



# LEVEL 4 ACCOUNTING TECHNICIAN APPRENTICESHIP

TUESDAY 6 DECEMBER 2022

2.5 HOURS

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## ROLE SIMULATION EXAMINATION

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

### Marks breakdown

Task 1	58 marks
Task 2	42 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 for marking 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 58 marks.

### Task 1.1

Youssaf Hussain, the financial controller of Reloco Ltd (Reloco), gives you some information about three items that need adjusting in the nominal ledger for the year ended 31 October 2022:

- Insurance premiums of £54,000 were paid in January 2022 for the year ended 31 December 2022 and included in administrative expenses.
- Revenue for the year ended 31 October 2022 included customer deposits of £18,000 which related to removals booked for November 2022.
- On 31 October 2022 Reloco issued Maria Silva, the new IT director, with 150,000 new 10p ordinary shares (**Advance Information – Reloco’s operations and performance (Financing)**). Maria paid Reloco 30p for each share on 31 October 2022. The transaction has not yet been accounted for at all due to the bank transferring the receipt into the bank account of another business in error.

### Requirements

With reference to the information above and **Advance Information – Appendices A and B**:

- (a) Prepare journals to make the necessary adjustments for the three items in Reloco’s nominal ledger for the year ended 31 October 2022. Include a narrative for each journal. **(8 marks)**
- (b) Explain your accounting treatment of the insurance premiums and the customer deposits in Reloco’s financial statements for the year ended 31 October 2022. Your answer should refer to the elements of financial statements in the Conceptual Framework for Financial Reporting. **(4 marks)**

**Total: 12 marks**

## Task 1.2

Youssaf has asked you to help prepare a statement of financial position at 31 October 2022. He provides you with the following list of balances from the nominal ledger at 31 October 2022. The balances do **not** include the effect of the journals you prepared in **Task 1.1(a)**.

Balance	Debit £'000	Credit £'000
Property, plant and equipment (PPE) – cost at 31 October 2022	7,430	
PPE – accumulated depreciation at 31 October 2021		3,580
Inventories at 31 October 2022	360	
Trade and other receivables	6,360	
Bank account	7,250	
Share capital – 10p ordinary shares		1,000
Retained earnings at 1 November 2021		5,550
12% bank debenture, repayable in 2029		2,000
Trade and other payables		6,950
Income tax payable		260

Youssaf tells you that, in addition to the journals you prepared in **Task 1.1(a)**, the following information is relevant:

- Reloco made a draft profit after tax in the year ended 31 October 2022 of £2,060,000.
- The depreciation expense for the year is £986,000.
- Due to an error in entering the nominal ledger account code in the system, a dividend payment of £850,000 in June 2022 was incorrectly posted to the trade receivables account. The correct entry was made to the bank account.
- £14,000 of consumables located at the depots on 31 October 2022 were accidentally omitted from the inventory count on that date.

### Requirement

With reference to **Advance Information – Appendices A and B** and the journals you prepared in **Task 1.1(a)**, prepare the statement of financial position for Reloco Ltd at 31 October 2022 in a format suitable for publication. Do not include comparative figures.

**Show your workings**, including a full working for Reloco's retained earnings at 31 October 2022.

**Total: 17 marks**

### Task 1.3

Last week Rahma Shamash, the finance director, discussed the purchase of consumables by Reloco's depot managers and employees (**Advance Information – Appendix F**) with Youssaf and Sam Redbridge, the audit partner from RK Longmuir LLP (Longmuir).

Rahma confirmed that Reloco did not wish to centralise the purchase of consumables.

Sam indicated that Rahma and Youssaf should consider risks for Reloco and associated internal controls in relation to the depots:

- (1) ordering consumables, and
- (2) receiving consumables.

Youssaf has asked you to help him prepare for a further meeting about this between him, Rahma and Sam next week.

During the discussion Sam also referred to Reloco's process for making payments to suppliers (**Advance Information – Appendix F**). Sam mentioned that to obtain sufficient, appropriate audit evidence in relation to payables, Elise Andante, the Longmuir lead auditor, plans to carry out:

- tests of control on a sample of electronic payments to suppliers; and
- supplier statement reconciliations on a sample basis.

The audit team will select samples from Reloco's records.

Your colleague Bella Parkin, an assistant accountant, understands that Elise is gathering audit evidence but asks you for more information about Elise's selection of samples.

### Requirements

- (a) Identify, for **each** of processes (1) and (2) above in relation to purchasing consumables (**Advance Information – Appendix F**):
  - a risk that Reloco should recognise;
  - a control objective that Reloco should identify; and
  - a control that Reloco should implement.**(6 marks)**
- (b) In relation to the sample of electronic payments to suppliers (**Advance Information – Appendix F**):
  - Identify **two** tests of control that Longmuir is likely to perform on the sample; and
  - State the objective of each test.**(4 marks)**
- (c) Describe **two** assertions that will be tested by Longmuir's reconciliation of supplier statements with relevant payables ledger balances at 31 October 2022. You are **not** required to list any specific audit procedures. **(2 marks)**
- (d) Prepare an email to Bella about the selection of samples, in which you:

- describe the random selection method and the systematic selection method; and
- explain how Elise could use each type of selection method to audit Reloco's payables.

**(5 marks)**

(e) Explain whether each of the following factors would **increase** or **decrease** sample sizes for tests of details on payables:

(1) An increase in the number of misstatements Elise expects to find in the population.

(2) An increase in tolerable misstatement.

**(2 marks)**

**Total: 19 marks**

## Task 1.4

Reloco's board is considering whether to purchase Stra Ltd (Stra) (**Advance Information – Appendix C**). In principle Liam Friel, the CEO, is in favour of the acquisition because it will provide Reloco with several additional storage units across the UK, but he is prepared to pay only a low price for the shares.

Last month Stra's finance director, Emile Hernandez ACA, provided the final financial statements for the year ended 31 October 2022. Emile also presented Rahma with a forecast for the year ahead which includes estimates of volumes, prices and costs.

Fergus Murray, Reloco's storage director, investigated Stra's forecast in detail. He believes that the estimates are misleading because they do not reflect that fact that Stra recently lost a key commercial customer to Reloco. He informed Emile of his belief.

In a phone call Emile admitted to Rahma that in the forecast he aimed to present a favourable picture of Stra's financial position and prospects. He explained that he is relying on the sale of his shares in Stra to fund his house purchase. Emile promised to provide revised estimates as soon as possible. However, in the meantime he asked Rahma, as his friend, to recommend to Liam and the board that Reloco should go ahead with the acquisition.

As at 6 December 2022 Stra owes £16,500 to Reloco. This amount becomes due for payment on 15 December 2022.

Youssaf thinks that Stra is in financial difficulties. He tells Rahma and Liam that he believes Stra may cease to be a going concern if it does not gain more commercial customers soon. If the board decides not to acquire Stra, even at a low price, Youssaf suggests Reloco should immediately petition for the compulsory liquidation of Stra under s122(1)(f) Insolvency Act 1986 on the grounds that it is unable to pay its debts.

### Requirements

- (a) Explain the fundamental ethical principles from the ICAEW Code of Ethics that Emile may have breached. **(6 marks)**
- (b) Identify which **one** of the following statements best describes the nature of the threat to compliance with the fundamental ethical principles that Emile's request presents to Rahma.
- A It presents a familiarity threat
  - B It presents a self-interest threat
  - C It presents a self-review threat
  - D It presents an intimidation threat
- (1 mark)**
- (c) Assuming Stra is **not** a going concern, state the basis on which Emile should redraft the financial statements of Stra Ltd for the year ended 31 October 2022. **(1 mark)**
- (d) Explain whether Reloco can petition for Stra's compulsory liquidation as at 6 December 2022. **(2 marks)**

**Total: 10 marks**

## Task 2

This task consists of **three** parts worth a total of 42 marks.

### Task 2.1

In advance of a meeting with Liam tomorrow, Rahma wants more information about Stra's possible financial difficulties (**Advance Information – Appendix C**). Rahma asks for your help and gives you the following extracts from Stra's financial statements that Emile prepared for the year ended 31 October 2022:

	£'000
<b>Extract from statement of profit or loss:</b>	
Revenue	21,360
Gross profit	5,580
Operating profit	198
<b>Extract from statement of financial position:</b>	
Inventories	350
Trade receivables	1,780
Other current assets	<u>280</u>
<b>Current assets</b>	<b><u>2,410</u></b>
Trade payables	2,430
Bank overdraft	<u>1,890</u>
<b>Current liabilities</b>	<b><u>4,320</u></b>

### Requirements

- (a) At 31 October 2022, calculate Stra's:
- trade receivables collection period;
  - trade payables payment period; and
  - quick (liquidity) ratio.
- (4 marks)**
- (b) Using **Advance Information – Appendix C**, the information in Task 2.1 and your calculations in **Task 2.1(a)**, discuss whether Stra may be in financial difficulties. **(4 marks)**

**Total: 8 marks**



## Task 2.2

Youssaf tells the directors that you have some time available if they need your help.

### Damages to be claimed from HTD Ltd

James West, the procurement director, has been trying to establish a full list of Reloco's losses incurred as a consequence of HTD's failure to supply GPS handsets in the agreed manner (**Advance Information – Appendix E**). As he is aware you have recently studied law, he asks for your advice about the damages that Reloco could claim from HTD in respect of these losses.

James has identified three losses:

Loss 1: Costs arising from HTD's late and inaccurate deliveries, and from the inability of some handsets to be recharged.

Loss 2: Costs arising from faults in the GPS, which has frequently misdirected Reloco's drivers once they have embarked on a journey, adding significant miles to their journeys. On occasion vehicles have travelled unnecessarily through ultra-low emission zones, incurring additional charges or fines.

Loss 3: Costs of a one-off event: a Reloco-branded lorry became stuck on a cliff edge after following the GPS directions during a removal. Reloco paid a vehicle rescue service to recover the driver and the lorry, undamaged. However, the rescue operation was dangerous and costly, and pictures of it appeared widely online and in newspapers.

### Risk management

Reloco's directors have implemented a more formal approach to its risk management (**Advance Information – Reloco's operations and performance (Board meeting)**). Liam asks for your input in relation to the following:

Issue 1: The problems with Stra highlight the importance of dealing effectively with the risk that commercial customers may not pay Reloco for services supplied.

Issue 2: The cliff edge rescue arising from HTD's breach of contract highlights the importance of considering losses arising from one-off events.

### Gross risk of cliff edge rescue

Liam also wishes to quantify the gross risk for Reloco of an event such as the cliff edge rescue. He believes that this incident is a good example of the costs that can arise when there is a one-off problem like this, though he feels there is only a 1 in 50 chance of it arising. He tells you that:

- The driver was a contractor who issued a claim against Reloco for £15,000 for shock and distress, which Reloco paid.
- The rescue and the delayed removal cost Reloco a total of £16,500.

### Using AI

Reloco is part-way through implementing the logistics information system. Scheduling of removals has improved and has already led to cost savings. Maria asks for your help in identifying how intelligent systems can improve interactions with customers and help deliver the customer service benefits anticipated in **Advance Information – Appendix E**.

### Requirements

- (a) Explain whether Reloco can claim damages from HTD for each of the three losses identified by James, taking into account remoteness of damage. **(6 marks)**
- (b) For each of the two issues raised by Liam:
- state how Reloco should classify the risk presented by the issue; and
  - identify and explain an example of an appropriate risk management technique. **(6 marks)**
- (c) Define gross risk and calculate the gross risk associated with the cliff edge rescue. **(3 marks)**
- (d) Explain briefly **two** ways in which intelligent systems, including AI and machine learning, will help to deliver the customer service benefits anticipated by the Reloco board from the logistics information system (**Advance Information – Appendix E**). **(4 marks)**

**Total: 19 marks**

## Task 2.3

### Limiting factor analysis

Phoebe Stanton, the removals director, conducted more research into the short-notice removals service that was first suggested by Toni Maneiro, the manager of the Coventry depot (**Advance Information – Appendix D**). As a result, Phoebe revised some of the initial figures, and included an estimate of fuel costs for the new service, which Toni had omitted from variable costs. She also noted the number of contractor hours that one-day and two-day moves would require.

Youssaf asks you to help him determine the optimal combination of one-day and two-day moves that will maximise Reloco's contribution, based on Phoebe's final estimates for the 12-month period starting on 1 January 2023:

<b>Final estimates</b>	<b>Number of one-day moves</b>	<b>Number of two-day moves</b>
Estimated annual demand	120	80
	<b>Hours per move</b>	<b>Hours per move</b>
Contractor hours required	16	28
	<b>£ per move</b>	<b>£ per move</b>
Fixed price charged to customer	750	1,250
Variable costs:		
Consumables	(95)	(99)
Contractor costs	(240)	(420)
Fuel	(115)	(115)
Fixed overheads	<u>(96)</u>	<u>(168)</u>
Profit	<u>204</u>	<u>448</u>

Phoebe identified that the short-notice removals services would be provided entirely by contractors and that a maximum of 4,000 contractor hours are available to the Coventry depot in a year.

### Green finance

Reloco has a significant cash balance but Rahma is also keen to use green finance where possible in delivering the development plan (**Advance Information – Reloco's operations and performance: Development plan and Financing**). She asks you to prepare notes on whether green finance is suitable for any part of the development plan, and whether there are any conditions that Reloco must satisfy if it issues green bonds.

## Requirements

- (a) Assuming that Reloco wishes to maximise contribution, calculate:
- the optimal combination of one-day and two-day moves, based on the contractor hours available, for the 12-month period from 1 January 2023; and
  - the total contribution that will be generated by this combination.
- (9 marks)**
- (b) Calculate the number of additional contractor hours that would be needed to meet the estimated demand for the Coventry depot in the 12-month period from 1 January 2023. **(1 mark)**
- (c) Briefly explain:
- the factors that Reloco should consider in relation to using green finance to help fund the development plan, and
  - the conditions it must satisfy in order to issue green bonds.
- (5 marks)**

**Total: 15 marks**