



LEVEL 4 ACCOUNTING TECHNICIAN APPRENTICESHIP

TUESDAY 7 JUNE 2022

2.5 HOURS

ROLE SIMULATION EXAMINATION

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

Marks breakdown

Task 1	60 marks
Task 2	40 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 60 marks.

Task 1.1

Flintdom Sports Club (FSC) (**Advance Information – MidRow’s departments and Appendix A**) is preparing a major grant application and so it urgently requires information from its draft financial statements for the year ended 31 May 2022. In the application FSC must state figures separately for:

- cash received from members in the year;
- subscription income for the year;
- subscriptions in arrears and subscriptions in advance at the end of the year.

Your line manager Rashid Patel, the accounting services manager, asks you to prepare the relevant calculations for the year ended 31 May 2022.

He gives you the following information in addition to the information in **Advance Information – Appendix A**:

In relation to the cash at bank account:

Opening bank balance on 1 June 2021	£65,890
Closing bank balance on 31 May 2022	£98,760
During the year to 31 May 2022:	
Expenses paid from bank account	£184,760
Donations received by bank transfer	£20,000
Cash received from members	To be calculated

In relation to the subscriptions receivable account:

- £1,550 of the opening balance of arrears on 1 June 2021 was never received because the members left the club, so must be written off in the year ended 31 May 2022
- as at 31 May 2022, 127 members had pre-paid subscriptions of £30 each
- as at 31 May 2022, 161 members were each £40 behind with their subscriptions.

Donnie Simon, apprentice assistant accountant, asks you to explain the difference between the cash and accrual basis of accounting, using FSC as an example.

Requirements

- a. With reference to the information above and in **Advance Information - Appendix A**, calculate the following figures in FSC’s cash at bank account and subscriptions receivable account:
- cash received from members during the year ended 31 May 2022;
 - subscriptions in arrears as at 31 May 2022;
 - subscriptions in advance as at 31 May 2022;

- subscriptions income for the year ended 31 May 2022.

Show your workings. (8 marks)

- b. Explain, in an email to Donnie, the difference between the cash basis and the accrual basis of accounting when preparing financial statements, using FSC's subscriptions as an illustration. **(5 marks)**

Total: 13 marks

Task 1.2

Rashid is working on the financial statements of Noone plc (Noone) for the year ended 30 April 2022 (**Advance Information – MidRow’s departments and Appendices B and C**). Draft financial statements need to be available for Noone’s directors to review later this month.

Rashid provides you with the draft statement of profit or loss and draft statement of financial position. He asks you to prepare the draft statement of cash flows.

Noone plc: draft statement of profit or loss for the year ended 30 April 2022

	£'000
Revenue	33,970
Cost of sales	<u>(31,020)</u>
Gross profit	2,950
Distribution costs and administrative expenses	(1,380)
Investment income	<u>270</u>
Profit before tax	1,840
Income tax	<u>(360)</u>
Profit for the period	<u>1,480</u>

Noone plc: draft statement of financial position as at 30 April 2022

	£'000	£'000
ASSETS		
Non-current assets		
Investments		3,000
Property, plant and equipment		<u>3,850</u>
		6,850
Current assets		
Inventories	3,150	
Trade and other receivables	3,720	
Cash and cash equivalents	<u>2,660</u>	
		<u>9,530</u>
Total assets		<u>16,380</u>
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital (£1 shares)		5,000
Retained earnings		<u>8,650</u>
Total equity		13,650
Current liabilities		
Trade and other payables	2,550	
Income tax payable	<u>180</u>	
		<u>2,730</u>

Total equity and liabilities		16,380
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Rashid gives you the following additional information related to the year ended 30 April 2022:

- Dividends of £100,000 were paid during the year.
- The only movements in property, plant and equipment (PPE) were:
 - Purchase of equipment for £1,260,000 on 1 May 2021. No further additions were made.
 - Disposal of equipment on 1 May 2021 that originally cost £600,000, and on which accumulated depreciation of £450,000 had been charged up to the date of disposal. There was no profit or loss on the disposal.
- Depreciation for the year has already been included in the draft financial statements. It was calculated in accordance with **Advance Information – Appendix B**.

Requirements

- a. Prepare the draft statement of cash flows for Noone plc for the year ended 30 April 2022, following the layout in **Advance Information – Appendix C**. Comparatives are not required. **Show your workings. (12 marks)**
- b. State **two** reasons why Noone plc's net cash inflow for the period is lower than its profit for the period. **(2 marks)**

Total: 14 marks

Task 1.3

Rashid has asked you to shadow Clive Ogbwe, the audit and assurance senior partner, for a few hours.

Clive refers you to MidRow's general policies and procedures, and to its specific audit and assurance policies and procedures (**Advance Information – Appendix D**). Clive explains that he is currently dealing with issues for two clients: Cementex plc (Cementex) and Jasca plc (Jasca) (**Advance Information – Appendix E**).

Cementex

At Cementex's inventory count on 31 January 2022, MidRow's audit team noted that some items had clearly deteriorated. Audit testing did not establish the extent of the deterioration or evidence of its quantification, although Leo Sabatini, the audit manager, believes the items are not material.

Leo led MidRow's final audit of the financial statements of Cementex for the year ended 31 January 2022. The audit proved difficult as Carla Burton, the CEO, was hospitalised during May 2022. Additionally, the audit team's testing failed to obtain sufficient, reliable audit evidence in respect of some assertions. In particular, letters from Cementex's bank, seen by a member of the audit team, suggest that the overdraft facility may be reduced or withdrawn. Also, Leo saw a letter from the Environment Agency stating that Cementex's processes for manufacturing cement breached regulatory limits for chemical emissions.

Leo and Clive are due to have a meeting to discuss the written representations that will be required from Cementex's directors. They have invited you to attend the meeting.

Jasca

Clive wrote to Jasca's current auditor, Hazlett LLP, asking for all information pertinent to MidRow's appointment as Jasca's external auditor. On 21 May 2022 Hazlett LLP wrote back to Clive, with Jasca's permission, enclosing the information requested. In addition, Hazlett LLP stated that:

- it had completed only one year's audit before Jasca's directors informed the firm that they were looking for a different external auditor; and
- fees from Jasca have been unpaid for more than three months.

Clive subsequently met Izzy Wren, finance director of Jasca, on 31 May 2022. Izzy explained that:

- Jasca's directors decided they must seek a different auditor because they had appointed a new director who is married to a senior partner in Hazlett LLP;
- the final fees owing to Hazlett LLP were paid by Jasca on 25 May 2022; and
- Hazlett LLP has agreed to offer its formal resignation as Jasca's external auditor.

Requirements

Refer to **Advance Information – Appendices D and E**.

- a. In relation to the written representations that MidRow requires from the directors of Cementex:
- set out **one** matter in respect of the directors' responsibilities for the preparation of the financial statements and **two** other matters that the representations should cover; **(3 marks)**
 - state when the representations should be dated by the directors; **(1 mark)**
 - identify **two** matters that MidRow should consider when evaluating the reliability of the written representations. **(2 marks)**
- b. According to the ICAEW Code of Ethics, which **two** of the following are most threatened for Hazlett LLP by Jasca's appointment of a new director who is married to a senior partner?
- A Objectivity
 - B Confidentiality
 - C Public interest
 - D Independence
 - E Professional behaviour **(2 marks)**
- c. Explain whether MidRow is prevented from acting as Jasca's auditor by the additional information supplied in Hazlett LLP's letter and in Izzy Wren's explanations. **(4 marks)**
- d. Explain **two** other factors that MidRow should assess before accepting the appointment as Jasca's external auditor. **(4 marks)**
- e. Identify **three** procedures that MidRow should carry out, **before** audit work starts, assuming the firm accepts appointment as Jasca's auditor. **(3 marks)**

Total: 19 marks

Task 1.4

Rashid has asked you to help Helena Shaw, the corporate finance senior partner, as a matter of urgency. Rashid believes your recent studies in law and ethics will allow you to help Helena with a sensitive matter that has arisen.

Joe Green, the corporate finance manager, worked on the due diligence assignment for the sale of Trista plc (Trista) to Bitan plc (Bitan) (**Advance Information – Appendix F**). One of Trista's employees told Helena last week that he had heard Joe boasting in a crowded restaurant. Joe said that he had found out during confidential meetings that Trista's share price would rise significantly once news of the sale to Bitan became public. Joe then encouraged his husband, Kieran Lanaghan, to buy a large number of shares in Trista, in advance of the sale announcement, and to sell them after the announcement, at a substantial profit.

The Trista employee informed the police, who contacted Helena. The police questioned Joe and advised him that they are likely to bring criminal charges against him related to insider dealing. Joe has admitted his behaviour to Helena.

Helena wishes to make a complaint about Joe to ICAEW's Professional Conduct department and to summarily dismiss him from MidRow's employment.

Requirements

- a. Explain the fundamental ethical principles from the ICAEW Code of Ethics that Joe has breached by insider dealing. **(6 marks)**
- b. What is the maximum term of imprisonment that Joe might face for insider dealing if he is convicted? **(1 mark)**
- c. Explain the basis on which Helena should make a complaint about Joe to the Professional Conduct department of ICAEW. **(2 marks)**
- d. Which ICAEW committee has the power to exclude Joe from membership, assuming Helena's complaint is upheld?
 - A Investigation Committee
 - B Disciplinary Committee
 - C Conciliation Committee
 - D Appeals Committee **(1 mark)**
- e. Explain:
 - what is meant by summary dismissal; and
 - whether MidRow would be legally justified in summarily dismissing Joe. **(4 marks)**

Total: 14 marks

Task 2

This task consists of **two** parts worth a total of 40 marks.

Task 2.1

MidRow's senior management team meeting scheduled for late April 2022 was delayed until last week, when the team reviewed the plans for Update Project 22 (**Advance Information – Appendix G**).

Nina told the team that, on 1 July 2022, MidRow would pay out a total of £4,200,000. This would cover the cost of terminating six office leases, paying dilapidations, setting up hot-desking in the remaining offices, equipping staff with technology for working from home and installing data analytics and other software.

The original assumptions relating to Update Project 22 remain unchanged and Nina estimates that the following cash inflows will arise from more efficient methods of working over the next four years.

Update Project 22: Cash inflows

	Year ending 30 June			
	2023	2024	2025	2026
	£000	£000	£000	£000
Cash inflows	950	1,280	1,690	1,730

Helena has asked Rashid to carry out the necessary investment appraisal. Rashid asks you to appraise the project, using payback period and two discounted cash flow (DCF) techniques: net present value (NPV) at an 8% cost of capital and internal rate of return (IRR).

Rashid gives you the following additional assumptions:

- To calculate payback period, assume each year's cash inflows arise evenly across 12 months.
- To calculate NPV, assume each year's cash inflows arise at the end of the year.
- To calculate the IRR, use the NPV that you calculate and assume that, at a discount rate of 12%, the project has a negative NPV of -£27,900.

He also gives you the information in the **Exhibit**.

Rashid wants you to prepare explanations that will help the senior management team to decide whether to authorise the investment.

Requirements

- a. With reference to **Advance Information – Appendix G**:

- Calculate the payback period for Update Project 22. **Show your workings.** State your answer in years and months. **(3 marks)**
 - Calculate the NPV of Update Project 22 as at 1 July 2022, using the discount table in the **Exhibit. Show your workings.** Work in £'000 to one decimal place. **(5 marks)**
 - Calculate the IRR of Update Project 22, using the IRR formula in the **Exhibit. Show your workings.** Round your answer to one decimal place. **(2 marks).**
- b. Explain whether Update Project 22 should proceed, on the basis of your calculations in **2.1a. (2 marks)**
- c. Explain **two** reasons why MidRow's investment decision should be made on the basis of discounted cash flow (DCF) techniques, rather than on the basis of payback period. **(4 marks)**
- d. Identify and explain **two** non-financial factors that the senior management team should consider before deciding whether to proceed with Update Project 22. **(4 marks)**

Total: 20 marks

Exhibit: Discount table and IRR formula

Discount factors at 8%

Interest rate pa (r)	Number of years (n)	Present value of £1 receivable at the end of n years $\frac{1}{(1+r)^n}$
8%	1	0.926
	2	0.857
	3	0.794
	4	0.735
	5	0.681

IRR formula

$$\text{IRR} = a + \frac{\text{NPV}_a}{\text{NPV}_a - \text{NPV}_b} (b - a)$$

Where:

- a is the first discount rate, giving NPV_a
- b is the second discount rate, giving NPV_b

Task 2.2

You and Donnie are working in MidRow's head office, where the senior management team is holding a further meeting to discuss growth opportunities and other matters. Several members of the team approach you for assistance during the day.

- A key element of Update Project 22 is that it allows MidRow's departments to use data analytics to add value to its client services and to its own operations (**Advance Information – MidRow's departments: Accounting services and Audit and assurance**). Clive asks you to explain how increased use of data analytics will assist MidRow.
- Nina is considering the existing organisational structure of MidRow (**Advance Information – MidRow's operational structure**). She asks you to perform some further analysis in terms of Mintzberg's building blocks. She tells you that two new staff members, Zahra Oubihi and Ben Scott, will be employed as experts to co-ordinate the new data systems and train MidRow's staff in their use. Nina wants to know the building block of MidRow's organisational structure into which these employees will fall.
- Nina is considering the potential impacts of Update Project 22 (**Advance Information – Appendix G**). She believes it should begin to improve MidRow's flexibility by co-ordinating the efforts of staff from several departments and offices to meet client needs better. She asks for your ideas on this, especially in light of MidRow's experience with Allion Ltd (**Advance Information – Opportunities and challenges for MidRow**).
- Shanay Masters, the accounting services senior partner, is considering the possibility of amalgamating an additional small firm, A & H Co, into MidRow. A & H Co is currently run as a general partnership by two old friends of Shanay's, Agnes Mackenzie and Hector Riome, who specialise in tax advice for buy-to-let landlords. A & H Co have many clients but can offer them only limited services, although they would like to expand the range of services. Furthermore, Agnes and Hector are rarely able to take a break away from their business because they lack resources to cover their absence. Shanay has asked you to make notes on how the amalgamation of A & H Co with MidRow LLP will affect Agnes and Hector and their business.

Requirements

- a. Explain **three** benefits to MidRow of increasing its use of data analytics. **(6 marks)**
- b. Classify the following elements of MidRow's structure in terms of Mintzberg's building blocks:
 - the senior management team;
 - the new staff members, Zahra Oubihi and Ben Scott. **(2 marks)**
- c. Explain **three** ways in which Update Project 22 will improve MidRow's flexibility as an organisation. **(6 marks)**
- d. In relation to the amalgamation of A & H Co with MidRow LLP:
 - State **two** legal differences between an LLP and a general partnership.

- Explain **one** practical advantage and **one** practical disadvantage for Agnes and Hector. **(6 marks)**

Total: 20 marks