



# *ROLE SIMULATION EXAMINATION*

## *ADVANCE INFORMATION*

This material is issued prior to the exam 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 exam 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](http://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 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 2021 Role Simulation Workbook and the 2021 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.

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.

**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 examiner will take account of the way in which your answers are structured. You must make sure your answers, **including workings**, are 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.

## Reloco Ltd

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**This document reflects information available on 11 October 2022.**

## **Introduction: Reloco Ltd**

Reloco Ltd (Reloco) is the market leader in the removals industry in the UK. Its principal service is assisting household and commercial customers in packing up their possessions and moving location, both within the UK and internationally. Reloco also provides removals customers with access to short-term and long-term storage facilities nationwide.

Reloco is long-established and operates a fleet of vans and lorries from 18 depots across the UK. It also has an administrative headquarters which is used for centralised functions such as finance, payroll and procurement.

## **Industry information**

### Removals

The removals industry in the UK is in the maturity phase of its lifecycle.

The choice of removals firm for most customers is driven not only by price but also by the security and quality of service provided:

- Small households which occupy one or two bedroomed properties usually have a small number of possessions and often need to move at short notice. They normally just rent a self-drive van to move their possessions or use the services of a local van-owner.
- Larger households have more complex needs as they often require packing and unpacking of possessions to take place over several days, and may have large or valuable items that require specialist skills in moving.
- Households which relocate a considerable distance require additional security and insurance for their possessions because they are in transit for longer.
- Commercial moves usually require a very high level of security and logistical planning, because of the value of the possessions being moved, the risk of confidential information being lost and the need to minimise operational disruption.
- International moves for both household and commercial customers require a more complex service, arising from customs and immigration requirements, so the customer's choice of removals firm is much more limited. In recent years, events such as Brexit and the Covid-19 pandemic have reduced the number of international moves made by customers but have increased their complexity.

Standards in the industry are actively monitored and regulated by the British Association of Removers (BAR) and the Removals Ombudsman Scheme.

Environmental regulations arising from concerns about climate change increasingly affect the removals industry, especially in terms of limiting vehicle emissions and preventing pollution. Several cities operate ultra-low emissions zones which increase the cost of travel for removals vehicles within or through these zones. In addition, taxation rates for diesel and high-emission petrol vehicles increase regularly.

Most removals firms are seeking to reduce their use of vehicles that are powered exclusively by fossil fuels, as both household and commercial customers are increasingly attracted to the sustainability credentials of removals service providers. Electric vehicles are cheaper to operate in terms of fuel but are more expensive to buy.

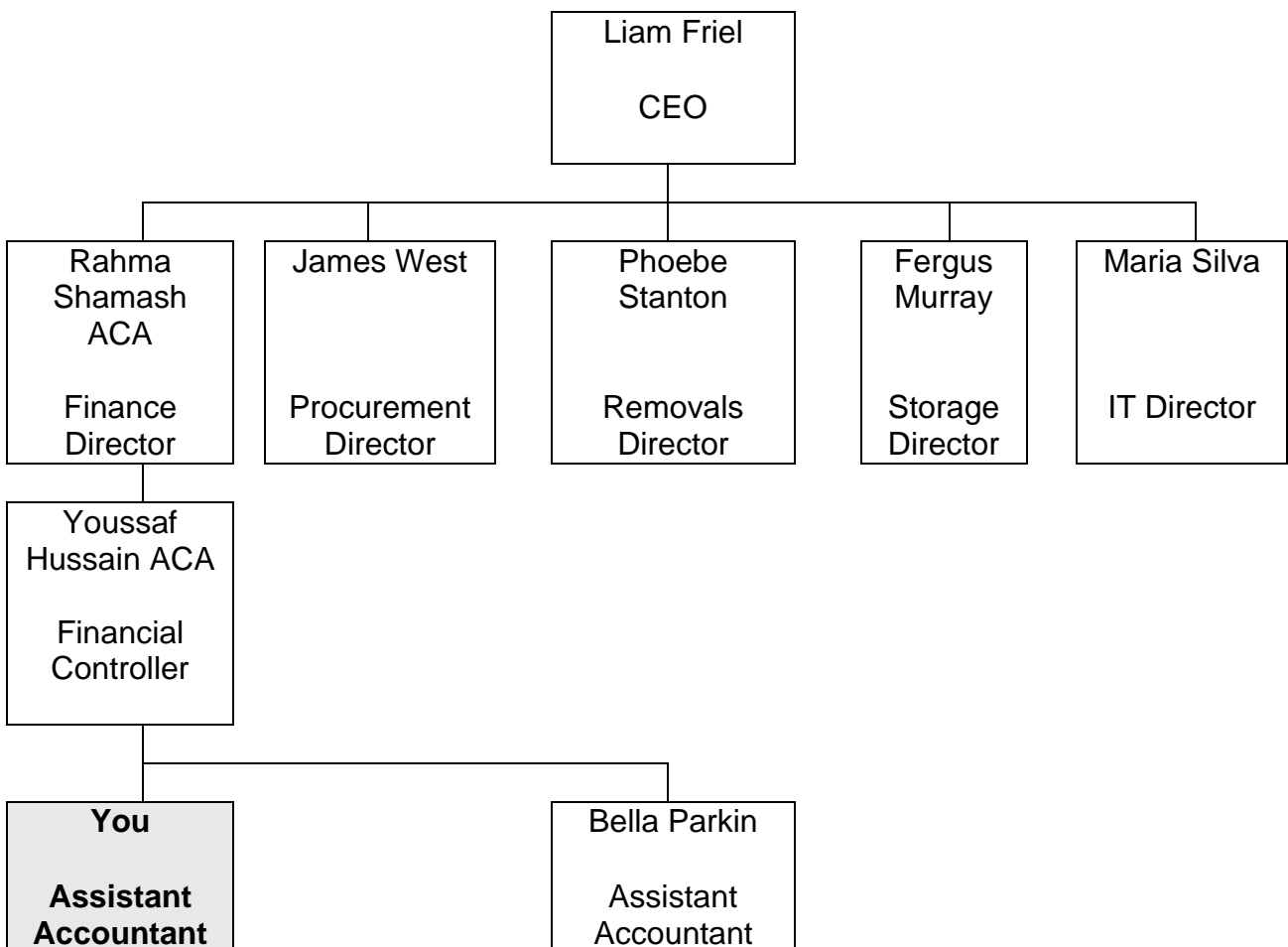
One way to reduce emissions and operate more efficiently is for removals firms to plan their journeys so that each vehicle operates as close to full capacity as possible on every journey. This can mean the possessions of more than one customer being transported at the same time on a single vehicle.

### Storage

The market in the UK for long-term storage facilities for both household and commercial possessions is growing. Many new-build houses and flats are smaller than those built pre-21<sup>st</sup> century, so households often choose to store some items away from home, possibly for several years. Most wish to use secure facilities and many prefer the flexibility of having 24-hour unsupervised access to these facilities. For small businesses, using a specific storage facility is often cheaper than renting their own warehouse space.

Short-term storage is often needed for removals customers, for instance if there is a delay between moving out of one property and moving into another. Flexibility and security are key requirements for anyone wishing to store possessions in the short term.

### **Extract from Reloco’s organisational chart**



You are a second-year accounting apprentice, based in Reloco's finance function at its headquarters. Your line manager is Youssaf Hussain, the financial controller, who joined Reloco in July 2022 from one of its biggest competitors, Linkers Ltd (Linkers).

Bella Parkin is also an accounting apprentice, at an earlier stage in her studies than you. Youssaf has asked you to support Bella in her studies when necessary. Both you and Bella are student members of ICAEW.

## **Reloco's operations and performance**

Reloco's financial statements for the year ended 31 October 2021 are in **Appendix A**. Information from Reloco's accounting handbook for finance function staff is in **Appendix B**.

### Sales prices and volumes

Reloco's sales were poor in the year ended 31 October 2021 because of the effects of the Covid-19 pandemic on the number of household and commercial removals taking place. However, it remains the market leader.

Removals volumes in the year ended 31 October 2022 have improved but are still not at pre-pandemic levels as they are dependent on the UK housing market, especially the completion of new-build homes, and on levels of international economic activity. There is intense price competition among the diverse businesses which offer some or all of the removal services offered by Reloco.

Demand for both short-term and long-term storage has risen and prices to customers have remained steady in most locations.

### Costs

Reloco's costs relate to:

- centralised functions;
- staffing removals operations with employees and contractors;
- operating premises and removals, including security and insurance;
- running and maintaining vehicles (such as fuel, vehicle licences, servicing); and
- consumables (such as boxes, packaging and cleaning materials).

Reloco's costs have risen from pre-pandemic levels. The costs of employing staff and using self-employed contractors have increased with inflation and because of labour shortages. Fuel prices have also risen.

Until 2015 Reloco had a single supplier agreement with a nationwide storage company to provide storage for its removals customers. From 2016 Reloco stopped sub-contracting and started operating long-term and short-term storage itself from its own storage units near to each of its 18 depots across the UK. This gives Reloco the flexibility needed to deal with altering removal dates and other customer requirements. Reloco still uses the services of other storage suppliers when the need arises.

## Customer service

Most customers make initial contact with Reloco via its website, where they access a basic customer enquiry form then complete a lengthy questionnaire about the possessions in their premises that need to be moved. This involves a lot of work for the customers, some of whom have suggested it would be easier to upload a video of their premises for Reloco staff to view.

Alternatively, the customer calls their local depot. After taking basic details from the customer, a Reloco employee directs them to the website questionnaire.

In both cases, a Reloco employee subsequently visits the customer's premises to assess the resources required to complete the removal. Afterwards Reloco supplies each customer with a price quotation for the removal service, including any known short-term or long-term storage requirements.

Reloco requires its customers to book a fixed time slot at least two weeks in advance of the removal date, and to pay a substantial deposit.

## Development plan

While Reloco occasionally has some difficulty in attracting and retaining skilled employees and contractors, especially drivers, generally it has sufficient resources available with which to run its current scale of operations effectively. However Liam Friel, the CEO, wants to set new sustainability and corporate responsibility goals for Reloco's operations, and has an ambitious development plan for the next six months which includes:

- securing additional long-term storage facilities, possibly by acquiring Stra Ltd (**Appendix C**);
- entering additional niche removals and storage markets, for example short-notice removals (**Appendix D**);
- an improved integrated information system for logistics (**Appendix E**); and
- replacing the fleet of diesel-powered lorries and vans with electric vehicles.

## Financing

To part-fund the development plan, Rahma Shamash, the finance director, organised the issue of a £2 million 12% debenture to Subway Bank on 1 April 2022, which is repayable in 2029. Interest is paid as it falls due.

The remainder of the funding for the development plan will come from operating cash flows. However Phoebe Stanton, the removals director, recently attended a conference and suggested to Rahma afterwards that it may be worth considering green finance as an additional source of funding.

Maria Silva was appointed as IT director in July 2022 and was promised shares in the company, so Reloco is planning a small share issue to her.

## Board meeting

At a board meeting last week:

- Phoebe highlighted that she was working with Youssaf and a depot manager to establish whether Reloco should enter the short-notice removals market from 1 January 2023 (see **Appendix D**).
- James West, the procurement director, mentioned that the project for the new logistics information system had encountered some problems (see **Appendix E**).
- Liam stated that Reloco needs to improve aspects of its risk management: how Reloco measures gross risk, how it classifies operational and financial risks, and how it decides between avoiding, sharing, reducing and accepting risk.

## **External audit**

Reloco's external auditor is RK Longmuir LLP (Longmuir). The audit partner is Sam Redbridge and the lead auditor is Elise Andante. Final audit work in relation to Reloco's financial statements for the year ended 31 October 2022 will commence on 30 November 2022. More information relating to the final audit is in **Appendix F**.



**Appendix A – Reloco Ltd financial statements for the year ended 31 October 2021  
(extracts)**

**Statement of profit or loss for the year ended 31 October 2021**

	<b>£'000</b>
<b>Revenue</b>	47,320
Cost of sales	(33,850)
Gross profit	<u>13,470</u>
Administrative expenses	(11,390)
<b>Profit before tax</b>	<u>2,080</u>
Income tax	(420)
<b>Profit for the period</b>	<u><u>1,660</u></u>

**Statement of financial position at 31 October 2021**

	<b>£'000</b>	<b>£'000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment		2,690
<b>Current assets</b>		
Inventories	320	
Trade and other receivables	4,540	
Cash and cash equivalents	4,780	
	<u>9,640</u>	
<b>Total assets</b>		<u><u>12,330</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Ordinary share capital (10p shares)		1,000
Retained earnings		5,550
<b>Total equity</b>		<u>6,550</u>
<b>Current liabilities</b>		
Trade and other payables	5,570	
Income tax payable	210	
	<u>5,780</u>	
<b>Total equity and liabilities</b>		<u><u>12,330</u></u>

## **Appendix B – Accounting handbook (extracts)**

The following guidance is included in Reloco’s accounting handbook for use within the finance function, and is used in maintaining the nominal ledger and preparing the financial statements:

- Elements of the financial statements (assets, liabilities, equity, income and expenses) are recognised and measured in accordance with the Conceptual Framework for Financial Reporting and the appropriate IFRS® Standards.
- Revenue is recognised as the removals or storage service is provided.
- Prepaid expenses and accrued income are included within trade and other receivables.
- Amounts owed by commercial customers for services already provided are shown in trade and other receivables.
- Accrued expenses and deferred income are included within trade and other payables.
- Deposits received from customers in advance of services provided are shown as deferred income within trade and other payables.
- Share capital includes only the fully paid nominal value of issued shares. Any amount received on issue of fully paid shares that exceeds the nominal value is treated as share premium.

## Appendix C – Opportunity to purchase Stra Ltd

Gill Marsala, the CEO and majority shareholder of Stra Ltd (Stra), wants to retire and has approached Fergus Murray, the storage director, and Liam to suggest that Reloco acquires Stra by purchasing all its issued share capital.

Stra owns several long-term storage units across the UK, which are used by both households and businesses. Stra occasionally uses Reloco's services to move Stra's customers' possessions when the need arises. Liam is in favour of the acquisition in principle since it is in accordance with the board's development plan.

Stra's finance director, Emile Hernandez ACA, is the only other Stra shareholder and is a personal friend of Rahma. Emile has already provided Reloco with Stra's half year financial statements for the six months ended 30 April 2022. During November 2022 Emile will prepare Stra's financial statements for the year ended 31 October 2022. Emile has promised to supply them to Rahma and Liam, along with some estimates for the year to 31 October 2023, as soon as possible. The financial statements will not be subject to an external audit because of Stra's size.

The half year figures show that, at 30 April 2022, Stra had:

- an overdraft of £1.2 million;
- a quick (liquidity) ratio below the storage industry average of 1.45; and
- a trade receivables collection period of 21 days and a trade payables payment period of 39 days.

Liam, Fergus, Rahma and Youssaf met on Friday 7 October 2022 to discuss Reloco's potential acquisition of Stra in more detail. Youssaf mentioned that Stra was a customer of Linkers when he worked there. He said that he had organised for a written demand for payment of an unpaid debt from Stra to Linkers of £750 to be served on Stra, in accordance with the compulsory liquidation procedures in s122 Insolvency Act 1986. He also said it was common knowledge that Stra was very slow to pay its suppliers and there had been rumours about how long it could continue as a going concern.

## Appendix D – Opportunity to enter the short-notice removals market

The actual date of a household removal can change at very short notice, usually due to delays in the chain of people buying and selling properties. Many of Reloco's depots have very good contacts with skilled, self-employed contractors who can be called on to fill in gaps in the availability of staff to complete removals where the date changes at the last minute.

Standard practice in the market for household removals is to require customers to book a fixed time slot for their removal at least two weeks in advance. However, this inflexibility has the effect of driving potential customers with small households towards just hiring a van and doing the work themselves as a short-notice removal. People who are renting and who need to move due to a change in circumstances, such as a job loss or problems with a landlord, also need short-notice removals, sometimes with as little as 24 hours' notice.

Last week Toni Maneiro, the manager of the Coventry depot, suggested to Phoebe that Reloco could take advantage of the flexibility offered by its self-employed contractors to enter the short-notice removals market for small households from 1 January 2023. Toni suggested that these removals could usually be completed by Reloco in one day, although some might take two days if packing/unpacking was required. Customers would be charged a fixed price based on the number of days required for the move.

Phoebe asked Toni to make some preliminary calculations for the estimated demand, price and costs of the new short-notice removals service. She pointed out that the limiting factor for Reloco would be the availability of contractor hours.

Toni produced the following calculations, for both one-day and two-day removals, that are based on moving the possessions of a small household less than 50 miles from the Coventry depot:

<b>Toni's calculations</b>	<b>Number of one-day moves</b>	<b>Number of two-day moves</b>
Estimated annual demand	120	80
	<b>£ per move</b>	<b>£ per move</b>
Fixed price charged to customer	700	1,150
Variable costs:		
Consumables	(95)	(95)
Contractor costs (Note 1)	(240)	(450)
Fixed overheads (Note 2)	<u>(96)</u>	<u>(180)</u>
Profit per move	<u>269</u>	<u>425</u>

**Note 1:** Contractor costs include the costs of loading, transporting and unloading the customer's possessions, plus packing/unpacking in the case of a two-day move.

**Note 2:** Toni has included a share of Reloco's existing fixed overhead costs, absorbed on the basis of contractor hours.

## Appendix E – Logistics information system

The sophisticated new logistics information system that the Reloco board is implementing will use intelligent systems, incorporating artificial intelligence (AI) and machine learning.

### Expected benefits of the system

The Reloco board anticipates that the use of intelligent systems will allow the new integrated logistics information system to deliver the following benefits:

- Improved scheduling of removals and reduction of the costs of each removal, including fuel.
- More efficient customer service at each stage of Reloco's interactions with customers, including more accurate quotations and easier booking of removals.

### HTD Ltd's GPS handsets

Maria and James completed a detailed specification of the logistics information system in August 2022 and then selected suppliers to provide the different parts of the system.

State-of-the-art handsets with rechargeable batteries, which are a form of the internet of things, play a key part in Reloco's system. Using global positioning software (GPS), AI software tracks and analyses data such as traffic conditions. Directions are then given to drivers via the handset's screen, so they make the fastest, shortest journeys possible. This is important as drivers are restricted by regulations as to how many hours they can drive consecutively before taking a rest break.

The contract to supply handsets with GPS and AI software was awarded to HTD Ltd (HTD). HTD promised to deliver 15 handsets to each of Reloco's 18 depots on 30 September 2022, before the logistics information system went live on 2 October 2022.

However, on 30 September HTD delivered only 180 handsets, and the delivery was made directly to Reloco's headquarters, rather than the depots. Reloco managed to distribute 10 handsets to each of the 18 depots on 5 October, at its own cost, after the logistics information system went live as planned. By 10 October, Reloco employees and contractors had stopped using 60 of the handsets as they failed to recharge properly. HTD will deliver the remaining 90 handsets to the appropriate depots on 15 October.

James is considering what damages Reloco can claim from HTD for breach of contract.

## Appendix F – External audit issues

During last year's audit the lead auditor from Longmuir made some audit file notes about Reloco's (1) purchases of consumables by depots and (2) payments to suppliers. These notes were shared and discussed with Rahma because the areas present risks for the audit of the financial statements for the year ending 31 October 2022.

### Audit file note (1): Purchases of consumables by depots

Most of Reloco's costs (see **Reloco's operations and performance**) are managed very effectively by the centralised payroll and procurement functions, which make use of formal purchase orders and goods received notes (GRNs) where relevant.

However, consumables for operations (such as boxes, packaging and cleaning materials) and administration (such as stationery and catering supplies) are not purchased centrally. Instead, it is the responsibility of depot managers to keep sufficient consumables to ensure smooth operations and administration from day to day. It is not unusual for supplies of consumables to run out and for depot managers to find that actual inventories of consumables are lower than expected.

Longmuir raised this issue with Reloco's management during previous audits. The monetary amounts of the errors and misstatements found by Longmuir have not, to date, been material so Reloco's management has been reluctant to address the issue.

The following processes are currently in place for purchasing consumables:

Process	Details
Ordering	Depot managers can place orders by email and phone directly with local suppliers of consumables, without producing a written purchase order. Managers usually delegate the authority to place these orders to depot employees.
Receiving deliveries	As evidence of consumables received, depot employees sign and retain the suppliers' delivery notes. They pass these documents to the depot manager who signs them and sends them to the centralised finance function. Suppliers send purchase invoices directly to the finance function.

Finance function staff often have problems matching purchase invoices for consumables with delivery notes and agreeing the prices charged. They frequently have to raise queries with suppliers.

Reloco retains all statements received from suppliers. Finance function staff spend considerable amounts of time trying to reconcile statements sent by suppliers of consumables to Reloco's records.

### Audit file note (2): Payments to suppliers

Reloco's process for recording purchase invoices and making payments to suppliers is as follows:

- An assistant accountant checks the purchase invoice to the relevant GRN and purchase order, or to the delivery note for consumables, and for arithmetic accuracy. A query is raised with the supplier in the case of a discrepancy.
- A second assistant accountant records the checked invoice in the accounting records.
- Invoices are paid weekly in electronic payment runs, which are prepared by the cashier and authorised by Rahma or Youssaf.
- Reloco seeks to pay in accordance with agreed credit terms.

As the new financial controller, Youssaf has persuaded Rahma that Reloco needs to improve its processes for purchases of consumables and payments to suppliers. They will meet soon with Sam Redbridge, the audit partner, to discuss these issues, along with the related internal controls and the different sampling techniques that Longmuir may use when auditing these areas.