



LEVEL 4 ACCOUNTING TECHNICIAN APPRENTICESHIP

TUESDAY 11 JUNE 2024

2.5 HOURS

ROLE SIMULATION EXAMINATION

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

Marks breakdown

Task 1	57 marks
Task 2	43 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 57 marks.

Task 1.1

Megan Jones, financial accountant, has prepared a draft statement of profit or loss for Chequer Ltd (Chequer) for the year ended 31 January 2024 and a draft statement of financial position as at that date. She tells you that draft profit before tax is £5,979,000.

Megan asks you to help in:

- preparing journal entries to update the nominal ledger in the light of some new information; and
- explaining some accounting concepts to Aaron Lukacs, accounts assistant.

Megan gives you the following new information:

1. On 31 January 2024, following the refurbishment of a supply hub (**Advance Information – Operations (Supply hubs)**), Chequer sold some equipment for £98,000 cash. The equipment originally cost £220,000, and on the date of disposal the accumulated depreciation was £132,000. The only accounting entries made at the date of disposal were to debit £98,000 to cash at bank and credit £98,000 to property, plant and equipment (cost).
2. On 20 February 2024 Chequer paid £75,000 for annual ground rent on all its properties for the year from 1 October 2023. No entries have been made in respect of this in the nominal ledger for the year ended 31 January 2024.
3. On 15 March 2024, Chequer sent an invoice for profit-based franchise fees of £18,000 to a new major franchisee (**Advance Information – Company background (Terms of franchise agreements)** and **Appendix C**) to cover the period 1 December 2023 to 29 February 2024. No profit-based franchise revenue from this new franchisee has been recorded in the nominal ledger for the year ended 31 January 2024.

Aaron is unclear about the treatment of fees from franchisees and asks you to explain it.

Requirements

With reference to **Advance Information – Appendix C**:

- a. Calculate the profit or loss on disposal of the equipment. **(2 marks)**
- b. 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 31 January 2024. Do not provide narrative explanations. **(6 marks)**
- c. Calculate a revised profit before tax figure, after your adjustments. Show your workings. **(3 marks)**

- d. Explain, in an email to Aaron, the difference between cash accounting and the accrual basis of accounting when preparing financial statements. Illustrate your answer using Chequer's two types of fees from franchisees. **(5 marks)**

Total: 16 marks

Task 1.2

Megan explains to you that Chequer must communicate some key financial information, including the figure for cash flows from operating activities, to HomeChequer Inc (HCI) in line with its licence (**Advance Information – Company background (Licence from HCI)**).

Megan has asked you to prepare the draft statement of cash flows for the year ended 31 January 2024. Megan will be meeting with Hassan Ali, finance director, to review the draft statement of cash flows before Hassan communicates the required information to HCI.

Megan provides you with some notes to help you:

Notes for preparation of the draft statement of cash flows

- On 1 November 2023 new property, plant and equipment (PPE) was purchased for cash of £350,000. The PPE was for the refurbishment of one supply hub and of some of the owned shops. This was the only addition to PPE during the year ended 31 January 2024.
- For the year ended 31 January 2024, the total depreciation expense was £1,830,000 and the amortisation expense was £500,000.
- The PPE addition and the depreciation and amortisation expenses were correctly accounted for.
- The only disposal of PPE was of the equipment referred to in **Task 1.1**.
- The estimated income tax expense for the year ended 31 January 2024 is £1,435,000.
- Dividends of £3,000,000 were paid in January 2024.

Megan also gives you the draft statement of financial position as at 31 January 2024, which does **not** reflect the adjustments you prepared in **Task 1.1**.

Chequer Ltd: Statement of financial position as at 31 January 2024 (draft)

	£'000	£'000
ASSETS		
Non-current assets		
Property, plant and equipment		5,752
Intangible assets		<u>2,500</u>
		8,252
Current assets		

Inventories	453	
Trade and other receivables	1,433	
Cash and cash equivalents	<u>9,399</u>	
		<u>11,285</u>
Total assets		<u>19,537</u>
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital (£1 shares)		4,000
Retained earnings		<u>10,696</u>
Total equity		14,696
Non-current liabilities		
Borrowings		2,000
Current liabilities		
Borrowings	1,000	
Trade and other payables	1,124	
Income tax payable	<u>717</u>	
		<u>2,841</u>
Total equity and liabilities		<u>19,537</u>

Requirement

Refer to **Advance Information – Appendices B and C** and your answers to **Task 1.1**.

Prepare the draft statement of cash flows for the year ended 31 January 2024, in a form suitable for publication. Do not show comparatives. Show your workings clearly.

Total: 16 marks

Task 1.3

Kang Song is the audit senior for Velop LLP (Velop), the external auditor of Chequer's financial statements for the year ended 31 January 2024. In a phone call Kang discussed with Hassan the bank confirmations that Velop had received. Both Kang and Hassan expressed some concern that Velop may not have a complete set of confirmations.

Hassan told Kang that on 31 January 2024 Nigel was on a 14-day business trip to the US from which he returned on 8 February. During the trip he made several cash withdrawals from one of Chequer's bank accounts using his corporate payment card.

At the end of the call Kang repeated Velop's concerns that, at 31 January 2024, Chequer did not have reliable records of cash in hand, whether held by Nigel or the shops (see **Advance Information – Appendix D**).

Following the call, Hassan had a meeting with you and Megan to discuss Kang's concerns and how to address them.

Requirements

- a. Explain **three** matters that may result in errors in the cash and cash equivalents figure in Chequer's statement of financial position as at 31 January 2024. **(6 marks)**
- b. Identify and explain **two** procedures that Velop should have carried out regarding the conduct of cash counts and the verification of cash held at Chequer's shops on 31 January 2024. **(4 marks)**
- c. Identify and explain **three** additional internal controls which Chequer could introduce in relation to cash in hand. At least one additional internal control should be in respect of Nigel. **(6 marks)**

Total: 16 marks

Task 1.4

Negotiations are ongoing with Katy Bowen, commercial director of Driscoll Ltd (Driscoll), who wants Driscoll to become Chequer's newest franchisee (**Advance Information – Appendix E**). Driscoll needs to make a final decision about whether to proceed by 30 June 2024. Hassan has instructed the finance function team that Driscoll must be supplied with the very detailed information that Katy requires in three days' time, on Friday 14 June 2024.

As a result, in addition to your usual tasks, Megan is putting you under pressure to stay late at work. This is to finalise information for Katy about the types and levels of cost that Driscoll can expect once it begins operations as Chequer's franchisee. Megan has mentioned in particular that your completion of this work quickly will lead to a favourable performance appraisal for you (**Advance Information – Organisational structure (Staff conduct and performance appraisal)**).

Megan has also told you confidentially that Hassan is expecting Katy to be supplied with information that shows Driscoll will make a contribution margin of 65% in each shop. You are aware that in the year ended 31 January 2024 no shop made a contribution margin of more than 60%.

Requirements

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

In response to Megan's request for information for Driscoll:

- a. Explain the threats to ethical principles which arise for you from Hassan's expectation about the contribution margin and from the pressure that Megan is placing on you to prepare information by Friday 14 June 2024. **(6 marks)**
- b. Identify the actions that you should take. **(3 marks)**

Total: 9 marks

Task 2

This task consists of **three** parts worth a total of 43 marks.

Task 2.1

Breakeven analysis for Driscoll

Leonie Papworth, management accountant, has supplied you with some costing data which makes you feel more confident about producing information for Nigel to present tomorrow to Katy, Driscoll's commercial director.

After checking the original estimates (**Advance Information – Appendix E**), Leonie realised that inflation has affected both the selling prices and the costs which Nigel and Hassan originally presented to Katy. Leonie has identified the following figures for a typical Chequer shop:

	Leonie's figures
Average selling price per pizza	£14.00
Average variable costs per pizza (ingredients, preparation, cooking and packaging)	£5.70
Annual fixed costs	£305,000

Despite the increased selling price Leonie estimates that, because of enhanced marketing via the Chequer app, 120 pizzas will be sold each day, 360 days of the year. She asks you to calculate the breakeven volume, the margin of safety and the total profit per year for a typical Chequer shop.

Technology

Finbar Calnan, IT director, has consulted with the IT director of HCI about how to derive more value from the Chequer app (**Advance Information – Appendix F**). He has also had meetings with several shop managers to discuss how operational problems (**Advance Information – Operations (Management information)**) could be resolved by more appropriate information being available in real time.

Finbar is now certain that data analytics can be very useful and asks you to prepare some notes about how it will help Chequer and the managers of all Chequer shops.

Requirements

- a. Based on Leonie's figures for a typical Chequer shop, calculate:
 - the breakeven volume pa per typical shop in whole units;
 - the margin of safety percentage; and
 - the total annual profit per typical shop if 120 pizzas are sold each day. **(5 marks)**
- b. Briefly explain whether Leonie's figures and your calculations indicate that a typical Chequer shop performs better or worse than the original estimates provided at the initial meeting with Katy. **(3 marks)**

- c. Explain **three** ways in which the use of data analytics on data collected by the Chequer app can add value for Chequer and its shop managers. **(6 marks)**

Total: 14 marks

Task 2.2

Toyah Bramble, marketing director, has been working with Leonie on plans for selling pasta products (**Advance Information – Appendix G**) in Chequer’s own shops.

Following some additional research, Leonie has revised the initial estimates, and now provides you with amended information on the likely selling prices and variable costs for a shop. She includes an estimate of variable packaging costs for the new products, which had been omitted previously. Leonie has also estimated how many minutes each unit of the product takes to cook in the oven and how much fixed overhead should be absorbed per unit.

	Lasagne	MacN Cheese
Maximum demand forecast per day (in units)	25	20
Cooking time (minutes per unit)	30	24
	£ per unit	£ per unit
Selling price	21.00	23.00
Variable costs		
Ingredients	(4.80)	(6.10)
Packaging	(0.40)	(0.40)
Other variable costs	(6.00)	(6.40)
Fixed overhead absorbed	<u>(0.60)</u>	<u>(0.45)</u>
Profit	<u>9.20</u>	<u>9.65</u>

Sophie Robb, operations director, confirms that the specialist oven used for these products has a limited capacity of 13 hours cooking time each day. Only one unit of pasta product can be cooked at a time in the oven.

Leonie has asked you to help her determine the optimum production plan per day in a shop.

Requirements

- a. Assuming that Chequer wants to maximise contribution:
- Calculate the optimum production plan for the pasta products for one day, based on the oven’s cooking time available
 - Calculate the total contribution per day that will be generated by the plan. **(8 marks)**

- b. Calculate the number of additional oven hours per day that a shop would need in order to produce enough of both products to meet daily sales demand. **(2 marks)**
- c. Identify and briefly explain which of Ansoff's product/market strategies is demonstrated by Chequer in offering the pasta product range. **(2 marks)**

Total: 12 marks

Task 2.3

Equality

Elias Harker, human resources director, has investigated social media complaints about Chequer shops failing to comply with the Equality Act 2010 (**Advance Information – Appendix H**).

He has identified three examples of situations where he believes Grimball Ltd (Grimball), one of Chequer's major franchisees, appears to have breached the Equality Act:

Example 1: Failed to prevent managers and staff from making unwanted references to the sexual orientation of some employees

Example 2: Demoted employees who have complained when they have been treated poorly by managers on the grounds of religion

Example 3: Designed the kitchen layouts in its shops in such a way that employees who are less than 1.6m in height cannot reach the equipment safely.

Elias is concerned that these examples may lead to Grimball being involved in cases brought by employees at employment tribunals. However, Grimball is confident that it can defend any such cases on the grounds of objective justification.

As you have been studying law, Elias has asked for your help in understanding the situation.

Sustainability

Sophie has continued to investigate sustainable activities taking place across all Chequer shops (**Advance Information – Appendix H**). Recently she has become aware of shop managers:

- Donating excess ingredients and products to food banks
- Promoting Chequer's vegetarian and vegan pizzas, as they avoid the use of carbon-intensive meat.

Sophie has also looked at the UN's Sustainable Development Goals (UN SDGs) as Nigel requested. She believes that shop managers will be more likely to originate and implement sustainable policies if they can see how they are part of wider efforts towards meeting these goals.

Sophie wants your help in developing some sustainable policies for all shop managers, split into policies covering the environmental and the social aspects of sustainability, with each policy linked to relevant UN SDGs. She has given you the following as an example:

Environmental sustainability:

Policy: Use recyclable packaging for pizzas

Linked UN SDG: Responsible consumption/production

Requirements

- a. For each of the three examples from Grimball, identify the relevant activity that is outlawed by the Equality Act 2010. **(3 marks)**
- b. Explain, for each of the three examples, whether a defence of objective justification is likely to be successful for Grimball. **(6 marks)**
- c. In relation to sustainability policies that Chequer can present to shop managers:
 - Suggest **two** specific policies to support environmental sustainability and **two** specific policies to support social sustainability.
 - Identify a relevant UN SDG for each of the four policies that you have suggested. **(8 marks)**

Total: 17 marks