



ROLE SIMULATION EXAMINATION

ADVANCE INFORMATION

This material is issued prior to the exam session.

Candidates **must** bring this material with them
to the exam.

No copies will be provided.

ADVANCE INFORMATION

This Advance Information is issued prior to the exam session to allow you to familiarise yourself with the information provided and to undertake any other appropriate research and analysis. The Advance Information is also published on the website: www.icaew.com/students.

You must bring this Advance Information with you to the exam, annotated if you wish, together with any other notes of your preparatory work. You must carry out sufficient and appropriate analysis work **of your own** in order to have a detailed understanding of the Advance Information. You should also undertake any additional research and analysis you feel necessary to enhance your awareness of the industry and market context and to enable you to clarify any technical terms or other issues of vocabulary. You will need to be able to refer back quickly to the Advance Information and your notes during the exam; you are therefore unlikely to benefit from taking large quantities of additional material with you into the exam.

The exam will contain questions with additional information which will complete the description of the Role Simulation scenario and state the Role Simulation requirements.

The exam is based on the 2021 Role Simulation Workbook and the 2022 Certificate Learning Materials.

Assessment of the Role Simulation exam

The marks in the Role Simulation exam are awarded for demonstration of competence in the knowledge, skills and behaviours set out in the Level 4 Accounting Technician assessment plan. The marks are allocated broadly as follows:

- Knowledge 30% - 40%
- Skills 30% - 40%
- Behaviours 30% - 40%

The knowledge, skills and behaviours will be assessed through a series of requirements in the Role Simulation exam. Marks available for each requirement will be shown next to each requirement.

Preparing your answers in the exam

You will need to refer to your copy of the Advance Information during the exam.

Answer all questions.

Respond directly to the exam question requirements. Do not include any content or opinion of a personal nature, such as your name.

Only your answer in the word processing area will be marked. You must copy over any data for marking from the spreadsheet area to the word processing area.

Telbury LLP

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This document reflects information available on 10 October 2023.

Introduction: Telbury LLP

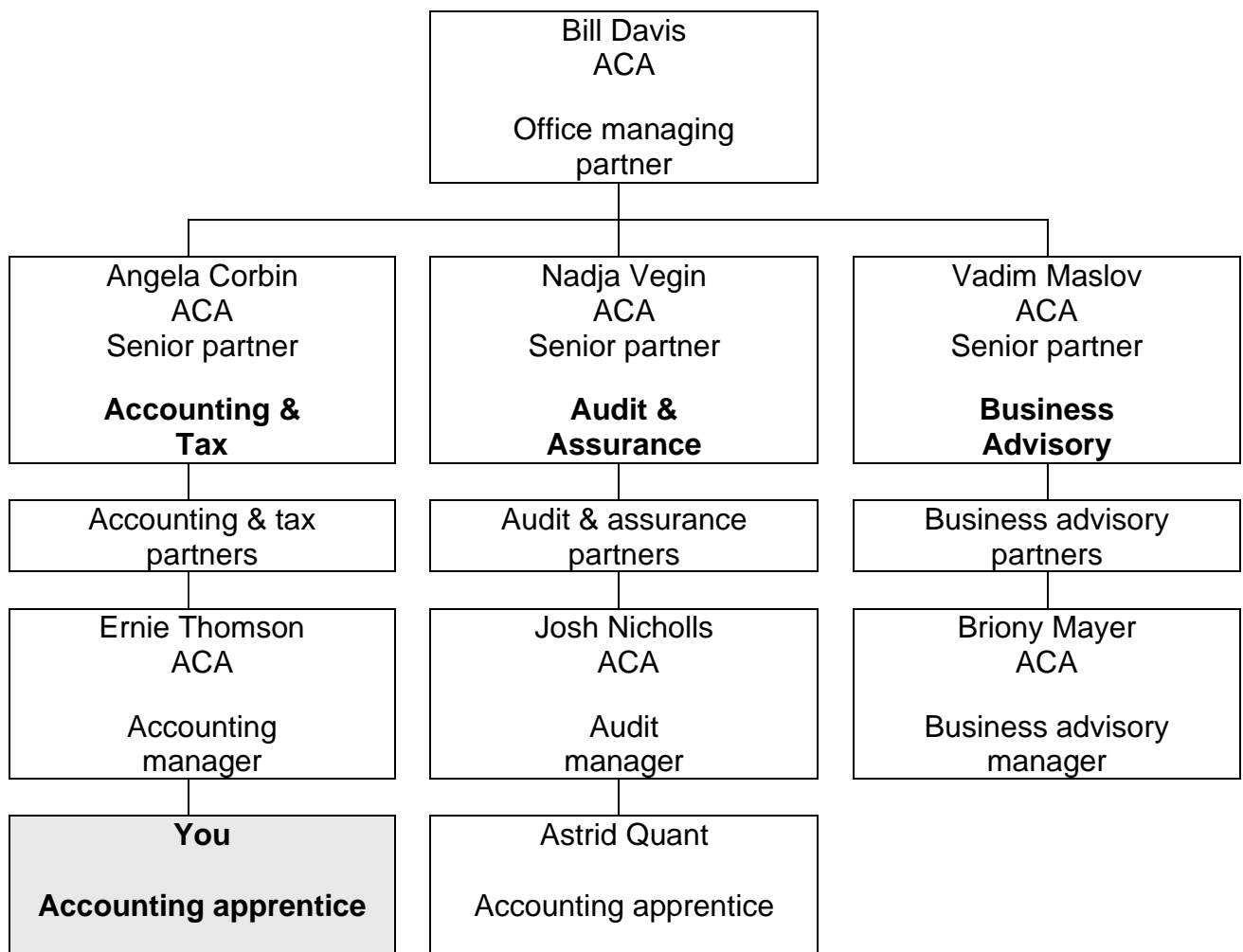
Telbury LLP (Telbury) is a regional mid-tier professional services firm operating in the south of England. The largest office is in Bournemouth and there are several other offices in different towns and cities in the region.

Professional services firms form a major industry in the UK. They range in size from the Big Four, global firms offering a vast range of business services (eg audit, tax, management consultancy), through mid-tier national and regional firms to small partnerships and sole traders which offer only bookkeeping and limited tax services. Firms are regulated in the UK by professional bodies such as ICAEW and by the Financial Reporting Council (FRC).

Telbury is a successful firm with an excellent reputation. It has a few large unlisted corporate clients for which it performs external audits, plus many smaller clients – sole traders, partnerships and limited companies – to which it provides a range of services.

Organisational structure in Telbury's Bournemouth office

The Bournemouth office mostly operates independently of Telbury's other offices. Bournemouth has 20 partners, including the office managing partner and three other senior partners who together form the senior management team in the office. Telbury's operations are split into three departments: accounting and tax; audit and assurance; and business advisory. Each department is led by a senior partner:



You are a second-year accounting apprentice in Telbury's Bournemouth office. Your line manager is Ernie Thomson in the accounting and tax department. As part of your training, you are currently shadowing members of the senior management team and assisting them when requested to do so.

Astrid Quant is also an accounting apprentice in the Bournemouth office, although at an earlier stage in her studies. Astrid has worked exclusively on the external audit of large companies so far. Her line manager is Josh Nicholls in the audit and assurance department. Both you and Astrid are student members of ICAEW. Ernie and Josh have asked you to support Astrid in her studies when necessary.

Accounting and tax department

The accounting services offered range from basic bookkeeping to implementation of new accounting systems. In terms of taxation, Telbury offers UK and international tax compliance services and tax planning advice.

The department is well-resourced and experienced, and each year performs tasks for a wide range of clients. These include maintaining financial records and preparing financial statements for: Ambrose Partnership (**Appendix A**); Bernadette Belstaff, a sole trader (**Appendix B**); and Crowhurst plc, a medium-sized company (**Appendix C**).

Audit and assurance department

This department performs external audits for a number of large unlisted companies plus a range of assurance services for clients of varying sizes.

Telbury has recently been approached by Duxtra Ltd's directors to become its external auditor (**Appendix D**).

Project Tech

Bill Davis, the office managing partner, is involved in 'Project Tech', an investigation across the whole firm into how developing technologies affect firms like Telbury. The project team will also consider the introduction of more technology into all Telbury's departments and a renewed focus on performing work for clients in the technology sector. If a decision is made for Telbury's Bournemouth office to invest in more technology in the audit and assurance department, the aim will be to make use of new audit data analytics software which Project Tech has identified.

Business advisory department

This department offers a wide range of services to businesses which need advice and support in terms of planning, financing, expansion or divestment. Most of its clients which are experiencing significant growth are developing and delivering either sustainability-related or technology-based services.

The department recognises that it must be able to operate separate teams when the Bournemouth office provides business advice to two clients who have interests in common. For example two existing clients, Eafer Ltd and Merple Ltd (**Appendix E**), have always had close working relations with each other. Eafer Ltd is also now keen to buy Merple Ltd.

Fizzyair Ltd (**Appendix F**) started as a client of the business advisory department and is now the largest client of the whole Bournemouth office, making use of the services provided by all three departments.

Greybolt Ltd, an existing client of the accounting and tax department, has approached the business advisory department for additional services (**Appendix G**).

Challenges for Telbury's Bournemouth office

Expansion of business activity in the Bournemouth area has attracted new professional services firms into the marketplace, some of which are more agile and specialist than Telbury.

Although Telbury is financially stable and profitable, costs have risen in line with general inflation. The partners are hoping Project Tech will find ways of enabling more efficient time management of staff, reducing staffing levels and hence costs per assignment.

To the surprise of Telbury's senior management team in Bournemouth, a major client, Halley Ltd, is encountering serious financial difficulties (**Appendix H**).

Appendix A – Ambrose Partnership permanent file (extracts)

Ambrose Partnership (Ambrose) is a firm of estate agents operating in Bournemouth. There are three partners: Isolde and Jocasta, who founded the firm 10 years ago, and Kevin, who became a partner in the firm three years ago.

Ambrose does not have its own finance function and so relies on Telbury for bookkeeping services. In addition, Telbury produces bank and other reconciliations for Ambrose, and prepares the financial statements.

Ambrose is registered for VAT.

Ambrose Partnership: Summary statement of financial position as at 30 June 2023

	£
Non-current assets	206,640
Current assets	154,330
Current liabilities	<u>(98,250)</u>
	<u>262,720</u>
Capital accounts	
Isolde	20,000
Jocasta	20,000
Kevin	60,000
Current accounts	
Isolde	101,060
Jocasta	(14,880)
Kevin	<u>76,540</u>
	<u>262,720</u>

Appendix B – Bernadette Belstaff permanent file (extracts)

Bernadette Belstaff is a sole trader who is a very skilled seamstress, specialising in altering and mending high quality garments such as wedding dresses and ballgowns. She markets her skills to individuals and shops via social media, and has performed paid work for a number of clients since the start of 2023.

Bernadette is not registered for VAT.

Bernadette operates a business bank account and to date has always taken drawings by making an online transfer between the business bank account and her personal bank account.

On Telbury's advice, in September 2023 Bernadette began to use a cloud accounting system for her business. She has found that, where the system cannot identify where the other side of an entry should be posted, it posts it to a suspense account. She is unsure what the balance on the suspense account represents.

Appendix C – Crowhurst plc permanent file (extracts)

Crowhurst plc (Crowhurst) is a large company which makes items of wrought ironware on a bespoke basis, for example railings and gates. It was founded in 2009 and owns a large freehold factory where it makes items using forge equipment and other production machinery. Crowhurst operates a fleet of specialist vehicles for delivering its very heavy products to clients.

Crowhurst is registered for VAT.

Crowhurst's financial statements are prepared under IFRS® Standards, as required by its major lender.

The financial controller is on long-term sick leave and so Crowhurst's finance director has asked Telbury for help in preparing its financial statements for the year ended 30 September 2023. The previous year's final statement of profit or loss and statement of financial position are kept by Telbury on Crowhurst's permanent file.

Crowhurst plc: Statement of profit or loss for the year ended 30 September 2022

	£
Revenue	15,879,452
Cost of sales	<u>(10,368,751)</u>
Gross profit	5,510,701
Administrative expenses	(1,165,411)
Distribution costs	<u>(1,238,678)</u>
Operating profit	3,106,612
Finance costs	<u>(560,000)</u>
Profit before tax	2,546,612
Income tax expense	<u>(539,250)</u>
Profit for the period	<u>2,007,362</u>

Crowhurst plc: Statement of financial position as at 30 September 2022

	£	£
ASSETS		
Non-current assets		
Property, plant and equipment		12,064,200
Current assets		
Inventories	7,195,600	
Trade and other receivables	5,281,200	
Cash at bank	2,689,400	
		<u>15,166,200</u>
Total assets		<u>27,230,400</u>
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital (£1 shares)		6,000,000
Retained earnings		9,008,100
Total equity		<u>15,008,100</u>
Non-current liabilities		
Borrowings (8% loan repayable in 2030)		7,000,000
Current liabilities		
Trade and other payables	4,952,300	
Income tax payable	270,000	
		<u>5,222,300</u>
Total equity and liabilities		<u>27,230,400</u>

Accounting procedures handbook (extracts)

The following are extracts from Crowhurst's accounting procedures handbook for maintaining the nominal ledger and preparing the financial statements. These procedures were applied when preparing Crowhurst's financial statements for the year ended 30 September 2022:

- Land is not depreciated.
- Buildings are depreciated on the straight-line basis over 50 years on historical cost less residual value. These depreciation charges are charged to administrative expenses.
- Production machinery, including forge equipment, is depreciated on the straight-line basis over six years on historical cost less residual value. These depreciation charges are shown in cost of sales.
- Vehicles are depreciated at 40% pa on the reducing balance basis. These depreciation charges are shown in distribution costs.
- Trade and other receivables consist of amounts due from clients plus prepayments.
- Trade and other payables consist of amounts due to suppliers plus accruals.

Appendix D – Duxtra Ltd

Duxtra Ltd (Duxtra) was founded in 2021 by three medical doctors and has grown rapidly. It develops new medical technology and has been successful in generating high levels of revenue, despite the industry being highly regulated and very competitive.

In anticipation of registering as a public limited company and listing on AIM, Duxtra's directors have decided that its first full statutory audit should be performed on its financial statements for the year ending 31 December 2023. They have asked Nadja Vegin, the audit and assurance senior partner, to arrange for Telbury to perform the audit.

Duxtra has supplied only very limited details to Nadja about itself and its market. However, Duxtra's finance director, Cyril Dafinone, has confirmed that he has financial statements for the first two years of trading and detailed budgets and financial records for the current year.

Nadja has asked for a meeting with Josh Nicholls, the audit manager, to discuss the overall audit strategy and audit plan for Duxtra. In particular, Nadja is concerned that:

- Telbury does not yet have sufficient understanding of Duxtra as an entity or its environment; and
- the nature of Duxtra's business indicates there may be weak internal controls and an increased need for Telbury to conduct analytical procedures at different stages while undertaking the audit assignment.

Appendix E – Eafer Ltd and Merple Ltd

Eafer Ltd

Eafer Ltd (Eafer) is a large, long-established manufacturer of sports equipment for tennis, golf, croquet and cricket. Eafer has been a client of Telbury’s Bournemouth office for many years.

Eafer’s directors lack a strategic overview of the company’s product portfolio and are concerned that sales of equipment for some sports are declining. They have therefore sought guidance from Vadim Maslov, the business advisory senior partner, about developing appropriate product strategies using the Boston Consulting Group (BCG) matrix. Following this review, Eafer intends to reduce the number of sports for which it produces and sells equipment. This will ensure that resources are concentrated on types of sports equipment which generate the highest levels of positive net cash flows or which have the most potential to do so.

Eafer’s marketing director has prepared an analysis of its sports equipment. The market growth rate for equipment for each sport is based on the mean annual market growth rate in the three years 2020 - 2022.

Sport	Types of sports equipment	Market growth rate
Tennis	Racquets, balls, shoes, clothing, nets, posts	High
Golf	Clubs, balls, bags, bag trolleys, shoes, clothing	High
Croquet	Mallets, balls, hoops	Low
Cricket	Bats, bails and stumps, balls, shoes, clothing	Low

Merple Ltd

Several years ago, two of Eafer’s managers left to set up a new company, Merple Ltd (Merple), which became a client of Telbury’s Bournemouth office. Merple manufactures specialist wrist-worn fitness and performance trackers for people playing tennis, golf and cricket competitively. Working relations between the directors of the two companies have remained close.

Merple’s founders believe the company is now ready to expand its operations further and are considering various options. One option is to sell Merple to Eafer so that it has access to more finance and management expertise, and a wider range of markets. The funds received from the sale will also allow Merple’s two founders to leave the company.

Appendix F – Fizzyair Ltd

Fizzyair Ltd (Fizzyair) is a supplier of air source heat pumps (ASHPs) which provide heat and hot water to homes in an environmentally sustainable way. ASHPs are an alternative to gas boilers, which are much more common in UK homes. However, gas boilers are being phased out because they use fossil fuels and are not environmentally sustainable. Government grants are available for ASHPs to encourage their installation in existing and new-build homes. From 2025 no new gas boilers will be installed in new-build homes in the UK.

Many homeowners wish to maintain their gas boilers for as long as possible rather than replace them with ASHPs, and so in 2022 Fizzyair started a business servicing gas boilers in homes nationwide. This has become a significant income stream for Fizzyair and the board wishes to purchase a new building and a fleet of vans to expand the gas boiler servicing business further.

As Fizzyair is the largest client of Telbury's Bournemouth office, each department has benefited from a high level of fees from Fizzyair over the years. Its directors know Angela, Nadja and Vadim, the senior partners in the Bournemouth office, very well.

Fizzyair's finance director is Sandrine Blanchard, an ICAEW Chartered Accountant. In 2021 Sandrine applied for and received additional loan finance for Fizzyair from an issue of green bonds. Nadja countersigned the application on the basis that Fizzyair would use the finance to expand its existing eligible green projects – being the manufacture and supply of ASHPs – which provide clear environmental benefits.

Appendix G – Greybolt Ltd

Greybolt Ltd (Greybolt) is a relatively new technology services agency which supplies software developers on an hourly basis to a range of clients. It operates in a highly competitive market.

Liam Surtees is Greybolt's finance director. He consults with Briony Mayer, Telbury's business advisory manager, about budgeting and the pricing of new products based on developing technologies.

In September 2023, Briony used Liam's estimates to prepare Greybolt's budget for the three months to 31 March 2024:

Greybolt Ltd: Budget for the three months ended 31 March 2024

	£	Liam's estimates
Revenue	480,000	800 hours per month charged to clients at £200 per chargeable hour
Direct labour	(180,000)	15 software developers at a cost of £48,000 pa each
Other direct costs	<u>(204,000)</u>	Incurred at £85 per chargeable hour
Gross profit	96,000	
Administration expenses	<u>(60,000)</u>	£20,000 per month
Operating profit	<u>36,000</u>	

Briony has advised Liam that Greybolt would benefit from keeping the budget more up to date. She has also suggested that he should develop rolling budgets which cover 6 to 12 months ahead, containing estimates of other direct costs using the high-low method to enable the split between fixed and variable costs to be determined.

New Python coding course

Liam tells Briony that Greybolt is planning to run a Python coding course for the public, which it will market and deliver online. The course will mostly consist of eLearning modules but there will be some face-to-face teaching online. This will be delivered by one of Greybolt's former software developers, Alexei, who will work as a contractor to Greybolt. Alexei estimates that he will charge Greybolt £175 per hour for teaching plus £15,000 to develop the eLearning course materials.

Liam is considering appropriate pricing strategies for the course.

Appendix H – Halley Ltd

Halley Ltd (Halley) imports digital measuring machines which it sells, along with service contracts, to a wide range of public and private sector clients across the UK. Its year end is 31 October.

In November 2022, Halley approached Nintro plc (Nintro), a venture capital fund, to obtain additional equity finance. Nintro stated that it required an up-to-date report on Halley's financial position before it could invest the money.

Halley's audited financial statements for the year ended 31 October 2022 were not scheduled to be available until February 2023. Therefore, Nintro contracted with Telbury's audit and assurance department for Telbury to produce an assurance report for Nintro about Halley's financial position as at 31 December 2022. Telbury incorporated a disclaimer of liability for negligent misstatement in its contract with Nintro.

After completing an assurance assignment on Halley's financial position, Telbury issued its report to Nintro on 15 January 2023. The report stated that Halley's financial position was good as at 31 December 2022 and there was no evidence to indicate that making an equity investment in the company was a bad idea. In the report Telbury included a disclaimer of liability for negligent misstatement in tort.

On 20 January 2023, Nintro paid £1 million cash to Halley in return for new shares in the company.