise that their shareholders are not the only stakeholders in the organisation. Companies have a responsibility not only to make a profit for their shareholders but also to take into account the needs and rights of other groups, such as employees, customers, local residents, environmental organisations and society as a whole. Many argue that, in the interests of social responsibility, companies should be willing to adjust some of their activities and incur greater costs. Measuring and reporting on these costs is becoming common practice, and is known as social responsibility accounting.
- B** Acting responsibly and setting environmental and community objectives as well as financial ones has a positive side for a company as it can use its actions to gain valuable publicity as an organisation which cares. A company will always be faced with the constraint of making enough profit to allow it to pay its shareholders enough dividend to encourage them to keep their shares and to buy new ones. However, it can also be required to behave in a way which takes other groups of people into account, and which recognises other objectives besides financial ones.
- C** In practice, companies try to balance conflicting interests against one another. Legislation requires companies to behave in certain socially and ethically acceptable ways, but it is also possible for them, on their own initiative, to go further than simply not breaking the law. For example, a company could decide to keep open an unprofitable division because of a perceived commitment to the local community and perhaps a desire to avoid the resentment that results from job losses. Alternatively, a business could install pollution-reducing devices, thereby reducing profits, out of a sense of responsibility to the environment and in response to local stakeholders, such as environmental pressure groups.
- D** A profit-oriented organisation can produce a social accounting statement alongside its normal financial statements. This can show the effects of its social policies and actions on the company's financial performance, the community and the environment. An attempt should be made to give a financial value to the social costs created, regardless of the difficulties involved. However, some companies confine themselves simply to giving a narrative of the social effects of their activities. Such narratives tend to state the positive actions being taken by the company, without admitting to the negative ones. This might point to the advisability of an external audit being undertaken.

Part 5

Questions 43 – 48

Read the following website article about the analytical skills needed by accountants.

Choose the best sentence from the opposite page to fill each of the gaps.

For each gap **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**).

ANALYTICAL FINANCIAL SKILLS FOR TOMORROW'S ACCOUNTANTS

As a finance professional you need to support your employers or clients with a range of analytical skills. **(0)****H**..... . Depending on your role, you may have to check the accounts of a UK retail outlet with a £250,000 turnover, looking for indications of payroll fraud, or undertake due diligence in a Malaysian mergers and acquisitions bid, to analyse potential problem areas in terms of information systems integration. If you work in industry, you may be required to analyse budget variances for the product lines in the tube manufacturing unit of an Indian steel producer. **(43)** You cannot possibly be all things to everyone so, unless you are determined to specialise in a particular area, you need to develop the analytical skills that will be most portable.

Fortunately, many of the skills developed while working on one type of analysis will be useful while working on others; in particular, general purpose spreadsheet skills remain in huge demand. But, according to Susan Hoof, an accountancy teacher, many students will be capable of producing a spreadsheet, but be unable to work with the data and use formulae. **(44)** For example, a junior financial modeller in the analysis team of a financial services organisation will need to be more familiar with the details of spreadsheet software, such as Excel, than a group financial accountant will – and the further up the career ladder you climb, the less likely you are to need this skill. **(45)** Analysis is more about interpretation and perspective than number crunching, and potential employers look for soft skills as well as technical expertise. If interpretation skills, or the ability to demonstrate them, are lacking, then all the technical and software knowledge in the world will be insufficient to make you a good analyst.

On a technical level, general ledger work, transaction processing and financial analysis all require different financial skills sets and approaches, plus a selection of soft skills. **(46)** But recently qualified accountants often lack these skills and have problems with report writing. They do not understand what information is expected, or the way in which it should be presented. **(47)**

The level of complexity of information that a finance professional can assimilate will be very different from that which the marketing director or human resources manager can deal with. **(48)** Similarly, the way financial information is conveyed to those inside and outside a company should differ, not just in terms of what is acceptable or appropriate, but because varying levels of background knowledge or industry expertise must be accommodated.

Example:

0	A	B	C	D	E	F	G	H
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

- A** It is important therefore that all members of the financial analysis group, when addressing non-finance stakeholders within the company, avoid the tendency to present numbers without providing insight into what they mean.
- B** This lack of expertise need not be a problem, however, as what is expected by an employer will range widely, depending on factors such as role and salary.
- C** The latter are especially important for those in the financial analysis group where accountants need to be able to communicate effectively with non-finance staff.
- D** These different situations will call for different types of financial analysis and a selection of complementary, non-financial skills.
- E** Until then, accountants should not even start to look at the numbers and produce the required analysis.
- F** Many fail to present implications clearly and concisely, and in the format that best suits the audience at which a document is aimed.
- G** Even so, those who want to progress should spend time ensuring they are comfortable using such tools and capable of taking the data they contain and turning it into business information.
- H** But the ones that will prove most useful will depend on the direction you choose to take in your career.

Part 6

Questions 49 – 54

Read the following extract from a research document about disclosure in company reports 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.

DISCLOSURE IN COMPANY REPORTS

This report presents the results of a research project concerned with discretionary financial disclosures by UK companies. The main purpose of the research was to examine the extent to which the publication of forward-looking information in the annual reports of companies is associated with the interest shown in these reports by professional financial analysts. This research forms part of a broader project that is concerned with the causes and consequences of voluntary financial disclosures, and the quality of financial communication between companies and investment professionals.

In stock market-based economies, such as the US and the UK, the informed pricing of corporate securities is vital for economic stability and the promotion of sustained levels of high-quality investment by corporations. During the 1990s, doubt was cast on the usefulness of conventional measures of financial performance as a basis for fundamental valuation. Prior to this, financial indicators of performance, such as earnings and book value per share, had generally been perceived as providing a useful starting point for company valuation.

The diminishing relevance of conventional accounting indicators has manifested itself in two related ways. First, we have witnessed an increased tendency for many firms to publish more forward-looking information in their annual report. Indeed, reports do seem to have increased materially in length in recent years, mostly in the unaudited, qualitative, and forward-looking sections of the report. Companies, it would appear, have recognised the limitations of the conventional indicators, and have produced alternative forms of information to address them. A number of researchers have also discovered that the ability of accounting earnings and book values to explain company valuations, or changes in valuation over time, has declined.

For this research, we constructed an index of forward-looking financial disclosures based on a detailed analysis of the annual reports of 57 UK companies. Our analysis revealed considerable differences in company practice. By using a scoring system, we found that the amount of material disclosed ranged between 17 items for the least forthcoming company and 111 for the most forthcoming one. A practical problem was that the technique was costly to implement. We estimated that each annual report took about 0.5 days to score. In our second study we took a sample of 230 companies for two financial years in a row. To avoid the costs of scoring 460 annual reports, we used the page length of the annual report as a crude proxy for disclosure quality. Since most firms' annual reports adopt a similar format from one year to another, the page length gives a fairly sensitive indication of firms that have changed their disclosure stance.

Using standard econometric modelling methods, we tested whether increases in page length were either preceded by or followed by associated changes in analyst forecasting activity. Our findings revealed the richness of the communications that now routinely take place within the unregulated portions of the annual report. The results indicated a statistically significant increase in page length following an increase in analyst forecasting activity. Ordinary investors find it helpful to know about the range of indicators that drive professional investment opinion. Some finance directors, though, may be interested to learn that increased analyst attention appears to carry a 'price', in terms of the need to increase the quality of forward-looking information available to this class of user.

The research produced evidence consistent with our view that one of the main considerations driving the financial disclosure choices of UK companies is the need to supply forward-looking, value-relevant information to professional financial analysts. There was a statistically significant increase in page length following an increase in analyst forecasting activity, although there was some evidence of the reverse effect, as a slight tendency was noted for analyst forecasting activity to rise following an increase in the page length of the annual report. These results, though, do run counter to the evidence reported for the New York stock market.

- 49** The research project was set up to investigate whether financial disclosure by a company is
- A** likely to provide financial analysts with data they will find useful.
 - B** linked to the attention that financial analysts pay to this information.
 - C** responsible for the recommendations made by financial analysts.
 - D** relevant to forward-planning decisions made by financial analysts.
- 50** According to the second paragraph, what happened with regard to company valuation in the 1990s?
- A** New methods of establishing this were introduced.
 - B** Uncertainty was expressed about its importance.
 - C** It became almost impossible to arrive at an accurate estimate.
 - D** The traditional ways of assessment were called into question.
- 51** What does the third paragraph tell us about companies' annual reports?
- A** There is no longer a requirement for certain parts of the report to be audited.
 - B** The manner in which they deal with past performance has changed.
 - C** There is an increase in the amount of space devoted to future expectations.
 - D** They are required to include material concerned with forward-looking information.
- 52** In their studies, the researchers used page length to assess the amount of forward-looking disclosures because
- A** there is very little variation in page length from one year to the next.
 - B** the earlier method of assessment had resulted in a large number of variations.
 - C** assessing page length gives a clear indication of the reliability of the information.
 - D** the method of assessment they used originally was too time-consuming.
- 53** According to the fifth paragraph, the forward-looking material that now appears in many company reports
- A** can provide shareholders with useful information.
 - B** needs to be limited so as to prevent costs from rising.
 - C** has benefited from being more strictly controlled.
 - D** should principally address the interests of financial analysts.
- 54** What does the final paragraph say about the results of the research?
- A** They were broadly in line with results from research in the US.
 - B** They were regarded as being inconclusive.
 - C** They came as no surprise to the researchers.
 - D** They confirmed that analysts' predictions are reliable.

BLANK PAGE

BLANK PAGE

BLANK PAGE

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

Part 2

13	THE
14	BUT
15	LESS
16	IN
17	MEANS / WAY
18	NOT
19	SPITE
20	ON
21	IT
22	WHICH
23	WILL
24	AT

Part 3

25	COMPETITIVE	31	ALLOCATION / ALLOCATING
26	EFFICIENCY	32	SUCCESSOR
27	CENTRAL	33	PROPERLY
28	INCREASINGLY	34	ENTITLED
29	UNLIKELY	35	RESOLUTIONS
30	REDUCTION	36	REQUIREMENT(S)

Part 4

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

Part 5

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

Part 6

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

Acknowledgements

University of Cambridge ESOL Examinations is grateful to the following authors, publishers and others for permission to reproduce copyright material in this ICFE Reading Examination Paper:

Oxford University Press for text in Part 1A: Gdansk Code from *Corporate Governance* by C Mallin © Oxford University Press, 2004; City AM for text in Part 1B: Travel Firm's Debt Costs Rise, 2 February 2006 © City AM; Foreign and Colonial Fund Management Ltd. for text in Part 2: Market Report from *Manager's Interim Report for 2005 on the High Income Fund* © Foreign and Colonial Fund Management Ltd.; ACCA for the following texts: for text in Part 3A: Financial Shared Services Centres from *Financial Shared Services Centres: Opportunities and Challenges for the Future* by Fahy, Cacciaguidi-Fahy and Currie, for text in Part 5: Analytical Financial Skills for Tomorrow's Accountants from *Analyse this* by L Meall and for text in Part 6: Disclosure in Company Reports from *Corporate Financial Disclosure and Analyst Forecasting Activity – Preliminary Evidence for the UK* by Walker and Tsulta © ACCA; *Financial Times* for text in Part 3B: Notice of Annual General Meeting of Shareholders from 'Indian Investment Company: Notice of 2006 Annual General Meeting of Shareholders' © Financial Times, 9 January 2006; Oxford University Press for text in Part 4: Social Responsibility Accounting from *Accounting, Costing and Management* by R Izhar and J Jontoir © Oxford University Press 2001.