



LEVEL 4

ACCOUNTING

TECHNICIAN

APPRENTICESHIP

TUESDAY 8 JUNE 2021
2.5 HOURS

ROLE SIMULATION

EXAMINATION

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

Marks breakdown

Task 1	55 marks
Task 2	45 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. A warning is given five minutes before the exam ends. 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 invigilator (or online chat support if you are sitting remotely). Neither the invigilator nor the online chat support can 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. You may use a pen and paper for draft workings. Any information you write on paper will not be read or marked.
7. The examiner will take account of the way in which your answers are structured. You must make sure your answers and 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 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.

After the exam

8. If you are sitting in an exam centre and believe that your performance has been affected by any issues which occurred

during the exam, you must inform your invigilator at the time of the occurrence and follow up with ICAEW directly after your exam. You will then need to submit a special consideration application to ICAEW if you wish us to consider such issues, as per our published policy. If you are sitting remotely 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 55 marks.

Task 1.1

Ben Palmer, Elextra's financial accountant, has prepared the following draft statement of profit or loss for the year ended 31 March 2021:

	£'000
Revenue	26,681
Cost of sales	<u>(20,946)</u>
Gross profit	5,735
Administrative expenses	(1,114)
Distribution costs	<u>(3,726)</u>
Profit from operations	895
Finance costs	<u>(327)</u>
Profit before tax	568
Income tax	<u>(123)</u>
Profit for the period	<u>445</u>

Ben tells you that, on 30 September 2020, Elextra bought some new production machinery with a list price of £900,000. Cash consideration of £500,000 was paid and some old machinery was traded in to complete the purchase (**Advance Information: Recent and ongoing developments**). The old machinery cost £1 million on 1 April 2017 and depreciation has been charged to the date of disposal in accordance with the useful life stated in **Advance Information – Appendix B**. However, the profit or loss on the disposal has not yet been accounted for.

Ben also tells you that:

- A customer order for goods with a sales value of £140,000 was invoiced and accounted for on 31 March 2021, and the goods were excluded from the inventory count on that date. However, the goods were not despatched until 3 April 2021 so this customer transaction in the year ended 31 March 2021 needs to be reversed. The gross margin on the sale was 25%.
- Q&M Ltd owes Elextra £180,000 as at 31 March 2021 but has entered a composition of debts with Elextra and other creditors as part of a company voluntary arrangement (CVA) (**Advance Information: Recent and ongoing developments**). Elextra has agreed to accept only 60% of the outstanding balance, so the remainder must be recorded as irrecoverable.

Kofi Baidoo, the finance director, tells you that another major customer, Sponder Ltd, bought a complete electrical system from Elextra in April 2021. Faulty items in the system caused a fire at Sponder Ltd's premises and Elextra has received a claim for compensation from Sponder Ltd for £100,000. The case is not expected to be heard in court until April 2022. Kofi plans to create a provision for this legal claim in the current year ending 31 March 2022. He asks you to explain the effect of this on Elextra's accounting equation to Lia Smith, the junior accounting assistant, as she has been struggling in her studies on this point.

Requirements

- (a) Calculate the profit or loss on disposal of the old machinery. **(5 marks)**
- (b) Set out the debits and credits to record, in the financial statements for the year ended 31 March 2021:
- the reversal of the customer transaction; and
 - the write-off of part of the debt owed by Q&M Ltd as irrecoverable.
- (5 marks)**
- (c) Prepare an email to Lia Smith in which you:
- state the accounting equation; and
 - explain how recognising the provision for the legal claim will affect Elextra's accounting equation as at 31 March 2022. **(4 marks)**

Total: 14 marks

Task 1.2

Ben asks for your help in updating the draft statement of profit or loss for Elextra Ltd for the year ended 31 March 2021. He refers you to the information in **Task 1.1** and tells you that, as well as processing the adjustments from Task 1.1, you will need to take account of the following:

- he recorded the total depreciation charge for the year of £3,990,000 in cost of sales when he should have split it in accordance with **Advance Information – Appendix B**;
- he has realised that distribution costs include an insurance premium of £260,000 that was paid in July 2020, but which was for business insurance in relation to the trade counters for the 12 months to 30 June 2021;
- he based the figure for finance costs on interest at the rate of 4% pa on the balance of the bank loan, which was unchanged between 31 March 2020 and 31 March 2021 (**Advance Information: Appendix A**). Interest should have been charged in accordance with **Advance Information – Appendix B**; and
- the income tax charge for the year should be reduced by £43,000.

Requirement

Using **Advance Information – Appendices A and B**, the information in **Tasks 1.1 and 1.2**, and your answers to **Tasks 1.1(a)** and **1.1(b)**, prepare a revised statement of profit or loss for the year ended 31 March 2021 in a form suitable for publication.

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

Total: 15 marks

Task 1.3

Three weeks ago Alana McNamara, the Grangemouth LLP partner in charge of Elextra's external audit, phoned Kofi Baidoo. Alana told Kofi that Grangemouth LLP had completed its transfer of all audit documentation from previous years to electronic format (**Advance Information: Appendix E**), so the paper documents were sent for shredding. However, one box of documents was not received by the shredding facility and is now missing. Alana apologised to Kofi for this serious breach of Elextra's data security. She provided him with a list of the documents that were in the missing box of working papers from the audit for the year ended 31 March 2020. This list includes Elextra's payroll records as well as an analytical review of the financial statements that was carried out as a substantive procedure.

Kofi is very concerned about the effect of this event on Elextra's compliance with the data protection principles and its responsibilities under the Data Protection Act 2018 (**Advance Information: Appendix C**). He is also unsure about the ownership of some of the listed documents.

Kofi shares this information with you because he knows you have been studying ethics and law as part of your accounting training. Kofi asks you whether losing the documents is a breach by Alana and Grangemouth LLP of ICAEW's Code of Ethics. He also asks whether Elextra could seek a remedy from Grangemouth LLP in the event that Elextra is fined by the Information Commissioner's Office (ICO).

Requirements

- (a) Identify which of Grangemouth LLP or Elextra owns the following documents that were in the missing box:
- (1) the analytical review of the draft financial statements; and
 - (2) the payroll records. **(2 marks)**
- (b) With regard to the loss of the payroll records:
- explain whether Elextra has breached its responsibilities under the Data Protection Act 2018;
 - explain **one** action that Elextra should take now; and
 - briefly explain any legal remedies that may be available to Elextra from Grangemouth LLP. **(5 marks)**
- (c) Explain **three** fundamental principles in the ICAEW Code of Ethics that Alana and/or Grangemouth LLP have breached by losing Elextra's payroll records. **(6 marks)**

Total: 13 marks

Task 1.4

During their call three weeks ago, Alana and Kofi discussed the risks presented for Elextra by the problematic implementation of the new procurement software (**Advance Information: Appendix D**). In an email yesterday, Alana again mentioned that Elextra's management should have taken action (**Advance Information: Appendix E**) when it was clear that different processes would be temporarily followed for four major UK suppliers in respect of:

- (1) ordering,
- (2) goods inwards and
- (3) receipt and recording of purchase invoices.

Kofi has asked you to help him prepare for a meeting about this between him and Alana next week.

Alana also referred to Elextra's normal process for making payments to suppliers in her email yesterday (**Advance Information: Appendix E**). She mentioned that Robika Kucylo, the Grangemouth LLP audit manager, plans to carry out tests of control on payments on a sample basis to obtain sufficient, appropriate audit evidence. Her team has selected a sample from Elextra's list of payments to suppliers. Your colleague Lia Smith understands that Robika is gathering audit evidence but asks you what tests of control Robika is likely to apply.

Requirements

- (a) Identify, for **each** of processes (1) to (3) above that were temporarily changed (**Advance Information: Appendix D**):
 - a risk that Elextra should have recognised;
 - a control objective that Elextra should have identified; and
 - a control that Elextra should have implemented. **(9 marks)**
- (b) Identify and explain **two** separate tests of control that Grangemouth LLP should perform on the sample of payments to suppliers that were made under Elextra's normal process (**Advance Information: Appendix E**). **(4 marks)**

Total: 13 marks

Task 2

This task consists of **three** parts worth a total of 45 marks.

Task 2.1

Yesterday Elextra's directors and managers attended a meeting organised by Kiera (**Advance Information: Appendix D**). The purpose of the meeting was to discuss the impact of the new procurement software and the resulting changed processes on relationships and on links between activities. Each person was also required to explain how their activity adds value to Elextra.

Unfortunately, the mood of the meeting became very negative. Marzena Kurek (procurement) and Ahmed Munsi (technology) blamed each other for the problems with obtaining goods and components that Mehmet Ulas (logistics) and Shana Gotham (manufacturing) were complaining about. It became clear to Kofi that the people at the meeting did not grasp the meaning of Elextra's value chain, its cost and value drivers, or the linkages between activities, so he has asked you to prepare some explanations for them.

At the meeting, Elextra's plans for expanding its building and facilities near Bristol were also briefly discussed. Most people were enthusiastic about the opportunities this would present. They were interested in how Elextra's directors would choose between the two development options (**Advance Information: Recent and ongoing developments**). Kofi has asked you to explain what factors the directors should consider in making the decision between Option 1 (lease) and Option 2 (buy).

Requirements

- (a) Using Porter's value chain, identify whether each of the following is a primary or support activity:
- (1) the procurement activity, managed by Marzena Kurek; and
 - (2) the technology activity, managed by Ahmed Munsi. **(2 marks)**
- (b) In relation to the procurement activity:
- state the difference between a cost driver and a value driver; and
 - explain, with reference to its links with other activities, how the procurement activity acts as both a cost driver and a value driver in Elextra's value chain. **(6 marks)**
- (c) Identify and explain **three** factors that the directors should consider when choosing between Option 1 (lease) and Option 2 (buy) as development options for Elextra's building and facilities. **(6 marks)**

Total: 14 marks

Task 2.2

In its factory, Elextra operates a standard costing system but Shana Gotham, the manufacturing manager, wants to revise some of the standard costs (**Advance Information: Appendix F**). Kofi wants to investigate further the variances on the RV549 video intercom, so that he can get back to Shana. He also wants to know whether the efficiency of labour has improved between March 2021 and May 2021.

He gives you the following relevant information for the batch of 600 units of RV549 that was manufactured during May 2021:

Actual cost for 600 units in May 2021

	£
Cost of components	171,420
Cost of labour	
Grade 1 labour (925 hours)	20,350
Grade 2 labour (480 hours)	7,200
Variable production overhead	<u>44,350</u>
Total variable cost of actual production	<u>243,320</u>

Elextra increased the selling price of the RV549 video intercom to £595 per unit on 1 May 2021.

Requirements

- (a) Calculate the total actual contribution to fixed costs that will be made by the May 2021 batch of RV549. **(2 marks)**
- (b) In relation to the cost of components only, explain **three** possible reasons for the difference between the standard and actual cost of the May 2021 batch of RV549. Refer to **Advance Information – Appendix F** for the standard cost. **(6 marks)**
- (c) Calculate the following variances in £ for the May 2021 batch of RV549, stating whether each is favourable or adverse:
- Grade 1 labour efficiency variance
 - Grade 2 labour rate variance
 - Total variable production overhead variance.

Use the standard costs in **Advance Information – Appendix F**. Show your workings. **(7 marks)**

- (d) Explain, with reference to **Advance Information – Appendix F**, whether Grade 2 labour was more or less efficient during the May 2021 production run of RV549 than:
- the standard cost
 - during the March 2021 production run. **(4 marks)**

Total: 19 marks

Task 2.3

Next week Kiera will chair another meeting with Elextra's directors and managers. There are two items on the agenda.

Agenda item 1: Company voluntary arrangements (CVAs) by Elextra's customers

A key customer, Q&M Ltd, has entered a CVA involving Elextra (**Advance Information: Recent and ongoing developments** and **Task 1.1**). Kiera believes the same may happen to other customers because of the uncertain economic climate. She therefore wants to explain CVAs and their potential effects on Elextra at the meeting. This will help Elextra's directors and managers to understand the implications if they hear rumours that any other customer is considering entering into a CVA.

Agenda item 2: Improving Elextra's website with artificial intelligence (AI)

Rick Holroyd, the marketing and sales director, and Kiera believe that Elextra's website requires improvement (**Advance Information: Recent and ongoing developments**). All the directors and managers will be asked for their views on how the website should change, but first Kiera wants to set out for them the types and possible use of AI in this context.

Kiera asks for your help in explaining these points at the meeting.

Requirements

- (a) In relation to Agenda item 1, explain **three** potential effects on Elextra if a customer enters a CVA. **(6 marks)**
- (b) In relation to Agenda item 2:
 - Describe **two** types of AI
 - Explain **two** ways in which AI can improve Elextra's website for users. **(6 marks)**

Total: 12 marks