



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.

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 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.

MidRow LLP

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This document reflects information available as at 12 April 2022.

Introduction: MidRow LLP

MidRow LLP (MidRow) is a mid-tier professional services firm operating in the West Midlands. It supplies a range of accountancy and advisory services to small and medium-sized (SME) organisations which are mainly owner-managed, with annual revenues of up to £75 million.

Professional services firms form a major services industry in the UK. They range in size from the Big Four, global firms offering a vast range of business services (eg audit, tax, management consultancy), through mid-tier national and regional firms to small sole traders which offer bookkeeping and limited tax services only. Firms are regulated and supervised in the UK by professional bodies such as ICAEW, by the Financial Reporting Council (FRC) and (in some cases) by HMRC.

The industry is being significantly affected by the increased availability and sophistication of technological solutions. The industry has also been called on over recent years to support UK businesses and other organisations through the disruption caused by the Covid-19 pandemic and Brexit.

MidRow's operational structure

MidRow operates from 12 offices, four of which are very small. It has 32 partners, including the managing partner and five senior partners who together form the senior management team which operates from MidRow's head office.

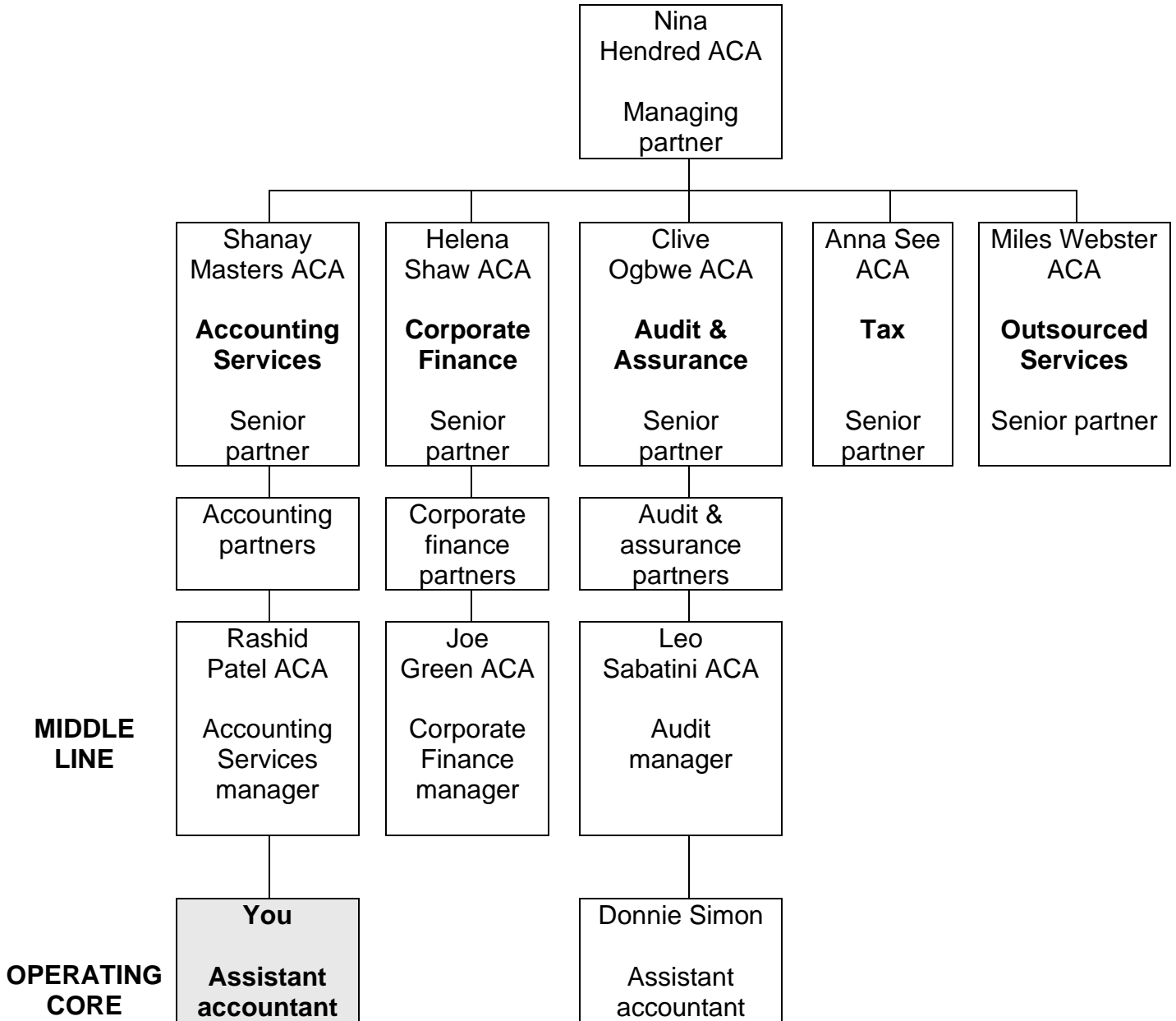
MidRow transitioned from a general partnership to a limited liability partnership (LLP) in 2009. MidRow has grown over time by amalgamating smaller firms in the West Midlands, which has caused the number of MidRow offices to grow. These smaller firms are usually general partnerships before they amalgamate with MidRow. Amalgamating with MidRow gives smaller firms the opportunity for their general partners to become limited liability partners and for them to access the support offered by MidRow's various departments.

MidRow's operations are split into five departments: accounting services, corporate finance, audit and assurance, tax and outsourced services (see extract from organisational chart below). Only the eight largest offices offer the services of all five departments.

Extract from organisational chart

This chart presents MidRow's current organisational structure, part of which has been analysed in terms of Mintzberg's building blocks.

**BUILDING
BLOCK**



You are a second-year accounting apprentice, based in MidRow's head office. Your line manager is Rashid Patel in the accounting services department. As part of your training, you are currently shadowing members of the senior management team.

Donnie Simon is also an accounting apprentice based in the head office, although at an earlier stage in their studies. Their line manager is Leo Sabatini in the audit and assurance department. Rashid and Leo have asked you to support Donnie in their studies when necessary. Both you and Donnie are student members of ICAEW.

MidRow's departments

Accounting services

MidRow's accounting services department supplies bookkeeping, accounts preparation and business advisory services to a wide variety of clients.

This department has embraced a range of new technology including data analytics to provide clients with robust business management support via more granular, data-driven insights into how their businesses operate. The added value offered by this service helps to promote MidRow's reputation in its market as a pro-active business partner, at a time when accountants and accountancy firms have suffered bad press following a number of high-profile corporate insolvencies.

MidRow maintains a permanent file for each client, which includes an introduction to that client's operations and finances.

Flintdom Sports Club (FSC) is a large subscription-only club with over 5,000 members. It is a long-term accounting services client. MidRow's key task is to prepare a subscriptions receivable account so that figures for subscriptions income, subscriptions in arrears and subscriptions in advance can be established easily as required. See **Appendix A** for extracts from FSC's permanent file.

Noone plc (Noone) is a manufacturing business which is wholly equity-financed. It is a long-term client of the tax department. After Noone's finance director left suddenly, the other directors requested assistance from MidRow with the preparation of Noone's financial statements for the year ending 30 April 2022. See **Appendix B** for extracts from Noone's permanent file and **Appendix C** for extracts from its financial statements for the year ended 30 April 2021.

Tax

The tax department provides personal and corporate tax advice to a range of clients, both individuals and businesses. Preparing clients for digitalisation of taxes is an increasingly important aspect of the tax department's work.

Outsourced services

This department supplies a range of services to clients including company secretarial, payroll and other human resource (HR) services such as recruitment and training. The outsourced services department has been operating for many years, adding to the services offered as and when opportunities arise. This department also relies on technology as a source of added value for MidRow by allowing it to analyse client management information to provide insights and advice.

Audit and assurance

This department provides a variety of assurance services to clients, including external audit. It has started to acquire more large clients recently since Clive Ogbwe was appointed as audit and assurance senior partner.

Technology, especially audit data analytics, continues to present challenges for audit and assurance as well as opportunities. Training staff in using the technology, and keeping up-to-date with revised releases of the software, can be difficult. MidRow has had problems in recruiting both qualified and unqualified staff of sufficient calibre to keep on top of developments in audit and assurance.

Issues related to general policies and procedures at MidRow, and some specific matters related to the audit and assurance department, are set out in **Appendices D** and **E**.

Corporate finance

Helena Shaw is a corporate finance specialist who ran a firm that recently amalgamated with MidRow. As a result MidRow has created a separate corporate finance department. Helena is in charge of this department, which advises clients on raising capital, including share issues, refinancing existing businesses, buying and selling businesses, and organising mergers. Many clients require MidRow's help in preparing due diligence reports on the financial risk of particular transactions.

The department is currently working on several assignments, including Trista plc (**Appendix F**).

Opportunities and challenges for MidRow

Increased structural complexity

MidRow has grown by amalgamating a number of small firms, each of which operated from one small office. Combining information systems and working practices, whilst operating across an increasing number of separate offices, has been very challenging for MidRow. However, there are some general policies and procedures which are well established across the firm, as set out in **Appendix D**.

Increasingly clients are served by several MidRow departments, and by staff located in different MidRow offices. Some clients have complained about poor service as there is no single point of contact for them within MidRow, and communication between staff in different offices or departments is often poor. MidRow's business is growing, but the creation of new departments and the amalgamation of small firms have both increased the complexity of MidRow and reduced its flexibility as an organisation to respond quickly to client requests for advice.

An example of this was seen recently, when MidRow lost Allion Ltd (Allion) as a client. Allion, a longstanding client of MidRow's accounting services department, was setting up a substantial new factory. The Allion board wanted tax and corporate finance advice plus some staff training from MidRow, as well as accounting services. However, the four senior partners involved in the project with Allion did not co-ordinate their departments' services effectively as the staff involved were in different offices. Eventually Allion ceased to use MidRow, and engaged a competitor firm which made greater use of cross-departmental teams and team-working across offices.

Nina Hendred, the managing partner, has a long-term goal of developing more flexibility in MidRow's organisational structure to address the problems caused by structural complexity (see **Appendix G**).

Technology

When amalgamating firms into MidRow, the technologies previously used by each firm must be adapted to those used by MidRow as a whole, so that operations can be combined. This process often proves to be very challenging.

However, developments in technology present significant benefits for MidRow, most recently in facilitating MidRow's staff working from home and therefore reducing travelling costs to client premises. Technology now offers real scope for streamlining working practices and reducing premises costs as more staff can work from home or adopt a hybrid working style. The downside is that senior partners have found it difficult to ensure effective management of remote teams within and across departments and offices.

Team meeting

Nina has called a senior management team meeting in late April 2022.

She wants to present a major new plan, an investment project called 'Update Project 22', to the team. The plan aims to both address the challenges and build on the opportunities facing the firm, by exploring new working structures and technology (see **Appendix G**).

Appendix A – Flintdom Sports Club (FSC) permanent file (extracts)

Introduction

FSC's year end is 31 May. MidRow's accounting services department maintains FSC's nominal ledger (there are no payables or receivables ledgers), including the cash at bank account, and prepares the financial statements on an accrual basis.

Subscriptions

FSC largely relies on subscriptions from members for its income. The amount of the annual subscription is fixed for every member. All members are required to pay their subscriptions in equal monthly instalments directly into the club's bank account. Members can pay their subscriptions in advance or in arrears. Some members resign their membership each year when they still have subscription payments in arrears, so these amounts must be written off as irrecoverable.

To establish a figure for subscription income for a period, MidRow must:

- establish the total amount of cash received from members in the period, which is calculated as a balancing figure in the cash at bank account, and then
- draw up a subscriptions receivable account for the period and calculate subscriptions income as the balancing figure.

Extracts from the subscriptions receivable account for the year ended 31 May 2021 show that:

- subscriptions received in advance as at 31 May 2021 were £2,760
- subscriptions in arrears as at 31 May 2021 were £6,490.

Appendix B – Noone plc (Noone) permanent file (extracts)

Introduction

Noone's financial year end is 30 April. Extracts from Noone's financial statements for the year ended 30 April 2021, prepared under IFRS® Standards, are in **Appendix C**.

Depreciation expense and profit/loss on disposal of property, plant and equipment (PPE)

Depreciation on PPE is charged at 30% on the reducing balance basis.

Depreciation expense and any profit/loss on disposal of PPE are recognised in cost of sales.

Investment income received

Noone owns long-term investments from which it receives variable amounts of income each year. These investments are included in non-current assets. When it is received, the income is treated as investment income in the statement of profit or loss and the statement of cash flows.

**Appendix C – Noone plc financial statements for the year ended 30 April 2021
(extracts)**

Statement of profit or loss for the year ended 30 April 2021

	£'000
Revenue	34,820
Cost of sales	(30,580)
Gross profit	<u>4,240</u>
Distribution costs and administrative expenses	(1,460)
Investment income	380
Profit before tax	<u>3,160</u>
Income tax	(630)
Profit for the period	<u>2,530</u>

Statement of financial position as at 30 April 2021

	£'000	£'000
ASSETS		
Non-current assets		
Investments		3,000
Property, plant and equipment		4,390
		<hr/>
		7,390
 Current assets		
Inventories	3,350	
Trade and other receivables	3,200	
Cash and cash equivalents	2,470	
	<hr/>	
		9,020
Total assets		<hr/>
		16,410
 EQUITY AND LIABILITIES		
Equity		
Ordinary share capital (£1 shares)		5,000
Retained earnings		7,270
		<hr/>
Total equity		12,270
 Current liabilities		
Trade and other payables	3,830	
Income tax payable	310	
	<hr/>	
		4,140
Total equity and liabilities		<hr/>
		16,410

Statement of cash flows for the year ended 30 April 2021

	£'000
Cash flows from operating activities	
Profit before tax	3,160
Depreciation	1,800
Investment income	(380)
Increase in inventories	(960)
Increase in trade and other receivables	(320)
Increase in trade and other payables	240
Cash generated from operations	<u>3,540</u>
Income tax paid	<u>(800)</u>
Net cash from operating activities	<u>2,740</u>
Cash flows from investing activities	
Purchase of property, plant and equipment	(900)
Investment income	380
Net cash used in investing activities	<u>(520)</u>
Cash flows from financing activities	
Dividends paid	<u>(500)</u>
Net cash used in financing activities	<u>(500)</u>
Net increase in cash and cash equivalents	1,720
Cash and cash equivalents at 1 May 2020	<u>750</u>
Cash and cash equivalents at 30 April 2021	<u>2,470</u>

Appendix D – MidRow’s policies and procedures (extracts)

Over time MidRow’s senior management team has developed policies and procedures to try to ensure consistent operations in all departments across all offices, where appropriate. Helena Shaw, the new corporate finance senior partner, has been reviewing these policies to establish their application to the corporate finance department.

General policies and procedures applicable to all departments and offices (extracts)

Engagement letters

An engagement letter must be agreed and signed by both parties before any specific client work is performed.

Procedures for new clients

Standard procedures must be followed once an engagement has been accepted, including due diligence to assess risk, data protection procedures and client identification checks under money laundering regulations (MLR).

Confidentiality

At all times the confidentiality of client information must be respected and preserved by all MidRow’s staff and systems. This is both a legal requirement and an ethical responsibility of the firm and its staff, especially those for whom professional ethics for accountants apply by virtue of their membership of ICAEW. The duty of confidentiality prohibits staff from revealing client information to anyone, including family and friends.

Standards of behaviour

All staff must behave in accordance with the MidRow Code of Conduct for employees (the Code). MidRow’s disciplinary and grievance procedures are set out in the Code.

Serious breaches of the Code may constitute gross misconduct, which will result in summary dismissal.

Staff who are members of ICAEW must make themselves aware of the existence and application of ICAEW’s disciplinary procedures for a member’s inappropriate behaviour, including any penalties. Following a complaint made by any person, these procedures can be implemented by ICAEW’s Professional Conduct department. A complaint may be made, for example, when a member becomes subject to criminal proceedings for an offence such as fraud, money laundering or insider dealing. MidRow will support such disciplinary procedures as appropriate.

Specific policies and procedures applicable to the audit and assurance department (extracts)

Accepting appointments

To ensure valid appointment, managers shall ensure that all relevant factors have been considered prior to accepting the engagement. A letter of engagement must be sent to the client to confirm MidRow’s acceptance of the appointment before commencing assurance work.

Threats to independence on assurance engagements

Staff on an assurance engagement must be aware of, and protect themselves against, threats to their independence.

Obtaining timely written representations

Before issuing assurance reports, MidRow is required to obtain timely written representations in respect of management's responsibilities relating to the financial information which is the subject of the assurance work, and on other matters relating to that financial information. The reliability of these representations as assurance evidence must be evaluated.

Appendix E – Audit and assurance department clients

Cementex plc

Cementex plc (Cementex) is a long-standing external audit client of MidRow. Cementex processes raw materials into cement, concrete and other items for use on construction sites. For many years Cementex performed very well, expanding its client base and range of products, however in 2020 profits began to fall. During that year the CEO, Carla Burton, fell seriously ill and since then the other directors have disagreed on a number of key decisions. In the year ended 31 January 2022 the company's performance deteriorated, partly due to a major fraud in its procurement function.

MidRow attended the inventory count on 31 January 2022. The final audit of Cementex's financial statements for the year ended 31 January 2022 will commence in late April 2022. The audit report is required by the end of June 2022. As audit evidence, MidRow will require written representations in respect of the directors' responsibilities for the preparation of the financial statements as well as other matters.

Jasca plc

Izzy Wren, the finance director of Jasca plc (Jasca), has asked Clive Ogbwe, MidRow's audit and assurance senior partner, to accept appointment as Jasca's external auditor. The current auditors are Hazlett LLP. Jasca is a very large company with significant operations in many different countries. MidRow has not previously had any dealings with Jasca, which would become the firm's largest and most complex audit client.

Appendix F – Corporate finance department client

Trista plc

Helena Shaw has secured due diligence work in relation to Trista plc (Trista), a listed company, which has received an offer from Bitan plc (Bitan) to purchase all of Trista's issued share capital. The MidRow manager in charge of the assignment is Joe Green, an ICAEW Chartered Accountant. When Helena asked Joe to take on the role, she emphasised the highly confidential nature of the work. She referred Joe to the material on confidentiality and standards of behaviour in **Appendix D**, and the guidance in the ICAEW Code of Ethics.

During the due diligence work Joe attended a series of meetings with Trista's various advisers, at which the acquisition price payable by Bitan was discussed. The advisers discussed whether the market price of Trista's listed shares would be affected by information that a serious offer had been received to take over the company.

Appendix G – Update Project 22

Nina has been developing a plan to update MidRow's operations by exploring new, more flexible working structures and technology. She calls the planned investment project 'Update Project 22'.

Update Project 22 encompasses:

- **Premises:** MidRow will terminate the leases early on six of its 12 offices, to reduce its expensive office space. Hot-desking will be implemented at MidRow's remaining offices. The aim is to have only one third of MidRow's middle line and operating core staff working from an office at any point in time, with the remainder working from home or at clients' premises. On terminating the six leases, substantial payments will be required to compensate the landlords and rectify dilapidations of the buildings.
- **Equipment:** All staff will be provided with state-of-the-art laptops and other mobile technology which can process large amounts of data more effectively.
- **Data analytics:** MidRow will purchase data analytics and other software so staff from all five departments can work from home more efficiently whilst being fully connected to each other. Staff will be able to access MidRow's communication and information systems, and data from client systems where appropriate, provided data protection and client confidentiality restrictions are observed. Audit data analytics software will also be purchased.

Nina is confident that Update Project 22 will result in substantial cash inflows over time, following the high initial cash investment. This is due to both cost savings and to changes in working practices that will enable more billable work to be performed faster and to a higher quality.

Investment appraisal

MidRow evaluates its investment projects using payback period and discounted cash flow (DCF) techniques, namely net present value (NPV) and internal rate of return (IRR). Its cost of capital is 8%. To calculate IRR using the interpolation method, MidRow calculates NPVs at both 8% and 12%.

MidRow accepts projects with a positive NPV or an internal rate of return (IRR) that is greater than the cost of capital.

Assumptions

So far, Nina has established the following assumptions for Update Project 22:

- The six office leases were due to end on 30 June 2026 but will be terminated instead on 30 June 2022. Any payments to landlords that are required will be made on 1 July 2022.
- Equipment, software and relevant specialist training will be paid for on 1 July 2022.
- Equipment will be operational for four years, after which it will be scrapped and replaced.

- Software for data analytics etc will be updated as required over the four years of the project's life, the fees for which will be included in the initial investment.
- The project will lead to substantial annual cash inflows, which are currently being forecast.

Organisational structure

At the meeting scheduled for late April 2022 the senior management team will discuss Update Project 22 further. In particular they will consider its effect on Nina's long-term goal of improving MidRow's flexibility as an organisation, so that issues like those encountered by Allion Ltd are no longer a problem.