



ROLE SIMULATION EXAMINATION

ADVANCE INFORMATION

This material is issued prior to the examination session.

Candidates **must** bring this material with them
to the Exam.

No copies will be provided.

ADVANCE INFORMATION

This Advance Information is issued prior to the examination session to allow you to familiarise yourself with the information provided and to undertake any other appropriate research and analysis. The Advance Information is also published on the website: www.icaew.com/students.

You must bring this Advance Information with you to the Exam, annotated if you wish, together with any other notes of your preparatory work. You must carry out sufficient and appropriate analysis work **of your own** in order to have a detailed understanding of the Advance Information. You should also undertake any additional research and analysis you feel necessary to enhance your awareness of the industry and market context and to enable you to clarify any technical terms or other issues of vocabulary. You will need to be able to refer back quickly to the Advance Information and your notes during the examination; you are therefore unlikely to benefit from taking large quantities of additional material with you into the Exam.

The exam will contain questions with additional information which will complete the description of the Role Simulation scenario and state the Role Simulation requirements.

The examination is based on the 2021 Role Simulation Workbook and the 2021 Certificate Learning Materials.

Assessment of the Role Simulation Examination

The marks in the Role Simulation Examination are awarded for demonstration of competence in the knowledge, skills and behaviours set out in the Level 4 Accounting Technician assessment plan. The marks are allocated broadly as follows:

- Knowledge 30% - 40%
- Skills 30% - 40%
- Behaviours 30% - 40%

The knowledge, skills and behaviours will be assessed through a series of requirements in the Role Simulation Examination. Marks available for each requirement will be shown next to each requirement.

Preparing your answers in the exam

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

Respond directly to the exam question requirements. Do not include any content or opinion of a personal nature, this includes your name or any other identifying content.

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.

Panifica plc

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This document reflects information available as at 11 January 2022.

Introduction: Panifica plc

Panifica plc (Panifica) is a UK-based bakery company supplying wholesalers and retailers throughout the UK. Panifica has two main business activities:

- **Manufacture of baked goods for sale:** Panifica purchases raw materials in bulk from suppliers and uses them to manufacture baked goods.
- **Resale of baking ingredients:** Panifica purchases speciality baking ingredients such as candied fruit and cake decorations in bulk. It then repackages the ingredients and sells them under its own brand.

Industry information

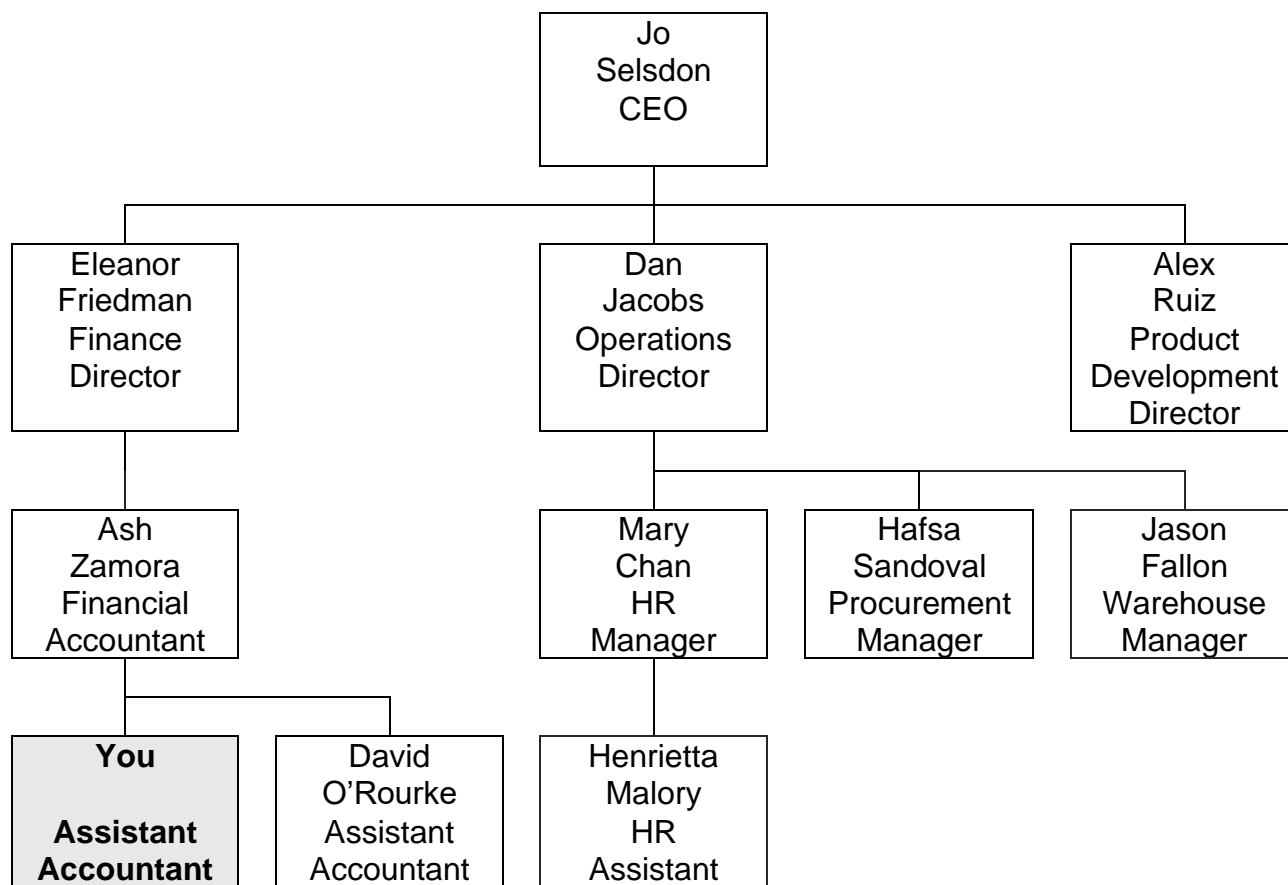
The UK bakery industry is large and fragmented. Total annual sales are £8 billion and the average annual growth rate in the five years to 2020 was 2%. The two biggest producers have a combined market share of only 12.5%. No other single company has a market share over 5%. Profitability is variable and most companies have operating profit margins between 3% and 5%.

Large bakeries that previously specialised in producing traditional bread loaves have diversified in response to changing consumer tastes. There is now greater demand for confectionery and patisserie items (such as scones, cakes, croissants etc.) and speciality products (such as organic products or products complying with specific religious or medical dietary requirements). Smaller, more specialist bakeries have thrived, in particular where they have been able to offer baked goods that are perceived as higher quality, artisan and/or local.

All bakeries must comply with regulations affecting food manufacturing, preparation, hygiene, storage and additives. Most bakeries have specially trained and designated staff who are responsible for managing compliance, but all employees must be appropriately trained and aware of the regulations.

Company information

Extract from organisational chart



Key personnel

Jo Selsdon has worked for Panifica for over 20 years and has been CEO since 2015. All the other directors have also been in post for a number of years.

You are employed by Panifica as an assistant accountant. You have been working there for just over one year and you are training to be an ICAEW Chartered Accountant. You work with David O'Rourke, also an assistant accountant training to be an ICAEW Chartered Accountant, who started at Panifica three months ago. You report to Ash Zamora, financial accountant, who reports to Eleanor Friedman, finance director. Both Ash and Eleanor are ICAEW Chartered Accountants.

Shareholders

Panifica is listed on the Alternative Investment Market (AIM). There are individual and institutional shareholders but there is no single dominant shareholder. Panifica organises regular online meetings for all its shareholders at which directors present financial information and answer questions from shareholders.

Financial information

See **Appendix A** for extracts from Panifica's financial statements for the year ended 31 January 2021 and **Appendix B** for extracts from the Accounting Handbook.

Business activities

Suppliers

Panifica buys flour, for the manufacture of baked goods, from two local flour mills. It purchases other raw materials such as salt, butter and sugar from a range of small and large suppliers across the UK. In some cases, Panifica relies on a single supplier for an individual ingredient.

Panifica uses trade credit as a source of finance and regularly renegotiates prices and credit terms with suppliers, often attempting to agree longer payment terms.

Operations

Panifica has a factory, warehouse and office building on a single site.

All raw materials, finished baked goods and baking ingredients for resale are stored in Panifica's warehouse, which is managed by Jason Fallon. It also stores some items on behalf of third parties. See **Appendix C** for details of inventory management.

Panifica seeks to operate in a sustainable manner. A proportion of the power used by the factory and the warehouse is generated from Panifica's own sources of renewable energy in the form of solar power. Panifica prioritises environmentally friendly manufacturing techniques (for example, minimising the use of water) and recycles a large proportion of its waste. Many products are marketed as carbon neutral because, for these products, Panifica makes a carbon offset payment corresponding to the estimated carbon emissions generated by the production and distribution of the product in question.

Customers

Panifica's customers are located across the UK and include wholesalers, big supermarket chains and small local shops. Many customers have well-established relationships with Panifica. In 2018, some smaller shops formed a buying consortium to improve their negotiating power and, in response, Panifica offered discounts to the consortium.

Direct sales to consumers via the factory shop

Panifica has a shop, located next to its factory, where it sells baked goods and baking ingredients where packaging is damaged or the product is close to its expiry date. These goods are sold, direct to consumers, at discounted prices. Consumers must have an invitation to buy from the factory shop, which is open for limited hours, late on weekday afternoons. However, the invitation process is a formality and any consumer can obtain a free invitation simply by requesting one via Panifica's website. Additionally, directors give invitations to their friends and family and business contacts from time to time. There are no specific guidelines on who can receive invitations from directors. Other than via this shop, Panifica does not sell direct to consumers.

Distribution

Panifica operates its own fleet of delivery vehicles for a significant proportion of its national distribution. Panifica also uses third party distributors for more remote customers and at busy times when extra capacity is needed.

Payments

Suppliers are paid by bank transfer, as are employees (see **Appendix D** for details of payroll management). Wholesale and retail customers pay Panifica by bank transfer or by credit or debit card. Individuals buying in the factory shop can only pay by cash.

Shole Ltd

Shole Ltd (Shole) a supplier of cocoa powder, has recently contacted Panifica and offered to negotiate a settlement discount with Panifica in exchange for earlier payment. See **Appendix E** for details of the contract with Shole and possible changes to credit terms.

Proposed new baking ingredient product line – Belobio flour

Tarrington Farms plc (TF) produce premium-priced organic flour.

Organic farming is characterised by the use of natural products and methods rather than manufactured chemicals, intensive processes and genetically modified organisms. It emphasises crop diversification and rotation and minimises the use of artificial pesticides that may harm the natural environment.

Dan Jacobs, operations director, and Alex Ruiz, product development director, are negotiating with TF to purchase flour which Panifica will then repackage and sell as a baking ingredient on a trial basis for three months. Panifica would sell the flour under a new brand 'Belobio'. (Panifica would not use flour from TF as an ingredient in its own baked goods.)

See **Appendix F** for details of cost and pricing calculations in relation to Belobio flour.

New delivery vehicles

Panifica wants to replace approximately 10% of its delivery vans with new electric vehicles. These vehicles will undertake local deliveries from the Panifica site. This investment is consistent with Panifica's commitment to sustainable business and the directors believe that a commitment to carbon neutral deliveries will give Panifica a competitive advantage.

Eleanor is considering how to finance this investment project. She has investigated the cost of leasing electric vehicles, but she also wishes to investigate the feasibility of using green bonds. She is aware that the investment project must meet the Green Bond Principles issued by the International Capital Markets Association (ICMA), and the environmental objectives behind them.

External audit

Reisen LLP (Reisen) has audited the financial statements of Panifica since 2014.

Aimee Harris has been the audit manager since 2020. Aimee contacted Eleanor recently to confirm that she considered inventory and payroll to be the two main risk areas for the audit of the financial statements for the year ended 31 January 2022.

Reisen's audit senior Saskia Hubbard, who worked on part of the audit last year, will attend Panifica's inventory count on the evening of 31 January 2022. Eleanor explained to you and David that there were a number of problems at the inventory count for the previous year's financial statements (see **Appendix C**), and she is hoping that they will not recur. Eleanor has asked David to attend the inventory count to offer Saskia assistance. Eleanor has also asked you to explain some aspects of the audit of inventory to David in advance of the inventory count.

Changes to directors

Retirement of finance director

Eleanor will retire as finance director in June 2022. Eleanor has told Jo that Reisen could possibly help to source a new finance director as it has an executive recruitment department which specialises in recruitment and remuneration of finance professionals. Eleanor is unsure whether Reisen would be allowed to take on this work in addition to the audit. She agreed to investigate whether this would be permitted in accordance with the ICAEW Code of Ethics and the Financial Reporting Council Ethical Standard.

Appointment of new director of IT

The directors are aware that cybersecurity is increasingly important. They would like to introduce some additional technical protections that could reduce and manage cyber-risk. They have agreed that Panifica would benefit from additional IT expertise on the board of directors.

Holly Pennington is an experienced IT professional who runs her own IT consulting business. Holly has previously undertaken work for Panifica as a consultant. Jo has informally approached Holly to ask if she would be interested in joining Panifica's board of directors, either as an executive director or as a non-executive director. Holly has asked for some more information about the duties she would have as a director of Panifica and whether she would be able to continue to do some work for one of her existing clients, a small food retailer.

**Appendix A – Panifica plc financial statements for the year ended 31 January 2021
(extracts)**

Statement of profit or loss for the year ended 31 January 2021

	£
Revenue	76,588,500
Cost of sales	<u>(52,720,600)</u>
Gross profit	23,867,900
Administrative expenses	(10,682,300)
Distribution costs	<u>(8,891,100)</u>
Profit from operations	4,294,500
Finance costs	<u>(435,200)</u>
Profit before tax	3,859,300
Income tax	<u>(740,000)</u>
Profit for the period	<u>3,119,300</u>

Statement of financial position as at 31 January 2021

	£
ASSETS	
Non-current assets	
Intangible assets	4,216,200
Property, plant and equipment	14,460,400
	<u>18,676,600</u>
Current assets	
Inventories	4,701,300
Trade and other receivables	9,431,900
Cash and cash equivalents	3,095,500
	<u>17,228,700</u>
Total assets	<u>35,905,300</u>
EQUITY AND LIABILITIES	
Equity	
Ordinary share capital (£1 shares)	330,000
Share premium	6,148,900
Retained earnings	11,051,500
Total equity	<u>17,530,400</u>
Non-current liabilities	
Borrowings	<u>9,348,200</u>
Current liabilities	
Borrowings	84,300
Trade and other payables	8,572,400
Income tax payable	370,000
	<u>9,026,700</u>
Total equity and liabilities	<u>35,905,300</u>

Appendix B – Accounting Handbook (extracts)

Introduction

The financial statements are prepared in accordance with IFRS® Standards. Assets, liabilities, equity, income and expenses are recognised and measured in accordance with the principles in the Conceptual Framework for Financial Reporting and the appropriate standards.

Inventory

Inventory is measured at the lower of cost and net realisable value (NRV), on a line-by-line basis, in accordance with IAS 2, *Inventories*. NRV is the expected selling price, less any costs still to be incurred in achieving the sale.

Goods held on behalf of third parties are excluded from inventory and are located in a separate area of the warehouse, which is clearly marked.

A physical inventory count takes place after the close of business on the last day of each financial year.

Wages and salaries expense

Wages and salaries expense is classified as follows:

Factory staff	Cost of sales
Delivery drivers	Distribution costs
Administrative staff	Administrative expenses

Tax expense

Tax expense is the tax due on profits. Any over-provision or under-provision in previous reporting periods is shown as a reduction or increase in the current reporting period's statement of profit or loss.

Appendix C – Inventory management

Inventory of raw materials, baked goods and baking ingredients held for resale are stored in the warehouse in allocated bins which are labelled with identity codes and descriptions for each item.

Panifica has an agreement with one of its retail customers, Alton Stores Ltd (Alton), to hold some inventory on its behalf. In accordance with the Accounting Handbook (**Appendix B**), this should be held in a separate area of the warehouse which is clearly marked as 'Customer inventory'.

Jason organises an inventory count after the close of business on 31 January each year. He issues instructions to the warehouse staff who carry out the count under his supervision in teams of two, with one member of staff counting and the other checking. All items are counted and recorded on inventory sheets with details of the identity code, quantity, condition and location.

A member of staff from the finance team attends the count to observe. Someone from Reisen also attends the count to observe and carry out sample counts.

Issues in the previous financial year (year ended 31 January 2021)

The inventory count in respect of the financial statements for the year ended 31 January 2021 took place in the afternoon and evening of Sunday 31 January 2021. During the count a number of problems were encountered:

- When the inventory count started in the afternoon, some goods were still being moved out of the warehouse for delivery to customers.
- Some inventory had been damaged by being stored incorrectly.
- Some of Alton's inventory was not stored separately so it was incorrectly included in Panifica's inventory.
- Raw materials had been delivered on Friday 29 January but were still waiting to be placed in their allocated bins.

Appendix D – Payroll management

Mary Chan, HR manager and Henrietta Malory, HR assistant, have been in post for a number of years.

Panifica uses payroll software which produces weekly and monthly payrolls.

Factory employees and delivery drivers are paid weekly by the hour. Each week Henrietta enters the number of hours worked by each employee in accordance with the swipe cards which they use to record the start and end of each shift. Administrative staff are paid monthly by salary. Each month, before paying the salaries, Henrietta checks with the HR records that the individual is still employed by Panifica.

The payroll system produces the weekly and monthly payrolls based on Henrietta's data and the standing data for pay rates and deductions for national insurance and pension contributions. Henrietta checks the payrolls then forwards them to Mary.

Controls

Mary checks that the brought forward figures agree to the relevant previous payroll. She also compares a sample of net pay amounts to the previous payroll and investigates any significant differences. Mary authorises each payroll by adding an electronic signature to the relevant payroll. She prepares the journals to be posted to the nominal ledger and passes these with the payrolls to Ash, who reviews them before a member of the finance team prepares the bank transfers for authorisation and posts the journals.

New software and associated problems

Panifica introduced a cloud-based version of the payroll software in October 2021, without changing the overall system for managing and controlling payroll. The cloud-based software was supposed to be more efficient and user-friendly. However, Mary has reported a large number of minor problems including frequent software crashes and login failures. The software is designed to use two factor authentication for login but, because of repeated login failures, this facility has been temporarily disabled for Panifica by the software provider, at Mary's request.

Appendix E – Purchases from Shole Ltd

Panifica purchases cocoa powder from Shole Ltd (Shole). Panifica makes one order per month, based on forecast production requirements, and Shole issues an invoice on the last working day of each month. Panifica makes payment to Shole two months after the invoice date (eg the invoice dated 31 March will be paid on the last working day of May).

Shole has offered to negotiate a settlement discount with Panifica in exchange for making earlier payment.

Ash has prepared calculations showing the amounts and timing of forecast cash payments for the period April to June 2022, based on payments made two months after invoice date, without any settlement discount:

Invoice date	Invoice amount	Cash payment		
		April	May	June
	£	£	£	£
February	92,200	92,200		
March	93,200		93,200	
April	88,000			88,000

Appendix F – Belobio flour

Hafsa Sandoval, procurement manager, has prepared the following initial estimates for the plan to purchase flour from TF then repackage it and sell it as a baking ingredient on a trial basis for three months. Panifica would sell the flour under a new brand 'Belobio'.

Cost and price estimate

	Per pack
	£
Cost of flour	2.30
Variable repackaging costs	1.73
Fixed overheads (30% of cost of flour)	<u>0.69</u>
Full cost	4.72
Profit markup (25%)	<u>1.18</u>
Selling price per pack	<u>5.90</u>

For baking ingredients purchased from suppliers for resale Panifica applies a fixed overhead absorption rate of 30% of purchase price to absorb the fixed costs of procurement and storage. It then calculates the price on the basis of full cost plus.

Hafsa knows that the overhead absorption rate is arbitrary and generally does not reflect cost behaviour. He has suggested that Belobio flour should be priced on the basis of marginal cost plus so that each pack sold will make a positive contribution to fixed costs. Alex warned Hafsa that Dan would expect the selling price to be set high enough for sales of Belobio flour to be profitable.

Sales volume forecasts for the three-month trial period

Time period	Number of packs
September 2022	15,000
October 2022	25,000
November 2022	30,000