



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.

Jardini Ltd

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This document reflects information available on 11 April 2023.

Introduction: Jardini Ltd

Jardini Ltd (Jardini) operates a large chain of garden centres in the UK. It is a well-established and financially successful business with its headquarters in Norwich.

Industry information

Gardening contributes a significant amount to UK GDP and provides over 650,000 jobs. Many argue that gardening is good for mental, as well as physical, health. Interest in gardening, including houseplants and the creation of small gardens in window boxes and balconies, increased during the pandemic in 2020-2021 and this trend continues.

Households can purchase plants and gardening equipment from large specialist retailers known as garden centres, garden nurseries, supermarkets and other general retailers, which sell from both physical stores and online. There are also several wholly online retailers of plants and gardening equipment.

There are 1,800 garden centres in the UK. While gardening is a highly seasonal industry, garden centres are adept at ensuring that they maintain revenue during the winter months by making gifts and other seasonal goods available to customers, as well as plants and gardening equipment.

There are many sole traders who operate as suppliers of garden maintenance and landscaping services to households. There are also larger businesses, including garden centres, which supply these services to corporate clients such as housebuilders, management companies of apartment buildings and local authorities.

In 2021 UK households spent £7.5 billion on gardening goods and £2.4 billion on landscapers and gardeners to create and maintain gardens.

Jardini's operations

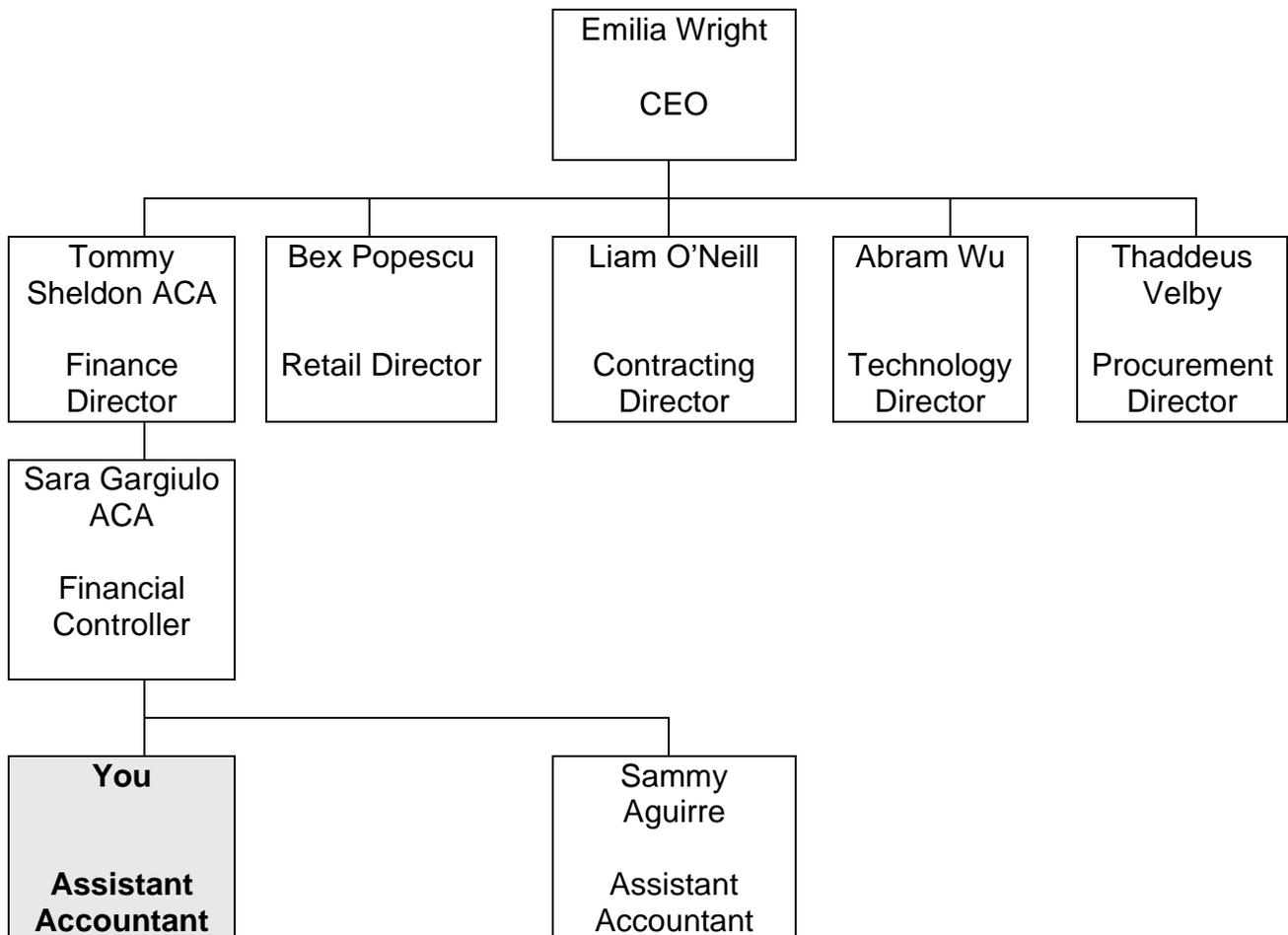
Jardini retails plants and gardening equipment from its 25 garden centres across the UK. Each garden centre is led by a general manager.

The garden centres also provide garden services (landscaping and garden maintenance) for corporate clients, typically on 30 days credit. This work is performed at client premises by teams that comprise a mix of Jardini employees and self-employed contractors. Jardini owns most of the vehicles and machinery used to perform the services, although some are hired on a daily or weekly basis.

Jardini lets other retailers occupy space within the garden centres in order to sell non-gardening goods such as gifts and specialist foods. These retailers, which are known as concessions, operate as independent businesses. A concession pays quarterly rent in arrears to Jardini for the space it occupies: a fixed sum of £2,500 plus a variable amount which is calculated as 7.5% of the concession's actual sales in the quarter. Jardini's rental revenue from concessions fluctuates quite widely. It can be difficult to forecast from one quarter to the next, as the sales made by concessions depend on many factors, including the weather. Therefore, Jardini makes use of expected values when forecasting its rental revenue from concessions.

Before 2022, Jardini had a very basic website, giving information about garden centre locations and opening times. There were no online sales. Abram Wu, technology director, started a project in early 2022 to set up a more sophisticated website from which Jardini could sell a wide range of plants and gardening equipment. The website has been in operation since 1 November 2022. Significant development costs were incurred in setting up, testing and launching the website.

Extract from Jardini’s organisational chart



You are a second-year accounting apprentice, based in Jardini’s finance function at its headquarters. Your line manager is Sara Gargiulo, financial controller.

Sammy Aguirre is also an accounting apprentice, at an earlier stage in their studies than you. Sara has asked you to support Sammy in their studies when necessary. Both you and Sammy are student members of ICAEW.

Jardini’s position and performance

Extracts from Jardini’s financial statements for the year ended 30 April 2022 are in **Appendix A**. On 1 February 2023 Jardini acquired a new property to allow it to expand the existing garden centre in Leicester.

Extracts from Jardini’s accounting and authorisation procedures handbook are in **Appendix B**. An extract from Jardini’s code of conduct for finance function staff is in **Appendix C**.

Board meeting

Jardini held a board meeting on 4 April 2023 at which a number of risks, challenges and opportunities were discussed. Detailed minutes relating to some of these discussions are in **Appendix D**.

Risks and challenges for Jardini

General inflation and rising interest rates are affecting non-essential consumer spending, which reduces demand for Jardini's goods and services. At the same time Jardini is facing rising costs, especially in relation to finance, energy, water and labour.

Jardini is finding that garden centre retailing has become more challenging, because of various factors that impact its supply chain. These include regulatory changes that affect cross-border trade, plant biosecurity and the phasing out of peat-based compost as a growing environment for plants.

As a separate issue Jardini struggles to retain corporate clients for its garden services. Clients often find that garden services teams are unreliable; for example, some clients have complained that Jardini's teams do not attend their premises for all the billed hours, as some team members arrive late and leave early. Team leaders appear to struggle to manage and record the time spent by team members accurately, and they do not always have access to the right vehicles and machinery at the right time.

Some garden centres are performing better than others. To identify the reasons behind their mixed performance, the directors discussed the need for more analysis of the cost and value drivers within Jardini's garden centres (**Appendix D – Minute 1**).

Emilia Wright, CEO, raised some serious concerns about specific activities at the Wanstead garden centre (**Appendix D – Minute 2**).

Opportunities for Jardini

The directors discussed the increasing trend for consumers to buy expensive, rare plants. They agreed to continue to develop Jardini's good relationships with specialist plant suppliers and its reputation for having a choice of high-quality plants which are well cared for when held in the garden centres. However, the situation would be kept under review as disposable income among consumers was being eroded by inflation.

The directors were pleased that the new website has proved successful in meeting consumers' needs. They discussed options for Jardini to extend the range of products sold via its website to include items which it does not sell in the garden centres, such as letterbox plants (**Appendix D – Minute 3**).

Given the successful implementation of the new website, the directors discussed making more use of technology across the business (**Appendix D – Minute 4**).

Where Jardini has space available in its garden centres, Liam O'Neill, contracting director, told the board he is actively seeking more concessions to rent space, for example to sell sheds, conservatories, bicycles, fitness equipment and food. As well as earning rental revenue for Jardini, the right mix of concessions in a garden centre increases its appeal to consumers as they have a wider choice of goods and services. Renting a space in a Jardini

garden centre can be considerably cheaper for a concession than operating from its own premises. However, the directors noted that running a garden centre as a whole becomes more complicated for general managers if many concessions operate from its premises.

External audit

Jardini's external auditor is Grove Bagpuize LLP (Grove). The audit manager is Aaron Gombero. Final audit work on Jardini's financial statements for the year ended 30 April 2023 will start on 31 May 2023. More information relating to the final audit is in **Appendix E**.

Appendix A – Jardini Ltd financial statements for the year ended 30 April 2022 (extracts)

Statement of profit or loss for the year ended 30 April 2022

	£'000
Revenue	64,537
Cost of sales	(32,235)
Gross profit	<u>32,302</u>
Distribution costs	(15,448)
Administrative expenses	(11,252)
Operating profit	<u>5,602</u>
Finance costs	(764)
Profit before tax	<u>4,838</u>
Income tax expense	(968)
Profit for the period	<u>3,870</u>

Statement of financial position at 30 April 2022

	£'000	£'000
ASSETS		
Non-current assets		
Intangible assets (Note 1)		3,240
Property, plant and equipment (Note 2)		66,118
		<u>69,358</u>
Current assets		
Inventories	7,995	
Trade and other receivables	2,964	
Cash at bank	3,872	
	<u>14,831</u>	
Total assets		<u>84,189</u>
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital (10p shares)		100
Retained earnings		63,160
Total equity		<u>63,260</u>
Non-current liabilities		8,000
Current liabilities		
Trade and other payables	10,906	
Income tax payable	484	
Bank overdraft	1,539	
	<u>12,929</u>	
Total equity and liabilities		<u>84,189</u>

Notes to the financial statements

(1) Intangible assets

Intangible assets consist of website development costs. These costs will be amortised from the date the website goes live.

(2) Property, plant and equipment

	Land and buildings £	Vehicles and machinery £	Total £
Cost			
At 1 May 2021	84,000,000	42,000,000	126,000,000
Additions	3,500,000	1,750,000	5,250,000
Disposals	0	(2,540,000)	(2,540,000)
At 30 April 2022	87,500,000	41,210,000	128,710,000
Depreciation			
At 1 May 2021	27,000,000	31,500,000	58,500,000
Charge for the year	1,120,000	4,492,000	5,612,000
Disposals	0	(1,520,000)	(1,520,000)
At 30 April 2022	28,120,000	34,472,000	62,592,000
Carrying amount			
At 30 April 2021	57,000,000	10,500,000	67,500,000
At 30 April 2022	59,380,000	6,738,000	66,118,000

At 1 May 2021, the cost of land was £30,000,000.

At 30 April 2022, the cost of land was £31,500,000.

Appendix B – Accounting and authorisation procedures handbook (extracts)

The following are extracts from Jardini's accounting and authorisation procedures handbook for maintaining the nominal ledger, preparing the financial statements and reviewing non-standard decision-making.

Accounting procedures

- Elements of the financial statements (assets, liabilities, equity, income and expenses) are recognised and measured in accordance with the Conceptual Framework for Financial Reporting and the appropriate IFRS® Standards.
- Website development costs are capitalised and will be amortised from the date the website goes live.
- Land is not depreciated.
- Buildings are depreciated on the straight-line basis over 50 years.
- Vehicles and machinery are depreciated at 40% on the reducing balance.
- Inventories consist of goods for resale:
 - Plants are valued on a line-by-line basis using AVCO.
 - Gardening equipment is valued on a line-by-line basis using FIFO.
- Trade and other receivables consist of amounts outstanding in respect of garden services from corporate clients and rental revenue from concessions, plus prepayments. The garden centres do not make credit sales to consumers in respect of plants or gardening equipment.
- Trade and other payables consist of amounts due to suppliers plus accruals.

Review and authorisation procedures

Any non-standard decisions by garden centre general managers that will affect Jardini's financial performance must be authorised by the relevant director. They must also be reviewed in detail by the financial controller or finance director. Examples of non-standard decisions are:

- Entering into a new contract with a corporate client or concession (to be authorised by the contracting director; a record of the terms must be kept by the finance function).
- Writing off inventories (to be authorised by the retail director; a record must be kept by the finance function).

Appendix C – Finance function code of conduct (extract)

This code forms part of your contract of employment.

You must comply with the policies and procedures set out in the accounting and authorisation procedures handbook (**Appendix B**).

You should raise any questions or concerns you have about applying these policies and procedures with your direct line manager in the first instance. If that is not appropriate or does not resolve the issue to your satisfaction, you must raise your concern with a manager at a higher level.

If you are a member of a professional body (either qualified or in training) you must act in accordance with both this code and the ethical and professional requirements of your professional body. This includes any requirement to exercise professional scepticism in the course of your work.

Appendix D – Board meeting minutes

Jardini held a board meeting on 4 April 2023 which gave rise to the following four detailed minutes.

Minute 1: Value chain analysis project

Given the increasingly challenging environment in which Jardini operates, Bex Popescu, retail director, performed some initial analysis of how value is created by each garden centre. She presented the board with the following list of activities for a typical Jardini garden centre, based on Porter's value chain:

- Primary activities
 - Inbound logistics (receipt of plants and gardening equipment)
 - Operations (retail activities, co-ordination with concessions, contracts with corporate clients)
 - Outbound logistics (despatch of plants and gardening equipment, delivery of garden services to corporate clients)
 - Marketing and sales (branding, advertising, website)
 - Service (returns of plants or gardening equipment by customers, warranties for plants and gardening equipment, relationship management of corporate clients and concessions).
- Secondary activities
 - Procurement (of plants, gardening equipment, contractor labour, premises, vehicles, machinery, consumables)
 - HR (recruitment and training; retention of retail, contracting and headquarters staff)
 - Technology development (tills, accounting and management information system, website)
 - Infrastructure (property, strategy, finance function).

Bex told the board that she would be doing further analysis to understand cost and value drivers, and how linkages in the value chain allow Jardini's garden centres to add value.

Minute 2: Activities at the Wanstead garden centre

Emilia Wright, CEO, said that an anonymous whistle-blower gave her information about the activities in March 2023 of Isabelle Jacob, general manager of the Wanstead garden centre. The information indicated that Isabelle:

- personally received gifts from two property developers in return for committing Jardini to supply garden services to them at unusually low contract prices; and
- sent the finance function an email about her decision to write off several lines of expensive houseplants. There was no justifiable reason for writing off the plants.

Isabelle subsequently sold the plants personally on an auction website at a substantial mark-up on their cost, keeping the proceeds.

Emilia suspended Isabelle pending an investigation into these activities.

Emilia told the board she believed that Jardini made a loss on the under-priced contracts as well as on the unjustified write-off of the houseplants, and queried:

- (a) who knew about Isabelle's activities;
- (b) why the activities were not identified earlier; and
- (c) whether Jardini's directors had been fulfilling their statutory duties during the time that these activities occurred.

Emilia confirmed that she had informed the external auditor about these matters.

Minute 3: Letterbox plants

Bex presented a proposal to use the website to take orders from the public for letterbox plants to send as gifts. These are plant arrangements which are contained in a sturdy cardboard box that can be posted through a letterbox, so the recipient does not need to be at home to receive their gift. The recipient then follows clear instructions for displaying and looking after the plant arrangement.

Bex proposed that initially letterbox plants would be available on the website only to consumers in the north-east of England, for a three-month trial period starting on 1 August 2023. The Morpeth garden centre would be responsible for sourcing the plants and packaging, and for delivering the orders using hired vans.

Bex estimated the letterbox plants would sell for an average of £32 each, including delivery. The variable costs of the plants, packaging and delivery would average £15 per letterbox plant delivered. Additional fixed costs at Morpeth of £15,130 would be incurred during the three-month trial period.

Tommy Sheldon, finance director, suggested that the proposal should be evaluated using breakeven analysis and margin of safety but the finance function would check the figures presented by Bex first.

Thaddeus Velby, procurement director, agreed that the quality of letterbox plants was key but the purchase costs would be expensive. He suggested that a better approach might be to identify the market price that consumers are prepared to pay and then see if costs could be controlled so that a target contribution was achieved.

Minute 4: Further investment in technology

Abram Wu, technology director, told the board he wanted to build on the initial success of the website to make increased use of technology across the business so that Jardini can manage people and assets more effectively. He was looking at using Internet of Things (IoT) technology, specifically:

- introducing radio frequency identification (RFID) tags, though he was aware that each tag would be quite expensive.
- issuing smartphones with global positioning satellite (GPS) capability to garden services team leaders.

Appendix E – External audit

On 8 April 2023 Emilia held a meeting with Aaron Gombero, the audit manager at Grove who is responsible for the external audit of Jardini. You and Sara were also at the meeting but Tommy was ill so could not attend.

Activities at the Wanstead garden centre

The meeting started with a discussion about Isabelle Jacob's activities at the Wanstead garden centre (see **Appendix D**). Aaron expressed his sympathy with Emilia in relation to the under-priced contracts and the unjustified inventories write-off. Emilia replied that in her opinion Grove should have discovered these activities during its interim audit, or at least should have ensured that internal controls prevented the activities. Aaron politely disagreed with this view and suggested that Emilia should seek some clarification about management and external auditor responsibilities for fraud and error.

Audit materiality

Aaron said that Grove calculated materiality for the financial statements as a whole as £645,370, basing the calculation on the lower of 1% of revenue and 2% of total assets in the financial statements for the year ended 30 April 2022. For the final audit Grove will revise this materiality figure, using the same percentages, once Aaron has final figures for revenue and total assets in the financial statements for the year ending 30 April 2023.

Sara agreed to provide Aaron with data on the financial cost to Jardini of the under-priced contracts and the unjustified inventories write-off. Aaron confirmed that Grove would assess this data in the context of risk and materiality.

Inventory count

Aaron asked for a meeting with Tommy and Sara to discuss the detailed arrangements for the inventory count that will take place on 30 April 2023, which audit staff from Grove will attend.