

Marking guide for Role Simulation Examination March 2021

The Role Simulation exam aims to examine knowledge, skills and behaviours in roughly equal proportions. This is reflected in the marking process where the available marks for each requirement are identified as Knowledge marks (K), Skills marks (S) and Behaviour marks (B).

A set of answers is issued to markers, giving an overview of the K, S and B points that can attract marks for each requirement. The model answers are extensive and contain all the points that could have been made; candidates are not expected to produce such full answers in the exam.

Broadly speaking, the K marks are for demonstration of appropriate and accurate knowledge and understanding from the Learning Materials for the five Certificate syllabuses assessed by the Role Simulation. This knowledge can be explicit or implied (eg where the answer is developed using recognised terminology, not just common sense).

Specifically, the K marks are for knowledge related to:

- Technical
- Business awareness
- Ethics and standards
- Regulation and compliance
- Systems and processes

The S marks are for the following skills:

- Analysis
- Communication
- Leadership
- Planning and prioritisation
- Producing quality and accurate information
- Team working and collaboration
- Using systems and processes

The B marks are for the following behaviours:

- Adaptability
- Adding value
- Ethics and integrity
- Proactivity
- Professional scepticism

For example, if the requirement was to 'analyse the industry using Porter's Five Forces model' then K marks would be available for knowing the meaning of the key headings and the terminology for items commonly seen under these headings, and both S and B marks would be available for applying this knowledge to the scenario and using the information in the scenario to explain how the force works.

For written requirements where the candidate may make many equally valid points using different aspects of knowledge, skills and behaviour, more marks were identified for explanations in the mark scheme than were available in the maximum mark awarded. In these requirements, once the maximum awarded mark was achieved by a candidate, no further marks were given.

The pass mark is 70% across the paper. There is no requirement to score at least 70% in each of the K/S/B pools of marks, nor to score at least 70% in each of the two tasks.

March 2021 marking grid

	Marks identified in marks scheme				Maximum marks awarded
	K	S	B	Total	
Task 1					
1.1	10	9	0	19	17
1.2a	2	1	0	3	3
1.2b	2	4	10	16	6
1.2c	11	8	0	19	8
1.3a	0	6	0	6	4
1.3b	1	0	0	1	1
1.3c	0	8	0	8	2
1.3d	2	20	4	26	11
	28	56	14	98	52
Task 2					
2.1a	2	2	4	8	4
2.1b	1	0	0	1	1
2.1c	2	2	10	14	6
2.1d	1	3	3	7	4
2.2a	0	6	0	6	6
2.2b	3	1	2	6	3
2.2c	1	0	0	1	1
2.2d	0	0	14	14	6
2.3a	1	9	0	10	9
2.3b	1	0	1	2	2
2.3c	0	10	0	10	6
	12	33	34	79	48
Overall total	40	89	48	177	100

Task 1.1
Examiner comments
The AI included the statement of profit or loss, statement of financial position and statement of cash flows for the year ended 31 December 2019. In the question, candidates were presented with the draft statement of profit or loss and draft statement of financial position for the year ended 31 December 2020.
Overall, this sub-task was well-answered. Some candidates produced a completely correct statement of cash flows, fully supported by workings, and obtained full marks. Presentation standards were generally good.

Task 1.1	Marks	Nature	
Carmenta Ltd: Statement of cash flows for the year ended 31 December 2020			
£ 000			
Cash flows from operating activities			
Profit before tax	3,305	1	K-Technical
Finance expenses	207	1*	K-Technical
Profit on disposal of intangible assets	(55)	1	S-Analysis
Depreciation	938	2(OFF)	K-Technical + S-Analysis
Increase in inventories	(466)	1	S-Analysis
Increase in trade and other receivables	(1,689)	1	S-Analysis
Increase in trade and other payables	44	1	S-Analysis
Cash generated from operations	<u>2,284</u>		
Interest paid	(207)		
Income tax paid	(629)	2	K-Technical + S-Analysis
Net cash from operating activities	<u>1,448</u>		
Cash flows from investing activities			
Purchase of property, plant and equipment	(1,120)	1	K-Technical
Proceeds from disposal of intangible assets	180	2	K-Technical + S-Analysis
Net cash used in investing activities	<u>(940)</u>		
Cash flows from financing activities			
Increase in non-current borrowings	500	1	K-Technical
Decrease in current borrowings	(75)	1	S-Analysis
Dividend paid	(1,250)		K-Technical
Net cash from financing activities	<u>(825)</u>		
Net increase in cash and cash equivalents	(317)	1**	
Cash and cash equivalents at 1 January	1,496		K-Regulation and compliance
Cash and cash equivalents at 31 December	<u>1,179</u>		
* 1 for finance expense and interest paid.			

<p>** 1 for increase and closing balance (OF)</p> <p>1 for format and headings</p> <p>1 for presentation</p> <p>Workings:</p> <p>PPE</p> <table> <tr> <td>Opening carrying amount (from SFP 2019)</td> <td style="text-align: right;">6,119</td> </tr> <tr> <td>Additions</td> <td style="text-align: right;">1,120</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(938)</td> </tr> <tr> <td>balancing figure</td> <td></td> </tr> <tr> <td>or:</td> <td></td> </tr> <tr> <td>854 (last year) + (1,120 x 1/10 x 9/12) (additions)</td> <td></td> </tr> <tr> <td>Disposals</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Closing carrying amount (from SFP 2020)</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">6,301</td> </tr> </table> <p>Intangible assets</p> <table> <tr> <td>Change in carrying amount (from SFPs) (800 – 675)</td> <td style="text-align: right;">125</td> </tr> <tr> <td>Profit on disposal (from SPOL 2020)</td> <td style="text-align: right;">55</td> </tr> <tr> <td>Proceeds from disposal</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">180</td> </tr> </table> <p>Income tax</p> <table> <tr> <td>Opening liability (from SFP 2019)</td> <td style="text-align: right;">341</td> </tr> <tr> <td>Expense (in SPOL 2020)</td> <td style="text-align: right;">650</td> </tr> <tr> <td>Cash paid (bal)</td> <td style="text-align: right;">(629)</td> </tr> <tr> <td>Closing liability (from SFP 2020)</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">362</td> </tr> </table>		Opening carrying amount (from SFP 2019)	6,119	Additions	1,120	Depreciation	(938)	balancing figure		or:		854 (last year) + (1,120 x 1/10 x 9/12) (additions)		Disposals	-	Closing carrying amount (from SFP 2020)	6,301	Change in carrying amount (from SFPs) (800 – 675)	125	Profit on disposal (from SPOL 2020)	55	Proceeds from disposal	180	Opening liability (from SFP 2019)	341	Expense (in SPOL 2020)	650	Cash paid (bal)	(629)	Closing liability (from SFP 2020)	362	<p>K-Regulation and compliance</p> <p>S-Quality and accurate information</p>
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<p>Examiner comments</p> <p>Most candidates prepared their answer in the spreadsheet area then copied their workings into the word processing area. This is the correct approach as it enables the examiner to award marks for workings when the final figure in the answer is incorrect. However, some candidates copied answers across without showing details of workings (which may have been embedded as formulae in cells which are not visible). A significant number of candidates showed no workings at all. As such, when they had presented an incorrect figure, it was not possible to award any marks at all for that figure. Candidates are strongly advised to show workings as the marking scheme will often allow some credit to be awarded for an incorrect figure backed up by partially correct workings, or where the mistake is a result of an earlier mistake in a different part of the calculation.</p> <p>The most common errors were in adjusting for the profit made on disposal of the brand and instead presenting the cash proceeds received, and in calculating depreciation.</p>																																
<p>Total possible marks</p> <p>Maximum full marks</p>	<p>19</p> <p>17</p>	<p>10K, 9S, 0B</p>																														

Task 1.2
Examiner comments
In this sub-task candidates were presented with some additional information about a transaction that required correction and given some more detail about trade receivables. They were asked to prepare a journal entry for an accrual, calculate and comment on the trade receivables collection period and prepare some explanatory notes for a colleague on various aspects of accounting.
Performance on the different requirements of this sub-task was generally good.

Task 1.2 (a)	Marks	Nature
Accrued expense is $\text{£}93,000 \times 1/3 = \text{£}31,000$	1	S-Quality and accurate information
Dr Administrative expenses 31 Cr Accruals 31	1	K-Technical
Being the recognition of accrued expenses for business rates	1	K-Technical
1 for calculation, 1 for Dr/Cr and accounts, 1 for narrative or description		
Examiner comments		
Many candidates obtained full marks, producing an accurate journal and narrative. A small number of candidates calculated the appropriate expense for one month but then set out the journal entry needed in 2021 rather than 2020.		
Total possible marks Maximum full marks	3 3	2K, 1S

Task 1.2 (b)	Marks	Nature
<u>Trade receivables collection period calculation</u>		
2019: $(4,614 / 31,269) \times 365 = 54$ days	1	S-Quality and accurate information
2020: $(6,303 / 32,232) \times 365 = 71$ days	1	S-Quality and accurate information
Max 2		
<u>Comments</u>		
The trade receivables collection period has increased significantly which means that customers are taking, on average, significantly more time to pay Carmenta / Carmenta is not effectively managing the collection of cash from customers.	1	K-Business awareness
The average collection period is greater than the 30 days offered to at least two customers. However, the calculations are based on a snapshot at the year end and so may not reflect activity over the whole year.	1	K-Technical
In 2019 a large balance was paid just before the year end so the 2019 receivables figure may have been unusually low.	1	S-Analysis

So the underlying increase may be less significant.	1	S-Quality and accurate information
It is possible to recalculate the 2019 trade receivables collection period excluding this payment: the revised calculation for 2019 would be $((4,614 + 372) / 31,269) \times 365 = 58$ days.	1	B-Proactivity
And a proportion of sales are for cash (shop and online sales) so the average collection period for credit customers will be higher in both years than the calculations above show.	1	B-Adaptability
Max 2 (1 for explaining increase, 1 for any further relevant comment)		
<u>Possible actions to reduce trade receivables collection period:</u>		
Manage trade receivables efficiently: engage in active credit management and collection of amounts due to ensure that all customers pay within the contractual credit period.	1	B-Adaptability
Identify overdue debts and proactively contact customers to request payment.	1	B-Adaptability
Incentivise customers to pay earlier by offering settlement discounts or more favourable terms of sale.	1	B-Adaptability
Increase the proportion of cash ie sales made direct to consumers who pay immediately.	1	B-Adaptability
Change credit terms to reduce the credit period.	1	B-Adaptability
Although it appears as if some customers take a longer period than agreed, so merely reducing the agreed credit period will not in itself address the problem.	1	B-Professional scepticism
Undertake credit checks on new customers before allowing them to purchase on credit.	1	B-Adaptability
Consider using a third party to collect cash (invoice discounting / factoring).	1	B-Adaptability
1 per action, max 2 Mark first two points only		
Examiner comments		
This requirement was generally very well answered. Almost all candidates correctly calculated the trade receivables collection period and commented that it had significantly increased. Many candidates then made sensible suggestions of ways to reduce the trade receivables collection period. Only a small number of better candidates realised that the figures they had calculated may have been distorted by large transactions near the reporting date and that the true receivables collection period was higher than the calculations suggested because some sales were for cash.		
Total possible marks	16	2K, 4S, 10B
Maximum full marks	6	

Task 1.2 (c)	Marks	Nature
<u>Difference between the cash basis and the accrual basis of accounting</u>		
When using the cash basis of accounting, a company records cash receipts and payments in the period that they are received and paid.	1	K-Systems and processes

Whereas when using the accrual basis of accounting, items are recognised as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Conceptual Framework and standards, rather than when cash is received and paid out.	1	K-Systems and processes
For example, the business rates payment made on 5 January 2021 was partly to settle a liability which existed at the reporting date (31 December 2020).	1	S-Quality and accurate information
As at that date Carmenta had incurred (though not paid) the cost associated with occupying the premises for December 2020 and should have recognised a liability, and associated expense, of £31,000 (1/3 x £93,000).	1	S-Quality and accurate information
Trade receivables are recognised as an asset because they represent a right to an economic resource.	1	S-Quality and accurate information
Sales income is usually recognised at the same time as the associated asset, rather than when the cash is received.	1	S-Quality and accurate information
Carmenta's statement of cashflows records the actual changes in cash that occur during the year and is the result of applying the cash basis.	1	K-Systems and processes
In contrast, Carmenta's profit for the year in the statement of profit or loss is based on accrual accounting.	1	K-Systems and processes
The cash basis of accounting is sometimes the only basis used by smaller companies or sole traders as it is a very simple basis for preparing accounting information.	1	K-Business awareness
Up to 2 marks for any appropriate example specific to Carmenta		
Max 4		
<u>Why the dividend payment is shown in the statement of cashflows but not in the statement of profit or loss</u>		
The dividend payment is shown in the statement of cashflows because it is a cash outflow during the period.	1	S-Quality and accurate information
Dividends are a distribution of profits.	1	K-Regulation and compliance
They are not shown in the statement of profit or loss because they do not meet the definition of an expense (or income) in the Conceptual Framework, so there is no impact on profit for the period.	1	S-Quality and accurate information
They are a transaction between the company and its shareholders ('equity participants').	1	K-Regulation and compliance
Transactions with a company's own shareholders, such as dividends, are shown in the statement of changes in equity.	1	S-Quality and accurate information
Max 3		
<u>Reasons why net cash inflow for the year is lower than profit for the year</u>		
Credit sales - on average customers are paying more slowly	1	K-Technical
Purchase of new PPE (new capex is higher than depreciation)	1	K-Technical
Increase in inventory	1	K-Technical

<p>Task 1.3</p> <p>Examiner comments</p> <p>The AI made clear that cash management by Carmenta was problematic in a number of ways, including a lack of effective control over cash held by directors.</p> <p>Candidates also knew from the AI that</p> <ul style="list-style-type: none"> the current auditors would not seek reappointment after the 2020 audit; a new firm (Indigo LLP) had been asked to tender for the audit of the 2021 financial statements; and, Indigo might request information to undertake a risk assessment before deciding whether to accept the audit engagement. <p>The first three requirements were generally focussed on cash balances and audit procedures. Candidates were then required to explain how a potential auditor would determine whether to accept Carmenta as an audit client. Performance on the different requirements of this assurance-focussed sub-task was varied.</p>
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Task 1.3 (a)	Marks	Nature
<p><u>Bank accounts</u></p> <p>Not all bank balances owned by Carmenta may be disclosed.</p> <p>There has previously been some uncertainty about the number of accounts which Carmenta has.</p> <p><u>Reconciliation differences</u></p> <p>Reconciliation differences between bank balance and cash at bank nominal ledger account balance may be misstated.</p> <p>There have been problems with bank reconciliations so the auditor may now consider this risk is high.</p> <p><u>Cash held by directors</u></p> <p>Cash held by directors may be omitted or misstated.</p> <p>The directors can withdraw cash from the bank and keep a personal cash float for incidental expenses / future foreign travel and do not always provide receipts for cash transactions or confirm their cash balances on time.</p> <p>Max 2 issues, in each case 1 for identifying reason, 1 for explaining reason. Mark first two issues only.</p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p>	<p>S-Using systems and processes S-Analysis</p> <p>S-Using systems and processes S-Analysis</p> <p>S-Using systems and processes S-Analysis</p>
<p>Examiner comments</p> <p>In general candidates suggested plausible reasons why there might be errors in the cash and cash equivalents figure in Carmenta's financial statements. In some cases the explanations were lacking in sufficient detail.</p>		
<p>Total possible marks</p> <p>Maximum full marks</p>	<p>6</p> <p>4</p>	<p>6S</p>

Task 1.3 (b)	Marks	Nature
Completeness Existence Rights and obligations Valuation / Accuracy 1 mark for two assertions from the list above, if more than two given mark only the first two. Award marks for 'Accuracy valuation and allocation' (IS-Analysis 315).	1	K-Systems and processes
Examiner comments Most candidates correctly answered this OT requirement by stating two assertions.		
Total possible marks	1	1K
Maximum full marks	1	

Task 1.3 (c)	Marks	Nature
Carmenta could introduce a maximum limit on cash held by directors.	1	S-Using systems and processes
Carmenta could introduce random checks on cash held by directors.	1	S-Using systems and processes
Directors could be required to regularly submit receipts for cash held / used.	1	S-Using systems and processes
Custody of cash outside office hours: Directors could be asked to deposit cash (over a certain amount) in a secure location and/or could be provided with home safes.	1	S-Using systems and processes
Insurance arrangements: Carmenta should ensure that cash held offsite is adequately covered by insurance.	1	S-Using systems and processes
Carmenta could withdraw the cash advance functionality from the cards issued to directors.	1	S-Using systems and processes
Carmenta should undertake regular monitoring of procedures to ensure compliance with policies re limits on cash withdrawn/held and submission of receipts.	1	S-Using systems and processes
Carmenta should introduce / enforce a more rigorous approval process for directors' cash withdrawals	1	S-Using systems and processes
Mark first two points only.		
Examiner comments Many candidates suggested appropriate internal controls. Weaker answers tended to suggest controls that already existed but were not being enforced, or talked about cash in general rather than cash balances held by the directors.		
Total possible marks	8	8S
Maximum full marks	2	

Task 1.3 (d)	Marks	Nature
<p>EMAIL: From: Assistant Accountant To: Vincent Coiro, Francesca Coiro Subject: New auditors</p> <p>Dear Vincent and Francesca,</p> <p>I have set out below a summary of how Indigo will assess and respond to the risk associated with accepting Carmenta as a new client and the factors they will take into account.</p>	1 for email format	S-Communication
<p><u>Factors which Indigo should take into account</u></p>		
<p>(1) Carmenta has a well-established trading history and good long-term prospects, there is no recent or forecast poor financial performance.</p>	1	S-Analysis
<p>This indicates lower risk.</p>	1	S-Analysis
<p>(2) The structure of the business is simple and there are a small number of known shareholders.</p>	1	S-Analysis
<p>This indicates lower risk</p>	1	S-Analysis
<p>(3) Carmenta is well-financed and appears to have no problem obtaining additional finance from its bank.</p>	1	S-Analysis
<p>This indicates lower risk.</p>	1	S-Analysis
<p>(4) There appear to be some control weaknesses / a weak control environment.</p>	1	S-Analysis
<p>The directors, in particular Vincent, appear to be unconvinced about the importance of internal controls, with a cavalier attitude towards compliance with company policies. For example, cash management is very casual and there is some confusion between Vincent's personal cash and Carmenta's cash.</p>	1	S-Analysis
<p>This indicates higher risk.</p>	1	S-Analysis
<p>(5) Carmenta's accounting policies appear to be reasonable and there is no other evidence of a lack of integrity or dubious accounting practices (subject to comment above on cash management).</p>	1	S-Analysis
<p>Accounting for <u>all</u> brands as indefinite life assets should be justified - the annual impairment reviews are appropriate.</p>	1	S-Analysis
<p>Overall, accounting policies indicate lower risk.</p>	1	S-Analysis
<p>(6) The directors appear to be very experienced and competent: they have been working for the company for a number of years and appear to have a good working knowledge of the company's business.</p>	1	S-Analysis
<p>The Finance Director and the Financial Accountant are both well-qualified as they are ICAEW chartered accountants.</p>	1	S-Analysis
<p>Accounting within the business is centralised.</p>	1	S-Analysis
<p>This indicates lower risk.</p>	1	S-Analysis

<p>(7) There are some unusual transactions, eg unexpected large sales orders immediately prior to the reporting date, cash payments from Carmenta to suppliers, cash payments by Vincent on behalf of Carmenta and cash payments from customers to Vincent and Francesca.</p> <p>This indicates higher risk.</p> <p>Max 4 factors, 1 or 2 for explaining factor, 1 for determining effect on risk, max 8</p> <p><u>How Indigo will manage the risk associated with accepting Carmenta as a new engagement</u></p> <p>Indigo will consider whether Carmenta is likely to be higher or lower than normal risk to the firm in terms of being able to draw an appropriate assurance conclusion in relation to that client.</p> <p>Indigo would identify and document the factors indicating high risk and would then take account of those factors in planning and carrying out the audit,</p> <p>for example, Indigo may decide to use more experienced audit staff, industry specialists or use enhanced supervision/monitoring and review procedures during the audit and extend audit procedures.</p> <p>Indigo may use lower materiality thresholds.</p> <p>If Indigo concludes that Carmenta is higher risk this is likely to be reflected in a higher fee.</p> <p>Indigo is likely to avoid taking on a very high risk engagement.</p> <p>Max 3</p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p>	<p>S-Analysis</p> <p>S-Analysis</p> <p>S-Planning and prioritisation</p> <p>K-Regulation and compliance K-Regulation and compliance</p> <p>B-Proactivity</p> <p>B-Proactivity</p> <p>B-Proactivity</p> <p>B-Proactivity</p>
<p>Examiner comments</p> <p>This requirement had a relatively low average mark. Some candidates scored high marks as they gave a very clear account of the factors Indigo was likely to consider before taking on the Carmenta audit, the likely impact on the risk facing Indigo and how these would be managed. Weaker answers tended to talk in general terms about audit risk, rather than focussing on Indigo's approach to taking on a new engagement, or they explained only one or two specific risks. Most, but not all candidates, set out their answer in email format as requested.</p>		
<p>Total possible marks Maximum full marks</p>	<p>26 11</p>	<p>2K, 20S, 4B</p>

Task 2.1
Examiner comments
<p>In this sub-task candidates were presented with an ethically challenging situation. They were being asked to cooperate in obscuring a cash transaction with a regular customer to facilitate tax evasion by that customer, in return for possible additional financial reward. Candidates were asked to explain the legal situation, specifically whether or not the transaction would fall within the definition of money laundering, to explain the ethical issues and to state what course of action they would take. The AI included background information about cash transactions in Carmenta, including with this particular customer, and the risk of money laundering, and made clear that there was limited oversight of the directors.</p> <p>Performance on this sub-task was varied. It was the least well-answered of all the sub-tasks on the examination, although the first requirement was generally well-answered. Answers to requirements (c) and (d) varied in quality and the average marks awarded for these requirements were among the lowest in the examination.</p>

Task 2.1 (a)	Marks	Nature
<p>Money laundering is the process by which the criminal proceeds (either cash or other property) are sanitised to disguise their illicit origins / converted into assets which appear to have a legitimate origin.</p>	1	K-Regulation and compliance
<p>Tony wants to make some purchases from Carmenta for cash, without an invoice,</p>	1	S-Analysis
<p>and then intends to make a cash sale of a large quantity of goods to one of his regular customers.</p>	1	S-Analysis
<p>Tony implies that Serendipity will try to avoid paying tax on the profit they make on the sale.</p>	1	B-Professional scepticism
<p>And Serendipity's customer appears to be trying to conceal money, which suggests some element of illicit behaviour.</p>	1	B-Professional scepticism
<p>This is likely to be classed as money laundering.</p>	1	K-Regulation and compliance
<p>Now that Serendipity has explained the reasons for the structure of the transaction Carmenta would be knowingly facilitating or assisting in money laundering.</p>	1	B-Ethics and integrity
<p>This would be the case even if Carmenta recorded the sale and did not engage directly in any tax evasion.</p>	1	B-Ethics and integrity
<p>1 for defining money laundering, max 3 for other points. Award marks for sensible points.</p>		
Examiner comments		
<p>Performance on this requirement was generally very good and many candidates produced answers which correctly defined money laundering and applied the definition to the transaction in the question.</p>		
Total possible marks	8	2K, 2S, 4B
Maximum full marks	4	

Task 2.1 (b)	Marks	Nature
B, C, D	1	K-Regulation and compliance
Examiner comments		
This was an OT question requiring candidates to identify relevant persons in the context of the Money Laundering Regulations 2017. Most candidates did not score the mark available here, even though the information is available in the Learning Materials.		
Total possible marks	1	1K
Maximum full marks	1	

Task 2.1 (c)	Marks	Nature
Tony's plan may indicate an attempt to misstate Serendipity's purchases and sales	1	S-Analysis
possibly to artificially reduce the company's tax liability	1	B-Professional scepticism
and to participate in money laundering activity with one of their customers.	1	B-Professional scepticism
If I take part in any of this activity this would go against my compliance with the fundamental principles in the ICAEW Code of Ethics and the Staff Code of Conduct	1	K-Ethical standards
And would potentially be illegal	1	B-Ethics and integrity
Even though Carmenta would not be attempting to hide the sale or to avoid or evade tax.	1	K-Ethical standards
If I help in hiding or disguising the purchase this would show a lack of objectivity because the information in the financial statements would potentially be misleading.	1	B-Ethics and integrity
It would show a lack of integrity since I may be complicit in facilitating money laundering;	1	B-Ethics and integrity
it would show a lack of professional behaviour since I would be undertaking a course of action which could bring the profession into disrepute.	1	B-Ethics and integrity
There may also be an intimidation threat from Francesca as she is more senior to me in the company.	1	B-Ethics and integrity
I may be facing a self-interest threat if I am tempted to cooperate in order to:	1	B-Ethics and integrity
- gain financial advantage from obtaining discounts at Serendipity		
- make progress at work	1	B-Ethics and integrity
or:		
- gain social acceptance with Vincent, Francesca and Tony		
Francesca implicitly recognises that Tony's actions are problematic	1	B-Professional scepticism
and is looking to me to reassure her that we can turn a blind eye to his actions.	1	S-Leadership

Examiner comments		
<p>The strongest answers to requirement (c) tended to be well structured and successfully identified the ethical challenges for the candidate, referring to relevant principles (and threats) in the ICAEW Code of Ethics. Weaker answers tended to be vaguer and less structured. A small number of candidates wrote in general terms about the ethical problems for the company rather than specifically explaining the ethical issues arising for the candidate.</p>		
Total possible marks	14	2K, 2S, 10B
Maximum full marks	6	

Task 2.1 (d)	Marks	Nature
<p>I should not comply with any request from Francesca to take part in any activity which facilitates money laundering or tax evasion.</p> <p>1 for stating this, max 3 for any other points</p>	1	B-Ethics and integrity
<p>I should discuss this more fully with Francesca and explain my concerns.</p>	1	S-Team working and collaboration
<p>If Carmenta enters into this transaction, I should discuss my concerns and Francesca's request with my line manager, Lesley, as specified in the Code of Conduct.</p>	1	S-Team working and collaboration
<p>If that does not resolve the issue I should discuss with Ajay.</p>	1	S-Team working and collaboration
<p>As the situation is legally complex, I should call the ICAEW Helpline in confidence for further advice.</p>	1	B-Proactivity
<p>I may also consider reporting my suspicions of criminal activity to an appropriate external authority.</p>	1	B-Ethics and integrity
<p>However, I also need to consider my duty of confidentiality to my employer, Carmenta.</p> <p>Award marks for sensible points.</p>	1	K-Regulation and compliance
Examiner comments		
<p>A significant number of candidates failed to state explicitly that they would not follow Francesca's instructions. This is the most important point in any response and it is essential to state this to avoid any ambiguity.</p> <p>Good scripts referred to the Staff Code of Conduct and made reference to the process outlined therein. A small number of candidates suggested reporting the transaction to the Money Laundering Reporting Officer, which was inappropriate as the candidate was not working in practice and Carmenta would not have a Money Laundering Reporting Officer.</p> <p>Credit was awarded for considering reporting the transaction to an appropriate external party and also for considering the duty of confidentiality of an employee, irrespective of any conclusion about the interaction of duty of confidentiality and duty to disclose. Credit was also awarded for making the reasonable suggestion to call the ICAEW Helpline for advice in such a complex situation.</p>		
Total possible marks	7	1K, 3S, 3B
Maximum full marks	4	

Task 2.2
Examiner comments
The AI included information on the portfolio of Carmenta's products and candidates knew that the Marketing Manager was analysing Carmenta's products using the Boston Consulting Group matrix.
In the question, candidates were then given information about the market growth rate and relative market share of different product groups. They were asked to use the Boston Consulting Group matrix to categorise the product groups and suggest appropriate strategies.
Candidates were also asked to explain how Carmenta could make use of intelligent systems and automation.

Task 2.2 (a)	Marks	Nature
Cases:		
Description – Question marks	1	S-Analysis
Strategies – Build or Harvest	1	S-Analysis
Bags:		
Description – Stars	1	S-Analysis
Strategy – Build	1	S-Analysis
Keyrings:		
Description – Dogs	1	S-Analysis
Strategy – Hold or Divest	1	S-Analysis
Examiner comments		
This requirement was in general very well answered. Almost all candidates correctly categorised the product groups using the Boston Consulting Group matrix.		
Total possible marks	6	6S
Maximum full marks	6	

Task 2.2 (b)	Marks	Nature
'Hold' means maintain the current market position, thus requiring some supported expenditure.	1	K-Business awareness
'Harvest' means to minimise expenditure and take maximum profits in the short term (at the expense of any long-term development).	1	K-Business awareness
Therefore overall net cash flow for both strategies is positive.	1	S-Analysis
Because products in this category (cash cows) need very little capital expenditure and generate high levels of cash income.	1	K-Business awareness
Cash cows can be used to finance the stars.	1	B-Adding value
Many companies will aim to have a balanced portfolio of products in different categories.	1	B-Adding value
Examiner comments		
This requirement was in general very well answered. Almost all candidates correctly identified and explained appropriate strategies.		
Total possible marks	6	3K, 1S, 2B
Maximum full marks	3	

Task 2.2 (c)	Marks	Nature
A, D	1	K-Business awareness
Examiner comments		
This requirement was an OT requiring candidates to identify appropriate techniques for an internal strategic analysis. Only around half of candidates answered it correctly.		
Total possible marks	1	1K
Maximum full marks	1	

Task 2.2 (d)	Marks	Nature
<u>Possible suggestions</u>		
<ul style="list-style-type: none"> Use ability to process large amounts of data to identify what types of products sell best 	1	B-Adaptability
And develop new products / focus on particular types of products in response.	1	B-Adding value
<ul style="list-style-type: none"> Suggest products to customers shopping online. 	1	B-Adaptability
This could be based on previous purchases, browsing history or answers to questions designed to allow customers to find products. This could increase sales.	1	B-Adding value
<ul style="list-style-type: none"> Interact with customers (eg a bot) in the context of a customer consultation or dealing with customer enquiries. 	1	B-Adaptability
This could significantly reduce costs. It could also improve response times to customers as well as offering service outside office hours, thus improving customer satisfaction and possibly increasing sales. (Expert systems can filter basic questions.)	1	B-Adding value
<ul style="list-style-type: none"> Help customers customise their product online. 	1	B-Adaptability
This could increase customer satisfaction, reduce costs of dealing with customers, and possibly reduce costs associated with unwanted orders eg returns, poor customer experience	1	B-Adding value
<ul style="list-style-type: none"> Inform promotions on particular products or particular customers or customer groups. 	1	B-Adaptability
This would allow for more cost-effective, targeted marketing	1	B-Adding value
<ul style="list-style-type: none"> Use in the design process to forecast costs, materials requirements etc. and optimise production. 	1	B-Adaptability
This would enable better cost control and improve efficiency.	1	B-Adding value
<ul style="list-style-type: none"> Use in the manufacturing process to optimise production eg planning production budgets. 	1	B-Adaptability
This would enable better cost control and contribute to higher profits.	1	B-Adding value
Mark first three points only, max 2 marks each		

Examiner comments

Many candidates scored high marks on this requirement, identifying and explaining ways in which Carmenta could make use of intelligent systems and automation. Many of the better answers used information from the AI to illustrate potential uses of artificial intelligence in Carmenta's current and proposed new operations.

Total possible marks
Maximum full marks

14
6

14B

Examiner comments		
<p>Many candidates obtained full marks on this requirement. In general answers were well presented.</p> <p>Most candidates prepared their answer in the spreadsheet area then copied their workings into the word processing area. This is the correct approach as it enables the examiner to award marks for workings when the final figure in the answer is incorrect.</p> <p>However, as with answers to task 1.1, some candidates copied answers across without showing details of workings (which may have been embedded as formulae in cells which are not visible). A significant number of candidates showed no workings at all. As such, when they had presented an incorrect figure, it was not possible to award any marks at all for that figure. Candidates are strongly advised to show workings as the marking scheme will often allow some credit to be awarded for an incorrect figure backed up by partially correct workings, or where the mistake is a result of an earlier mistake in a different part of the calculation.</p> <p>The most common, minor, errors were to omit the cash to be received when disposing of the equipment at the end of year 5 and to allocate the costs of the marketing campaign to the wrong years. Most candidates correctly excluded depreciation from the calculations, and most of them explained why they had done so, as specifically requested. However, some candidates who correctly excluded depreciation from the calculations omitted the explanation. A small number of answers were poorly presented and omitted a lot of the relevant figures.</p>		
Total possible marks	10	1K, 9S
Maximum full marks	9	

Task 2.3 (b)	Marks	Nature
Carmenta should proceed with the investment because the NPV is positive / increases shareholder wealth.	1	B-Adaptability
	1	K-Technical
Examiner comments		
<p>This requirement was generally well answered and credit was given for a recommendation that was consistent with the candidate's own calculations in requirement (a).</p>		
Total possible marks	2	1K, 1B
Maximum full marks	2	

Task 2.3 (c)	Marks	Nature
<p>The advantages of NPV rather than ARR, as a decision-making technique are:</p> <ul style="list-style-type: none"> ▪ It is consistent with the assumed objective of shareholder wealth maximisation because it directly measures, in absolute (£) terms, the effect of taking on the project now. ARR is a percentage and it is possible for a project to generate a negative NPV even if the ARR is above the company's target ARR. ▪ It considers the time value of money, ie, the further away the cash flow the less it is worth in present terms. ARR ignores the time value of money by taking a simple average of profit figures. ▪ Risk can be incorporated into decision making by adjusting the company's discount rate. ARR typically does not account for risk. ▪ It considers all relevant cash flows, so that it is unaffected by the accounting policies which affect profit-based investment appraisal techniques such as ARR. 	2	S-Analysis
	2	S-Analysis
	2	S-Analysis
	2	S-Analysis

<ul style="list-style-type: none"> It provides clear, unambiguous decisions, ie, if the NPV is positive, accept; if it is negative, reject. A decision based on ARR requires comparison of the project ARR with an (possibly arbitrary) target or benchmark ARR. <p>Max 3 reasons, max 2 per reason if well explained and linking NPV with ARR.</p>	2	S-Analysis
<p>Examiner comments</p> <p>This requirement was generally well answered and most candidates were confident in explaining the advantages of NPV over ARR. Weaker answers either lacked detail or focussed on NPV alone without relating it to ARR.</p>		
<p>Total possible marks Maximum full marks</p>	<p>10 6</p>	10S