



Examiners' report

P1 Professional Accountant

June 2009

General Comments

This was the fourth diet for paper P1 and as on previous diets I am pleased to report that many candidates passed the exam with some achieving very high marks. My congratulations to all successful candidates and their tutors.

In this report, as in previous reports, I will discuss each question in turn, but before I do, I have a few general comments to make.

First, there was evidence of 'question spotting' or 'question guessing' by over-relying on exam tips. This means that some candidates, perhaps guided by their own guesswork or guided by well-meaning tutors, concentrated on a few areas that they thought and hoped would come up on the paper. Importantly, however, this revision may have been at the expense of content they thought would not come up. The danger of this strategy was realised in some of the responses to Q1(a) on Kohlberg. Because Kohlberg was on a previous paper (December 2007), some candidates evidently thought that it wouldn't come up again so soon – and it did. It was disappointing that marks went unawarded to candidates who made the wrong question-spotting guess.

The other potential question-spotting error was on the content of recent technical articles. When an examiner writes a technical article in Student Accountant, it does not necessarily signal that the content of that article will be in the next exam paper, or indeed in any future exam paper. It might be that an examiner wants to clarify or re-emphasise an important area that, perhaps, is less well covered in the approved study texts. Or it may be to update material in the light of recent events.

This, then, is a general warning against question-spotting and question-guessing. All candidates should learn and revise all of the content of the P1 study guide. They should also practice using all past papers and study the model answers for each one.

Second, the level of analysis, where required, was often poor. Many, for example, could see nothing wrong with John Pentanol's understanding of his role as risk manager in Q4 or, in the same question, with Jane Xylene's view of risk management. This also applied to questions specifically asking for answers using the context of the case such as Q3 (b). In question 3(c) most candidates could not use the deep green ethical position to assess Ivor Nahum's remarks and this was not necessarily because they didn't understand what the deep green position is. It was because they were unable to tie their book learning to the case. This lack of analytical and evaluative ability was why many candidates failed to pass the exam.

I now turn to my remarks on the individual questions.

Specific Comments

Question One

Question 1, the compulsory 50 mark question on P1, was based on a case about the behaviour of a 'rogue' trader in a bank. The case raised a number of issues concerning the governance of the bank, the relationship with one of its major shareholders (the Shalala pension fund) and the individual ethics of the 'rogue trader', Jack Mineta.

Accordingly, the requirements probed themes in those areas. The requirements began with what should have been a straightforward explanation of the three levels of Kohlberg's theory of moral development. It was when looking at some candidates' answers to this task that I realised one of the issues I highlighted above, namely the notion that some had 'guessed' that Kohlberg wouldn't come up on this paper. Q1(a)(i) should, then, have been 6 relatively straightforward marks for the well-prepared candidate.

In the other two parts of Q1(a), candidates were invited to identify and justify the Kohlberg level at which Mr Mineta operated. The answer, based on evidence from the case, was the pre-conventional level. Most candidates that got part (i) right also got some marks on part (ii). In part (iii), candidates had to identify the stage or plane most appropriate for a bank employee. This raised two issues.

Firstly, many candidates failed to recognise the difference between a level and a stage or plane. The Kohlberg framework has three levels, each of which is divided into two stages/planes (stages and planes mean the same thing). Second, some candidates, perhaps less well versed in the meanings of Kohlberg's levels, assumed that the highest level (post-conventional) was the best one to say in an exam answer. This missed the point of the question which was to highlight the importance of compliance in organisations (plane 4 or level 2.2).

I was generally more pleased with the answers to part (b) on internal control failures. Through a mix of book work and case analysis, many candidates were able to get some marks on pointing out the internal control problems at Global-bank, even if they couldn't remember the five main causes of internal control failure from the study texts.

Part (c) on agency theory was probably the part of question 1 that was the most competently answered overall. Although only worth 4 marks, most answers correctly identified the principals and agents in the case and analysed (this being the verb used in the question) some of the issues raised by the agency relationship.

Part (d) was worth 10 marks and examined stakeholder issues in the case. I wrote an article for Student Accountant on the different ways of categorising stakeholders last year and so was disappointed that so many candidates failed to either know the difference between narrow and wide stakeholders or to identify the narrow stakeholders in the case. The stakeholder debate is an important part of the P1 study guide and so I would encourage candidates and their tutors to ensure that stakeholders are well understood. The case contained three obvious narrow stakeholders (those most affected by the actions of Global-bank) but few candidates failed to identify all three and explain how they are affected by the events in the case.

Part (e) was where candidates could gain the four professional marks. Following on from the agency problem referred to in part (c), candidates were invited to draft a letter from the chairman of the Shalala pension fund trustees to Mrs Keefer, CEO of Global-bank. The letter was to contain two sections, and, of course, it had to be written as a letter.

A common mistake in the letter itself was to misread the question. The first task in the question was not to explain the roles and responsibilities of the CEO, but rather to explain the roles and responsibilities of the CEO in internal control. Lists of general roles of the CEO were not well rewarded.

The second part of the task was to criticise Mrs Keefer's performance. The verb 'criticise' also appeared twice in question 3. When candidates see this verb, the task is to show how the performance falls below that which would be expected or that which conforms with best practice. Of course candidates need to know what good or best practice is before they can criticise it which is why sound theoretical knowledge underpins case analysis.

The professional marks were awarded for the structure, content, style and layout of the letter. I was disappointed to see that many candidates struggled to lay out a business letter correctly whilst others could lay out the letter but failed to use the type of language typical of a business letter. I would encourage candidates to read Sarah Condon's article in a recent edition of Student Accountant on P1 professional marks. It explains how to get the professional marks and how these can often make the difference between a pass and a marginal fail.

Section B of the paper contained three papers and candidates had to choose two from three. It is to these questions that I now turn.

Question Two

This question was about public interest, ethical threats and one of Gray, Owen & Adams (1996) seven positions. The case itself was set in a ministerial policy speech after which, a discussion took place raising a number of issues on ethical threats as well as particular ideas on the nature of accounting.

The requirements contained a mixture of book work and case analysis. A sound knowledge of the P1 study guide would have enabled candidates to do well in part (a) on the public interest and (b)(i) on ethical threats.

The application marks were concentrated in parts (b)(ii) and (c). Mr Mordue was obviously a very experienced professional but his comments in paragraph 3 of the case raised a number of problems from professional and ethical perspectives. The five general ethical threats were asked for in part (b)(i) and where attempted, these were usually correct. Bullet lists of the threats were not well rewarded because they didn't respond to the verb 'describe'.

There was a wide range of responses to part (b)(ii) in which candidates had to 'assess' the ethical threats implied by Mr Mordue's beliefs (the ones he had expressed in paragraphs 2 and 3 of the case). Some candidates answered it by relisting the general threats and considering how Mr Mordue's beliefs might represent each threat. Others worked through Mr Mordue's beliefs and showed how each one was an ethical threat. Both approaches were rewarded by markers as long as they showed evidence of understanding of how some of Mr Mordue's beliefs were ethically wrong.

Part (d) on the deep green perspective was done poorly overall. Many candidates were able to say something about the deep green perspective (which is a common belief and a part of the international debate on how corporations should engage with environmental issues) but very few could show how Mr Nahum's remarks were deep green in nature. He was expressing anticapitalist and critical opinions which drew, in turn, from a general belief that accounting supports an economic system that degrades the environment and fails to address (in the words on the question) 'poverty, animal rights and other social injustices'. I would encourage candidates and their tutors to practice applying theories to cases as this tends to be how theory is tested in professional level exams such as P1.

Question Three

Question 3 discussed a company that had recently failed. A prominent reason for the failure was a corporate governance arrangement in which there was an 'arrogant and domineering' chief executive and an ineffective chairman. The chairman was unable to check the activities of the CEO and accordingly, the CEO was able to abuse his power in various ways.

The requirements were about directors leaving service, the chairman's statement and then two tasks on criticising a reward package structure and the chairman's performance.

Part (a)(i) on the ways in which a director can leave a company was well done in most cases although as elsewhere, bullet lists were not well-rewarded. In part (a)(ii), poorer answers said that it was easy to remove a serving chief executive from service. Better answers were able to draw out some of the issues surrounding the costs of removal, difficulties in proving incompetence and so on.

A common problem on part (b) was failing to see that the task was specific to the company in the case. The question was specifically asking candidates to assess the importance of the chairman's statement in the context of the case. The point was that the chairman had a particular duty to report truthfully to shareholders. The chairman's duty to shareholders (this was the way the question was phrased) was to exercise her duty of transparency and truthfulness, and not to conceal information on executive performance that was material to

shareholders. The question was not asking about the general purposes of a general chairman's statement in an annual report.

Part (c) and (d) were both pitched at level 3 outcomes in which candidates had to show how the situations in question fell short of expectations or best practice. Overall, part (c), on criticising the CEO's reward package, was done better than part (d) on criticising the chairman's performance. Good performance in 'criticise' questions relies on two things: a sound knowledge of the expectation or best practice against which to measure, and careful study of the text of the case scenario.

Question Four

This was question based around themes of risk. Again, the parts based on bookwork were better responded to than those requiring higher levels of intellectual engagement.

Most candidates did well on describing the roles of a risk manager in (a)(i) but many then failed to see anything wrong with John Pentanol's understanding of his own job. In part (b), candidates were presented with some advice from John Pentanol from the case and instructed to criticise the advice with reference to a risk assessment framework.

The most helpful risk assessment framework is the impact/likelihood (or hazard/probability) framework and this was the one that candidates should have employed in this answer. The point was that John had only measured the impact of the risks (paragraph 2) and had completely ignored their probabilities. This was obviously a highly flawed risk assessment. Many candidates correctly described the risk assessment framework but then failed to note the flaw in John's analysis, thereby failing to gain high marks for this part.

Finally, part (c) invited candidates to consider some remarks made by company director Jane Xylene. Part (c)(i) was about the necessity of accepting risk as a part of a successful strategy. Most candidates who attempted this question were able to define entrepreneurial risk but fewer were able to develop the theme of why it was important to accept it in business organisations.

Part (c)(ii) was a 'critically evaluate' question in which the answer should have contained arguments for and against Jane Xylene's view on risk management (she believed the risk manager's job was unnecessary and that risk management was 'very expensive for the benefits achieved'). There are a lot of comments that can be made in response to a belief such as this and the model answer includes some but probably not all of the possible responses. Markers allowed for a range of responses to this question but in each case were looking for evidence of evaluation of Jane's view (not mere repetition of her remarks, for example).