



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

**TUESDAY 6 JUNE 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	60 marks
Task 2	40 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 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 a special consideration application to ICAEW, **within 7 days of the exam**, as per ICAEW's published policy. Please refer to anything of note which occurred and will have been recorded, for use as evidence to support your case.

## Task 1

This task consists of **four** parts worth a total of 60 marks.

### Task 1.1

Sara Gargiulo, financial controller, asks you to help prepare the property, plant and equipment (PPE) note to the financial statements for Jardini for the year ended 30 April 2023.

Sara gives you the following information about PPE transactions in the year ended 30 April 2023.

- Additions were as follows:
  - Jardini acquired the property to expand the garden centre in Leicester (**Advance Information: Jardini's position and performance**) for £1,500,000 on 1 February 2023. Land comprised 20% of the acquisition cost.
  - Jardini spent £752,000 on new vehicles and machinery on 1 May 2022.
- Proceeds from the disposal of machinery on 1 May 2022 were £800,000. The machinery originally cost £1,200,000 on 1 May 2021. No other disposals were made.

Sara also wants you to explain a PPE-related accounting issue to Sammy Aguirre, your assistant accountant colleague.

### Requirements

With reference to the information above and **Advance Information – Appendices A and B**:

- (a) Prepare the PPE note to the financial statements for the year ended 30 April 2023. Show workings for the calculation of the depreciation charges for the year. The total column of the note is **not** required. **(12 marks)**
- (b) Calculate the profit or loss on disposal of the machinery. **(2 marks)**
- (c) Explain the purpose of depreciation, with reference to Jardini's land and buildings. **(4 marks)**

**Total: 18 marks**

## Task 1.2

Sara recently prepared a draft statement of profit or loss for the year ended 30 April 2023 which shows a draft operating profit of £9,830,000.

She has now received some additional information and wants you to calculate a final figure for operating profit which she will present to Tommy Sheldon, finance director, before he attends the next board meeting.

The following information impacts the final operating profit figure for the year ended 30 April 2023:

- Figures for the depreciation charge and profit/loss on disposal of machinery are not reflected in the draft operating profit figure.
- No amortisation charge on intangible assets has been accounted for. After 1 May 2022, further development costs of £1,760,000 were incurred before the new website went live on 1 November 2022. These costs have been capitalised. Tommy has determined that all development costs should be amortised over five years from the date the website went live.
- The following information is relevant to one line of rare houseplants:
  - 50 plants were held in inventories at 1 April 2023, valued at £25 each
  - 250 plants were purchased for £40 each on 10 April 2023
  - 180 plants were sold on 15 April 2023
  - 130 plants were purchased for £65 each on 21 April 2023

On 30 April 2023 the remaining unsold plants were included in the inventory count but they have so far been omitted from closing inventories in the draft financial statements.

- Items of gardening equipment were counted at the Salisbury garden centre but were found to be damaged, so Jardini will sell them at a reduced selling price. The items have so far been omitted from closing inventories in the draft financial statements.

Item code	Quantity	Purchase price per item	Reduced selling price per item	Costs to sell per item
		£	£	£
658365	50	580	780	80
546846	40	1,680	1,450	110
456499	70	390	550	50

## Requirement

With reference to the information above, your answers to **Task 1.1 (a)** and **(b)**, and **Advance Information – Appendices A and B**, calculate Jardini's revised operating profit figure for the year ended 30 April 2023.

**Total: 11 marks**

### Task 1.3

More information has come to light about the activities in March 2023 of Isabelle Jacob, general manager at the Wanstead garden centre (**Advance Information - Appendix D: Minute 2**). Emilia Wright, CEO, has established that, on 15 March 2023:

- Isabelle passed the gifts that she took from the two property developers to Liam O'Neill, contracting director. Liam then authorised that Jardini would accept the contracts to supply garden services to the developers at the very low prices.
- Liam authorised Isabelle's decision to write off the expensive houseplants and then agreed that she could sell them on her own behalf.

On 17 March 2023, Sara told you that she did not have time to review Isabelle's decision about the write-off of the expensive houseplants, but she told you to record the details of the write-off anyway. Sara explained that Liam had authorised it and, as Liam was her cousin, she knew she could trust him. As Sara is your line manager, you reluctantly accepted her explanations and recorded the details.

Emilia dismissed both Liam and Isabelle for gross misconduct on 1 June 2023 and informed the other directors. She has called a board meeting to discuss Liam's breach of his statutory duties as a director and to re-emphasise the importance of these duties to all Jardini's directors. She has asked Tommy for help in identifying which statutory duties to focus on in the board meeting, so Tommy asks you to research the topic.

Tommy tells you that Emilia is concerned about whether the finance function followed the appropriate review and authorisation procedures in relation to the Wanstead garden centre activities (**Advance Information – Appendix B**).

You are now worried that the actions you and Sara took on 17 March 2023 could mean that you are both in breach of the ICAEW Code of Ethics and the finance function code of conduct (**Advance Information – Appendix C**).

### Requirements

- (a) What type of fraud was perpetrated by Isabelle and Liam? **(1 mark)**
- A Fraudulent trading
  - B Wrongful trading
  - C Fraud by false representation
  - D Fraud by abuse of position
- (b) Identify and explain **three** statutory duties of a director that Liam breached in relation to the activities at the Wanstead garden centre. **(6 marks)**
- (c) With reference to **Advance Information – Appendices B, C and D: Minute 2**, and the information above:
- explain **two** ways in which Sara's actions on 17 March 2023 were in breach of the fundamental principles in the ICAEW Code of Ethics; and
  - briefly identify **three** actions that you should have taken on 17 March 2023 to comply with the finance function code of conduct and the ICAEW Code of Ethics. **(7 marks)**

**Total: 14 marks**

## Task 1.4

Following her meeting with Aaron Gombero, the Grove audit manager, on 8 April 2023 (**Advance Information – Appendix E**) Emilia has not yet had time to seek clarification about the respective responsibilities of management and the external auditor for preventing and detecting issues such as those which occurred in Wanstead. She asks you to explain these responsibilities.

Sara has established that the financial cost to Jardini arising from the under-priced contracts and unjustified inventories write-off (**Advance Information – Appendix E**) was £25,000. She emailed this information to Aaron, who replied:

‘Before we consider the figure you have sent me, as I mentioned at our meeting of 8 April 2023, we must update our figure for materiality for the financial statements as a whole. We will calculate the relevant percentages of revenue and total assets using Jardini’s financial statements for the year ended 30 April 2023, then use the lower of those two figures.’

Sara tells you that, after all adjustments, the total assets figure at 30 April 2023 is £81,400,000 and the revenue figure for the year is £63,194,000. She wants you to establish:

- the materiality figure for the financial statements as a whole which will be used by Grove, and
- whether the relatively small financial cost of the fraud by Liam and Isabelle means that the fraud will not be regarded as a material issue by Grove.

In his email Aaron also mentioned the following problems which occurred at the inventory count on 30 April 2023:

- During the day there was a fire in the Liverpool garden centre which destroyed some inventories of gardening equipment. The inventories had already been counted and no record of the destruction was noted on the inventory count sheets.
- Some items had been paid for by a customer but had not yet been collected by them. These items were located in a corner of the Barnstaple garden centre and were included on the inventory count sheets.

## Requirements

Refer to **Advance Information – Appendix E**.

- (a) Prepare an email to send to Emilia which describes the respective responsibilities of Jardini’s management and Grove for preventing and detecting fraud. **(5 marks)**
- (b) Calculate the figure that Grove will use as materiality for the financial statements as a whole in the final audit of the financial statements for the year ended 30 April 2023 (rounded to the nearest £1,000). **(3 marks)**

- (c) Explain how the discovery of fraud at the Wanstead garden centre is likely to affect Grove's risk assessment and determination of materiality for the financial statements as a whole. **(2 marks)**
- (d) In relation to the events at the inventory counts in Liverpool and Barnstaple which affect Jardini's closing inventories figure in the financial statements for the year ended 30 April 2023:
- Describe **three** key assertions that should be tested by Grove.
  - List **two** substantive procedures which Grove could undertake as part of the audit of closing inventories. For each substantive procedure, state the assertion that is being tested.  
**(7 marks)**

**Total: 17 marks**

## Task 2

This task consists of **two** parts worth a total of 40 marks.

### Task 2.1

#### Letterbox plants

Bex Popescu, retail director, wants to proceed with the trial for the Morpeth garden centre to deliver letterbox plants across the north-east of England (**Advance Information – Appendix D: Minute 3**).

After checking the original estimates, Sara produced the following revised figures for the trial:

	Sara's revised figures for the trial
Average retail price including plant, packaging and delivery	£35.00 per letterbox plant delivered
Average variable costs of plant, packaging and delivery	£16.50 per letterbox plant delivered
Additional fixed costs at Morpeth garden centre for the three-month period	£17,300

At this revised retail price Sara estimates that, in the three-month period, market demand will be 1,050 letterbox plants delivered. She asks you to calculate the breakeven volume for the trial, the margin of safety and the total profit.

Alternatively, Bex now estimates that market demand will be 50% higher if the letterbox plants are priced at £29.00 each, including plant, packaging and delivery. Bex asks you to calculate the maximum variable costs that could be spent on average for each letterbox plant delivered if Jardini sells them for £29.00 each and wants to achieve a target contribution of 45% of selling price. Bex tells you that the additional fixed costs at the Morpeth garden centre will be 5% higher than Sara's revised figure above because of the increased sales volume.

#### Forecast of rental revenue from concessions

Tommy is co-ordinating the preparation of an updated forecast for Jardini for the autumn quarter ending 31 October 2023. He asks you to forecast Jardini's rental revenue from concessions for the quarter, which will comprise a fixed rent plus a variable amount (**Advance Information: Jardini's operations**).

He gives you data for the estimated value of the sales that Jardini's concessions will make during the autumn quarter. The data sets out three different scenarios for sales made by concessions based on the likelihood of bad, average and good weather:

Type of weather	Probability of type of weather	Estimated value of sales made by concessions £
Bad	25%	12,000,000

Average	45%	15,700,000
Good	30%	17,600,000

### Requirements

- (a) Based on Sara's revised figures for the trial period of delivering letterbox plants, calculate:
- the breakeven volume in whole units;
  - the margin of safety percentage; and
  - the total profit. **(6 marks)**
- (b) Based on Bex's estimates, if Jardini charges customers £29.00 for letterbox plants, calculate:
- the target variable costs of a letterbox plant delivered if a target contribution of 45% is to be achieved; and
  - the total profit that would be generated at the increased volume estimated by Bex. **(4 marks)**
- (c) Explain **three** factors that Jardini should consider before deciding whether to launch the letterbox plant trial at the Morpeth garden centre. **(6 marks)**
- (d) Calculate the expected value of Jardini's rental revenue from concessions for the autumn quarter ended 31 October 2023. **(4 marks)**

**Total: 20 marks**



## Task 2.2

Tommy and Sara have agreed that, to enhance your studies and professional development, some of your time should be spent in an advisory role to directors if they need support. Both Abram Wu, technology director, and Bex want to involve you in their projects.

### Value chain analysis project

Bex has performed further analysis (**Advance Information – Appendix D: Minute 1**) on Jardini's value chain at its garden centres. She has identified four concerns, which she has shared with Emilia:

1. When a new concession opens in a garden centre, it takes between three and six months before the availability of its products is included in local advertising.
2. The skills of the people who deliver Jardini garden services at the premises of corporate clients are of varying quality. Some are Jardini employees but most are self-employed contractors, many of whom do not have the same high level of training as Jardini employees.
3. Until supply chains are properly established, plants that Jardini purchases from new specialist suppliers are often received late. These plants have a shorter shelf-life than normal and are more often returned by customers for refunds due to their failure to grow.
4. The regulations that affect the growing environment and importation of plants change frequently. Knowledge of changes and the reasons for them is held by a number of individual directors and managers in Jardini, but it is not centrally logged. This means that employees who are responsible for buying plants or caring for them are sometimes unaware of regulations and act in breach of them. This can result in some purchased plants being destroyed.

### Garden services teams

Bex has temporarily assumed director responsibility for garden services contracts, following Liam's dismissal. She tells you she has discovered that, to complete the garden services contracts, Jardini increasingly uses self-employed contractors in its teams. Some of these contractors were formerly Jardini employees. Bex asks you to explain the effect on an individual of moving from employed to self-employed status.

### Further investment in technology project

Abram has completed some further analysis of how the Internet of Things (IoT) may assist Jardini in managing people and assets more effectively (**Advance Information – Appendix D: Minute 4**). He has established that:

- Radio frequency identification (RFID) tags would be of use in relation to large and high value items of inventory, and also for vehicles and machinery.
- Smartphones, with a location-enabled app, would allow team leaders to record accurately when gardening services teams, vehicles and machinery arrive at and

leave the premises of corporate clients. This data would be automatically transferred to Jardini.

## Requirements

- (a) In relation to Jardini's value chain at its garden centres (**Advance Information – Appendix D: Minute 1**) and the information above:
- Identify **two** cost drivers.
  - Identify **two** value drivers.
  - For each of the **four** concerns identified by Bex, explain how stronger linkages between specific activities could improve value added by garden centres.  
**(12 marks)**
- (b) Describe **two** consequences for an individual of changing their status from Jardini employee to self-employed contractor. **(2 marks)**
- (c) Explain **three** ways in which the Internet of Things (IoT) will assist Jardini in managing people and assets more effectively. **(6 marks)**

**Total: 20 marks**