



# ***ROLE SIMULATION EXAMINATION***

## ***ADVANCE INFORMATION***

This material is issued prior to the exam session.

A clean copy of the Advance Information will be available as a PDF in the exam software.

Candidates may add a copy of this Advance Information to their bookshelf which can be annotated in advance and then accessed during the exam.

Candidates can also bring a paper copy to the exam.

## ADVANCE INFORMATION

This Advance Information is issued prior to the exam session held on 10 December 2024, to allow you to familiarise yourself with the information provided and to undertake any other appropriate research and analysis.

You should add your copy of the Advance Information to your bookshelf, which you can then annotate. You will be able to access your bookshelf during the exam. A clean copy of the Advance Information will also be available as a PDF in the exam software and you may bring a paper copy to the exam, annotated if you wish, and any other notes of your preparatory work.

The Advance Information is also published on the website: [Role simulation exam | ICAEW](#)

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 2023 Role Simulation Workbook and the 2023 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.

## Batlington Ltd

<b>List of exhibits</b>	<b>Page number</b>
• Company background: Batlington Ltd	4
• The housebuilding industry in England	4
• Batlington's strategy and operations	6
• Financial information	7
• Organisational structure	9
• Statutory audit	9
• Board meeting on 10 October 2024	10

### **Appendices**

A Batlington Ltd financial statements for the year ended 30 September 2023 (extracts)	12
B Accounting procedures handbook (extracts)	13
C Auditor's notes from a meeting with the finance director	14
D Batlington's business ethics	16
E Standard costs and variances at the Earlsford site	17

**This document reflects information available on 15 October 2024.**

## **Company background: Batlington Ltd**

Batlington Ltd (Batlington) is a small to medium-sized regional housebuilder. It has two or three sites in the course of development at any time. Once fully constructed, a typical site developed by Batlington contains between 80 and 120 new-build houses, each with two to five bedrooms. The average selling price for a Batlington house is £450,000. This is above the UK average as the houses are fitted out to a high specification and the sites are in desirable locations in one region of England. Batlington operates from a freehold office building in that region.

Batlington was founded in 2010 by its CEO, Wilma Hewitt. The extended Hewitt family own all of Batlington's shares and between them take a substantial dividend each year.

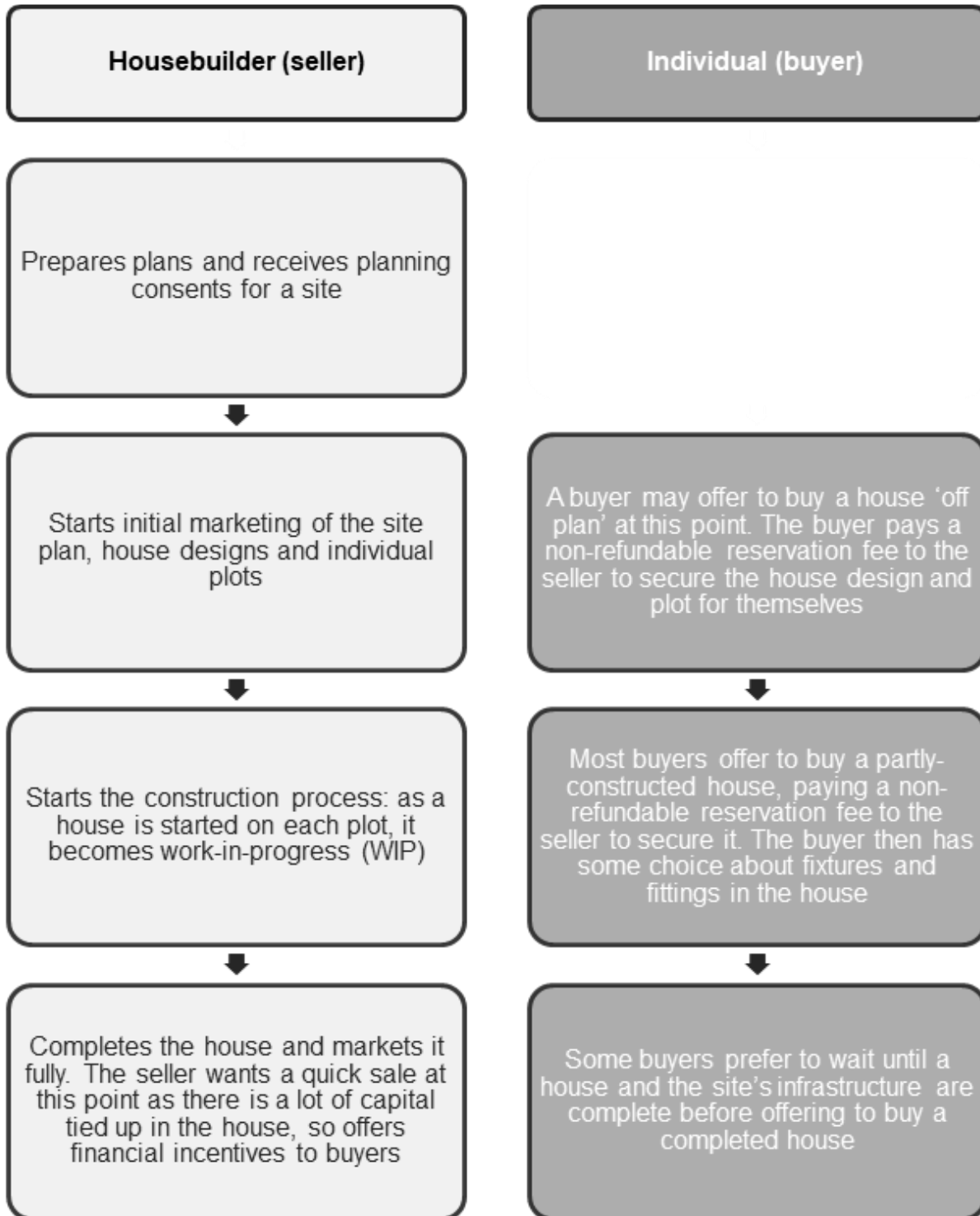
## **The housebuilding industry in England**

The housebuilding industry has a few very large companies, which build all over England, and many small to medium-sized local and regional companies. Housebuilding involves:

- acquiring freehold land on which to develop a site;
- designing the houses and the layout of the site;
- obtaining the necessary planning consents for the site from the relevant local authority;
- constructing houses on the site, as well as necessary infrastructure such as flood defences, roads, lighting and green spaces;
- selling the houses; and
- ensuring that plans are in place for future maintenance of the site's infrastructure. Depending on the nature of the completed site, maintenance of the infrastructure may become the responsibility of local government or may be taken over by a private maintenance company.

Most housebuilders buy land and hold it for a long time in a 'land bank' before designing, constructing and selling houses on it. When they buy the land, they can only make an estimate of the future selling price of the houses that will be built on it. This uncertainty means that housebuilders seek high returns on capital.

The market for new-build houses operates as follows:



The seller and buyer agree a contract in principle and proceed through the required legal processes. The buyer pays the seller a deposit of 10% of the agreed price once the terms of the contract are agreed, then pays the remainder of the price once all the legal processes, and hence the transaction, are completed. Payments from the buyer to the seller are arranged via each party's solicitor.

## Challenges facing the housebuilding industry

Key issues that have affected housebuilders in England since 2020 are:

- a shortage of land suitable for development
- difficulties in obtaining the necessary planning consents from local authorities
- ever-increasing regulation around how and what to build, especially in the context of climate change and the need for sustainability
- rising expectations among buyers for smart home technology
- exposure to cost inflation in building materials, energy and wages
- a shortage of skilled workers such as electricians and bricklayers post-Brexit
- changing interest rates and economic uncertainty.

As a result, margins and return on capital for the industry have fallen and are likely to continue to fall.

## Challenges facing buyers of new-build houses

Individuals face a range of problems when buying and owning new-build houses:

- **Asymmetric information:** there is little reliable information about the quality of a house when offering to buy it off-plan or partly-constructed. Buyers at these points tend to pay more attention to location, availability and price than to quality.
- **Affordability:** many lower-paid workers struggle to access finance or are priced out of the market.
- **Ability to complete the transaction:** many prospective buyers must sell their existing home to complete their purchase of a new-build. If they fail to sell their home, they cannot proceed to buy. To address this, housebuilders often offer a part-exchange scheme, where the housebuilder buys a prospective buyer's home at or below market value and simultaneously sells them a new-build house. The buyer pays the difference in price between the two houses to the housebuilder, usually by taking out a mortgage secured on the new-build house.
- **Post-purchase defects:** there can be high levels of defects in some new-builds which the housebuilder may be slow to rectify.
- **Post-purchase charges:** many owners of new-builds face unforeseen high costs for maintenance of the site's infrastructure.

## **Batlington's strategy and operations**

Batlington's strategy is to achieve an annual operating profit margin of 10-15% by developing two or three sites concurrently. It takes one to two years to complete development and sale of a site.

Batlington splits its operations as follows:

- The **planning function** identifies appropriate land for sites, secures borrowing with the help of the finance function, buys the land, and applies for planning consent.
- The **design function** plans the layout of each site and its infrastructure, and designs the houses to be built there, making sure there is a mix of two-, three-, four- and five-bedroom houses.
- The **build operations function** clears the site then constructs houses and infrastructure. Batlington employs site and project managers on permanent contracts. Sub-contractors supply the skilled and unskilled workers on the sites eg for groundwork, bricklaying, electrics and plumbing. Batlington is charged an hourly rate for sub-contracted labour.
- The **marketing function** monitors the market for selling houses on each site, operates Batlington's website, conducts other forms of marketing, and conducts viewings with buyers (using augmented and virtual reality tools where houses are not completed). This function is also responsible for negotiating the final selling price for each house, operating the part-exchange scheme and dealing with after-sales queries.
- The **procurement, finance and technology functions** support the other functions.

Wilma is in charge of the planning and design functions. As CEO she is also involved in every other aspect of Batlington's activities. She ensures that the focus is always on securing sales of houses as quickly as possible and for as high a price as possible.

Wilma fully recognises that climate change is a significant risk for Batlington and prides herself on the environmental sustainability of Batlington's sites and house designs. In light of the amounts of waste produced on construction sites, she actively promotes the 4Rs of recycling to all employed and sub-contracted staff.

Batlington relies heavily on its website for marketing to individuals. It uses data analytics tools, such as sentiment analysis, on data gathered from the website and other sources, to obtain high quality information about market trends. This supports decisions at every stage of a site's development, especially when: applying for planning consents; designing site layouts, houses and construction processes; and marketing houses at the most appropriate price.

## Financial information

Batlington's year end is 30 September. Extracts from its financial statements for the year ended 30 September 2023 are included in **Appendix A**. Extracts from the finance function's accounting procedures handbook are included in **Appendix B**.

Batlington's cash operating cycle for a site is comparatively long, like other housebuilders, and it always has a significant balance of inventories within current assets. Inventories comprise:

- Land bank: land is typically held for two to three years in the land bank while the process for obtaining planning consents is followed.
- Work in progress (WIP): consists of part-completed houses. When construction starts on a site, the cost of the land is transferred to WIP. Other costs, including direct labour (site and project managers), sub-contracted labour and building materials, are added to WIP as construction continues.

- Finished goods: completed houses are classified as finished goods.

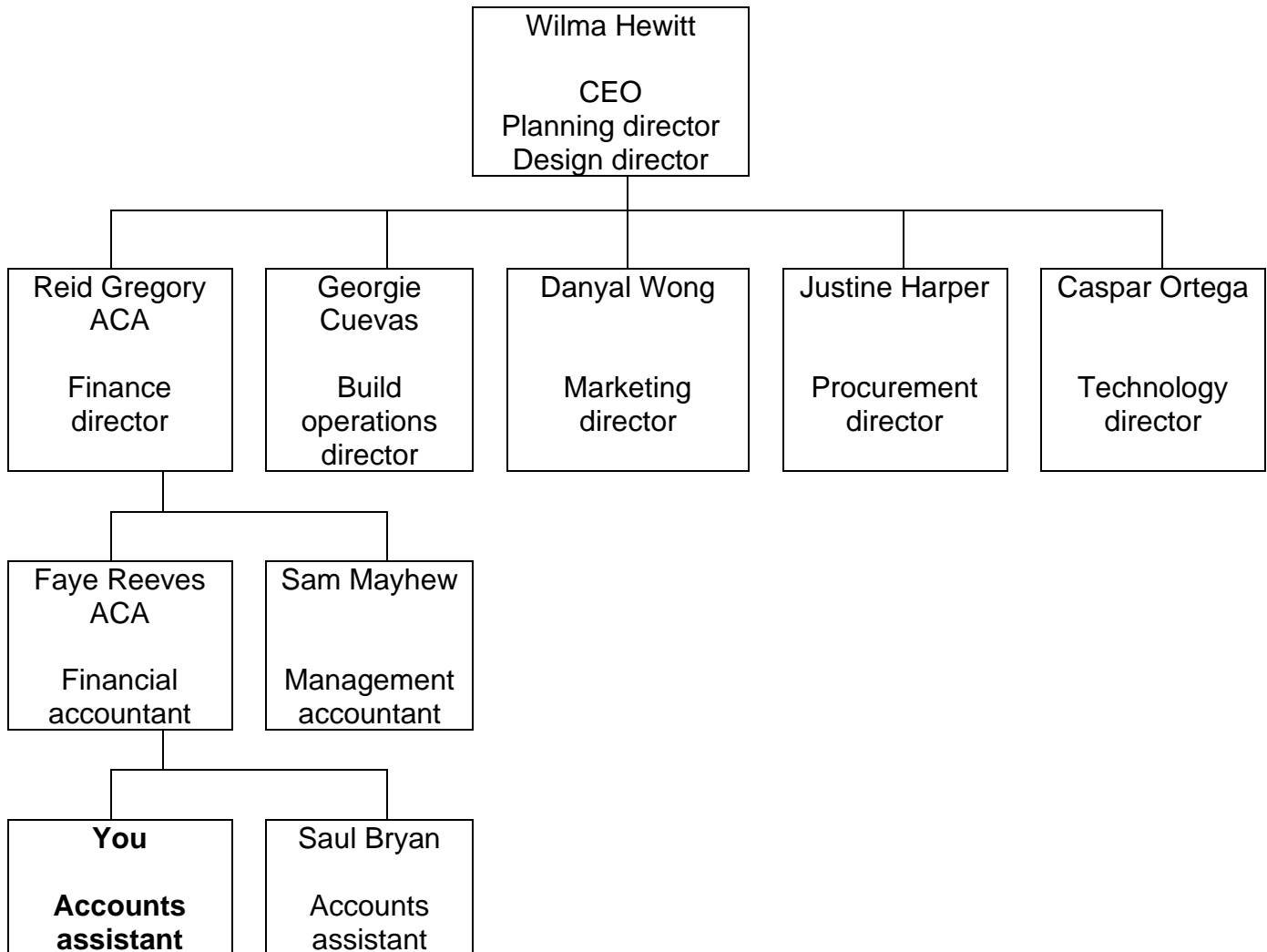
Once a site is fully developed and the houses on it are all sold, Batlington sells the site's infrastructure (flood defences, roads, lighting and green spaces) to an unrelated maintenance company, Mitney Ltd (Mitney). Mitney is responsible for the site's ongoing maintenance and charges individual house-owners for this.

The inventory classification and status of Batlington's sites as at 30 September 2024 is as follows:

<b>Site name</b>	<b>Status</b>	<b>Inventory classification</b>
Dukely	Design/planning process not started	Land bank
Thanesgold	Design/planning process not started	Land bank
Countess	Design started and planning consent applied for	Land bank
Kingshield	Construction started; no houses completed yet	WIP
Earlsford	Construction ongoing. Most houses completed and some sold.	WIP and finished goods
Queensmoor	Construction finished. All houses sold. Infrastructure and the right to charge maintenance fees to house-owners sold in September 2024 to Mitney for £500,000	N/a



## Organisational structure



You are a second-year accounting apprentice at Batlington. Your line manager is Faye Reeves, financial accountant, who reports to Reid Gregory, finance director. As part of your training, you are shadowing members of the board and assisting them when requested to do so.

Both you and Saul Bryan are accounts assistants and student members of ICAEW, but Saul is at an earlier stage in his accounting apprenticeship than you. He recently started to study the IASB's *Conceptual Framework for Financial Reporting* and has asked you questions about the fundamental qualitative characteristics of financial information. Faye has asked you to support Saul in his studies when necessary.

### Statutory audit

Jenkin LLP (Jenkin) performs the statutory audit of Batlington's financial statements. Jonah Hall is the engagement partner at Jenkin. Recently Jonah had a meeting with Reid to discuss the audit of the financial statements for the year ended 30 September 2024. At the meeting, Jonah told Reid that, as part of its audit work, Jenkin will be focusing on purchases of building materials and on valuation of inventories, specifically the land bank and finished goods. Jonah's notes from the meeting are in **Appendix C**.

## Board meeting on 10 October 2024

At a recent board meeting a number of issues arose:

### Batlington's business ethics

Wilma started the meeting by repeating her personal commitment to an ethical culture throughout Batlington and to good business ethics in every aspect of its activities.

She voiced some concerns that, despite this ethical culture, there were some ethical issues, including:

- complaints from buyers regarding the part-exchange scheme offered on Batlington's website for the Earlsford site;
- complaints generally about the referral fees received by Batlington from solicitors and mortgage brokers whom Batlington recommends to buyers;
- protests, at the Earlsford and Kingsfield sites, by owners of houses on the completed Queensmoor site. These owners are angry that Batlington misinformed them about how much Mitney was likely to charge for its maintenance of the Queensmoor site's infrastructure. In fact, the amounts charged have been excessive.

Wilma provided some more detail to the board (**Appendix D**), and asked the directors to suggest actions.

### Margins

Reid informed the board that rising construction costs and falling selling prices were adversely affecting Batlington's margins. He referred the board to an email from Georgie Cuevas, build operations director, about standard costs and variances (**Appendix E**).

During further discussions, the directors questioned both Danyal Wong, marketing director, and Reid on whether Batlington used the 'Four Cs of pricing' to establish selling prices for its houses. The directors asked Reid for a presentation on this matter at the next board meeting.

### Flood at the Earlsford site

In August 2024, Batlington started building an 'eco-house' on the edge of the Earlsford site. This was an experiment in new design and processes, specifically to determine the house's ability to withstand serious flooding. In August Batlington also entered into a contract with Timbfram Ltd (Timbfram), a long-established and reliable supplier, to buy bespoke timber frames for the eco-house.

Georgie reported to the board that a serious storm on 30 September 2024 caused a catastrophic flash flood and landslip on the part of the Earlsford site where Batlington was building the eco-house. The landslip destroyed the partly-constructed house, and rendered the land on which it had stood unusable. No other houses were affected.

Justine Harper, procurement director, suggested that Batlington will need legal advice about its obligations under the contract with Timbfram, because the destruction caused by the flood makes it impossible to continue building the eco-house.

## Any other business

Justine told the board that site managers and supervisors like being able to use Batlington's intranet-based materials tracking system when managing supplier deliveries on site (**Appendix C**).

Caspar Ortega, technology director, suggested that Batlington could make use of the internet of things, for example RFID tags, to improve goods inward processes.

In March 2022, Batlington identified issues in relation to the fire safety of a type of cladding that was used on houses built at Visconta, a site completed by Batlington in 2021. In its financial statements for the year ended 30 September 2022, Batlington created a substantial provision for remedial works on these houses, the cost of which would not be covered by its insurance. Reid confirmed that an independent assessor was still compiling a report on the extent of work that Batlington needed to perform to remedy the dangerous cladding at Visconta. The provision will need to be adjusted in the year ended 30 September 2024 in light of this report.

Batlington has not used this type of cladding on any other sites.

## Appendix A – Batlington Ltd financial statements for the year ended 30 September 2023 (extracts)

### Statement of profit or loss for the year ended 30 September 2023

	£
<b>Revenue</b>	54,499,500
Cost of sales	(41,419,700)
Gross profit	<u>13,079,800</u>
Selling costs	(2,299,400)
Administrative expenses	<u>(2,560,400)</u>
<b>Operating profit</b>	8,220,000
Finance costs	<u>(2,591,900)</u>
<b>Profit before tax</b>	5,628,100
Income tax	<u>(1,125,600)</u>
<b>Profit for the period</b>	<u>4,502,500</u>

### Statement of financial position as at 30 September 2023

	£	£
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment		1,985,100
<b>Current assets</b>		
Inventories	69,119,000	
Trade and other receivables	5,183,900	
Cash and cash equivalents	<u>9,123,900</u>	
		<u>83,426,800</u>
<b>Total assets</b>		<u>85,411,900</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital: £1 equity shares		10,000,000
Retained earnings		<u>22,512,500</u>
<b>Total equity</b>		32,512,500
<b>Non-current liabilities</b>		
Borrowings		25,919,700
<b>Current liabilities</b>		
Borrowings	17,279,800	
Trade and other payables	8,099,900	
Provision for cladding	1,000,000	
Income tax payable	<u>600,000</u>	
		<u>26,979,700</u>
<b>Total equity and liabilities</b>		<u>85,411,900</u>

## Appendix B – Accounting procedures handbook (extracts)

The following are extracts from Batlington’s accounting procedures handbook for maintaining the nominal ledger and preparing the financial statements. These procedures were applied when preparing Batlington’s financial statements for the year ended 30 September 2023:

### Financial statements and financial reporting standards

Assets, liabilities, expenses, income and equity items are recognised and measured in the financial statements in accordance with the IASB’s *Conceptual Framework for Financial Reporting*.

### Accounting procedures and other information

- Revenue includes sales of completed houses to individuals, and sales of infrastructure on completed sites to Mitney. Revenue is recognised when the sale transaction is completed.
- Cost of sales includes the costs of construction for houses that have been sold (land, purchases of building materials, sub-contractor payments, direct labour and variable construction overheads).
- Selling costs include the costs of selling completed houses and infrastructure, including surveyor and solicitor fees.
- Administrative expenses include all other costs, including depreciation charges and profits and losses on disposal of property, plant and equipment (PPE).
- Freehold office buildings are depreciated on a straight-line basis over 50 years; plant and equipment are depreciated on a straight-line basis over five years; vehicles are depreciated at 50% pa on a reducing balance basis.
- Inventories comprise:
  - o the land bank;
  - o work in progress (WIP);
  - o completed houses that are not yet sold (finished goods).

All inventories are valued at the lower of cost and net realisable value (NRV).

- Trade and other receivables comprise trade receivables (referral fees due from solicitors and mortgage brokers), prepayments and accrued income.
- Cash and cash equivalents comprise bank balances and cash in hand.
- Trade and other payables comprise interest payable, amounts due to suppliers, accruals, and deferred income (deposits from buyers).
- The provision for cladding was set up in 2022, to reflect Batlington’s commitment to completing remedial works on houses at the Visconta site that were constructed with cladding which is now deemed to be a fire risk. The initial cost of setting up the provision was included in administrative expenses.
- Borrowings consist of amounts owed to providers of finance.

## **Appendix C – Auditor’s notes from a meeting with the finance director**

Jonah Hall, Jenkin’s engagement partner, prepared the following notes of Reid’s explanations at a recent meeting to discuss the external audit of Batlington’s financial statements for the year ended 30 September 2024.

### **Procurement processes and controls**

#### Requisitions and orders

Site managers prepare requisitions for building materials, which are then authorised by the build operations director (Georgie). The procurement function places authorised orders with suppliers centrally, which means that a supplier often has to split an order so it can deliver materials to more than one site. To minimise the risk of theft, or damage by adverse weather, suppliers deliver materials directly to the relevant site on a just-in-time basis.

#### Goods inward processes

To manage supplier deliveries on site, site managers and supervisors can access Batlington’s intranet-based materials tracking system using a smart device. Suppliers notify the site office by phone in advance of a delivery. The manager or supervisor checks on their smart device that the delivery is expected and is associated with a valid order. A pre-prepared goods received note (GRN) for the item(s) is available on the device. When the delivery vehicle arrives, it is directed to a designated goods inward area on site. Only the manager or supervisor is permitted to accept the delivery and sign the supplier’s delivery note, scanning a copy for Batlington’s records using the smart device. The person accepting the delivery digitally signs the GRN on the device, noting any minor discrepancies or queries. If they have major concerns, the delivery is refused.

#### Purchase invoice processes

Once the finance function receives an invoice from the supplier, it is forwarded to the procurement function. The procurement function checks the invoice against the related order, delivery note and GRN and then submits the validated information to the finance function for recording and payment.

#### Issues

As sites are large and very busy, Batlington staff do not always follow the goods inward processes fully, eg, someone other than the site manager or site supervisor handles the delivery, quantities are not always checked, or materials are left in the wrong places and are affected by weather and other forms of damage.

### **Inventories as at 30 September 2024**

#### Land bank

As at 30 September 2024, the original purchase cost of the Countess, Dukely and Thanegold sites form the land bank. Batlington has owned both Countess and Dukely for several years, and acquired Thanegold on 1 January 2024. Due to various challenges, the possibility of building any houses on the Dukely site in the future is still very uncertain. In the event that Batlington cannot build houses on it, the Dukely land will be sold at auction for less than its original cost.

## Work in progress (WIP)

WIP as at 30 September 2024 comprises:

- The cost of the land for the two active sites, Earlsford and Kingshield.
- Construction costs: once construction of each house starts Sam Mayhew, management accountant, maintains detailed costings of land, building materials, sub-contractor and direct labour and variable construction overheads for the house.
- Building materials (eg, concrete, bricks, timber) held on site that have not yet been used on a particular house.

To comply with a bank borrowing condition, Batlington appoints an independent, bank-approved surveyor for each active site. Surveyors regularly inspect and report on the development of the site's houses throughout the year. At the year end the surveyor issues certificates of percentage completion for each house in WIP.

## Finished goods

On 30 September 2024, the surveyor certified 25 unsold houses on the Earlsford site as 100% complete. No houses were fully completed on the Kingshield site.

## Inventory count

Batlington did not perform any inventory counts of building materials at the year end, though it kept detailed inventory records for building materials throughout the year.

## Appendix D – Batlington’s business ethics

Given her concern about ethical issues, Wilma provided more information to the board meeting on 10 October 2024.

### Part-exchange scheme offered on the website for the Earlsford site

Many housebuilders offer prospective buyers a part-exchange scheme, which entails purchasing the buyer’s existing home and simultaneously selling them a new-build house. However, the part-exchange scheme promoted by Danyal Wong for the Earlsford site includes two elements which Wilma believes are unusual. Where Danyal perceives the buyer is having difficulty selling their existing home on the open market, he instructs the sales team to tell the buyer that, to qualify for part exchange, they must:

- accept the valuation of their home, as determined by Batlington’s planning function, without obtaining independent advice; and
- select a solicitor and mortgage broker from a list put forward by Batlington.

At the board meeting, Danyal added that the solicitors and mortgage brokers pay Batlington referral fees in return for being on the list. He justified the various elements of the Earlsford part-exchange scheme with reference to the sales targets that Wilma gave him and the profit targets that the board agreed. Wilma suggested that she and Danyal should continue the discussion at a separate meeting, to be arranged.

### Maintenance charges by Mitney

Owners who bought houses on the Queensmoor site, which is now maintained by Mitney, have staged protests at the Earlsford and Kingshield sites. They protest that, when they were originally considering whether to buy their new-build houses, Batlington’s sales team told them that ongoing charges to maintain infrastructure would be less than £1,000 a year per house. They say that Mitney’s actual charges are significantly higher than this. They also claim that Mitney does a poor job of maintaining the infrastructure on the site. Wilma committed to investigating this further.



## Appendix E – Standard costs and variances at the Earlsford site

To: Sam Mayhew, management accountant  
From: Georgie Cuevas, build operations director  
Date: 12 October 2024

Subject: Standard costs and variances at the Earlsford site

Dear Sam

As you know I have been getting reports of large variances between actual and standard costs for houses that we have completed on the Earlsford site. I don't find these reports meaningful as I think the standard costs we use should be revised more regularly.

Building materials. We have seen rapid inflation in the prices we pay for most building materials. In addition, we have amended some construction processes due to regulatory changes aimed at protecting houses against fire and flood.

Labour. We have made changes to how we use the two types of skilled labour that are supplied hourly by sub-contractors. We now aim to make more use of the Grade 2 labour because we pay a lower hourly rate for this. However, we have not changed the standard hours since 2022 so we are basing our construction plans and costing on outdated figures.

For example, this is a summary of the standard variable construction cost of a single house, called The Princeton, which we build as part of a terrace of four identical houses:

	Hours	Standard rate £	Standard cost £
Building materials	-	-	90,000
Labour:			
Grade 1	720 hours	£60/hour	43,200
Grade 2	800 hours	£40/hour	32,000
Variable construction overhead (based on total labour time)			<u>15,200</u>
<b>Standard variable construction cost</b>			<b><u>180,400</u></b>

However, in August 2024, when we completed the construction of a terrace of four Princeton houses on the Earlsford site:

- the building materials we actually used for the four houses cost £380,000 in total;
- both types of labour were paid more than the relevant standard rates, so there were adverse labour rate variances;
- the Grade 1 labour took only 695 hours per house, so its efficiency variance was favourable;
- the Grade 2 labour took 820 hours per house, so its efficiency variance was adverse; and
- the total variance for variable construction overhead was favourable, and the actual rate was the same as the standard rate.

The total variable construction cost of the terrace of four Princeton houses was £744,660, or £186,165 per house, which resulted in a large total adverse variance. The fixed cost of land, apportioned based on area, was £160,000 for each house.

Each house sold for £443,000.

Profit per house is calculated as selling price less variable construction cost less fixed cost of land.

Regards

Georgie