Instructions to candidates
To ‘state’ something, you need to answer with a fact. If you are asked to ‘explain’ something you need to state the relevant fact and then give brief reason(s) for why that fact is the right answer. If you are asked to ‘describe’ you should set out what is involved without further explanation.

Task 1

(a) Which international body is responsible for providing ethical guidance to the accounting professional worldwide?

(b) Which UK body is responsible for regulating the financial services sector in the UK?

(c) Name three members of the Consultative Committee of Accounting Bodies (CCAB)?

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(d) Professional accounting bodies in the UK produce ethical guidance for their members, for example the AAT Code of Professional Ethics.

Decide whether the following statement is true or false.

‘Ethical codes issued by UK accounting bodies are examples of civil law.’

True / False

(e) Name the three main committees of the Financial Reporting Council (FRC).

(1)

(2)

(3)
Task 2

(a) Hannah is a recently qualified accountant who works in a small accounting practice. She has been told by her manager that she must undertake CPD on a regular basis.

(1) State what the abbreviation CPD stands for.

(2) Which fundamental ethical principle is Hannah complying with if she undertakes CPD?

(b) Angus is a professional accountant who works as a sole practitioner. He carries out bookkeeping services and completes tax returns and VAT Returns for a number of clients who operate as sole traders and partnerships.

Given Angus’s client base explain two areas of technical knowledge that he must keep up-to-date.

(1)

(2)

(c) Complete the following statement:

‘A professional accountant who bases his/her decisions on real facts rather than being influenced by personal beliefs or feelings, has complied with the fundamental ethical principle of . . . . . . . . . . . . . .’
(d) Cara is a professional accountant in practice. Her client, Ali, believes that she has provided him with specific advice about inheritance tax planning without the appropriate professional competence and expertise. As a direct consequence he has had to pay a significant amount of tax that he could otherwise have legitimately avoided.

If Ali can prove that Cara acted outside her professional competence, state two grounds on which Ali may be able to sue Cara for this loss.

(1) 

(2) 

(e) Mark is a professional accountant in practice. He has received a letter from a client, Kedess Ltd, asking for a written reference regarding another of his clients, Ffion, who has requested to trade on credit with Kedess Ltd.

(1) State which of Mark’s fundamental ethical principles is most threatened by this situation.

(2) Explain whether Mark can provide the reference to Kedess Ltd.

(3) Can Mark include a disclaimer of liability in the written reference?

Yes / No

(4) If Mark provides a reference when he does not believe that Ffion is creditworthy what type of fraud may he be guilty of?
(f) Patricia is a professional accountant who works for a manufacturing business. Her manager has asked her to go on a short secondment to the organisation’s research and development department. They need an experienced accountant to work on the costing for a new product: in particular the extent to which the research and development costs can be capitalised. Patricia has no previous experience in this area and is very concerned that she does not have the necessary skills to complete this work to her usual professional standards.

Explain which of Patricia’s fundamental ethical principles is most threatened by this situation.

Task 3
Zeena is a professional accountant in practice. A new client, Charlie, runs a franchise bookmakers shop. He has asked Zeena to hold £24,000 for him until it is due to be paid for the annual renewal of the franchise licence. Charlie has given Zeena the money for the licence in cash stating that it is takings from the shops tills as most of the customers at the bookmakers pay in cash.

(a) What steps should Zeena take before agreeing to hold the money for Charlie?

(b) Assuming that Zeena agrees to hold the money for Charlie answer the following questions.

(1) Complete the following sentence:

‘Zeena is holding the money in. . . . . . . . . . . . . for Charlie and is, therefore, acting as a . . . . . . . . . . . . . . . . . ’

(2) Explain what Zeena should do with the cash that Charlie has asked her to hold for him.

(3) If Zeena uses the cash that Charlie has given to her and then later pays the franchise renewal out of her own business bank account which two crimes could she be charged with?
Task 4
(a) Professional accountants have a duty of confidentiality to their clients. State the three circumstances where it is acceptable to disclose confidential information about a client.

(1)

(2)

(3)

(b) Francesca currently works for Patel & Co, a successful firm of accountants in Kinstone. She is about to start work at Mottram & Morris, another local firm of accountants in Kinstone. The week before Francesca starts her new job she receives a phone call from Charles Mottram asking her to bring details of the fee structure that Patel & Co charges its clients. He says that he would like to use it for comparison purposes as Mottram & Morris have been told by a number of new clients that it is too expensive. Many of these potential clients have gone on to use Patel & Co instead.

Explain whether Francesca can provide Charles Mottram with the information that he has asked for.

(c) Arthur Knowles is a professional accountant in practice. His client, Milo Ltd, is currently in discussion with a large multinational corporation that wishes to purchase the business. Arthur is aware that if the sale is successful, 20% of Milo Ltd’s workforce will be made redundant. At this stage it is not known which members of staff’s jobs are at risk. Arthur is very friendly with the credit controller at Milo Ltd.

Are there any circumstances where Arthur can tell his friend, the credit controller, about the possible redundancies?
Tasks 5-9

Tasks 5-9 are based on the following project scenario and the six matters listed. Each task indicates which of the six specific matters is/are relevant to the task.

Project Scenario

Regus & Co is a medium sized accounting practice in Overtown that employs five qualified professional accountants, eight part-qualified accountants and three administrative staff.

Regus & Co has a range of clients including:

- KCS Ltd, a landscape gardening company owned and run by Katy Clarke-Smith
- Charlie Everson a self-employed fitness instructor who runs exercise classes at a number of venues in and around Overtown
- Venus Beauty Ltd, a new client that operates two beauty and hair salons in Overtown
- Fine Print Ltd a printing company in Overtown
- Presto Print Ltd, a printing company in Undertown which is 30 miles from Overtown
- Quest & Co a technology company that designs and develops prototype computer games which it then sells to a large American gaming company
- Sophisticated Saloons, a business that provides limousines for executive travel

You are Soraya, one of the eight part-qualified accountants who work for Regus & Co. You have been employed by the firm for six months.
Recently the following six matters have come to light.

Matter 1
It is seven days before the deadline for submission of tax returns and you have received the following email from Katy Clarke-Smith.

Dear Soraya,
I know you have been asking me for ages for the relevant information to allow you to complete my tax return. I should be able to drop this in to your office the day after tomorrow so that you can get the return completed before the deadline at the end of the month. Can you confirm please that you will be around on Thursday?

There are a few figures that I have had to estimate as I seem to have lost the invoices and for whatever reason can’t find the payments to suppliers on my bank statements.

As you know I’m really keen to pay as little income tax as possible so if you can ensure that I claim for everything that would be good.

My uncle, Malcolm Regus who is the senior partner at Regus & Co has asked me to report back to him if I have any problems getting my tax return submitted on time.

Kind regards,
Katy

Matter 2
Charlie Everson, a self-employed fitness instructor, has contacted Regus & Co for some advice on a business proposal. One of the other instructors at one of the health clubs where she holds her exercise classes has asked her to go into partnership with him. The new venture plans to lease a small premises in Overtown and will be applying for a business loan from the bank. Charlie has asked Regus & Co for some help in applying for the loan. She has also asked Regus & Co to provide a reference for the landlord of the new premises confirming that she and her new business partner will be able to pay the rent.

Matter 3
Venus Beauty Ltd has been the subject of several instances of unwanted attention over recent weeks. These issues are listed below:

• A letter from animal rights protesters has been published in the local newspaper which alleges that Venus Beauty Ltd uses branded products that are tested on animals. A picture that many readers may have found distressing was also published with the letter.

• A former client of Venus Beauty Ltd has been interviewed on local radio. She has stated that the bleach used to highlight her hair has burned her scalp and forehead. She and several other clients who have suffered the same problems will be seeking compensation from the business.

Venus Beauty Ltd has a code of conduct, which states that all clients must have a skin test 24 hours before a hair colouring treatment to ensure they will not have an adverse reaction to any of the chemicals.
Matter 4

Regus & Co has several printing businesses as clients. One of these clients has recently gone into liquidation and is selling off its premises and printing presses. The remaining two printing clients, Fine Print Ltd and Presto Print Ltd have both expressed an interest in buying the premises and printing presses from the liquidator.

Fine Print Ltd wants to move from its existing premises into the larger premises that are being sold by the liquidated company. Presto Print Ltd wishes to purchase the premises and equipment in Overtown and open a second branch. It hopes that this will allow it to gain new clients in the town.

Both of these clients have approached Belinda Gray, a qualified member of staff at Regus & Co to help them with the purchase of the premises and assets from the liquidator. Both clients are also aware that the printing company that went into liquidation was previously a client of Regus & Co.

Matter 5

Quest & Co is a relatively new company that has only recently become a client of Regus & Co. The client has grown rapidly over the last 12 months following the production of two very successful new prototypes that it sold to a large American gaming company. As with all its new clients, Regus & Co followed its prescribed customer due diligence procedures prior to taking on Quest & Co as a client.

Lionel, one of Regus & Co’s qualified professional accountants, has just started a three months secondment with Quest & Co until it employs a permanent financial controller. He has discovered that invoices for a significant number of flights to the USA have been charged as travel expenses during the time when Quest & Co were negotiating with the American gaming company. The details of these flights show that the passengers included family and friends of the directors of Quest & Co. These amounts have also been included as expenses in the tax calculation that the business has submitted to HMRC.

Lionel has explained to the directors of Quest & Co that these amounts are not allowable expenses for taxation purposes. However they have told him to ignore it, as HMRC have not queried the tax calculation.

Matter 6

The management of Sophisticated Saloons, a client that provides limousines for executive travel have recently contacted Malcolm Regus. They are keen to discuss the increasing pressure they are under from clients and shareholders to adopt more environmentally friendly business processes. Malcolm has told the client that he will formulate some ideas for them to help them produce a sustainability policy. He has also suggested that if they become more environmentally friendly this could have a financial benefit to them.
Task 5

Refer to the Project Scenario and Matter 1.

(a) Explain which **three** of Soraya’s fundamental ethical principles are being most threatened by the points raised in Katy Clarke-Smith’s letter.

(b) Explain the key threat to her fundamental ethical principles being faced by Soraya.
Task 6

Refer to the Project Scenario and Matters 2 and 3.

(a) Explain why customer due diligence (CDD) procedures need to be carried out by Regus & Co with respect to Charlie Everson’s request to help with the application for a bank loan.

(b) Assume appropriate due diligence has been carried out. Explain what steps Regus & Co must take before it can provide the landlord of the new premises with a reference.

(c) Explain the two types of operational risk that Venus Beauty Ltd faces as a result of the recent issues it has faced.

(d) If a member of staff at Venus Beauty Ltd fails to comply with the business’s code of conduct, explain whether he/she could personally face legal action from Venus Beauty Ltd.
Task 7

Refer to the Project Scenario and Matter 4.

(a) Explain which two of Belinda’s fundamental ethical principles are threatened by the fact that both Fine Print Ltd and Presto Print Ltd wish to purchase the premises and equipment from the liquidators.

(b) Explain what steps Belinda should take to resolve the ethical conflict that she faces when deciding how to act in respect of this matter.

(c) Assuming that Belinda decides to act for Presto Print Ltd, explain two issues Belinda must consider when carrying out the assignment.
Task 8

Refer to the Project Scenario and Matter 5.

(a) Explain the actions that Lionel must take in respect of his concerns relating to Quest & Co.

(b) Explain whether Lionel should arrange a meeting between the directors of Quest & Co and Malcolm Regus, the managing partner of Regus & Co to discuss the action that he plans to take.

(c) Explain the consequences to Lionel if he does not take any action in relation to his concerns about the incorrect information on the tax return.
Task 9

Refer to the Project Scenario and Matter 6.

(a) What is the definition of sustainable development included in the Brundtland report?

(b) Explain two sustainability policies that Sophisticated Saloons could implement in relation to the environment.

(c) Explain how implementing sustainability policies could produce a financial benefit for Sophisticated Saloons.