



# LEVEL 4 ACCOUNTING TECHNICIAN APPRENTICESHIP

TUESDAY 9 MARCH 2021  
2.5 HOURS

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## ROLE SIMULATION EXAMINATION

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

### Marks breakdown

Task 1	52 marks
Task 2	48 marks

**You will need to refer to your copy of the Advance Information during this exam.**

### Important Information:

1. Please read the instructions carefully before you begin your exam.

### Starting and ending the exam

2. Click on the **right arrow** in the header to begin the exam. The exam timer will begin to count down.
3. A warning is given five minutes before the exam ends. When the exam timer reaches zero, the exam will end. To end the exam earlier, navigate to the last question and click the right arrow button. Click the **Submit** button to close the exam.

### Encountering issues during the exam

4. If you encounter any issues during the delivery of the exam you should alert the invigilator (or online chat support if you are sitting remotely). Neither the invigilator nor the online chat support can advise you on how to use the software.

### Preparing your answers

5. Respond directly to the exam question requirements. Do not include any content of a personal nature, this includes your name or any other identifying content.
6. You may use a pen and paper for draft workings. Any information you write on paper will not be read or marked.
7. The examiner will take account of the way in which your answers are structured. You must make sure your answers and workings are clearly visible in the word processing area when you submit your exam. Only your answer in the word processing area will be marked. **You must copy over any data from the spreadsheet area to the word processing area for marking.** The examiner will **not** be able to expand rows or columns where content is not visible.

### After the exam

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

during the exam, you must request and complete a Candidate Incident Report form at the end of the exam. You will then need to submit a special consideration application to ICAEW if you wish us to consider such issues, as per our published policy, and the Candidate Incident Report form may be used to support such an application. If you are sitting remotely please submit your special consideration application referring to anything of note which occurred and will have been recorded, for use as evidence to support your case.

9. A student survey is provided post-exam for feedback purposes.

## Task 1

This task consists of **three** parts worth a total of 52 marks.

### Task 1.1

Lesley Hale, the Financial Accountant, is working on the financial statements of Carmenta Ltd (Carmenta) for the year ended 31 December 2020. She needs to have draft accounts available for Ajay Bacchan, the Finance Director, to present at the board meeting later this month.

Lesley provides you with the draft statement of profit or loss and draft statement of financial position. She asks you to help her prepare the draft statement of cash flows.

Lesley tells you:

'We purchased new fixtures and fittings for the shop, costing £1.12 million, on 1 April 2020 (**Advance Information: Recent and ongoing developments**). The depreciation expense for the year is included in administrative expenses (**Advance Information: Appendix B – Accounting policies (extracts)**).

The profit on disposal in the draft statement of profit or loss relates to the sale of the Lion Diary trade mark (**Advance Information: Recent and ongoing developments**). There were no other acquisitions or disposals of non-current assets and no impairment losses.

We paid the annual dividend of £1.25m in December 2020.'

### Draft statement of profit or loss for the year ended 31 December 2020

	<b>£'000</b>
<b>Revenue</b>	32,262
Cost of sales	(11,274)
Gross profit	<u>20,988</u>
Administrative expenses	(8,059)
Distribution costs	(9,472)
<b>Profit from operations</b>	<u>3,457</u>
Profit on disposal of non-current assets	55
Finance costs	(207)
Profit before tax	<u>3,305</u>
Income tax	(650)
<b>Profit for the period</b>	<u><u>2,655</u></u>

## Draft statement of financial position as at 31 December 2020

	£'000	£'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment		6,301
Intangible assets		675
		<hr/>
		6,976
<b>Current assets</b>		
Inventories	4,136	
Trade and other receivables	6,303	
Cash and cash equivalents	1,179	
	<hr/>	
		11,618
<b>Total assets</b>		<hr/>
		18,594
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Ordinary share capital (£1 shares)		1,000
Share premium		2,280
Retained earnings		9,200
<b>Total equity</b>		<hr/>
		12,480
<b>Non-current liabilities</b>		
Borrowings		3,750
<b>Current liabilities</b>		
Trade and other payables	1,822	
Borrowings	180	
Income tax payable	362	
	<hr/>	
		2,364
<b>Total equity and liabilities</b>		<hr/>
		18,594

### Requirement

Prepare the draft statement of cash flows for Carmenta for the year ended 31 December 2020 following the layout in **Advance Information: Appendix A**.

Comparatives are not required. Show your workings.

**Total: 17 marks**

## Task 1.2

Lesley tells you about late corrections required to the ledger accounts. She says:

'We received an invoice for business rates of £93,000 on 5 January 2021, covering the period from 1 December 2020 to 28 February 2021. Due to an oversight, we didn't include any of that cost when calculating expenses for the year ended 31 December 2020.'

Lesley reminds you that Ajay is concerned about the collectability of receivables (see **Advance Information: Appendix G – External audit issues**). At the board meeting later this month Ajay must present recommendations for reducing the trade receivables collection period and Lesley asks you to help her prepare some analysis for him.

She also asks you to explain to Gisele Taylor, the placement student, some of the work that you are doing. This will help Gisele understand more about financial reporting (see **Advance Information: Appendix B – Accounting policies (extracts)**).

Refer to the draft financial statements and the draft statement of cash flows that you prepared in **Task 1.1**.

### Requirements

- (a) State the journal entry required to correct the oversight in relation to business rates in the year ended 31 December 2020. Include a narrative. **(3 marks)**
- (b) In relation to trade receivables:
- calculate the trade receivables collection period for both 2019 and 2020, using the year-end figures for trade receivables
  - comment briefly on the results of your calculations
  - state **two** actions that Carmenta could take to reduce the trade receivables collection period. **(6 marks)**
- (c) Prepare notes for Gisele which:
- explain the difference between the cash basis and the accrual basis of accounting, using an illustration relevant to Carmenta
  - explain why the dividend payment is shown in the statement of cash flows but not in the statement of profit or loss
  - state **two** reasons (other than dividends) why Carmenta's net cash inflow for the year is lower than profit for the year. **(8 marks)**

**Total: 17 marks**

### Task 1.3

Sara Lien, who is leading the external audit for Harris LLP, reminded Ajay that she has obtained bank confirmations which will be used to help verify the cash and cash equivalents amount in the financial statements during the final audit. Sara said that she was concerned that Carmenta still did not have reliable records of cash held by directors (see **Advance Information: Appendix G – External audit issues**).

Ajay is now worried that Harris LLP will disclose to Indigo LLP their concerns about the lack of control over directors' cash (see **Advance Information: External audit**). Ajay's concern is that Indigo LLP may consequently refuse to accept the audit engagement next year or may try to increase the fee. Ajay has asked you to draft an email that he can send to Vincent and Francesca which explains how Indigo LLP is likely to determine whether to accept Carmenta as a new audit client.

### Requirements

- (a) Explain **two** circumstances that may result in errors in the cash and cash equivalents figure in Carmenta's financial statements. **(4 marks)**
- (b) State **two** financial statement assertions which are tested when Harris LLP confirms bank balances directly with Carmenta's bank. **(1 mark)**
- (c) State **two** internal controls which Carmenta could introduce in relation to cash held by the directors. **(2 marks)**
- (d) Prepare the email for Ajay about how Indigo LLP is likely to determine whether to accept Carmenta as a new audit client:
  - Explain **four** factors which Indigo LLP may take into account when assessing whether Carmenta is likely to be a high or low risk audit client.
  - For each factor, state whether it indicates that Carmenta is high or low risk.
  - Briefly explain how Indigo LLP could manage the risks associated with accepting Carmenta as a new audit client. **(11 marks)**

**Total: 18 marks**

## Task 2

This task consists of **three** parts worth a total of 48 marks.

### Task 2.1

Francesca calls you into her office to talk to you. She tells you about a conversation she had yesterday evening when she and Vincent had dinner with Tony Travers, the chief executive officer of Serendipity Ltd (see **Advance Information: Appendix E – Email from finance director to finance team**).

‘Tony told me that Carmenta’s products are selling very well, so he is thinking of increasing the number of products in Serendipity’s shops. He also told me that he wants to make some purchases from us for cash, saying he would not want a sales invoice for those purchases. He explained that one of his regular customers wants to buy a large quantity of Carmenta’s products from Serendipity for cash, and he is quite happy to deal in cash with this customer and with us to save some tax.

‘Tony said that if you want to go to one of Serendipity’s shops to buy anything, you should tell him in advance and he will make sure you get a very generous discount.

‘My father has known Tony for years and says he is not concerned about this. We have made cash sales before and they are always recorded in our accounts like any other sale, so I don’t believe we would be involved in money laundering if we agree to Tony’s plan. Anyway I don’t think we’re a relevant person regarding money laundering so the money laundering laws don’t apply to us. You just have to make sure we record this as a cash sale and do not send a sales invoice or receipt to Serendipity.’

You are concerned about Francesca’s instruction to you. You refer to the Staff Code of Conduct (**Advance Information: Appendix C – Staff Code of Conduct (extracts)**).

### Requirements

- (a) Define money laundering and explain whether Carmenta’s transactions with Serendipity fall within the definition of money laundering. **(4 marks)**
- (b) Identify which **three** of the following are ‘relevant persons’ in the context of the Money Laundering Regulations 2017. **(1 mark)**
  - A Carmenta Ltd
  - B Carmenta Ltd’s bank
  - C Harris LLP
  - D Indigo LLP
  - E Serendipity Ltd
- (c) Explain the ethical issues which arise for you as a result of Francesca’s conversation with Tony and Francesca’s instruction to you. **(6 marks)**
- (d) Explain the actions that you should take as a result of Francesca’s instruction to you. **(4 marks)**

**Total: 15 marks**

## Task 2.2

Lesley asks you to assist Fred Beauregard, the Marketing Manager. He needs to prepare an analysis of Carmenta's products in terms of cash generation and cash expenditure requirements, using the BCG matrix (see **Advance Information: Recent and ongoing developments** and **Appendix D – Product portfolio**).

Fred has obtained additional information on market share. Relative market share is Carmenta's market share compared with the market share of the largest competitor in each market. He has completed the BCG analysis for the stationery product group and gives you the following table:

Product group	Market growth rate	Relative market share	Description	Strategy / Strategies
Stationery	low	high	cash cows	Hold or Harvest
Cases	high	low		
Bags	high	high		
Keyrings	low	low		

Fred also tells you that he plans to work with Chen Lau, the IT Manager, to investigate how intelligent systems and automation, including artificial intelligence, could be used in designing, manufacturing and selling Carmenta's products (see **Advance Information: Recent and ongoing developments**). He asks you whether you have any suggestions for them to consider.

### Requirements

(a) To help Fred complete the table above, state:

- how each of the Cases, Bags and Keyrings product groups would be described in the BCG matrix
- the appropriate strategy or strategies for each product group.

You are not required to reproduce the table. **(6 marks)**

(b) Briefly explain the 'Hold' and 'Harvest' strategies identified for the Stationery product group and the likely effect on Carmenta's cash flow of these strategies. **(3 marks)**



- (c) Which **two** of the following additional techniques would be useful to Carmenta when completing an internal strategic analysis of the company? **(1 mark)**
- A Value chain analysis
  - B Porter's five forces analysis
  - C PESTEL analysis
  - D Resource audit
  - E Competitor analysis
- (d) Respond to Fred's question: explain **three** ways in which Carmenta could make use of intelligent systems and automation, including artificial intelligence, in designing, manufacturing and selling. **(6 marks)**

**Total: 16 marks**

### Task 2.3

Ajay needs to make a presentation at the board meeting next week about the proposed investment in 3D printing facilities for Project Greensleeves (see **Advance Information: Recent and ongoing developments and Appendix F – Project Greensleeves**). Lesley has collated information from Fred and from Sophie Forton-Smith, the Production Director. Lesley asks you to do some calculations that will be needed for the presentation and gives you some updated information.

‘If we go ahead with this project it will start on 1 January 2022.

‘We still think our revenue estimates over 5 years are appropriate because of the market research that Fred has done. However, Sophie thinks that we have underestimated our operating costs. Variable costs should be 30% of revenue, not 20% as in our initial estimates.

‘The purchase price of the equipment is unchanged from our estimate. However, the installation costs for the equipment are going to be £100,000 higher than we originally forecast. We estimate we can sell the equipment at the end of five years for £300,000. The revised depreciation expense would be £304,000 pa.

‘If we go ahead then the additional marketing campaign to support the launch of the new products will cost £150,000 in total and will run for the first year. We would pay half of this amount on 1 January 2022 and half on 1 January 2023.

‘Please use this new information to produce net present value (NPV) calculations for Ajay’s presentation at the board meeting. Use a discount rate of 10% in your calculations and calculate the NPV as at 1 January 2022. I also need a summary, for the directors, of why the financial evaluation of our decision should be based on NPV and not accounting rate of return (ARR).’

#### 10% Discount factors

Number of years n	Present value of £1 receivable at the end of n years
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621

#### Requirements

- (a) Calculate the NPV of the proposed investment as at 1 January 2022. Explain your reasons for excluding any figures from your calculations. **(9 marks)**

- (b) Recommend whether Carmenta should proceed with the investment, on the basis of your calculations in part (a). **(2 marks)**
- (c) Prepare notes for Ajay that explain **three** advantages of using NPV, rather than ARR, in investment appraisal. **(6 marks)**

**Total: 17 marks**