



LEVEL 4 ACCOUNTING TECHNICIAN APPRENTICESHIP

TUESDAY 12 MARCH 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 **Finish 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

Amit Menon, financial accountant of The Inkwell Company Ltd (Inkwell), asks you to help prepare the financial statements for the year ended 31 December 2023.

Amit gives you some information about three items that need adjusting in the nominal ledger:

- On 28 December 2023, Inkwell made a bank transfer to pay a supplier's invoice of £17,250 after the normal electronic payment run was completed. Due to an error, no entries were made in the nominal ledger in respect of this payment.
- On 13 October 2023, Inkwell paid £180,000 to an advertising agency for a marketing campaign running from 1 November 2023 to 30 April 2024. An expense of £180,000 is included in distribution expenses in the nominal ledger.
- In relation to the dispute with the local council (**Advance Information – Current issues: Land use**) Inkwell's lawyers have advised that:
 - They are 60% confident that Inkwell will lose the case against the local council.
 - The total cost to Inkwell will be £48,000 if it does lose the case.

Requirements

Refer to **Advance Information – Appendices A and B**.

- (a) Set out the debits and credits required to make the necessary adjustments for the three items above in Inkwell's nominal ledger for the year ended 31 December 2023. Do not include narratives. **Show your workings. (5 marks)**
- (b) In relation to Inkwell's financial statements for the year ended 31 December 2023, explain your accounting treatment of:
 - the marketing campaign; and
 - the cost of the dispute with the local council.

Your answer should refer to the elements of financial statements in the Conceptual Framework for Financial Reporting. **(6 marks)**

Total: 11 marks

Task 1.2

Amit gives you a trial balance extracted from the nominal ledger at 31 December 2023 and asks you to prepare a draft statement of financial position, incorporating the effects of the adjustments in **Task 1.1** as well as the additional information below.

	Dr	Cr
	£	£
Intangible assets		
- cost	705,679	
- accumulated amortisation and impairments		280,150
Property, plant and equipment		
- cost	4,304,927	
- accumulated depreciation and impairments		1,690,426
Inventories	3,113,615	
Trade receivables	625,100	
Allowance for receivables at 1 January 2023		5,637
Cash	1,321,758	
Long-term borrowings		1,863,431
Short-term borrowings		96,905
Trade payables		1,616,810
Income tax payable		96,540
Accrued expenses		280,000
Ordinary share capital		1,000,000
Retained earnings		3,141,180
	10,071,079	10,071,079

Amit gives you information about the additional adjustments required.

- Some items included in inventories at 31 December 2023 at cost of £115,000 were sold at a reduced price in January and February 2024. These items generated sales revenue, net of selling costs, of £65,000.
- The allowance for trade receivables shown in the trial balance is the amount brought forward at 1 January 2023 and needs to be updated.

Amit confirms that, apart from the allowance for trade receivables, all the amounts in the trial balance are as at 31 December 2023, before the effects of the adjustments in **Task 1.1** and the additional information above.

Amit must report to the board of directors on Inkwell's performance against its internal gearing target and bank loan gearing target (**Advance Information – Appendix C**). He asks you to calculate the gearing ratio based on your draft statement of financial position.

Requirements

With reference to **Advance Information – Appendices A, B and C**, using the information above and the adjustments you made in **Task 1.1 (a)**:

- (a) Calculate a revised figure for retained earnings at 31 December 2023. **Show your workings. (5 marks)**
- (b) Prepare a statement of financial position for Inkwell Ltd at 31 December 2023 in a form suitable for publication. Do not include comparative figures. **Show your workings. (10 marks)**
- (c) Calculate the gearing ratio at 31 December 2023, using your figures in **Task 1.2 (b)** and the formula in **Advance Information – Appendix C. (1 mark)**
- (d) State whether Inkwell meets its internal and bank loan targets for the gearing ratio and comment on what information this ratio provides about Inkwell's financial position. **(4 marks)**

Total: 20 marks

Task 1.3

Amit tells you that Deborah Paxwell, audit manager at Renton and Hargreaves LLP (RH), Inkwell's external auditors, has requested written representations from Inkwell's management in respect of several areas (**Advance Information – External audit**).

Amit asks you to explain some aspects of the forthcoming audit to Zhi Tang, assistant accountant, to help her in her studies. Amit asks you to explain, in particular, some of the work that RH might perform in relation to:

- property, plant and equipment (PPE), which includes the land and the warehouse and office buildings;
- the fixed charge associated with the loan from Concordance Bank.

Zhi says to you:

'I don't understand why RH has identified the amounts relating to land and buildings as being high risk areas. What might cause a misstatement of those amounts? Also, can you explain how RH's audit will provide assurance about the risks of misstatement in these areas?'

Requirements

- (a) State whether each of the following statements is true or false.

Statement 1: A written representation provides evidence which can be relied on where information which would normally be expected to be available is unavailable.

Statement 2: Auditors are required to obtain a written representation confirming that management has fulfilled its responsibility for the preparation of the financial statements.

(2 marks)

- (b) State **two** possible causes of a misstatement in the PPE balance for land and buildings and in each case state the financial statement assertion that is affected. **(4 marks)**
- (c) In order to answer Zhi's questions:
- explain **two** audit procedures which RH could use to verify the rights and obligations in respect of Inkwell's land and buildings **(4 marks)**
 - explain **two** audit procedures which RH could use to verify the rights and obligations in respect of Inkwell's loan from Concordance Bank and the associated fixed charge **(4 marks)**
 - describe **two** written representations that RH is likely to require from Inkwell's management in respect of the land and buildings, including the fixed charge associated with the loan from Concordance bank. **(4 marks)**

Total: 18 marks

Task 1.4

The directors of Inkwell are concerned about cyber risk and recent IT security problems **(Advance Information – Current issues: IT processes and Cyber risk)**.

Robin Cuyper, CEO, has already asked RH if it would consider providing IT consultancy services to Inkwell **(Advance Information – External audit)**.

Robin has had an initial meeting with Jerry Chan, IT partner at RH. Robin has offered to provide RH with information about Inkwell's IT systems and processes and has requested that RH:

- undertakes a review of Inkwell's cyber security and IT controls; and
- provides advice on how Inkwell could better manage cyber risk.

Jerry explained that, as part of the firm's process for deciding whether to accept the IT consultancy work, RH would need to consider and address any threats to its independence as external auditor. This is necessary even though the work would not directly impact Inkwell's accounting system.

Requirements

- (a) Explain **two** threats to its independence as external auditor that might arise for RH, if it accepted the IT consultancy work described by Robin. For each threat, suggest **one** possible safeguard that RH could use to undertake the work. **(6 marks)**
- (b) Identify **two** possible sources of information about Inkwell's IT controls that RH could use when undertaking its review. **(2 marks)**

Total: 8 marks

Task 2

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

Task 2.1

Cristina Zavala, finance director, gives you some further information about

- recent IT security problems (**Advance Information – Current issues: IT processes and Cyber risk**)
- the loan agreement with Concordance Bank (**Advance Information – Financial information and Appendix C**).

Inkwell continues to experience IT problems: on two consecutive days recently Inkwell's inventory management system crashed, requiring rebooting. This delayed processing of goods inward and customer orders. There has also recently been an unsuccessful hacking attempt targeting Inkwell's customer database.

Cristina confirms that she has an electronic copy of the original loan agreement which she obtained from Inkwell's backup cloud drive. She also confirms that she has an acknowledgement from the Registrar of Companies which was received when details of the loan and charges were deposited with the Registrar. However, Inkwell did not create any formal documentation of its own and Cristina cannot locate the original charge documentation, even though she has found a copy on the Companies House website.

Requirements

- Identify and explain **two** risks for Inkwell associated with hacking. **(4 marks)**
- Explain **two** controls that Inkwell could implement to reduce cyber risk in general. **(4 marks)**
- State **two** benefits for Concordance Bank and **two** benefits for Inkwell of the loan being secured by a fixed charge against Inkwell's land and buildings. **(4 marks)**
- State the statutory legal requirements in relation to the fixed charge on the land and buildings and explain whether Inkwell has complied with each requirement. **(5 marks)**

Total: 17 marks

Task 2.2

Dale Flanagan, procurement director, asks you to help him to draft a report on ethical supply chain management for presentation to the board of directors of Inkwell (**Advance Information – Current issues: Supply chain management and Appendix D**.)

He tells you that some of the other directors do not understand the tiered nature of Inkwell's supply chain and so cannot understand why Inkwell needs to be concerned about where its suppliers get materials from.

Dale is concerned that Inkwel's lack of a formal supply chain management policy may expose some ethical problems of which Inkwel's board is unaware. Some of Inkwel's business customers are asking specific questions about the sustainability and ethics in Inkwel's supply chain. Dale knows that Inkwel will have difficulty answering some of these questions. He has recently reviewed the commitments to sustainability of Inkwel's Tier 1 suppliers and has discovered that in some cases these commitments are expressed in vague terms, with little or no evidence to support them.

Dale also tells you that Linda Smith, marketing and sales director, has been in contact with Paparama Ltd (Paparama), a possible supplier of paper for Ecopal Paper (**Advance Information – Business developments and new projects**). Paparama claims that all its paper comes from environmentally sustainable sources but is reluctant to provide any evidence that has been independently verified. Dale has heard that Paparama has a reputation for using materials in its products that are different from those described or of an inferior quality to that claimed. He suspects the paper supplied by Paparama may not be sustainable.

Requirements

Prepare an email to Dale with content that he can use in his report to the board of directors, in which you:

- define the difference between Tier 1 and Tier 2 suppliers, using examples from Inkwel's suppliers and briefly explain the responsibilities that Inkwel has in relation to its supply chain **(4 marks)**
- identify and explain **three** specific issues related to ethics or sustainability in Inkwel's supply chain. **(6 marks)**

Total: 10 marks

Task 2.3

Cristina has asked you to prepare an updated investment analysis for the proposed 1403 Range (**Advance Information – Business developments and new projects** and **Appendix E**).

Cristina gives you a copy of Linda's initial forecasts together with some updated information:

'We should produce forecasts assuming that the start date is as planned but that the project life is only four years. We should show that the equipment can be sold after four years, so please assume a resale value of £350,000 at the end of four years. Therefore, the depreciation expense will be £87,500 per year.

'We also need to budget for some installation and set up costs – assume an upfront cost of £30,000 on 1 April 2024 for this. And we will need to include an additional cost of £17,000 for servicing the machine at the end of the second year of operation.

'We think our revenue estimates over the first four years are realistic, because of the market research that Linda has done. However, we need to allow for higher costs. Amit has suggested that variable operating costs should be 70% of revenue.

‘Spending £75,000 on a marketing campaign is just not necessary. We can advertise this range on our own website and our social media channels; therefore you can assume there is no additional marketing cost.

‘Please use this new information to produce a net present value (NPV) calculation using a discount rate of 10%. The other directors are familiar with the accounting rate of return (ARR) so I need a summary, for the board of directors, of why the financial evaluation of our decision should be based on NPV and not ARR.’

10% Discount factors

Number of years n	Present value of £1 receivable at the end of n years
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621

Requirements

- (a) Calculate the NPV of the proposed investment as at 1 April 2024. **Show your workings** and explain your reasons for excluding any figures from your calculation. **(8 marks)**
- (b) Recommend whether Inkwell should proceed with the investment, on the basis of your calculations in (a) above. **(2 marks)**
- (c) Explain **three** advantages for Inkwell of using NPV, rather than ARR, as a decision-making rule. **(6 marks)**

Total: 16 marks