



# ***LEVEL 4 ACCOUNTING TECHNICIAN APPRENTICESHIP***

**TUESDAY 5 DECEMBER 2023**

**2.5 HOURS**

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## ***ROLE SIMULATION EXAMINATION***

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This exam consists of **two** tasks (100 marks).

### **Marks breakdown**

Task 1	56 marks
Task 2	44 marks

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

**The link to the ICAEW bookshelf can be found in each question above the word processing area.**

### **Important information**

Please read this information carefully before you begin your exam.

#### **Starting the exam**

Click on the **right-hand arrow** in the header to begin the exam. The exam timer will begin to count down.

#### **Preparing your answers**

Answer all questions.

Respond directly to the exam question requirements. Do not include any content 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.

#### **Issues during the exam**

If you encounter any issues during the exam you should tell the online chat support as they may be able to resolve the issue at the time. The online chat support cannot advise you on how to use the software.

#### **Ending the exam**

When the exam timer reaches zero, the exam will end. To end the exam earlier, go to the last question and click the right-hand arrow button, then click the **Submit** button to close the exam.

After clicking the **Submit** button you should close the **Assessment Master** browser tab, and click **Finish Exam** on the **Proctor Exam** tab if this option appears for you.

#### **After the exam**

We will invite you to complete a student survey after the exam.

If you believe that your performance was affected by issues which you raised during the exam, you should submit an exam disruption appeal to ICAEW within **7 days of the exam**, as per ICAEW's published policy. To be eligible

for an exam disruption appeal, you must raise the issue immediately via the online chat agent.

## Task 1

This task consists of **five** parts worth a total of 56 marks.

### Task 1.1

You work with Ernie Thomson, accounting manager in Telbury's Bournemouth office, on a number of smaller clients. Ernie asks you to work with Astrid Quant, a first-year accounting apprentice in the audit and assurance department, on the accounts of Ambrose Partnership (Ambrose) (**Advance Information – Appendix A**).

Ernie asks you to prepare a bank reconciliation at 30 November 2023 for one of Ambrose's bank accounts. At 30 November 2023, the debit balance on the cash at bank account in Ambrose's nominal ledger relating to this bank account was £10,732.

Ernie gives you a spreadsheet which contains information that he imported from the bank statement produced by Micdom Bank plc for Ambrose:

Date 2023	Description	Receipts £	Payments £	Balance £
01 Nov	Brought forward balance			10,246
07 Nov	Direct debit payment Electro-gas		375	9,871
10 Nov	Bank charges from 1 Oct – 31 Dec 2023		140	9,731
13 Nov	Faster Payments receipt from GH Ltd	3,458		13,189
16 Nov	Payment to HMRC PAYE and NIC		8,562	4,627
21 Nov	Bank giro credit ref Dancer Ltd	5,784		10,411
30 Nov	Carried forward balance			<b>10,411</b>

You establish the following:

- (1) The bank charges shown in the bank statement have not yet been entered into the cash at bank account.
- (2) Late on 30 November 2023, Ambrose made online payments to suppliers for £4,786 and recorded them in the cash at bank account. These payments were not processed by Micdom Bank plc until 1 December 2023.
- (3) The receipt from GH Ltd dated 13 November on the bank statement was recorded twice in the cash at bank account in error.
- (4) Ambrose paid a cheque for £1,509 into the bank on 30 November 2023 which it had received from a client on 29 November.

Astrid asks you why Ambrose Partnership has capital and current accounts on its statement of financial position in **Advance Information – Appendix A** whereas Crowhurst plc (**Advance Information – Appendix C**) has share capital and retained earnings.

### Requirements

a. Produce a bank reconciliation for Ambrose Partnership by:

- Correcting the cash at bank account balance at 30 November 2023; and

- Preparing a statement reconciling the balance per the bank statement to the balance per the corrected cash at bank account at 30 November 2023.  
**(7 marks)**

**Show your workings clearly.**

- b. With reference to the information above and **Advance Information – Appendices A and C**, prepare an email to Astrid in which you:
- explain what Ambrose Partnership’s capital and current account balances represent; and
  - compare the capital and current account balances in partnership accounts with the share capital and retained earnings balances in company accounts.  
**(6 marks)**

**Total: 13 marks**

### Task 1.2

Ernie asks you to help with clearing a suspense account for Bernadette Belstaff, a sole trader who is not registered for VAT (**Advance Information – Appendix B**). Bernadette has produced a summary trial balance from her cloud accounting system at 30 November 2023 as follows:

#### **Bernadette Belstaff: Summary trial balance at 30 November 2023**

	<b>Debit £</b>	<b>Credit £</b>
Revenue		15,000
Expenses	8,030	
Capital		2,000
Assets	12,800	
Liabilities		3,430
Suspense		<u>400</u>
	<u>20,830</u>	<u>20,830</u>

When you discuss the suspense account balance with Bernadette, she tells you that:

1. She banked a cheque for £200 on 15 November 2023, which a new credit customer gave her as an advance payment for work with an agreed total price of £1,000. However, she had not set up the customer account and so the accounting system posted the transaction to cash at bank and to the suspense account. On 20 November Bernadette completed the work, set up the customer account in the system and sent the customer a single invoice for £1,000. This invoice was correctly recorded as a credit sale in the accounting system.
2. She bought an additional sewing machine on credit on 28 November for £350. She had not yet set up an account for the supplier and so the accounting system posted the transaction to the correct asset account and to the suspense account.

- On 29 November 2023, she withdrew £150 in cash from her business bank account, using a card at a cash machine. This was the first time she had used a cash machine to make a cash withdrawal from her business bank account. The system could not allocate the withdrawal to an expense account and so posted the transaction to cash at bank and to the suspense account. You ascertain that the £150 was Bernadette's drawings for November.

### Requirement

Clear the suspense account and prepare a revised summary trial balance for Bernadette at 30 November 2023. **Show your workings.**

**Total: 6 marks**

### Task 1.3

Ernie has prepared the following draft statement of profit or loss for Crowhurst plc (Crowhurst) (**Advance Information – Appendix C**) for the year ended 30 September 2023:

	£
Revenue	17,405,314
Cost of sales	<u>(11,381,822)</u>
Gross profit	6,023,492
Administrative expenses	(1,322,351)
Distribution costs	<u>(1,419,452)</u>
Operating profit	3,281,689
Finance costs	<u>(560,000)</u>
Profit before tax	<u>2,721,689</u>

Ernie asks you for help in finalising Crowhurst's financial statements. He reminds you that Crowhurst is registered for VAT, which is payable at 20%. He gives you some additional information, which must be reflected in the financial statements:

- Crowhurst sent a sales invoice to a client for a total value of £18,960 (including VAT) on 29 September but incorrectly recorded the total value of the invoice as revenue.
- Crowhurst recorded a sale of £32,200 excluding VAT as revenue of £22,300. It recorded VAT of £6,440 on the sale correctly.
- Administrative expenses need to include an amount in respect of an online counselling service which Crowhurst's staff accessed throughout the period from 1 August 2023 to 30 November 2023. On 1 December the provider of the counselling service submitted a single invoice for £5,400 plus VAT.
- On 1 October 2022 Crowhurst purchased a small delivery vehicle and correctly recorded it in the vehicles account at £24,000. However, in error Ernie applied the

depreciation policy for production machinery to the vehicle when he prepared the draft financial statements. He assumed a residual value of nil.

5. Crowhurst correctly accounted for the receipt of an additional loan of £540,000 on 1 June 2023. Interest is payable on this new loan at a fixed rate of 8.5% pa. Crowhurst has made no entries in respect of interest on this additional loan.
6. Telbury's tax team has appropriately estimated that the tax due on Crowhurst's profits for the year is £565,000.

## Requirement

With reference to the information above and **Advance Information – Appendix C**, prepare a revised statement of profit or loss for Crowhurst plc for the year ended 30 September 2023, in a form suitable for publication. Do not show comparatives. **Show your workings.**

**Total: 11 marks**

## Task 1.4

The meeting between Nadja Vegin, senior partner in Telbury's audit and assurance department, and Josh Nicholls, audit manager, to discuss the audit of Duxtra Ltd (Duxtra) (**Advance Information – Appendix D**) was delayed several times. It is now scheduled to take place next week and Ernie has asked you to help Josh prepare for the meeting.

Josh believes that Telbury does not yet have sufficient information about Duxtra as an entity or its environment to establish an audit strategy and an audit plan. To address the gaps Josh asks you to explain what information Telbury needs to discover from Duxtra itself or from wider sources.

Josh tells you that an exchange of emails with Duxtra's finance director, Cyril Dafinone, indicates that Duxtra's internal controls are weak. Duxtra has a great deal of data about its transactions, which will allow Telbury to perform analytical procedures when preparing the audit plan, but Josh suspects that examining the whole population of sales and purchases may be required during the audit.

As a result of Project Tech (**Advance Information – Audit and assurance department**), Telbury's Bournemouth office has invested in sophisticated audit data analytics software. Nadja has suggested to Josh that using this software is especially appropriate for the audit of Duxtra. Josh asks you for your thoughts on this.

## Requirements

With reference to the information above and **Advance Information – Appendix D**:

- a. Identify **three** characteristics of Duxtra's environment that should be more fully understood by Telbury. **(3 marks)**
- b. State **three** methods, in addition to analytical procedures, that Telbury could use to achieve understanding of Duxtra as an entity and its environment. **(3 marks)**

- c. Identify **two** methods for performing analytical procedures that Telbury should use for Duxtra. **(2 marks)**
- d. Explain **two** ways in which performing analytical procedures on Duxtra will help Telbury when preparing the audit plan. **(4 marks)**
- e. Explain **two** ways in which sophisticated audit data analytics software will assist Telbury in completing the audit of Duxtra. **(4 marks)**

**Total: 16 marks**

### **Task 1.5**

Vadim Maslov, senior partner in Telbury's business advisory department, asks you to perform some work in respect of three clients.

#### **Eafer Ltd and Merple Ltd**

The board of Eafer Ltd (Eafer) is keen to purchase Merple Ltd (Merple) (**Advance Information – Appendix E**). Merple's directors are equally keen to sell. The finance directors of both companies have separately approached Vadim to advise them with respect to this transaction.

Vadim asks you to produce a briefing document for his team about the conflict of interest that this situation may present for Telbury, and what safeguards Telbury should implement.

#### **Fizzyair Ltd**

Yesterday, Sandrine Blanchard, finance director of Fizzyair Ltd (Fizzyair) (**Advance Information – Appendix F**), asked Vadim to provide a statement certifying that the loan finance received from Fizzyair's issue of green bonds in 2021 was applied to further developing its ASHP production capacity. Sandrine told Vadim that the lender requires this certificate by 10 December and that it will be in Telbury's best interests to provide it. She told him that if the certificate is not issued, then the loan finance will be immediately repayable. This will jeopardise Fizzyair's status as a going concern and hence Telbury's fees from Fizzyair.

Vadim has discussed Sandrine's request with Nadja, and with Angela Corbin, senior partner in the accounting and tax department, and has made some further enquiries. He is now seriously concerned that in fact Fizzyair used the funds from the green bond issue to finance its business servicing gas boilers. Vadim asks you to make some notes on the ethical threats that Telbury faces in relation to Sandrine's request.

### **Requirements**

- a. Explain whether Telbury faces a conflict of interest if it acts for both Eafer and Merple in relation to Eafer buying Merple. **(4 marks)**
- b. Identify **two** safeguards that Telbury should apply if Telbury decides to act for both Eafer and Merple. **(2 marks)**

- c. Explain **two** threats to Telbury's compliance with the fundamental ethical principles that arise from Sandrine's request for the certificate in respect of Fizzyair. **(4 marks)**

**Total: 10 marks**



## Task 2

This task consists of **three** parts worth a total of 44 marks.

### Task 2.1

Liam Surtees, finance director of Greybolt Ltd (Greybolt) (**Advance Information – Appendix G**), has agreed with Briony Mayer, Telbury’s business advisory manager, that Greybolt will introduce a 12-month rolling budget, updated quarterly.

As a first step Liam has asked Briony to help produce a more reliable estimate of other direct costs and then to produce the budget for the six months from 1 January to 30 June 2024. Briony asks for your help.

Briony wants you to use the high-low technique to improve the estimate for Greybolt’s other direct costs. These are semi-variable as they include both fixed costs and costs which vary with the chargeable hours worked by the software developers.

Briony gives you the following details about other direct costs incurred in each of the three months to 30 November 2023 and the number of hours charged to clients:

Month	Other direct costs £	Number of hours charged to clients
September 2023	60,200	630
October 2023	90,350	1,080
November 2023	73,600	830

Briony also tells you that Liam’s estimates on which she based Greybolt’s budget for the three months to 31 March 2024 (**Advance Information – Appendix G**) are now out of date. The budget you prepare needs to reflect the following information for the six-month period to 30 June 2024:

- Monthly chargeable hours will be 850 and the rate charged to clients will be £210 per hour.
- Greybolt will employ one additional software developer from 1 January 2024.
- The average cost to Greybolt of each software developer will be £50,000 pa.
- The budget for other direct costs should show the fixed and variable elements separately.
- Administration expenses will rise by £2,000 per month from Liam’s original estimate.

### New Python coding course

Briony tells you that from 1 February 2024 Greybolt will market the Python coding course delivered by Alexei (**Advance Information – Appendix G**). Alexei has not changed his estimates for his hourly rate or for developing the eLearning course materials, but has agreed 40 hours to teach the course face-to-face online. Greybolt will incur fixed costs of

£6,000 for marketing and administration of the course. 10 people are expected to attend the course and they will each pay the same price to attend. Liam wants to calculate the selling price per person by applying a 25% mark-up on full cost.

### Requirements

With reference to the information above and **Advance Information – Appendix G**:

- Calculate the fixed and variable elements of Greybolt’s other direct costs for one month using the high-low technique. **(4 marks)**
- Prepare Greybolt’s budget for the six months to 30 June 2024. You should use your answer from Task 2.1a. Ignore the Python coding course. **(6 marks)**
- Explain **two** benefits to Greybolt of introducing a 12-month rolling budget which is updated quarterly. **(4 marks)**
- Calculate the selling price per person that Greybolt should charge for the new Python coding course. **(5 marks)**

**Total: 19 marks**

### Task 2.2

Ernie asks you to assist Vadim with respect to Eafer Ltd (Eafer) (**Advance Information – Appendix E**). Vadim needs to prepare an analysis of Eafer’s sports equipment, using the BCG matrix, in order to identify an appropriate strategy for each type of equipment.

Vadim has obtained additional information on relative market share, ie Eafer’s market share compared with the market share of the largest competitor for each type of sports equipment. He has partially completed the following BCG analysis table:

Sports equipment for:	Market growth rate	Relative market share	Category	Appropriate strategy
Tennis	High	High	Star	Build
Golf	High	Low		
Croquet	Low	Low		
Cricket	Low	High		

### Requirements

- Complete the BCG analysis table by identifying:
  - how each of Golf, Croquet and Cricket equipment should be categorised; and
  - an appropriate strategy for each type of equipment.**(3 marks)**
- For **three** of the strategies that have been identified in the BCG analysis table in Task 2.2a:

- describe the strategy; and
- give an example of how Eifer can put it into effect. **(6 marks)**

**Total: 9 marks**

### **Task 2.3**

#### **Halley Ltd**

Bill Davis, managing partner of Telbury's Bournemouth office, has been informed that Halley Ltd (Halley) (**Advance Information – Challenges for Telbury's Bournemouth office and Appendix H**) has entered insolvent liquidation.

Halley has no funds to repay the £1 million equity finance that Nintro plc (Nintro) contributed on 20 January 2023. Nintro has indicated it may make claims against Telbury for negligent misstatement in the assurance report that it prepared for Nintro about Halley's financial position as at 31 December 2022.

Bill and Nadja are satisfied that Telbury was justified in issuing the report, though they accept that the assurance assignment was rushed. They also believe that the disclaimers of liability which Telbury included in its contract with Nintro and in the assurance report mean that Telbury will not be liable to Nintro. As you have recently completed your law studies, they have asked for your views on this.

#### **Developing technologies**

Project Tech (**Advance information – Audit and assurance department**), the firm-wide project to consider how developing technologies affect Telbury, has now been completed. It has identified that cloud accounting, automation, artificial intelligence (AI) and machine learning are the developing technologies which are having the biggest effect on the accounting and audit professions. Bill asks you to explain how they are likely to affect Telbury in the future.

#### **Requirements**

- a. In respect of the assurance report, explain:
  - the nature of Telbury's relationship with Nintro in tort; and
  - whether Nintro is entitled to make a claim against Telbury for negligent misstatement in tort. Ignore the disclaimers. **(5 marks)**
- b. Explain whether Telbury may be protected by its disclaimers of liability for negligent misstatement if Nintro makes claims against it. **(3 marks)**
- c. Explain **two** possible benefits and **two** possible risks that developing technologies present to Telbury's Bournemouth office. **(8 marks)**

**Total: 16 marks**