



LEVEL 4

ACCOUNTING

TECHNICIAN

APPRENTICESHIP

TUESDAY 10 DECEMBER 2024

2.5 HOURS

ROLE SIMULATION

EXAMINATION

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

Marks breakdown

Task 1	59 marks
Task 2	41 marks

You will need to refer to your copy of the Advance Information (AI) during this exam. A clean copy of the AI is available as a PDF in the exam software. Your personal copy will be available on the ICAEW bookshelf providing you have added it.

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 **End 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 support.

Task 1

This task consists of **four** parts worth a total of 59 marks.

Task 1.1

Faye Reeves, financial accountant, has prepared an initial trial balance for Batlington Ltd (Batlington) for the year ended 30 September 2024.

	£	£
Administrative expenses	3,021,700	
Borrowings		44,122,500
Cash at bank	10,860,700	
Dividend paid	540,000	
Disposal account		23,000
Finance costs	2,867,900	
Inventories as at 1 October 2023	69,119,000	
Costs of construction incurred during the year	43,442,600	
Property, plant and equipment (PPE)	1,786,900	
Provision for cladding as at 1 October 2023		1,000,000
Retained earnings as at 1 October 2023		22,512,500
Revenue		53,659,700
Selling costs	2,400,600	
Share capital		10,000,000
Trade and other payables		9,037,100
Trade and other receivables	6,315,400	
Totals	140,354,800	140,354,800

Faye asks you to prepare some journal entries to update the nominal ledger for the following matters:

1. The legal processes for the sale of a house on the Earlsford site were completed late on Monday 30 September 2024. In error the buyer's solicitor transferred £450,000, being the outstanding sales price, to the bank account of another business called Watlington Ltd. The money was paid back to Batlington's solicitor and then to Batlington's bank account on Tuesday 1 October 2024. Batlington has not made any entries to record this income.
2. The independent assessor (**Advance Information – Board meeting on 10 October 2024 (Any other business)**) has determined that the cost of remedying dangerous cladding on houses which Batlington built on the Visconta site is less than previously estimated. She recommends that the provision for cladding should be reduced to £850,000 as at 30 September 2024.
3. Finance costs include £22,000 which should have been included in administrative expenses.

Saul Bryan, accounts assistant, is studying the IASB's *Conceptual Framework for Financial Reporting*. Faye asks you to explain to Saul the fundamental qualitative characteristic of 'faithful representation' in financial statements.

Requirements

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

- a. For each of the three matters above, set out the debits and credits to record the necessary accounting adjustments in the nominal ledger for the year ended 30 September 2024. Do not provide narrative explanations. **(4 marks)**
- b. Prepare an email to Saul Bryan explaining the three key aspects of faithful representation. Illustrate your explanations using the accounting adjustments in **Task 1.1a**. **(7 marks)**

Total: 11 marks

Task 1.2

Faye asks you to use the initial trial balance and the journals you prepared in **Task 1.1a** to prepare the statement of profit or loss for Batlington for the year ended 30 September 2024.

She provides you with some additional information:

1. The figure for total inventories (including the land bank) as at 30 September 2024 was initially determined at £70,171,200. This figure included some building materials which cost £17,500 but were later found to have been damaged in the serious flood at the Earlsford site on 30 September 2024 (**Advance Information – Board meeting on 10 October 2024 (Flood at the Earlsford site)**). These materials have proved to be unusable, so need to be written off.
2. On 30 September 2024 Batlington sold an item of plant. It bought the plant on 1 October 2021 for £50,000. The sales proceeds were recorded in the bank account and the disposal account. No other accounting entries have been made in respect of this disposal.
3. Throughout the year ended 30 September 2024, Batlington used a surveyor to value both WIP and completed houses on the Queensmoor site before they were sold. The surveyor did not issue an invoice to Batlington between March 2024 and the year end, and no adjustment has yet been made for this. It is estimated that Batlington owed fees to this surveyor of £12,700 as at 30 September 2024.
4. Tax on profits is appropriately estimated at £705,200.
5. The dividend of £540,000 was paid on 31 December 2023.

Requirements

Refer to **Advance Information – Appendices A and B**, the information in **Task 1.1** and your answers to **Task 1.1a**.

- a. Prepare the statement of profit or loss for Batlington Ltd for the year ended 30 September 2024, in a form suitable for publication. Include a detailed working for cost of sales. Do not show comparatives. Show all workings clearly. **(12 marks)**
- b. Calculate the figure for retained earnings that will appear in the statement of financial position for Batlington Ltd as at 30 September 2024. **(3 marks)**

Total: 15 marks

Task 1.3

Jenkin LLP (Jenkin) is the statutory auditor of Batlington's financial statements for the year ended 30 September 2024. Jonah Hall is the engagement partner.

In a phone call in late October, Reid Gregory, finance director, told Jonah about an incident at the Kingshield site when Batlington's goods inwards processes for building materials (**Advance Information – Appendix C**) were not followed. Access to the site is restricted and so, on one occasion, a supplier left materials outside its entrance very early in the day, before a site manager or supervisor was on site. A skilled worker supplied by a sub-contractor counted the materials immediately, and wrote on the supplier's delivery note that fewer materials were delivered than was stated on the note. This delivery therefore had a delivery note but it was not signed by anyone from Batlington, and it had no GRN. Some of the materials were subsequently stolen before they could even be moved on-site. The remaining materials were not checked thoroughly before they were used in construction, when it was realised that their quality was not as specified in the relevant order. Reid assured Jonah that this was a one-off incident and that goods inwards processes were usually followed.

At a meeting on 11 November, Reid and Jonah discussed the gradual decline in average sales prices for Batlington's houses, and the relatively high level of finished goods (completed houses) in inventories as at 30 September 2024.

Following this meeting, Jonah notified Reid that Jenkin would be extending its audit procedures in relation to Batlington's inventories, focussing on building materials in work in progress (WIP). He also advised that, in future, Batlington should undertake an inventory count of building materials at the year end, for which it will need to implement appropriate internal controls.

Reid has asked you to prepare notes, for Batlington's directors, about the approach Jenkin is likely to take during its audit and the internal controls required for future inventory counts.

Requirements

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

- a. In relation to Batlington's building materials:
 - identify **two** risks arising from non-compliance with the goods inwards processes on site; and
 - explain **three** tests of controls over the goods inwards processes and recording

of purchase invoices that Jenkin is likely to perform. **(8 marks)**

- b. Identify **two** financial statement assertions relevant to finished goods (completed houses), other than valuation, for which Jenkin is likely to design substantive procedures. **(2 marks)**
- c. Explain **two** factors that will make it difficult for Jenkin to obtain sufficient appropriate audit evidence for the valuation of Batlington's land bank as at 30 September 2024. **(4 marks)**
- d. Explain **three** internal controls that will increase the reliability of Batlington's future year-end inventory counts of building materials. **(6 marks)**

Total: 20 marks

Task 1.4

Wilma Hewitt, CEO, met Danyal Wong, marketing director, to discuss concerns about the part-exchange scheme for the Earlsford site which is promoted on Batlington's website (**Advance Information – Appendix D**). Danyal gave Wilma some further information:

- The referral fees payable to Batlington by solicitors and mortgage brokers were not mentioned on the website.
- The prices at which the sales team told prospective buyers Batlington would buy their existing homes were substantially below market value. Danyal had instructed the team to offer low prices as he knew buyers were likely to accept them, because they were desperate to secure their purchase of a new-build house.

When Wilma enquired more widely after their meeting, the sales team told her that they were uncomfortable about Danyal's instruction to them. They said Danyal justified the low prices by reference to the additional profit Batlington would make when it sold the buyers' existing homes. The team told Wilma they did not know who to talk to about their concerns so they did what Danyal asked, because they did not want to jeopardise their sales-related bonuses.

Wilma identified that the protests from house-owners about maintenance charges by Mitney for the Queensmoor site are valid (**Advance Information – Appendix D**). Mitney is failing to maintain the infrastructure on the Queensmoor site to a good standard and is charging very high amounts to house-owners. Wilma also established that Batlington's sales staff did not have any evidence for their claim to prospective buyers that charges would be less than £1,000 per year per house. She therefore believes the sales staff may have behaved inappropriately.

Wilma asks you to analyse these situations in terms of ethical principles. She now believes that Batlington's ethical culture may be weak, and asks you to make some suggestions for improving it.

Requirements

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

- a. Explain **two** ethical principles that are threatened by the way in which Danyal and the sales team have operated the part-exchange scheme for the Earlsford site. **(4 marks)**
- b. In relation to Mitney's high maintenance charges to house-owners on the Queensmoor site:
 - Explain **one** way in which Batlington may have acted unethically when it sold the houses.
 - Identify **one** type of risk for Batlington that the protests by the house-owners represent. **(3 marks)**
- c. Explain **three** actions that Batlington can take to improve its ethical culture. **(6 marks)**

Total: 13 marks

Task 2

This task consists of **three** parts worth a total of 41 marks.

Task 2.1

Georgie Cuevas, build operations director, wants to investigate further the variances on completed houses on the Earlsford site (**Advance Information – Appendix E**). She also wants to know whether the efficiency of labour has improved between August 2024 and October 2024. Sam Mayhew, management accountant, confirms that the original standard costs have not been changed.

Sam gives you the following information for an additional terrace of four Princeton houses. All four houses in the terrace were completed during October 2024:

Actual cost for a terrace of four Princeton houses completed in October 2024

	£
Cost of building materials	392,000
Cost of labour	
Grade 1 labour (2,760 hours)	176,640
Grade 2 labour (3,340 hours)	146,960
Variable construction overhead	<u>61,000</u>
Total variable cost of completing four houses	<u>776,600</u>

The apportioned fixed cost for land of each Princeton house is £160,000.

These were the final four houses on the Earlsford site. Georgie's team had to rush to complete their construction in order to complete the whole site, but the procurement function was not informed about the change of timescale until the last minute. To sell the terrace quickly, on 1 October 2024 Batlington reduced the selling price of each house to £439,000. By the end of November 2024, two of the houses had been sold at this price.

Requirements

Refer to the standard costs and other information in **Advance Information – Appendix E**.

- (a) Calculate the profit made by **one** Princeton house that was completed in October 2024 and sold in November 2024. **(2 marks)**
- (b) Calculate the following variances for **one** Princeton house completed in October 2024, stating whether each is favourable or adverse:
- Grade 1 labour efficiency variance
 - Grade 2 labour rate variance
 - Total variable construction overhead variance.

Show your workings. **(9 marks)**

- (c) In respect of **one** Princeton house completed in October 2024:

- Calculate the total variance for building materials.
 - Describe **four** possible reasons for the total variance. Include **two** possible reasons that may cause a variance in price and **two** possible reasons that may cause a variance in usage. **(6 marks)**
- (d) Identify whether Grade 2 labour was more or less efficient when building **one** Princeton house in October 2024 compared with:
- the original standard
 - August 2024. **(2 marks)**

Total: 19 marks

Task 2.2

Reid asks for your help in preparing a presentation for the next board meeting on how Batlington establishes selling prices for its houses, using the headings from the Four C's of pricing (**Advance Information – Board meeting on 10 October 2024 (Margins)**).

He points out that recently Batlington has been responding to customer demands in various ways. This has included incorporating heating systems with smart controls in the houses. He mentions that some new houses built by other housebuilders have included solar panels in their specifications.

Caspar Ortega, technology director, asks you for help in preparing a report for the board on the use of the internet of things in relation to goods inward processes (**Advance Information – Board meeting on 10 October 2024 (Any other business)** and **Appendix C**).

A leading housebuilding body has invited Batlington to be accredited for compliance with its Climate Change and Sustainability Code of Conduct. Before replying, Wilma wants to provide staff with some guidance about how Batlington's operations are affected by climate change and what it can do to support environmental sustainability. Of particular concern to Wilma are the amount of waste that Batlington produces, how it disposes of waste, and how it sources timber for use in construction. She asks you to help prepare the guidance.

Requirements

- Identify and explain **one** factor that affects the price at which Batlington can sell a house under **each** of the Four C's headings. **(8 marks)**
- Explain **two** ways that the internet of things could be used to improve Batlington's goods inwards processes. **(4 marks)**
- Describe:
 - **two** ways in which climate change could impact Batlington's operations; and
 - **two** actions which Batlington could take to support environmental sustainability. **(4 marks)**

Total: 16 marks

Task 2.3

Justine Harper, procurement director, tells you that she wants to email Batlington's solicitors about the contract with Timbfram Ltd (Timbfram) to purchase bespoke timber frames for an eco-house at the Earlsford site (**Advance Information – Board meeting on 10 October 2024 (Flood at the Earlsford site)**). She explains that the part-completed house and the land on which it stood were destroyed by the flood and landslip on 30 September 2024. On that date Timbfram had almost finished constructing the timber frames at its factory but had not delivered them to the Earlsford site, and Batlington had not yet made any payments to Timbfram.

Justine has contacted Timbfram to state that the contract is terminated by frustration, so it should not deliver the frames to the site.

The contract did not contain any clauses that set out the position in the event of frustration of contract, so Justine is unsure whether Batlington should pay any money to Timbfram. Before she emails the solicitors, Justine asks you to give your views on the matter.

Requirement

In relation to the timber frames for the eco-house on the Earlsford site:

- Explain why the contract with Timbfram is terminated due to frustration.
- Explain whether Batlington has any legal obligation to pay money to Timbfram for the timber frames.
- Recommend a course of action for Batlington to take.

Total: 6 marks