



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.

Elextra Ltd

List of exhibits	Page number
• Introduction: Elextra Ltd	4
• Information about the electrical equipment industry	4
• Company information	4
• Organisational structure	5
• Extract from organisational chart	6
• Financial information and corporate code of conduct	6
• Recent and ongoing developments	6
• External audit	8

Appendices

A Elextra Ltd financial statements for the year ended 31 March 2020 (extracts)	9
B Accounting policies (extracts)	10
C Corporate code of conduct for employees (extracts)	11
D Elextra's activities	12
E External audit issues	14
F Email from Shana Gotham (manufacturing manager)	15

This document reflects information available as at Tuesday 13 April 2021.

Introduction: Elextra Ltd

Elextra Ltd (Elextra) is a UK-based company which manufactures and sells electrical equipment that forms part of electrical installations. It is also a wholesaler of products made by other manufacturers of electrical equipment. Elextra was founded over 100 years ago.

Information about the electrical equipment industry

The electrical equipment industry is well-established with steady demand for a core set of products, eg switchboards, distribution boards, electrical control panels and fault detection devices. The industry must also respond to wider innovations such as the following:

- Renewable sources of energy.
- Revised safety regulations that amend the composition of core products and create the requirement to monitor and update electrical installations (eg electrical certificates needed for rented properties from 2020).
- New technology that necessitates new types of electrical equipment, such as systems facilitating the charging of electric vehicles. In the last few years, a significant development has been the increased emphasis on 'smart' technology, based on the Internet of Things, to improve the usability of electrical equipment.
- New types of equipment that require completely new regulations, such as the 'KNX open standard for smart devices' which use the Internet of Things to automate aspects of commercial and domestic buildings such as lighting and security.

There is intense competition throughout the industry. The major manufacturers are large and are based in Asia. The rest of the industry is fragmented and comprises smaller manufacturers around the world.

Company information

Elextra's head office, factory and warehouse are located in a single large building near Bristol. Elextra also makes sales from a number of regional 'trade counters' which it operates around the UK. Trade counters are similar to normal shops but usually only sell goods to business customers and specialists, such as professional electricians.

Elextra manufactures electrical equipment which it assembles from components using skilled labour at its factory. It also sells equipment made by other manufacturers. About 25% of the items sold are manufactured by Elextra, with the remainder sourced by Elextra from a large number of suppliers around the world.

Marketing and sales

Elextra markets and sells electrical equipment in the UK to:

- Other manufacturers, for assembly into larger pieces of equipment. These customers place orders with Elextra via its website, and the orders are fulfilled by the warehouse only, not by its trade counters.

- Professional electricians, who operate as electrical contractors and installers of equipment. They either place orders via the website, which are fulfilled by the warehouse, or they obtain products direct from the nearest trade counter.
- Specialist and DIY retailers, which buy products for onward sale to consumers. Retailers order via either the website (fulfilled by the warehouse), or via the trade counters.

Products and services

As well as being recognised for its range and dependability, Elextra has always been known as a differentiator because of the design-led nature of some of the equipment it manufactures. It continues to innovate in line with developments in the industry – for example, by producing redesigned electrical boards in support of smart appliances for the home. It also sells smart appliances made by the major manufacturers in Asia. In addition, Elextra uses the expertise of its designers and factory specialists to run training courses for professional electricians on new standards when they emerge. For example, Elextra offers courses on the KNX standard for 'smart installers' of smart appliances in the home.

Procurement and inbound/outbound logistics

Elextra's activities and the links between them are described in more detail in **Appendix D**.

Elextra's procurement team deals with both UK and international suppliers. It is responsible for:

- making purchases of components for the factory; and
- sourcing finished products from other manufacturers for distribution and resale.

Some authority for procurement is delegated to the trade counter managers, so they can top up their inventories from local suppliers if necessary, provided they use Elextra's established procurement processes.

The majority of Elextra's inventories are held at its warehouse. The warehouse holds all the inventories of components and issues them to the factory. It also holds inventories of all finished products. Each trade counter holds sufficient inventories of finished products to satisfy demand from its customers.

Most inbound deliveries by suppliers are made only to the warehouse, but some orders from local suppliers are delivered direct to the trade counter which placed the order.

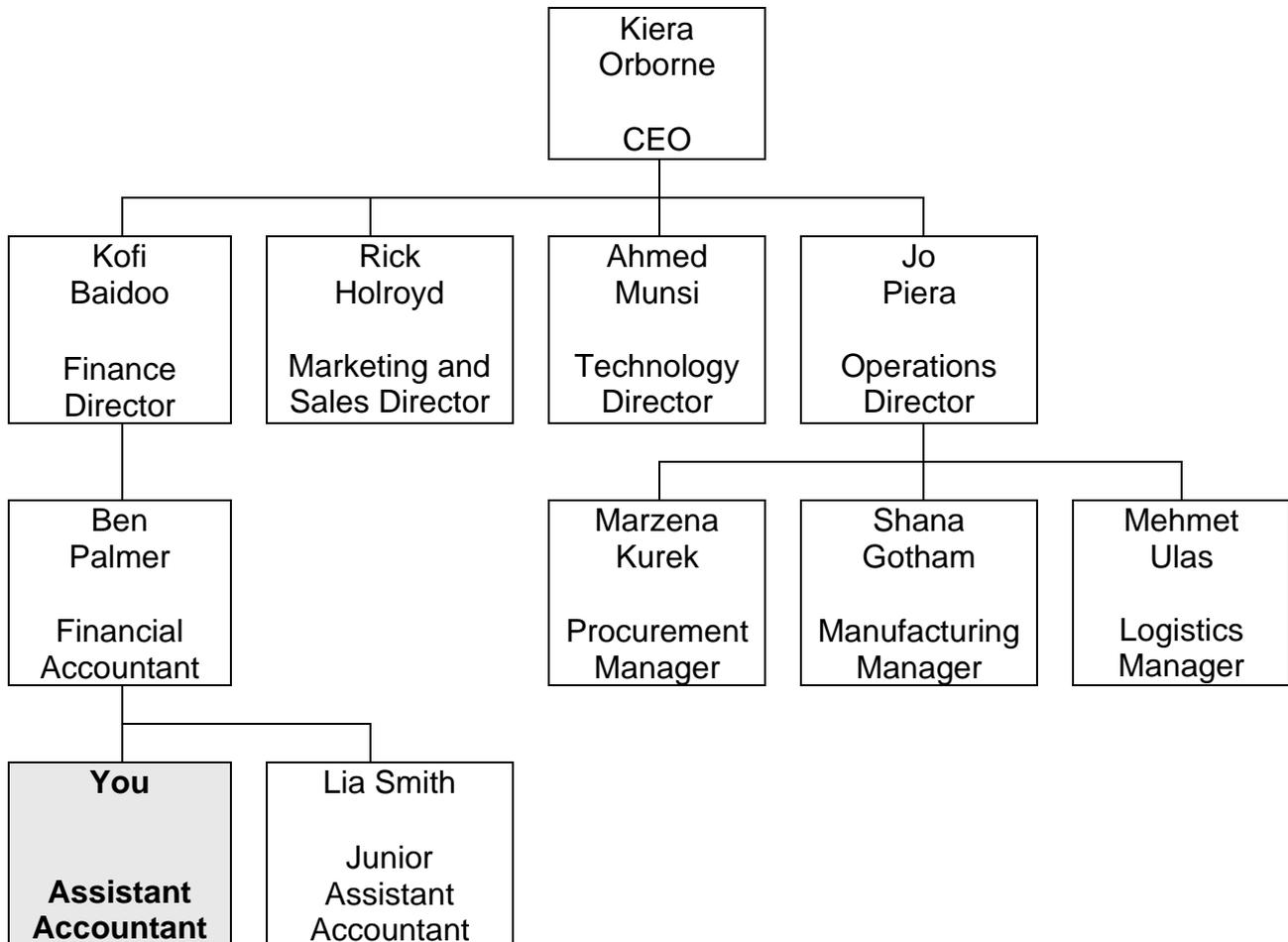
The outbound logistics for deliveries to customers and to the trade counters are managed by the warehouse, using a mix of vehicles owned by Elextra, and haulage contractors.

Organisational structure

You are employed by Elextra 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 Ben Palmer, the financial accountant, who reports to Kofi Baidoo, the finance director. Both Kofi and Ben are ICAEW Chartered Accountants.

Lia Smith is the junior assistant accountant at Elextra. She studies accounting at college and you have been explaining some of your work to her to help her studies. She has struggled, in particular, with understanding the accounting equation.

Extract from organisational chart



Financial information and corporate code of conduct

See **Appendix A** for extracts from Elextra’s financial statements for the year ended 31 March 2020 and **Appendix B** for extracts of accounting policies. Extracts from the corporate code of conduct for employees are in **Appendix C**.

Recent and ongoing developments

Investment in property, plant and equipment (PPE)

Elextra invests continuously in its customer service capacity, so it can supply customers with the products and services that they demand, and in its manufacturing capacity, to produce electrical equipment. In the year ended 31 March 2020, for example, Elextra invested £2 million in new fittings to improve customer access at the trade counters. During the year

ended 31 March 2021 it replaced production machinery at its factory by trading it in for higher quality, newer machinery.

Development options for building and facilities next year

The head office, factory and warehouse are located in a large building which Elextra built 23 years ago on its freehold land near Bristol. The building is now too small and its facilities are becoming outdated. The directors are considering two alternative development options to be implemented in the financial year ending 31 March 2022:

- **Option 1:** lease an additional building on adjoining land to the east of the current land. This would form Elextra's new warehouse, while the offices and factory would expand into the space in the current building that would be vacated by the existing warehouse operations.
- **Option 2:** buy an additional piece of land to the west of the current land, demolish the current building and construct a much bigger new building on the combined site comprising offices, factory and warehouse.

The directors are aware that, in making a decision, they must consider a variety of factors, including finance, in addition to the potential offered by each option for improvements in operations.

Change of procurement software

In October 2020 Elextra began using new procurement software, which was intended to improve processes for purchasing from UK suppliers. However, the implementation has been problematic from the start (**Appendix D**). This has affected a number of matters, including plans for the external audit of the financial statements for the year ended 31 March 2021 (**Appendix E**).

Changes to standard costs

Due to difficult operating and trading conditions over the last year Shana Gotham, the manufacturing manager, has queried the standard costs used by the standard costing system, and the variances that are reported (**Appendix F**).

Financial difficulties at Q&M Ltd

One of Elextra's biggest retailer customers, Q&M Ltd, is in serious financial difficulties. Q&M Ltd has informed Rick Holroyd, the marketing and sales director, that Q&M Ltd is entering a company voluntary arrangement (CVA). This will involve either a composition of debts or a scheme of arrangement with unsecured creditors such as Elextra. Rick has instructed his staff not to make any further sales to Q&M Ltd until he receives more information about the legal nature and practical effects of CVAs.

Developing the website using artificial intelligence (AI)

Any customer, including consumers, can select and buy items via Elextra's website, but the process is not user-friendly, especially in relation to complex electrical projects. Having selected one item for a project – such as a lighting installation – the website does not then lead the user through related equipment for the project. Instead, the user must know exactly

what they need for the project, then find and make their own product selections. Kiera and Rick believe that different types of artificial intelligence (AI) and possibly a chatbot will make the website more user-friendly, which will help to boost sales.

External audit

Elextra's external auditors are Grangemouth LLP. The audit partner is Alana McNamara and the audit is led by Robika Kucylo, the audit manager. Both Alana and Robika are ICAEW Chartered Accountants.

The final audit of Elextra's financial statements for the year ended 31 March 2021 will commence in mid-June 2021.

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

Appendix A – Elextra Ltd financial statements for the year ended 31 March 2020 (extracts)

Statement of profit or loss for the year ended 31 March 2020

	£'000
Revenue	25,246
Cost of sales	(19,187)
Gross profit	<u>6,059</u>
Administrative expenses	(1,183)
Distribution costs	(4,231)
Profit from operations	<u>645</u>
Finance costs	(409)
Profit before tax	<u>236</u>
Income tax	(47)
Profit for the period	<u>189</u>

Statement of financial position as at 31 March 2020

	£'000	£'000
ASSETS		
Non-current assets		
Property, plant and equipment		7,400
Current assets		
Inventories	3,074	
Trade and other receivables	3,726	
Cash and cash equivalents	<u>1,223</u>	
		<u>8,023</u>
Total assets		<u>15,423</u>
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital (£1 shares)		1,000
Retained earnings		<u>4,439</u>
Total equity		<u>5,439</u>
Non-current liabilities		
Borrowings: 5% bank loan repayable in 2028		8,180
Current liabilities		
Trade and other payables	1,779	
Income tax payable	<u>25</u>	
		<u>1,804</u>
Total equity and liabilities		<u>15,423</u>

Appendix B – Accounting policies (extracts)

Introduction

Assets, liabilities, expenses, income and equity items are recognised and measured in the financial statements in accordance with International Financial Reporting Standards (IFRS) and the Conceptual Framework for Financial Reporting. The financial statements are prepared using the accrual basis of accounting in accordance with IFRS.

Property, plant and equipment (PPE)

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

Freehold land has an indefinite life and is not depreciated.

Buildings are depreciated monthly over an estimated total useful life of 25 years, and plant and equipment (including machinery, motor vehicles, fixtures and fittings) are depreciated monthly over an estimated total useful life of five years. Nil residual values are assumed for PPE.

Total depreciation is recognised as follows: 10% administrative expenses, 20% distribution costs and 70% cost of sales.

Trade receivables

Irrecoverable debts, and any changes in the allowance for receivables, are recognised in administrative expenses.

Interest on bank loan

Interest is recognised in the statement of profit or loss at a rate of 5% per annum on the outstanding balance of the loan.

Appendix C – Corporate code of conduct for employees (extracts)

Introduction

This Code applies to all employees of the company and forms part of their contract of employment with Elextra Ltd.

Standard of behaviour

All employees are expected to act in a manner which is professional, courteous and ethical when dealing with colleagues, suppliers and customers.

Employees who are members of a professional body (either qualified or in training) must act in accordance with both this Code and the ethical and professional requirements of their professional body.

Data protection responsibilities

Under the Data Protection Act 2018 (the Act), Elextra Ltd is registered as a data controller with the Information Commissioner's Office (ICO), which can issue substantial fines in the event of a breach of regulations. All employees are therefore required to maintain their awareness of the data protection principles and the company's procedures in relation to collecting, storing and processing of personal information.

Employees have a responsibility to notify the relevant person in Elextra Ltd if they become aware of any breach of Elextra Ltd's responsibilities under the Act by an employee, a data processor or a third party. The directors will then consider the need to notify the ICO.

Concerns

Staff wishing to raise a concern should do so, in the first instance, with their immediate line manager. If this is not possible or appropriate, or does not resolve the issue, they should raise it with a more senior manager.

Appendix D – Elextra’s activities

Linking of Elextra’s activities

In order for Elextra to make such a large number of varied electrical items available to its customers, its different activities are closely linked:

- Marketing and sales identify and seek to satisfy customers’ needs for electrical goods and services by ensuring that these needs form the basis for manufacturing, logistics and procurement.
- Manufacturing plans and produces Elextra’s own goods in line with demand schedules and the availability of components and labour.
- Logistics receives and manages inventories, issues components to the manufacturing activity, operates the regional trade counters and organises despatch of finished goods from the warehouse to customers and the trade counters.
- Procurement identifies high quality suppliers then buys components for the manufacturing activity as well as goods for resale.
- Technology supports and seeks to improve the company website and the ways in which the different activities work together, especially via internal systems.

The role of the procurement activity

Marzena Kurek, the procurement manager, describes the role of procurement in Elextra as follows:

“We aim to achieve the five ‘rights of procurement’. By linking with other activities, we ensure that the procurement activity plays its full role in Elextra’s value chain as both a cost driver and a value driver.”

However, the other two operations managers, Shana Gotham (manufacturing) and Mehmet Ulas (logistics), frequently complain about procurement. They say it is slow to respond to requisitions for components raised by the factory, and for finished products raised by the warehouse and trade counters, and it does not always obtain the best prices.

New procurement software

New procurement software for UK suppliers was introduced in October 2020 by Ahmed Munsi, the technology director. The software was supposed to improve the existing procurement system by introducing:

- Automatic requisitions and purchase orders: requisitions and purchase orders for both components and goods for resale are automatically raised and then authorised, so items are available as and when required by the factory, warehouse and trade counters.
- Electronic data interchange (EDI) with suppliers: purchase orders are transmitted to suppliers via EDI so lead times for delivery are reduced and accuracy is increased.

- Automatic preparation of goods received notes (GRNs): GRNs are populated with data directly from Elextra’s purchase orders and delivery schedules received from suppliers, so inbound deliveries can be checked and recorded accurately and quickly.

Changed processes for four major UK suppliers

Errors in entering and maintaining data in the new procurement software have caused serious problems. As a result, since October 2020 Elextra had to temporarily change the following three processes in relation to four major suppliers, all of which are based in the UK.

Process	Temporary change to process for four major UK suppliers
(1) Ordering	Selected supervisors in the factory and warehouse, and trade counter managers, are allowed to place orders by email and phone directly with the four suppliers, without producing a written purchase order. All these supervisors and managers are trusted employees.
(2) Goods inwards	Because there are no authorised, written purchase orders, certain trusted goods inwards employees in the warehouse and trade counters are allowed to create GRNs manually from data on the delivery notes that are submitted by the four suppliers. They pass these GRNs directly to the finance function as they do not know which Elextra employee originally ordered the items.
(3) Receipt and recording of purchase invoices	The four suppliers are required to submit invoices to the employees who placed the orders, who subsequently pass them on to the finance function for recording. Usually suppliers submit invoices directly to Elextra’s finance function.

Impact on relationships and on links between activities

Kiera wants to address bad feeling among the various people who have been affected by the problematic implementation of the new procurement software and the resulting changed processes. She has arranged a meeting to explore the nature of Elextra’s value chain, and requires all directors and managers to attend. At the meeting she also wants each person to explain the ways in which their activity adds value to Elextra.

Appendix E – External audit issues

Kofi Baidoo, the finance director, and Alana McNamara, the audit partner at Grangemouth LLP, had a meeting in February 2021 during which a number of issues were discussed.

Temporarily changed processes for ordering, goods inwards and receiving invoices

Kofi told Alana about how the implementation of new procurement software has temporarily changed some of Elextra's processes for four major UK suppliers (**Appendix D**). Alana pointed out that, as with other types of transaction, Elextra's management should have identified risks, determined control objectives for each risk and implemented controls for each objective when it was clear that different processes would have to be followed, even on a limited, temporary basis.

Process for making payments to suppliers

Kofi reassured Alana that Elextra's normal process for making payments to most suppliers had been operating properly, as follows:

- An assistant accountant checks the supplier's invoice to the relevant GRN and purchase order, and for arithmetic accuracy.
- A second assistant accountant records the invoice in the accounting records.
- Invoices are paid in weekly BACS payment runs, which are prepared by the cashier and authorised by Kofi or Ben.
- Elextra pays strictly in accordance with agreed credit terms.

However, Kofi told Alana that Elextra had not been able to operate this process fully for the four major UK suppliers affected by the problems caused by the procurement software implementation (**Appendix D**). This meant that, since October 2020, some errors had occurred in making payments to these four suppliers, and the agreed credit terms had not always been complied with.

Procedures during the final audit

Alana indicated that Grangemouth intends to conduct both tests of controls and substantive procedures in relation to purchases and trade payables during the final audit visit in June, given the heightened level of audit risk they present.

Transfer of audit documentation to electronic format

Alana told Kofi that Grangemouth LLP would be transferring all confidential audit documentation from previous years that was in paper format to electronic format. After transfer, Grangemouth LLP would send the paper documentation to a shredding facility for disposal. Alana believed the process would be completed by May 2021 and there would be no impact on Elextra or the audit.

Kofi reminded Alana that:

- some of the paper documents held by Grangemouth LLP may belong to Elextra; and
- any payroll data contained in the documentation is personal information under the Data Protection Act 2018, so it should be treated as highly confidential.

Appendix F – Email from Shana Gotham (manufacturing manager)

To: Kofi Baidoo	Re: Standard costs
Date: 10 April 2021	From: Shana Gotham

Dear Kofi

As you know I have been getting large variances between actual and standard costs reported to me for batches of items manufactured in the factory. I don't find these reports meaningful as I think the standard costs we use should be revised more regularly.

Components. Due to problems with supply there have been wide fluctuations in what we actually pay for some components. In addition, we have amended some product specifications due to regulatory changes.

Labour. We have made changes to staffing the production lines as a result of changed working practices. However, we have not changed the standard time for items since 2019 so we are basing our production plans, costing and pricing on outdated data.

For example, this is a summary of the standard cost for a single unit of the RV549 video intercom, which sells for £586.50 per unit as at April 2021.

Standard cost (summary) – one RV549 video intercom unit

	Hours	Standard rate £	Standard cost £
Components	-	-	276.40
Labour:			
Grade 1	90 minutes	£21/hour	31.50
Grade 2	45 minutes	£16/hour	12.00
Variable production overhead (based on total labour time)	135 minutes	£30/hour	<u>67.50</u>
Standard variable production cost			<u>387.40</u>

However, in March 2021, when we manufactured a batch of 500 units of RV549:

- the components we actually used cost £325 for one unit;
- both types of labour were paid at their relevant standard rates, so there was no labour rate variance;
- the Grade 1 labour took 120 minutes per unit, so its labour efficiency variance was adverse;
- the Grade 2 labour took only 30 minutes per unit, so its efficiency variance was favourable;
- the variable production overhead total variance was adverse, although there was no rate variance.

The total cost of the batch of 500 units was £225,000, or £450 per unit, which resulted in a large total adverse variance. It meant the contribution per unit of RV549 was only £136.50.

Please can we discuss these issues at your earliest convenience? I plan to have a production run for another batch of RV549 in May 2021.

Shana