

- ✓1 • Finance lease obligations will also be omitted from the statement of financial position (off balance sheet finance) so gearing will be understated and capital employed incorrect. Together with omission of finance costs in the income statement on the omitted liability. Cash flows in the statement of cash flows will also be incorrect as finance lease payments would not be identified as financing cash outflows.
- ✓1 • To some extent, these errors are likely to be compensating, with omission of depreciation and finance charges going some way to match the incorrect operating lease charges in the income statement. However, there are several errors of principle which should not have happened.
- (c) Consequently, there are errors in the way that financial and operating performance, together with financial position has been reported. This results in ethical and professional considerations as follows:

✓105 The competence of those involved in the preparation of the financial statements can be queried. There should be individuals who have sufficient technical knowledge (i.e. knowledge of financial reporting standards and accounting treatments) to ensure that financial statements are properly prepared. Competence may be obtained from a combination of exam-based qualifications, in-house training, and Continuing Professional Development.

✓105 • If responsible persons have the underlying competence, they should apply this competence to ensure that they discharge their responsibilities with appropriate due care and skill. This will ensure that they do not discharge their responsibilities in a negligent manner.

✓105 • There is also the possibility that those responsible for the preparation of financial statements have chosen to deliberately misrepresent the financial performance and position of the entity. For example, deliberately treating lease payments as operating lease payments would result in omission of liabilities from the statement of financial position. In this situation, the professional integrity of those responsible could be questioned.

✓1 • Finally, if any of these ethical principles have not been upheld, then the professional behaviour of those responsible can be questioned. Professional accountants would be expected to know and understand the appropriate accounting treatment for such items. Even if they were unsure, they should still have sufficient professional responsibility to seek appropriate advice to ensure that financial performance and position was reported fairly. This is important as third parties are likely to rely upon information they produce, whether it be management for decision-making and control purposes, or outside third parties for investment-based decisions.

ACCA marking scheme		Marks
(a)	Group statement of financial position per marking scheme	35
(b)	Discussion re accounting issues	7
(c)	Professional and ethical issues	6
	Professional marks	2
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Total		50
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