Mock Examination : ACCA Paper P1
Governance, Risk and Ethics

Session : June 2012

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ACCA

PROFESSIONAL ACCOUNTANT

PAPER P1

Mock Examination Questions

June 2012 Examination

All questions are compulsory and must be answered
Holding Plc is a major producer of paper, cardboard and plastics that are used for packaging and for the office supplies markets. The company is listed in the UK and has securities listed in the USA.

The company is considering a number of issues at its next board meeting:

New chairman Ivor Conscience-Jones has included an agenda item 'Sustainability and sustainability reporting'. Ivor would like to see the company taking a lead in Corporate Social Responsibility (CSR). Ivor believes that stakeholders are demanding change and there is clear evidence of this in his discussions with shareholders. Ivor states 'some shareholders would pay an ethical premium to see the company reduce its social and environmental footprints. We need to go beyond their expectations to please the wider community who are now listening to pressure groups. Even our customers are demanding recycled products and are willing to pay a little more.'

A recent internal audit report has revealed what are described as 'serious shortcomings' in internal control relating to billing processes. The problems are partly related to the quality of bespoke software used in the UK and USA and with the design and operation of basic accounting controls. Poor management reporting has disguised the problem that has existed for around two years. Customer billing has been affected and there are doubts as to whether some despatches were invoiced to customers. The external auditors voiced concern stating that the problem was 'bordering on the material' and have written an urgent management report following their interim audit. Chairman of the Audit Committee Arthur Brain has also been in discussions with the internal auditors who have uncovered a 'systematic accounting manipulation fraud' relating to revenues billed to corporate customers. Some corporate customers pay a deposit on paper supplies and operations managers have been booking sales at the point of order since a deposit has been paid. This practice has been in operation for two years and has overstated profits for the financial years 20X6 and 20X7. The external auditors are unaware of the problem. The amounts involved are material and have resulted in additional bonuses.

Major global retailer Bigboy plc, the largest customer, has been in discussions with Prime Minister Polly Pink after she stated at a recent G8 meeting that her chancellor Bill Boonandbust was introducing a 'bag tax' on all plastic bags used by retailers. Polly stated 'We must reduce or Carbon Footprint and Bill will be putting his foot down with a firm hand at the next budget, bags are bad for people, bad for the planet and must be eliminated.' Bigboy chief executive Dommy Nation is supporting the initiative with a 'bye bye to bags campaign'.

The board will be discussing the issues above and will review the most recent financial results that show another increase in revenues, earnings and return on capital. Chief executive Jolly Goodshow has telephoned several executive board members telling them that they must ignore any calls to amend the draft financial statements. 'The auditors are unaware of the profit overstatement issue, and that is how we should proceed. The matters will be dealt with next year. We cannot afford to amend the financial statements since that will change our upward trend and the share price will fall. We owe it to our shareholders.'

Required:

(a) Explain what is meant by business ethics and describe in relation to the scenario how the Tucker model can be used to analyse ethical and other issues in decision making. (14 marks)

(b) Explain what is meant by professional ethics describing how the American Accounting Association model could be applied. (14 marks)

(c) Explain what is meant by stakeholders and referring to the scenario describes the different types of stakeholders that may be recognised by Holding Plc. (12 marks)

(d) Explain the consequences of the internal control and accounting problems in the scenario for Holding Plc for its reporting in the UK and in the USA. (10 marks) (50 marks)
The LinesRUs Company is responsible for maintaining the railway infrastructure for the rail network in a large European country. Main areas of responsibility for the company include:

- Ensuring that the railway tracks are safe
- Signalling equipment is installed correctly and works properly
- Maintenance of overhead power lines for electric trains

Income is fixed each year dependent on the number of train services being operated and is paid via a central rail authority. The company is granted a sole franchise each year to provide services on the rail network.

Work is scheduled in accordance with the amount of income, and to provide LinesRUs with an acceptable operating profit. Any additional work over and above standard maintenance (e.g. due to unforeseen factors such as bridges being damaged by road vehicles and unforeseen factors such as car drivers falling asleep and driving their cars onto railway tracks) is negotiated separately and additional income obtained to repair the infrastructure in these situations.

A lot of maintenance work is relatively simple (e.g. tightening nuts and bolts holding railway tracks together) but is extremely important as an error may result in a train leaving the rails and crashing. The board of LinesRUs is aware of many of these risks and attempts to include them in a risk management policy.

However, recently a train was derailed causing the death of 27 passengers. Initial investigations show that faulty maintenance was the cause of the derailment. One of the unforeseen consequences of the crash has been a fall in the numbers of people using trains with a subsequent fall in income for train operators. LinesRUs are being sued by the train operators for loss of income, and the national press are suggesting LinesRUs must be incompetent and are calling for a re-evaluation of the method of providing maintenance on the rail network.

Required

(a) Advise the directors of LinesRUs of the main stages of a structured risk analysis approach that will be appropriate to the company’s needs. \(\text{(15 marks)}\)

(b) Using the TARA framework, construct four possible strategies for managing the risk that rail crashes could occur. Your answer should describe each strategy and explain how each might be applied in the case. \(\text{(10 marks)}\)

\(\text{(Total} = 25 \text{ marks)}\)
Crawley Gossop plc is a manufacturer of household cleaning materials. Thanks to a technological development in its manufacturing process some years ago, the company was able to gain and sustain for some time a significant competitive advantage over its rivals. As a result Crawley Gossop has greatly expanded over the last few years and obtained a listing on its local stock exchange three years ago.

However Crawley Gossop’s success has had some unpopular consequences. Greatly increased activity at the company’s biggest factory has angered the local community because of the disruption caused by increased traffic and site expansion. Crawley Gossop has also recently been fined for exceeding local statutory emission limits over a period of time. As a result environmental groups are threatening to encourage boycotts of Crawley Gossop’s goods. Its board has discussed the shortcomings that have led to the fines and have concluded the company’s environmental management systems and policies need to be strengthened. One of the board has looked into the European Union’s Eco-Management and Audit Scheme (EMAS) and the directors intend to discuss at the next board meeting whether Crawley Gossop should adopt the scheme. One of the non-executive directors has already circulated the board with the view that the EMAS regime is too inflexible and Crawley Gossop’s annual report should include a detailed voluntary environmental report, tailored to its own circumstances.

Crawley Gossop’s auditors, Broadfield Bewbush, have also faced criticisms from environmental groups. The spokeswoman of one group has stated that ‘If Broadfield Bewbush had any professional ethics, they would resign as auditors. By continuing as auditors, they are helping to prop up a company that has an appalling record of acting against the public interest. Crawley Gossop’s accounts give no indication of how much damage it is doing to the local environment.’

**Required**

(a) Construct the case for implementation of EMAS by Crawley Gossop.  
(b) Describe the main influences upon the content of an environmental report.  
(c) Critically evaluate the view that accountants should not act for clients who are perceived to be acting against the public interest.

*(Total = 25 marks)*