



ROLE SIMULATION EXAMINATION

ADVANCE INFORMATION

This material is issued prior to the examination session.

Candidates **must** bring this material with them
to the Exam.

No copies will be provided.

ADVANCE INFORMATION

This Advance Information is issued prior to the examination session to allow you to familiarise yourself with the information provided and to undertake any other appropriate research and analysis. The Advance Information is also published on the website: www.icaew.com/students.

You must bring this Advance Information with you to the Exam, annotated if you wish, together with any other notes of your preparatory work. 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 examination; 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 examination is based on the 2021 Role Simulation Workbook and the 2020 Certificate Learning Materials.

Assessment of the Role Simulation Examination

The marks in the Role Simulation Examination 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 Examination. 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.

Respond directly to the exam question requirements. Do not include any content or opinion of a personal nature, this includes your name or any other identifying content.

You may use a pen and paper for draft workings. Any information you write on paper will not be read or marked.

The examiner will take account of the way in which your answers are structured. You must make sure your answers, **including workings**, are clearly visible in the word processing area when you submit your exam. **Only your answer in the word processing area will be marked.** You must copy over any data, including workings, from the spreadsheet area to the word processing area for marking. The examiner will **not** be able to expand rows or columns where content is not visible nor can the examiner see the content of formulae within a cell.

Cleanior Cleaning plc (CC)

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This document reflects information available as at Tuesday 12 October 2021.

Introduction: Cleanior Cleaning plc (CC)

Cleanior Cleaning plc (CC) is listed on the Alternative Investment Market (AIM). It provides cleaning services for public sector and corporate customers in the UK.

The cleaning services industry

The cleaning services industry has been in the maturity phase of its lifecycle for many years, as most large organisations outsourced the cleaning of their premises over 20 years ago. There is intense competition in the industry as the price of the services supplied is a key factor for customers when making a decision as to which provider to use. However new regulations, methods, technology and customer expectations have recently affected the processes required to ensure clean and safe environments. Successful cleaning businesses constantly improve equipment and processes to maintain a good reputation for safety, security and reliability whilst still operating at low cost.

Company information

CC was founded 23 years ago and has always had a reputation for low prices. It has a head office in Birmingham and operates from 21 regional depots (Depots 1 to 21) of approximately equal size. Each depot offers two types of service:

- regular, often daily, cleaning to customers with ongoing contracts; and
- 'deep' (extremely thorough) cleans on one-off contracts.

CC is always looking for opportunities to open additional depots close to large urban areas.

Contracts management

CC's customers are all large organisations whose premises are of a varied nature: hospitals, schools, prisons, research labs and offices as well as retail premises, including restaurants. The contracts CC has with its regular customers are usually complex and demanding, containing detailed service level agreements (SLAs). CC must comply with the SLAs which contain standards to be achieved for cleaning quality and timeliness. They also cover issues such as confidentiality, security and CC's treatment of its workers.

Customer relationships are primarily managed by CC's contracts managers in each depot, who aim to ensure that each SLA is complied with and each customer is satisfied.

All the regular cleaning contracts have a fixed term of one year, at the expiry of which the terms of the contract may be renewed or renegotiated for the next year. A few very large customers are national organisations, so their contract terms are agreed centrally by Yousef Hussain, the marketing and sales director. These terms allow some variations in price offered to customers depending on the depot's location. The remaining regular cleaning contracts, and all deep cleaning contracts, are negotiated locally by each depot's sales manager. CC is usually able to win contracts because of its low prices. However, it must work very hard to control costs in order to achieve its target profit margin, while delivering services of the right quality at the right time.

Operations management

CC's delivery of cleaning services in customer premises is managed by operations managers, who also run the depots. The operations manager ensures there are appropriate teams of cleaning staff available to provide the services which have been agreed with the depot's customers. Each cleaning team is managed by a team leader, who ensures team members attend the customer's site at the appropriate time with the required equipment and cleaning materials. The team leader also supervises the quality and timeliness of tasks completed to ensure the required cleaning services are delivered. After the tasks are completed, the team leader asks the customer to authorise a Job Completion Note (JCN). The JCN is required by CC's centralised finance function, which invoices all customers monthly.

Because CC has regular ongoing contracts with its customers, operations managers work closely with contracts managers to ensure relationships with customers are managed well, and customers are satisfied. However, relationships are sometimes undermined by team members if they are rude to the customer's staff, carry out cleaning tasks carelessly or pay inadequate attention to the security of the customer's property. Often this poor behaviour is caused by operations managers putting pressure on the cleaning teams to work hard and quickly in order to reduce costs and therefore preserve margins.

Managers and team leaders receive good salaries and often remain in CC's employment for many years. Some team members are employed by CC but most are supplied by agencies which have contracts with CC. Team members employed by CC are paid hourly at the minimum wage, with no premium when working anti-social hours. As a result, they tend to remain in CC's employment for short periods of time only. Agency workers are also paid hourly at the minimum wage by CC, but the agency fees increase the overall costs to CC.

Vehicles and equipment

Services to large office blocks, shopping centres and hospitals etc are provided by cleaning teams who have to be transported to customer sites, often during the night, so each depot operates several vans. The depots have a variety of equipment, such as ladders, sweeping vehicles, trolleys and vacuum cleaners.

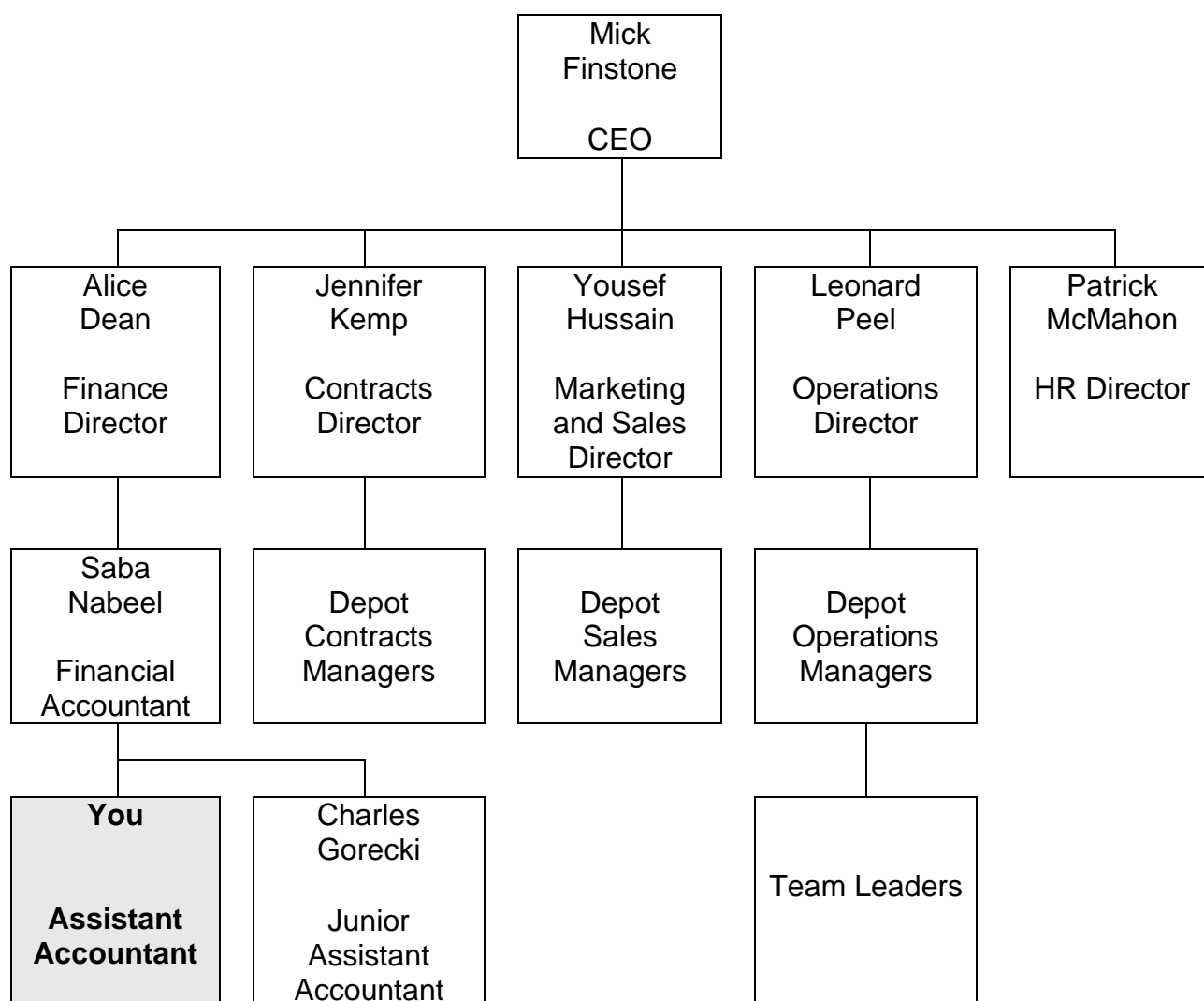
Cleaning of floors and other surfaces is carried out by team members, but CC has started to introduce robots for fully automated floor and glass cleaning in large premises such as factories and distribution centres.

Organisational structure

You are employed by CC as an assistant accountant. You have been working there for just over one year and are training to be an ICAEW Chartered Accountant. You report to Saba Nabeel, the financial accountant, who reports to Alice Dean, the finance director. Both Alice and Saba are ICAEW Chartered Accountants.

Charles Gorecki is the junior assistant accountant at CC. He studies accounting at college and you have been explaining some of your work to him, to help him with his studies. 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.

Extract from organisational chart



Jennifer Kemp, the contracts director, and Leonard Peel, the operations director, have been with CC since it was founded. The remaining directors have joined CC in the last three years since it obtained an AIM listing. No director has a substantial holding of shares in CC.

The founding CEO, Naomi Jones, took early retirement on 1 July 2021 following complaints about her behaviour towards CC's staff. There was also pressure from institutional shareholders, who believed that CC was not sufficiently responsive to customers and had failed to adapt to a changing business environment. Naomi was replaced as CEO by Mick Finstone. Mick previously led a company which offered customers a range of business services, such as security and IT, as well as cleaning.

Financial information

CC competes intensely with other cleaning services businesses for customers and is known for its low prices. It has always operated on low margins, but these have been squeezed further so financial performance has gradually declined in each of the last three years.

Appendix A contains extracts from CC's financial statements for the year ended 30 September 2020 and **Appendix B** has extracts from CC's accounting handbook, including accounting policies.

Board meeting in September 2021

Facing challenges

After his appointment in July 2021 Mick Finstone, the CEO, analysed the challenges which CC needs to address. He called a full board meeting of the directors in September 2021 and outlined the challenges as follows:

1 Financial

'For the current year ending 30 September 2021 it doesn't look like CC will improve on its performance in the previous year, so we need to make changes quickly in order to plan for a better result in the year ending 30 September 2022. We need to increase margins in relation to existing customers and services and, improve our offering so we can attract new customers.

'One piece of good news though is that a new supplier we started buying from on 1 January 2021, Salus plc (Salus), is considering giving us a retrospective discount on our purchases to 30 June 2021, because we have proved to be such a good customer to them. This shows what excellent supplier management and strong relationships can achieve!

2 Customers

'Many customers are experiencing significant changes in working practices as regards hygiene and cleaning standards, for example we are now more often asked for 'deep' cleans. Customers have also revisited their contracts in terms of what regular cleaning needs to be done, when and to what standard, but they are reluctant to pay more for enhanced services. Some business customers have closed offices, because more staff work permanently from home, so they no longer need cleaning services at all. Likewise, some of our retail customers, mostly restaurants, have permanently closed premises. We still need to be cheap, but to win new contracts and retain existing ones we also need to be responsive, adapt to the changing business environment and manage every aspect of customer relationships more effectively.

3 Business processes

'We must respect and support the security of customers' premises and other property, since our team members have access to these when there are few, if any, customer employees around. The potential for loss to customers if a cleaning team damages property, particularly security and other IT systems, is high. Indeed, the cost of insurance cover against CC being involved in significant security, health, safety or environmental incidents has risen greatly. Since 2015, I note that CC has received an increasing number of claims from customers for losses caused by our negligence and breach of contract. It is clear our reputation in the

industry in this area was poor under Naomi Jones, the previous CEO. We urgently need to improve our business processes to address these issues.

4 Innovation and learning

‘Poor skills in managing team members present some key internal challenges. We struggle to recruit, train and retain team members on permanent employment contracts, so many tasks are undertaken by agency workers, which costs us more. The rates of pay and other employment conditions that we offer team members don’t help to motivate them to commit to high standards, but in addition I believe we lack key skills in people management. Furthermore, there have been complaints – from team members and team managers – about undue pressure and even bullying behaviour throughout CC.

‘At the moment we address how employees should behave via a brief section in the model employment contract, but as directors we need to lead from the front to address these issues more explicitly, so I’m introducing a corporate code of conduct (**Appendix D**).

‘Using more cleaning robots may solve some of our staffing and security problems. The cost of robots has been rising because of increased demand and restricted supply, since they are imported from Asia. Nevertheless, I believe we should consider investing in up-to-date versions to help us innovate.’

Developing opportunities

At the meeting Mick went on to outline some opportunities for CC to pursue.

‘I am already:

- opening a new depot (Depot 21) to provide better regional coverage of industrial areas so we can start to offer more services to factories and distribution centres (**Appendix F**). As further opportunities arise, I plan to open more depots.

‘I also plan to:

- use some of the large cash balance we have built up to:
 - invest in every depot in terms of vehicles and equipment;
 - take advantage of developments in automation to use wall-climbing robots for cleaning industrial premises, provided we understand fully the effect of this on CC’s marketing. We also need to take HR considerations into account;
- introduce a corporate code of conduct (**Appendix D**) to which all model employment contracts will refer, and which will also be adhered to by agency workers;
- provide training for managers and directors to improve their people management skills, including their awareness of the importance of the ‘tone at the top’, and CC’s responsibilities in relation to preventing poor working and management practices;
- adopt the balanced scorecard method of performance management (**Appendix E**);

- investigate why legal claims are frequently made against CC for negligence and breach of contract, and address the causes of these claims so they no longer occur.'

External audit

CC's external auditors are Garten LLP. The audit partner is Johan Ricksen, and the audit manager is Beth Solomon. Both are ICAEW Chartered Accountants.

The final audit of CC's financial statements for the year ended 30 September 2021 will start in December 2021.

More information about external audit issues is in **Appendix C**.

Appendix A – Cleanior Cleaning plc financial statements for the year ended 30 September 2020 (extracts)

Statement of profit or loss for the year ended 30 September 2020

	£
Revenue	36,020,960
Cost of sales	<u>(31,201,540)</u>
Gross profit	4,819,420
Administrative expenses	<u>(2,952,150)</u>
Profit from operations	1,867,270
Finance costs	<u>(125,000)</u>
Profit before tax	1,742,270
Income tax	<u>(348,670)</u>
Profit for the period	<u>1,393,600</u>

Statement of financial position as at 30 September 2020

	£	£
ASSETS		
Non-current assets		
Property, plant and equipment (Note 1)		6,772,400
Current assets		
Inventories	77,500	
Trade and other receivables	5,129,700	
Cash and cash equivalents	<u>3,040,760</u>	
		<u>8,247,960</u>
Total assets		<u>15,020,360</u>
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital (£1 shares)		2,000,000
Retained earnings		<u>7,152,160</u>
Total equity		9,152,160
Non-current liabilities		
Borrowings		2,500,000
Current liabilities		
Trade and other payables	2,135,900	
Provisions	1,060,000	
Income tax payable	<u>172,300</u>	
		<u>3,368,200</u>
Total equity and liabilities		<u>15,020,360</u>

Note 1: Property, plant and equipment as at 30 September 2020

	Freehold land £	Freehold buildings £	Vehicles £	Equipment £	Total £
Cost					
As at 01/10/2019	3,300,000	4,200,000	2,368,500	1,245,300	11,113,800
Additions	-	-	236,300	324,600	560,900
Disposals	-	-	-	(448,400)	(448,400)
As at 30/09/2020	<u>3,300,000</u>	<u>4,200,000</u>	<u>2,604,800</u>	<u>1,121,500</u>	<u>11,226,300</u>
Accumulated depreciation					
As at 01/10/2019	-	1,596,000	1,578,600	648,100	3,822,700
Charge	-	84,000	513,100	280,700	877,800
Disposals	-	-	-	(246,600)	(246,600)
As at 30/09/2020	-	<u>1,680,000</u>	<u>2,091,700</u>	<u>682,200</u>	<u>4,453,900</u>
Carrying amount					
As at 01/10/2019	3,300,000	2,604,000	789,900	597,200	7,291,100
As at 30/09/2020	<u>3,300,000</u>	<u>2,520,000</u>	<u>513,100</u>	<u>439,300</u>	<u>6,772,400</u>

Appendix B – Accounting handbook and policies (extracts)

Introduction

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

The financial statements are prepared in accordance with IFRS® Standards and the information therein meets the fundamental qualitative characteristics of relevance and faithful representation.

Property, plant and equipment (PPE)

PPE is accounted for using the cost model and is measured at cost less accumulated depreciation and impairment.

Depreciation methods are as follows:

Asset	Method
Freehold land	None
Buildings	Straight line over 50 years
Vehicles	Reducing balance at 50%
Equipment	Straight line over 4 years

All assets have an assumed residual value of zero. Depreciation is calculated on a monthly basis.

Trade and other receivables

Trade and other receivables include amounts owed by customers, less an allowance for receivables, and prepayments.

Trade and other payables

Trade and other payables include amounts owed to suppliers (including agencies with contracts to supply workers to CC), along with VAT and payroll taxes payable to HMRC, and accrued expenses.

Provision for legal claims

Where a customer makes a claim against CC and the relevant criteria for a provision are fulfilled, the estimated legal and other costs are provided for by charging administrative expenses. Any excess provision after the claim has been resolved is released to administrative expenses.

Appendix C – External audit issues

Alice Dean, CC's finance director, met Johan Ricksen (audit partner) and Beth Solomon (audit manager) of Garten LLP (Garten), in September 2021.

At the start of the meeting, they discussed difficulties and uncertainties in the general business environment which raised doubts about the financial stability of some of CC's biggest corporate customers. These arose in particular from lower footfall in shops and restaurants as more customers order online.

Audit of trade receivables balance

Beth told Alice that, as in previous years, substantive procedures in relation to trade receivables would include direct confirmation with customers of amounts owed to CC as at 30 September 2021. As soon as possible Beth wants to ask CC's customers to confirm the accuracy of the balance shown in CC's records at that date, or to state in what respect they are in disagreement (the positive method). Alice expressed concern about how a major customer, Tempent plc (Tempent), would react if it was asked for direct confirmation because it had previously made a legal claim against CC.

Alice referred Beth to Saba Nabeel, the financial accountant, to obtain the information she required to conduct the direct confirmation of amounts owed to CC.

Analytical procedures in audit planning

Johan reminded Alice that, when planning the audit of CC's financial statements for the year ended 30 September 2021, Garten is required by auditing standards to use analytical procedures to assess the risk of material misstatement in order to establish audit risk, including inherent risk. Alice promised she would forward the financial information, budgets and board minutes that Johan requested in order for Garten to perform these procedures.

Appendix D – Introducing a corporate code of conduct

The following section is an extract from CC's model contract of employment, which has not been changed for 15 years:

Standard of behaviour

You are expected to act in an appropriate manner when dealing with colleagues, suppliers and customers.

Concerns

If you wish to raise a concern you should do so with your immediate line manager.

Mick has told the board (**Board meeting in September 2021**) that he wants to create a corporate code of conduct for CC then replace this section in the model contract of employment with a requirement to comply with CC's code. He has asked Patrick McMahon, the HR director, and Alice to review the corporate codes of conduct of other similar businesses in order to draft a code for CC.

Agency workers will also be required to accept in writing the need to comply with CC's code when working for CC.

Appendix E – Balanced scorecard

To improve financial performance, Mick has told the board (**Board meeting in September 2021**) that he wants to implement a balanced scorecard approach to performance management in CC. This will support the achievement of CC's strategic objectives and critical success factors (CSFs). Once these are identified, along with CC's core competences, key performance indicators (KPIs) will be determined. Directors, managers and team leaders will then be given objectives that meet SMART criteria.

Leonard Peel, the operations director, is not convinced. He maintains that operations managers struggle day-to-day just to run depots and manage jobs, so they cannot spare the time to worry about CSFs or target KPIs over which they feel they have no control. Leonard believes that, for operations managers, the only objective is to 'just get the job done'.

Mick wants to have meetings with the directors over the coming weeks to persuade them of the benefits of using a balanced scorecard to improve performance management, for example by allowing easy comparison of performance between depots.

Mick has worked in a team with Alice, Saba and Patrick to develop aspects of the balanced scorecard further.

Financial quadrant of the balanced scorecard

Each depot will be treated as an investment centre. The team agrees that return on investment (ROI) and residual income (RI) are appropriate financial KPIs for the balanced scorecards of the depots, and that the appropriate interest charge for depots is 10%.

As a pilot, the team has established the following figures for Depot 14, which has been operating for several years:

Depot 14	Actual Year ended 30/9/21	Budget Year ending 30/9/22
Capital employed	£466,000	£470,000
Controllable profit	£78,000	£81,000
KPI: Return on investment	16.7%	17.2%
KPI: Residual income	£31,400	£34,000

Non-financial quadrants of the balanced scorecard

The team has not yet identified appropriate KPIs for the other three quadrants of the balanced scorecard for each depot, but they aim to have relevant KPIs in each non-financial quadrant to achieve the purpose of the balanced scorecard.

Appendix F – New depot: Depot 21

CC opened the newest depot, Depot 21, on 1 October 2021. To help establish the depot, some existing staff from other CC depots were transferred to it, along with a number of existing customer contracts. There are many potential customers – public sector, business and industrial – within easy reach of Depot 21.

Mick hopes Depot 21 will break even within its first two months of operations. Once it has acquired additional contracts, he expects it to be profitable. When it is fully established, the depot's maximum capacity will be 125 average-sized contracts per month.

Saba produced an initial monthly forecast for Depot 21, assuming 95 average-sized contracts per month:

Depot 21	Monthly average per contract	Monthly total
	£	£
Revenue	1,200	114,000
Variable costs	<u>960</u>	<u>(91,200)</u>
Contribution	<u>240</u>	22,800
Fixed costs		<u>(10,000)</u>
Profit		<u>12,800</u>

Orinoko contract

A key reason for opening Depot 21 was to allow CC to bid for a contract to clean the large distribution centre of an online retailer, Orinoko plc (Orinoko), which is opening nearby in December 2021. Mick is working on the tender for the Orinoko contract with Yousef Hussain, the marketing and sales director. They expect that the contribution margin* on this contract will be lower than the 20% achieved on average-sized contracts, but that the absolute amount of contribution will compensate for this.

* Contribution margin is calculated as: $(\text{Revenue} - \text{Variable costs})/\text{Revenue}$