



LEVEL 4

ACCOUNTING

TECHNICIAN

APPRENTICESHIP

TUESDAY 7 DECEMBER 2021
2.5 HOURS

ROLE SIMULATION

EXAMINATION

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

Marks breakdown

Task 1	60 marks
Task 2	40 marks

You will need to refer to your copy of the Advance Information during this exam.

The link to the ICAEW bookshelf can be found in each question above the word processing area.

Important Information:

1. Please read the instructions carefully before you begin your exam.

Starting and ending the exam

2. Click on the **right arrow** in the header to begin the exam. The exam timer will begin to count down.
3. When the exam timer reaches zero, the exam will end. To end the exam earlier, navigate to the last question and click the right arrow button. Click the **Submit** button to close the exam.

Encountering issues during the exam

4. If you encounter any issues during the delivery of the exam you should alert the online chat support. The online chat support cannot advise you on how to use the software.

Preparing your answers

5. Respond directly to the exam question requirements. Do not include any content of a personal nature, this includes your name or any other identifying content.
6. **Only your answer in the word processing area will be marked.** You must copy over any data from the spreadsheet area to the word processing area.
7. 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. The examiner will **not** be able to expand rows or columns where content is not visible.

After the exam

8. If you believe that your performance has been affected by any issues which occurred during the exam, please submit your special consideration application

referring to anything of note which occurred and will have been recorded, for use as evidence to support your case.

9. A student survey is provided post-exam for feedback purposes.

Task 1

This task consists of **four** parts worth a total of 60 marks.

Task 1.1

Saba Nabeel, CC's financial accountant, is preparing a draft statement of financial position as at 30 September 2021. She asks you to help her complete the 'Accumulated depreciation' section of the following incomplete draft of the property, plant and equipment (PPE) note:

Draft note: Property, plant and equipment as at 30 September 2021 (incomplete)

	Land £	Buildings £	Vehicles £	Equipment £	Total £
Cost					
As at 01/10/2020	3,300,000	4,200,000	2,604,800	1,121,500	11,226,300
Additions	-	-	68,480	411,620	480,100
Disposals	-	-	(118,400)	(58,400)	(176,800)
As at 30/09/2021	<u>3,300,000</u>	<u>4,200,000</u>	<u>2,554,880</u>	<u>1,474,720</u>	<u>11,529,600</u>
Accumulated depreciation					
As at 01/10/2020	-	1,680,000	2,091,700	682,200	4,453,900
Charge	-				
Disposals	-				
As at 30/09/2021 (draft)	<u>-</u>	<u>1,680,000</u>	<u>2,091,700</u>	<u>682,200</u>	<u>4,453,900</u>
Carrying amount					
As at 30/9/20	<u>3,300,000</u>	<u>2,520,000</u>	<u>513,100</u>	<u>439,300</u>	<u>6,772,400</u>
As at 30/9/21 (draft)	<u>3,300,000</u>	<u>2,520,000</u>	<u>463,180</u>	<u>792,520</u>	<u>7,075,700</u>

Saba has correctly completed the 'Cost' section of the draft note. She has processed the accounting entries for the cost of additions to vehicles and equipment, which were all purchased on 1 October 2020. She has also correctly processed the accounting entries to remove the cost of assets disposed of by debiting the disposal account and crediting the relevant cost accounts.

Saba has made the correct accounting entries for the disposal proceeds by debiting cash and crediting the disposals account.

However, she has not made any accounting entries for depreciation, so the 'Accumulated depreciation' section of the draft note does not reflect accounting entries required to:

- remove accumulated depreciation on disposals during the year; and
- charge depreciation on PPE for the year ended 30 September 2021.

Saba tells you that all disposals took place on 1 October 2020 and comprised:

- four vehicles, which had been purchased on 1 October 2018;

- a large item of equipment, which had been purchased on 1 April 2018.

She wants you to calculate the relevant amounts to complete the 'Accumulated depreciation' section of the revised PPE note, in accordance with the accounting policies in **Advance Information: Appendix B**.

Further accounting adjustments

Saba also wants you to identify the accounting adjustments that should be made to the draft financial statements to reflect the following information:

- CC began to buy cleaning materials from Salus plc (Salus), a large supplier, on 1 January 2021. CC owes Salus £52,400 as at 30 September 2021. The relationship between the two parties has been positive and productive so they will be entering into a closer alliance. As a result Salus has agreed to award CC a £30,000 retrospective discount in respect of the cost of CC's purchases from Salus up to 30 June 2021 (**Advance Information: Board meeting in September 2021**).
- In the year ended 30 September 2020, CC made a provision in March 2020 for a legal claim from a major customer, Tempent plc (Tempent), for breach of contract (**Advance Information: Appendix B**). The claim was finally settled by CC with a bank transfer to Tempent in August 2021, which was accounted for correctly. There is an excess provision of £40,000 that must now be released.

Charles Gorecki, the junior assistant accountant, is studying the IASB's Conceptual Framework for Financial Reporting. Saba asks you to explain to Charles the fundamental qualitative characteristic of 'faithful representation', using the accounting adjustments in respect of Salus and Tempent as illustrations.

Requirements

- a. Calculate the relevant figures to be included in the revised PPE note as at 30 September 2021 in respect of:
 - accumulated depreciation on the vehicles and equipment which were disposed of; and
 - the depreciation charges for the year ended 30 September 2021 for all relevant categories of PPE. **(9 marks)**

You do **not** need to redraft the PPE note. **Show all workings clearly.**

- b. Set out the debits and credits to record, in the financial statements for the year ended 30 September 2021, the necessary accounting adjustments in respect of Salus and Tempent. **(4 marks)**
- c. Prepare an email to Charles Gorecki to explain the **three** key aspects of faithful representation, illustrating your explanations with the accounting adjustments identified in **Task 1.1b** in respect of Salus and Tempent. **(7 marks)**

Total: 20 marks

Task 1.2

Saba provides you with the following draft statement of financial position that she prepared:

Cleanior Cleaning plc: Draft statement of financial position as at 30 September 2021

	£	£
ASSETS		
Non-current assets		
Property, plant and equipment		7,075,700
Current assets		
Inventories	81,200	
Trade and other receivables	5,460,100	
Cash and cash equivalents	3,796,960	
		<u>9,338,260</u>
Total assets		<u>16,413,960</u>
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital (£1 shares)		2,000,000
Retained earnings		8,108,960
Total equity		<u>10,108,960</u>
Non-current liabilities		
Borrowings		2,500,000
Current liabilities		
Trade and other payables	2,425,400	
Provisions	1,210,000	
Income tax payable	169,600	
		<u>3,805,000</u>
Total equity and liabilities		<u>16,413,960</u>

Saba wants you to prepare the revised statement of financial position, to reflect the adjustments you calculated in **Tasks 1.1a** and **1.1b**.

In addition, she tells you that the income tax charge for the year ended 30 September 2021 must be increased by £86,000.

Requirement

Use your answers to **Tasks 1.1a** and **1.1b**, together with the information in **Task 1.2**, to:

- calculate the final PPE figure to be included in the revised statement of financial position as at 30 September 2021. Start with the PPE figure in the draft statement of financial position and show clearly the impact of your calculations in **Task 1.1a**;
- calculate the final retained earnings figure to be included in the revised statement of financial position as at 30 September 2021. Start with the retained earnings figure in the draft statement of financial position and show clearly the impact of all relevant

adjustments;

- prepare the revised statement of financial position for Cleanior Cleaning plc as at 30 September 2021 in a form suitable for publication.

Do not show comparatives. **Show all workings clearly.**

Total: 15 marks

Task 1.3

Beth Solomon, the audit manager at Garten LLP (Garten) who is responsible for the external audit of CC, wrote to a sample of CC's customers in mid-October 2021. She asked them to confirm whether or not they agreed their outstanding balances as at 30 September 2021 (direct confirmation) (**Advance Information: Appendix C**).

Direct confirmation was requested from Tempent, whose finance director subsequently asked Alice Dean, CC's finance director, whether the confirmation request letter indicated that CC was in financial difficulties. Alice is furious because she had expressed concern to Johan Ricksen, Garten's audit partner, about how a confirmation request would be viewed by Tempent. She now feels that she should have insisted that Tempent should not be included in the sample.

Tempent did not respond to the request for confirmation.

Johan called Alice in November. He told her that the analytical procedures performed at the audit planning stage had caused him concern about the increased age of CC's receivables and payables compared with previous years. He also said that CC's performance was relatively poor in light of industry data that Beth had analysed. Johan evaluated that there was higher inherent risk than in previous years in relation to receivables and payables.

Requirements

- a. Identify which **one** of the following statements about the request for confirmation of receivables' balances is correct.
- A Garten had the right as CC's external auditor to request confirmation directly from any customer which owed CC money as at 30 September 2021.
 - B Beth required Alice's authorisation before she requested confirmation from each customer.
 - C To obtain sufficient audit evidence, confirmation should have been sought for all CC's receivables balances, not just for a sample. **(1 mark)**
- b. With regards to the direct confirmation of receivables' balances:
- Explain why the positive method of requesting confirmation of amounts owed by customers should result in more persuasive audit evidence in relation to CC's receivables' balances than the negative method.
 - Describe **three** alternative procedures which Garten could use during the final audit to obtain sufficient audit evidence with respect to Tempent's balance. **(6 marks)**
- c. Explain:
- the purpose and nature of Garten's analytical procedures at the planning stage of CC's audit, giving **one** example of a possible analytical procedure that would have been carried out; and
 - **one** effect of higher inherent risk on the final audit by Garten. **(6 marks)**

Total: 13 marks

Task 1.4

Garten included another major customer, Kondy plc (Kondy), in its sample for direct confirmations. Yesterday Alice received a call from Greg Kyritsi, the finance director of Kondy. Greg complained that the balance he had been asked to confirm was considerably higher than CC's balance in the records of Kondy as at 30 September 2021. Greg also made untrue allegations that:

- there were errors in CC's system for recording transactions, of which Alice was supposed to be in charge;
- Alice had overstated CC's sales to Kondy, presumably to increase her own performance-related bonus; and
- Alice had misled Garten and was a disgrace to the accountancy profession.

Garten has sufficient reliable evidence that CC's balance for Kondy is correct, and is satisfied that a timing difference explains the different amount recorded in Kondy's system. However, Alice is annoyed because she believes Greg has implied she has breached professional ethics.

Alice is due to meet Mick Finstone, the CEO, and Patrick McMahon, the HR director, to discuss progress on drafting a corporate code of conduct for CC (**Advance Information: Appendix D**). Alice knows that you have studied business ethics. She asks you to explain to Mick and Patrick how a code can help to address some of the challenges relating to CC's people management that were identified by Mick (**Advance Information: Board meeting in September 2021**).

Requirements

- a. Explain **three** of the fundamental principles from ICAEW's Code of Ethics that Alice would have breached if Greg's allegations were true. **(6 marks)**
- b. Explain:
 - the purpose of a corporate code of conduct for CC; and
 - how such a code can help to address **two** challenges relating to people management, illustrating your answer with two specific examples for CC. **(6 marks)**

Total: 12 marks

Task 2

This task consists of **three** parts worth a total of 40 marks.

Task 2.1

Following the pilot at Depot 14 (**Advance Information: Appendix E**), Saba asks you to calculate KPIs for the financial quadrant of the balanced scorecard of Depot 9, which has been operating for several years. She gives you the following information:

Depot 9	Actual Year ended 30/9/21	Budget Year ending 30/9/22
Capital employed	£475,000	£490,000
Controllable profit	£86,000	£92,000

Mick has continued to work in a team with Alice, Saba and Patrick to introduce the balanced scorecard (**Advance Information: Appendix E**).

As the next step, Mick wants to agree on critical success factors (CSFs) for both contracts and operations management, taking into account **Advance Information: Company information**. He also wants to agree on appropriate KPIs for the non-financial quadrants of the balanced scorecard.

Last week the team met Leonard Peel, the operations director. Leonard repeated that the only objective he gives operations managers in the depots is to 'just get the job done'. The team introduced to him the idea of SMART objectives for managers. Saba asks you to prepare an explanation of why the objective Leonard gives operations managers is not SMART.

Requirements

With reference to **Advance Information: Company information, Board meeting in September 2021** and **Appendix E**:

- a. Calculate, for the financial quadrant of Depot 9's balanced scorecard:
- the actual return on investment (ROI) and residual income (RI) for the year ended 30 September 2021; and
 - the budgeted ROI and RI for the year ending 30 September 2022. **(4 marks)**

Show your workings. Calculate ROI to one decimal place and RI to the nearest £.

- b. Identify **one** appropriate KPI for depots in each of the following non-financial quadrants of the balanced scorecard:
- Customer
 - Internal business processes
 - Innovation and learning. **(3 marks)**

- c. Identify and explain **one** critical success factor (CSF) for each of CC's:
- contracts management, and
 - operations management. **(4 marks)**
- d. Explain **two** ways in which Leonard's objective for the operations managers fails to meet the SMART criteria. **(4 marks)**

Total: 15 marks

Task 2.2

Alice and Mick met to discuss two issues: investing in a new robot-delivered cleaning service for industrial customers and a new legal claim.

Robots

Large structures such as factories and distribution centres require specialist cleaning, but customers cannot afford for these premises to be out of use for any period of time. Advances in automation mean that wall-climbing robots are available, from specialist providers, which could be adapted by CC to clean these premises on a more regular basis and with less disruption (**Advance Information: Board meeting in September 2021 (Developing opportunities)**).

Mick and Alice have already discussed the financial aspects of investing in wall-climbing robots. They now want to find out what factors Yousef Hussain, as marketing and sales director, and Patrick, as HR director, believe should be considered when deciding whether to use them.

Legal claim

A legal claim against CC was submitted by Parla plc (Parla), a large corporate customer, in November 2021. Mick is concerned that yet another claim has been received (**Advance Information: Board meeting in September 2021 (Business processes)**).

Parla's claim is that in October 2021 Marius, an unaccompanied employee of CC, accessed a control room in Parla's premises to clean it. In doing so he unplugged a server and accidentally disabled both the security and management information systems at the building. A term in the contract between CC and Parla, also contained in the service level agreement (SLA) (**Advance Information: Company information (Contracts management)**), prohibits CC team members and leaders from accessing the control room unless accompanied by Parla staff. The actions of Marius led to seriously disrupted activities for Parla. Parla's claim is for (1) negligence and (2) fundamental (repudiatory) breach of contract, such that Parla can treat the contract with CC as terminated.

Requirements

- a. Explain **one** factor that each of (1) the marketing and sales director and (2) the HR director should consider with regard to using wall-climbing robots. **(4 marks)**
- b. Explain, in relation to Parla's legal claim:
 - the nature of a claim for (1) negligence and (2) fundamental (repudiatory) breach of contract;
 - whether each claim is likely to succeed; and
 - the remedy that Parla could be awarded by the courts under English law. **(6 marks)**

Total: 10 marks

Task 2.3

Depot 21 has been operating since 1 October 2021, but initial take-up of its services by new customers has been disappointing. In November the forecast was for 95 average-sized contracts, but Depot 21 achieved only 60. However, the average revenue and variable costs per contract and the monthly fixed costs were in line with the initial monthly forecast in **Advance Information: Appendix F**.

Operational changes from 1 December 2021

From 1 December 2021, CC made operational changes at Depot 21 so that, compared with the initial monthly forecast:

- a reduction in the prices charged to customers means there will be a 5% reduction in the average revenue per contract per month;
- average variable costs will be £10 per contract per month higher;
- monthly fixed costs will be 15% lower.

As a result of the reduction in the prices charged to customers, Yousef expects Depot 21 to achieve 80 average-sized contracts in December. He has asked you whether this will be sufficient for Depot 21 to break even in December 2021.

New contract with Orinoko plc from January 2022

Depot 21 has been awarded the contract to provide cleaning services to the new distribution centre opened by Orinoko plc (Orinoko), starting on 1 January 2022 (**Advance Information: Appendix F**). Monthly revenue from the Orinoko contract will be £16,200 and the contribution margin on the contract will be 16%. Because of Orinoko's extra requirements, Depot 21's total monthly fixed costs will rise to £11,000 from 1 January 2022.

Due to capacity constraints, taking on the Orinoko contract means that, from 1 January 2022, Depot 21 will be able to supply services for only 70 average-sized contracts per month. These will be at the same average revenue and variable costs per contract as in December 2021.

The board wants to know the forecast monthly profit for Depot 21 in January 2022.

Requirements

With reference to **Advance Information: Appendix F** and the information above:

- a. Calculate the number of average-sized contracts that Depot 21 requires to break even in December 2021. Comment briefly on your answers. **(5 marks)**

Show your workings. Ignore the Orinoko contract.

- b. Prepare a forecast of the profit or loss from operations for Depot 21 in January 2022 which includes both the new Orinoko contract and the average-sized customer contracts. **(4 marks)**

Show your workings.

- c. Explain **three** steps that could be taken to improve the forecast result for January 2022 at Depot 21. **(6 marks)**

Total: 15 marks