



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 12 March 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 resources](#).

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.

The Inkwell Company Ltd

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This document reflects information available as at 16 January 2024.

Introduction: The Inkwell Company Ltd

The Inkwell Company Ltd (Inkwell) is a UK-based stationery retailer, selling stationery products online and by phone to consumers and businesses.

Industry information

Introduction

The stationery industry in the UK is economically important and well established. It has adapted to recent developments in technology and changes in consumer demands, for example:

- Manufacturers have created innovative new products using digital technology.
- There is a current trend for high quality items such as journals and notebooks to be appreciated for their tactile appeal and aesthetic value as well as their practical use.
- There is increased demand for personalised stationery, with individuals and businesses seeking unique designs.

While physical stationery stores remain popular, online marketplaces and dedicated stationery websites offer larger ranges of products. Businesses require large quantities of stationery, and the education sector relies heavily on products such as exercise books, pens, pencils, and art materials. Journaling and scrapbooking are popular leisure activities and there is increased demand for sustainable stationery such as recycled paper and biodegradable pens. Many stationery manufacturers and retailers actively support environmental causes and seek to ensure sustainable practices throughout their supply chain.

Industry structure and size

Most stationery is produced by large manufacturers, although some high quality products are produced by smaller, more specialised independent companies.

Stationery products are sold by:

- large supermarkets and online retailers
- smaller independent high street shops
- small and medium-sized independent companies selling directly to consumers, either using their own websites or online marketplaces.

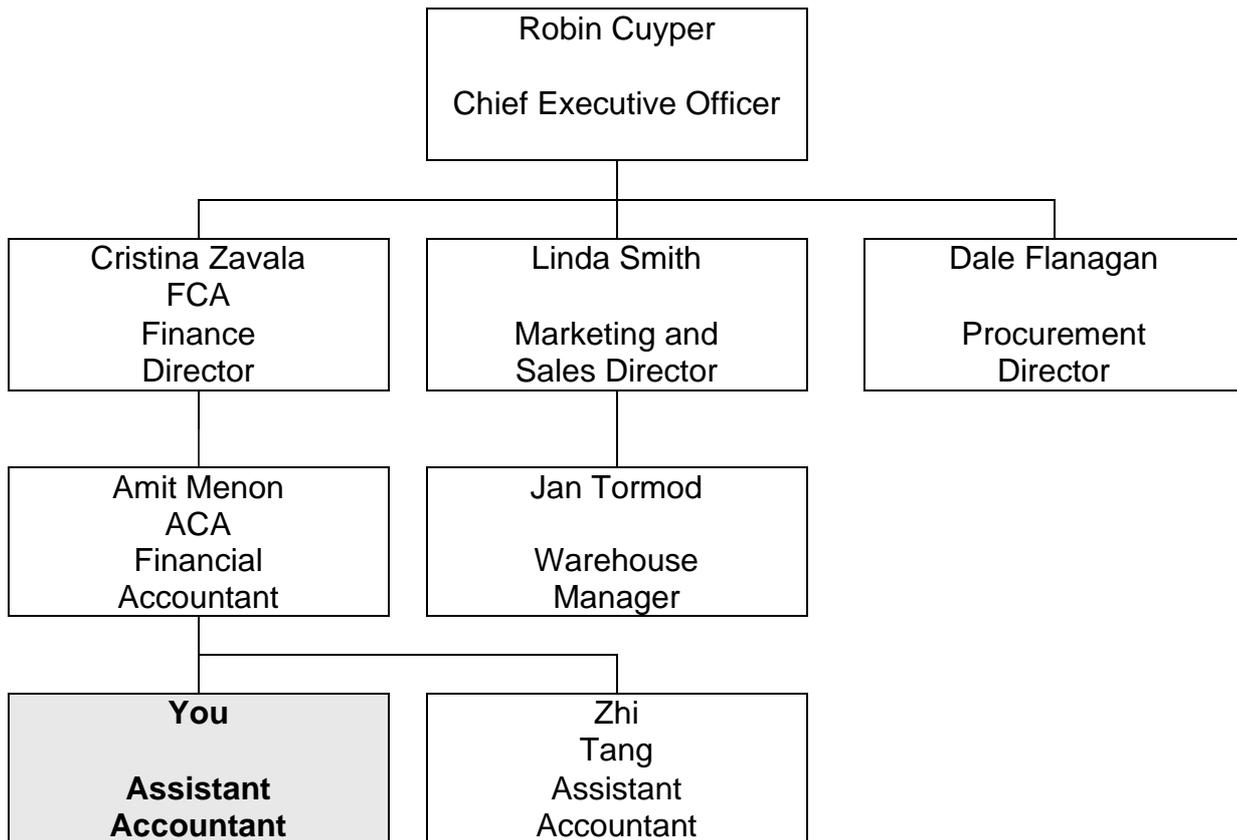
The UK stationery industry has revenue of approximately £2.5 billion per year. In 2023, business activity recovered to pre-pandemic levels and is forecast to continue to grow.

Company information

History

Inkwell was established in 2005 by Robin Cuyper. The company initially focussed on sourcing and selling premium stationery items, many of which were imported from specialist suppliers, and which were not otherwise on sale in the UK. Robin quickly expanded the business to stock a large and diverse range of items from manufacturers located both in the UK and around the world.

Extract from organisational chart



Key personnel

You are a second year accounting apprentice at Inkwell and a student member of ICAEW. You report to Amit Menon, the financial accountant, who reports to Cristina Zavala, the finance director. Amit has been in post for several years; Cristina was appointed in July 2023. Amit and Cristina are both ICAEW Chartered Accountants.

Zhi Tang is a first year accounting apprentice at Inkwell and is also a student member of ICAEW.

Business activities

Introduction

Inkwell sells stationery items such as pens, paper and journals, plus accessories such as wallets and portfolios. Inkwell considers its key strength to be its commitment to quality, with a premium product range sourced from manufacturers that work to high standards of craftsmanship, performance and reliability.

On its website, Inkwell lists 30,000 different products for sale. Inkwell has a well-established reputation for selling unusual items and products from brands not usually seen in the UK. Approximately 80% of sales by value are to individuals and 20% are to companies. Most of Inkwell's customers are in the UK.

Location

All staff are employed at Inkwell's site in the north of England, where there is one office building and one warehouse building. Inkwell owns the land and both buildings.

Procurement

Dale Flanagan, procurement director, has overall responsibility for procurement and supply chain management. Inkwell purchases products from approximately 200 different UK and international suppliers. Inkwell has a credit account with most suppliers, and generally pays in 30 to 60 days, although some suppliers offer a longer credit period.

Inventory management

Inkwell stores all goods in its own warehouse. Jan Tormod, warehouse manager, has overall responsibility for receipt of inventory, management of the warehouse and the despatch of items to customers following an order.

Sales

Almost all sales are made online via the company's website, though a small number of orders are received by phone. If items are available in inventory, they are despatched from the warehouse on the same day or the next working day. Inkwell uses either standard mail or next day courier, depending on the value of the order and the delivery options chosen by the customer. The courier uses a combination of road and air transport.

Individual customers pay at the time of purchase by credit or debit card. Corporate customers have accounts with Inkwell and order on credit. In these cases, Inkwell sends an invoice to the customer when the order is despatched, requesting payment within 30 days.

Inkwell places a strong emphasis on customer satisfaction. The website is designed to be user-friendly. It has detailed product descriptions with high-resolution images and videos as well as links to customer reviews. Inkwell has a reputation for prompt and reliable customer service. Customer service staff are contactable by phone, email and social media to deal with enquiries and after-sales support.

Inkwell pays to appear high up in the results of relevant web searches and has a high profile on key social media platforms. The company has a good reputation among its customers, with excellent ratings on review websites and a high level of repeat purchases.

Financial information

Financial statements

Extracts from Inkwell's financial statements for the year ended 31 December 2022 are in **Appendix A**. Extracts from the Accounting Handbook are in **Appendix B**.

Finance and liquidity

Inkwell's sources of long-term finance are retained earnings and a loan from Concordance Bank plc (Concordance Bank). The loan is secured by a fixed charge against Inkwell's land and buildings. More information about finance and liquidity management is in **Appendix C**.

Business developments and new projects

New products

Linda Smith, marketing and sales director, is responsible for researching new products and Dale Flanagan is responsible for seeking new suppliers to expand Inkwell's range. 15 new product lines from four new suppliers were introduced in 2023. All staff are encouraged to suggest new products.

Ecopal Paper

Inkwell is considering launching its own brand of paper – Ecopal – which will be marketed as sustainable and carbon neutral to sell to individuals and businesses. The directors believe that corporate customers will want to use the paper as part of their sustainable business strategy to help achieve net zero. Linda and Dale are seeking a suitable supplier who can guarantee the environmental sustainability of the paper, so that Inkwell can in turn provide a guarantee to its customers.

Dale has raised concerns that it is difficult to rely on stationery suppliers to provide this type of guarantee, especially if the stationery incorporates paper which is imported to the UK. Even if the paper itself comes from sustainable sources, its transportation across long distances may compromise the overall environmental sustainability of the finished stationery product.

The 1403 Range

Linda has undertaken some preliminary market research and believes there is a significant demand for personalised stationery and accessories – for example personalised journals, headed writing paper, bespoke invitations etc. Linda suggested to the board of directors that Inkwell should continue to purchase blank paper, cards and envelopes from its existing suppliers, and then personalise the stationery using its own equipment. Inkwell would market these products under a new brand name – the 1403 Range.

Inkwell would need to invest in high quality printing equipment which would be installed in the warehouse building. The new equipment would be state of the art, with processes automated as far as possible to ensure high quality. Customer orders would be processed automatically via a direct link between the website and the printing equipment, and then despatched by warehouse staff.

Cristina Zavala, finance director, wants to undertake a formal project appraisal, considering net present value (NPV) and accounting rate of return (ARR), to enable the directors to decide

whether to invest in the equipment. Forecast revenue and expenses for the 1403 project are in **Appendix E**.

Current issues

Land use

Inkwell has a small amount of spare land behind its office building. Robin has been investigating alternative uses for this land. Currently Inkwell uses the land as an overflow car park for staff and visitors. The local council sent a letter several months ago, requesting Inkwell to cease using the land as an overflow car park, because Inkwell did not have planning permission to expand the existing, approved car park. Inkwell initially ignored the letter and as a result is now in a formal legal dispute with the local council. Amit has asked Inkwell's lawyers to estimate the overall likely cost of settling the dispute.

Supply chain management

Inkwell's directors wish to review and improve the company's supply chain management policies, in particular with respect to identifying and managing both the risk associated with unethical transactions and the sustainability of paper. More information is in **Appendix D**.

IT processes and cyber risk

Inkwell's directors are concerned generally about cyber risk and, in particular, the risk of hacking (unauthorised access to the company's IT systems). Inkwell's IT policy is now out of date and the directors know that security over some IT processes is poor.

There have been several recent problems including:

- In November 2022, Jan discovered that his company email account had been hacked. This was discovered and dealt with before any harm was suffered.
- Many of Inkwell's employees have received spam emails from outside the company attempting to get them to disclose sensitive information such as login names and passwords. A routine check found that many employees had weak passwords, and some had them written on paper on their desks.
- In early January 2023 Amit discovered that electronic documents relating to the loan from Concordance Bank were corrupted. It took a considerable amount of time to locate back-up versions.

Robin told the board that he is increasingly concerned about cyber risk. The directors agreed that Inkwell needs to undertake a fundamental review of cyber risk management and, in particular, the risks associated with hacking.

External audit

Renton and Hargreaves LLP (RH) has audited the financial statements of Inkwell since 2020. Deborah Paxwell, the audit manager, has recently been in contact with Cristina to confirm details of the final audit visit, scheduled for March 2024.

Deborah has confirmed that RH has identified the following risk areas for Inkwell:

- Property, plant and equipment: specifically land and buildings
- Loans and associated charges
- Inventory measurement and inventory counts
- Cyber risk management

Deborah has informed Cristina that RH is likely to require written representations from management in respect of the areas above. RH identified loans and associated charges as a risk area, because Cristina admitted that she was unsure if Inkwell had met its statutory legal obligations in respect of the charge on the land and buildings.

RH also offers IT consultancy services and IT security advice. Robin would like RH to review Inkwell's IT systems and processes and suggest improvements. He has asked Deborah if RH would be able to undertake non-audit work for Inkwell, for example IT services, since Inkwell is an existing audit client.

Jerry Chan is the principal IT partner for RH and Deborah has offered to arrange an initial meeting between Jerry and Robin.

Appendix A – The Inkwell Company Ltd: Financial statements for the year ended 31 December 2022 (extracts)

Statement of profit or loss for the year ended 31 December 2022

	£
Revenue	13,804,359
Cost of sales	<u>(7,370,364)</u>
Gross profit	6,433,995
Administrative expenses	(2,354,325)
Distribution costs	<u>(3,059,651)</u>
Profit from operations	1,020,019
Finance costs	<u>(103,355)</u>
Profit before tax	916,664
Income tax expense	<u>(174,166)</u>
Profit for the period	<u>742,498</u>

Statement of financial position as at 31 December 2022

	£	£
ASSETS		
Non-current assets		
Property, plant and equipment		2,513,460
Intangible assets		487,690
		<hr/>
		3,001,150
Current assets		
Inventories	2,466,761	
Trade and other receivables (Note 1)	558,023	
Prepayments	45,110	
Cash and cash equivalents	1,266,887	
	<hr/>	
		4,336,781
Total assets		<hr/>
		7,337,931
		<hr/>
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital (£1 shares)		1,000,000
Retained earnings		2,488,414
Total equity		<hr/>
		3,488,414
Non-current liabilities		
Long-term borrowings (Note 2)		1,960,336
Current liabilities		
Short-term borrowings (Note 2)	81,935	
Trade and other payables	1,682,263	
Accruals	37,900	
Income tax payable	87,083	
	<hr/>	
		1,889,181
Total equity and liabilities		<hr/>
		7,337,931
		<hr/>

Note 1

Trade and other receivables consist of:

	£
Trade receivables	563,660
Allowance for receivables (1%)	<u>(5,637)</u>
	<u>558,023</u>

Note 2

Borrowings relate to the loan from Concordance Bank.

Appendix B – Accounting Handbook (extracts)

Introduction

The financial statements are prepared in accordance with IFRS® Standards. Assets, liabilities, equity, income and expenses are recognised and measured in accordance with the principles in the Conceptual Framework for Financial Reporting and the appropriate standards.

Property, plant and equipment

Property, plant and equipment (PPE) consists of land, buildings, equipment and vehicles. PPE is measured at historical cost less accumulated depreciation and impairments.

Inventory

Inventory is measured at the lower of cost and net realisable value (NRV), on a line-by-line basis, in accordance with IAS 2, *Inventories*.

Any goods which are held on behalf of third parties are excluded from inventory and located in a separate area of the warehouse, which is clearly marked.

The company uses a system of perpetual inventory counting and does not undertake year-end physical inventory counts.

Trade receivables

Trade receivables are recognised when the sale has been made and it is appropriate to recognise revenue.

A trade receivable which is not expected to be collected is written off as an irrecoverable debt. The remaining trade receivables are tested for impairment at the end of each reporting period. Inkwell maintains an allowance of 1% of receivables, which reflects the board's estimate of the proportion of receivables that will not be collected.

Provisions

Provisions are recognised when the company has a present obligation as a result of a past event to transfer an economic resource to a third party and the probability of transfer is greater than 50%.

Appendix C – Finance and liquidity

Long-term finance

The loan from Concordance Bank has a variable rate of interest. It is secured by a fixed charge against Inkwell's land and buildings. The directors approved the loan, agreed to the charge and discussed Inkwell's legal responsibilities associated with the charge in a board meeting on 5 October 2022. The minutes of the board meeting record the discussion. The loan was taken out on 10 October 2022. Details of the loan and the charge were deposited with the Registrar of Companies on 11 October 2022.

Short-term finance

Inkwell maintains high levels of inventory so it can respond quickly to customer orders. This requires significant investment in working capital. Although Inkwell purchases on credit from most suppliers, Cristina has become concerned at increasingly high levels of inventory and has emphasised to Linda and Dale the importance of considering working capital requirements in any decision-making.

Gearing ratio

Inkwell uses the gearing ratio as one of its key performance measures in managing risk.

Gearing is calculated using figures from the statement of financial position:

$$\frac{\text{total long-term borrowings}}{\text{total equity}} \times 100$$

Concordance Bank also monitors Inkwell's gearing. The loan agreement specifies the following conditions:

- Inkwell must maintain its gearing ratio, as calculated above, at or below a specified target (see table below).
- Inkwell must report this gearing ratio monthly to Concordance Bank.
- If the target in the loan agreement is not met, Concordance Bank can increase the interest rate charged on the loan from the start of the following calendar month.

The table below shows Inkwell's gearing ratio for the year ended 31 December 2022, based on figures in the statement of financial position, together with Inkwell's internal target and the target specified in the loan agreement with Concordance Bank.

	Gearing ratio
Actual	56%
Internal target (maximum)	50%
Bank loan target (maximum)	75%

Appendix D – Supply chain management

While Inkwell has identified all its Tier 1 suppliers, it has very little information about Tier 2 suppliers and the board is concerned that, in terms of its overall supply chain, it may be sourcing some products unethically.

Jewels

In particular, the board has concerns about products from one of its suppliers, Alterna Ltd (Alterna). Alterna's luxury pens have jewels embedded, which are sourced from different countries. Dale believes that the jewels used in the pens may be obtained from suppliers with unethical or even illegal practices in countries where law enforcement is lax. XTN Inc (XTN), an international mining company, was recently exposed for unsafe working practices at one of its sites and Dale has become aware that XTN is supplying Alterna.

Paper

The board is also concerned about the overall environmental sustainability of paper, which is used in many of its key products. Most paper is made from pulping timber, which contributes to deforestation. It is then bleached, which contributes to water pollution. Although many of Inkwell's Tier 1 suppliers advertise their commitments to sustainability, Inkwell has never undertaken a full supply chain audit.

Appendix E – The 1403 Range

Linda Smith has prepared the following information about the potential purchase and use of high quality printing equipment for the 1403 Range. Linda has assumed that the equipment will be purchased and installed on 1 April 2024 and that operations will start immediately. Her forecasts cover an initial five year period.

Revenue and variable operating costs

	Year 1	Year 2	Year 3	Year 4	Year 5
	£	£	£	£	£
Revenue	400,000	600,000	800,000	840,000	882,000
Variable operating costs	(260,000)	(390,000)	(520,000)	(546,000)	(573,000)

Investment in new equipment

The cost of purchase and installation will be £700,000. Linda has assumed that the equipment will have no residual value after five years although she has recognised that this is overly pessimistic.

Other operating costs

Linda has suggested an initial marketing campaign costing £75,000 to support the 1403 Range.

Linda has ignored fixed costs which would be unchanged as a result of the investment and new sales.