



LEVEL 4 ACCOUNTING TECHNICIAN APPRENTICESHIP

TUESDAY 8 MARCH 2022

2.5 HOURS

ROLE SIMULATION EXAMINATION

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

Marks breakdown

Task 1	58 marks
Task 2	42 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 58 marks.

Task 1.1

Ash Zamora, the financial accountant of Panifica plc (Panifica), has asked you to help him prepare the financial statements for the year ended 31 January 2022. Although the final, audited financial statements will not be ready for some time, Eleanor Friedman, the finance director, usually presents draft results to the board of directors in mid-March.

The year-end inventory count took place in the evening on Monday 31 January 2022. During the count Jason Fallon, warehouse manager, identified three lines of speciality baking ingredients which were close to their expiry date and would therefore be sold at a reduced price in the factory shop. These lines are currently included in inventory at cost.

Jason prepared the following information about these inventory lines and forwarded the information to Ash.

Ash asks you to prepare calculations showing the revised value of inventory to be included in the financial statements for the year ended 31 January 2022. He also asks you to explain some aspects of inventory valuation to David O'Rourke, assistant accountant.

Baking ingredient	Quantity	Cost	Expected selling price	Expected selling costs to be incurred
	Number of boxes	Per box £	Per box £	Per box £
Candied fruit	425	190	249	18
Icing flowers	100	90	88	18
Chocolate sprinkles	250	77	52	15

Requirements

Using the information above and the information in the Accounting Handbook (**Advance Information – Appendix B**):

- Calculate the revised value of the three inventory lines to be included in the financial statements for the year ended 31 January 2022. **(7 marks)**
- Calculate the change to cost of sales for the year ended 31 January 2022 as a result of revising the value of the three inventory lines. **(2 marks)**
- Explain why Panifica should measure inventory at the lower of cost or net realisable value on a line-by-line basis. **(2 marks)**

(d) Which **two** of the following should be included in the inventory cost for baking ingredients held for resale by Panifica on 31 January 2022?

A Costs of delivery to Panifica's warehouse

B Marketing costs

C Costs of distribution to retail customers

D Import taxes and duties paid by Panifica

E Commissions paid to sales staff

(1 mark)

Total: 12 marks

Task 1.2

Ash provides you with a draft statement of profit or loss. This was prepared without considering the effect of the inventory valuation changes in **Task 1.1**. It also excludes the effect of the additional information below.

Draft statement of profit or loss for the year ended 31 January 2022

	£
Revenue	78,502,800
Cost of sales	<u>(54,707,100)</u>
Gross profit	23,795,700
Administrative expenses	(10,592,200)
Distribution costs	<u>(8,346,200)</u>
Profit from operations	4,857,300
Finance costs	<u>(426,000)</u>
Profit before tax	<u>4,431,300</u>

Additional information and adjustments required

Payroll

In January 2022 there was a delay in recording the payroll in relation to delivery drivers. As a result, the draft statement of profit or loss does not include the following costs arising in January 2022:

	£
Wages and salaries – bank transfers made to employees	110,300
PAYE income tax	34,200
Employee national insurance and pension contributions	9,000
Employer national insurance and pension contributions	9,500

Other journal entries required

On 1 July 2021 Panifica paid £156,000 for an insurance policy that provides cover from 1 July 2021 to 30 June 2022. The whole £156,000 has been included in administrative expenses for the year ended 31 January 2022.

On 10 February 2022 Panifica received an invoice for £125,000 from a marketing agency for work performed in November and December 2021. In December 2021, Ash accrued for £95,000 in respect of this work. No accounting entries have been made since then.

On 1 February 2022 Panifica paid loan interest of £38,000 in relation to interest charges for January 2022. No accounting entries were made in the year ended 31 January 2022 in relation to this payment.

Tax expense

Tax on profits for the year ended 31 January 2022 is appropriately estimated at £824,000.
Tax on profits for the year ended 31 January 2021 was under-estimated by £14,000.

Requirements

- (a) Calculate the additional amount to be included in the statement of profit or loss in relation to payroll costs for the year ended 31 January 2022. **(1 mark)**
- (b) Set out the debits and credits required, for the year ended 31 January 2022, in respect of:
- the insurance policy
 - the work performed by the marketing agency
 - the interest expense **(5 marks)**
- (c) Using **Advance Information – Appendices A and B**, the information above and your answers to **Task 1.1 (b)** and **Task 1.2 (a) and (b)**, prepare a revised statement of profit or loss for the year ended 31 January 2022, showing profit for the period, in a form suitable for publication.

Do not show comparatives. **Show your workings clearly. (10 marks)**

- (d) State **two** ways in which the shareholders of Panifica plc can use the information in the statement of profit or loss, according to the Conceptual Framework for Financial Reporting. **(2 marks)**

Total: 18 marks

Task 1.3

Eleanor has told finance function staff that the external auditor, Reisen, has identified payroll and inventory as risk areas (**Advance Information – External audit**), and so Reisen will pay particular attention to these areas during the audit visit.

Saskia Hubbard, the audit senior, attended the inventory count on Monday 31 January 2022. She observed some counts by Panifica staff and carried out counts on a sample of inventory items. Saskia noted that some goods that had arrived that day were still being moved to their location in the warehouse when the count started. Panifica staff had to perform a second count of the items in this area. Saskia explained that she would like to follow up individual items sampled at the inventory count.

David is currently studying assurance and he asks you to explain some of the work that Reisen will perform during the audit.

Requirements

Refer to **Advance Information – Business activities, and Appendices C and D**.

- (a) Identify **three** audit procedures to be undertaken on the payroll system. Ignore any issues specific to the new cloud-based software described in **Advance Information – Appendix D**. **(3 marks)**
- (b) In relation to inventory in the financial statements of Panifica:
- identify **three** types of possible misstatement
 - explain how each type of misstatement might arise in the context of Panifica's inventory management
 - state the financial statement assertion that is most relevant for each type of misstatement. **(9 marks)**
- (c) Explain to David:
- the purpose of Saskia attending the inventory count and carrying out sample counts
 - why Saskia is following up individual items sampled at the inventory count. **(8 marks)**

Total: 20 marks

Task 1.4

Eleanor has sent you the following email:

From: Eleanor Friedman
Date: 07/03/2022 at 16:30
Subject: Ethics and rules for dealing with the auditors

Hi,

Please could I ask you to use your up-to-date knowledge of the ICAEW Code of Ethics and the FRC Ethical Standard to answer the following questions for me about the independence of our auditors, Reisen.

Dan and I met Aimee Harris, the audit manager at Reisen, today. She mentioned that she regularly buys our baked goods from her local delicatessen. Dan offered to provide Aimee and all the members of the audit team with invitations to buy goods from the factory shop (**Advance Information – Business activities**). Will this mean we are offering a discount to the auditors, even though it's not difficult for anyone to get hold of these invitations? I want to be sure that this is not a problem.

Secondly, we need to recruit a new finance director to replace me when I retire later this year. I want to ask Reisen's executive recruitment department to undertake the recruitment for us as they know our operations so well (**Advance Information – Changes to directors**). Would they be allowed to do this as well as the audit? If they would not be allowed to undertake the recruitment for us, would they be allowed to provide advice on an appropriate salary for a new finance director?

Thanks,

Eleanor

Requirements

Prepare an email for Eleanor which explains whether a threat to the auditor's independence is likely to arise from:

- the invitations which Dan Jacobs, operations director, offered to the audit team
- recruitment work undertaken by Reisen for Panifica.

Total: 8 marks

Task 2

This task consists of **three** parts worth a total of 42 marks.

Task 2.1

Settlement discount

Eleanor has successfully negotiated a settlement discount with Panifica's cocoa supplier, Shole Ltd (Shole) (see **Advance Information – Appendix E**). The discount will be 2% for payments made within one month of the invoice date. The settlement discount will start with the invoice issued by Shole in April 2022. All invoices from April onwards will be paid within one month. The settlement discount will not apply to any earlier invoices, which will be paid in accordance with the existing policy.

Ash asks you to help to prepare calculations showing the total forecast cash payments for the period April to June 2022.

He gives you updated information about actual and expected purchases from Shole:

Invoice date	Invoice amount
	£
February	92,200
March	93,200
April	90,000
May	87,500
June	88,500

Delivery vans

Eleanor plans to replace 10% of Panifica's delivery vans with electric vehicles over the next five years (see **Advance Information – New delivery vehicles**). She has asked you to prepare some notes on whether green bonds would be a suitable source of finance for the project.

Requirements

- Calculate the total monthly cash payments for each of April, May and June 2022 that Panifica will need to make in respect of invoices from Shole. **(5 marks)**
- Describe **two** advantages and **two** disadvantages, for Panifica, of using trade credit as a short-term source of finance. **(4 marks)**
- In relation to the use of green bonds as a source of long-term finance for the project to replace 10% of delivery vans with electric vehicles:
 - identify and explain **two** of the environmental objectives in the Green Bond Principles issued by the International Capital Markets Association which could be met by this project;

- state **two** further actions Panifica would need to take to comply with the requirements of the Green Bond Principles. **(6 marks)**

Total: 15 marks

Task 2.2

Next week, Hafsa Sandoval, procurement manager and Alex Ruiz, product development director, have a meeting with Dan. They will discuss the plan to purchase flour from Tarrington Farms plc (TF) then repackage it and sell it as a baking ingredient on a trial basis for three months from September to November 2022. Panifica would sell the flour under a new brand 'Belobio'. (See **Advance Information – Appendix F.**)

Updated cost information

Hafsa has prepared up-to-date cost information, which reflects further negotiations with TF and more accurate estimates of variable overhead costs:

Revised cost estimate	Per pack
	£
Cost of flour	2.10
Variable repackaging costs	1.75

The fixed overhead absorption rate is unchanged.

Hafsa says to you:

'The sales volume forecasts we originally prepared (see **Advance Information – Appendix F**) were over optimistic. I think our total sales for the three-month period need to be reduced by 10% to reflect a more realistic expectation of consumer demand for premium-priced organic flour.'

'Please calculate what the selling price would be using this up-to-date information:

- (a) under full cost plus pricing, using our normal markup of 25%; and
- (b) under marginal cost plus pricing, using a higher markup of 40%.

'I know that marginal cost plus pricing is quicker and simpler to calculate. Please give me two additional reasons why we should use marginal cost plus pricing that I can present in our meeting with Dan to support our position.'

Requirements

In relation to the three-month trial of Belobio flour, and with reference to **Advance Information – Appendix F** and the revised information provided by Hafsa:

- (a) Calculate the updated selling prices for Belobio flour based on:
 - full cost plus markup of 25%
 - marginal cost plus markup of 40%.**(5 marks)**
- (b) Calculate the total contribution from the three month trial of Belobio flour, assuming Panifica uses marginal cost plus pricing. **(2 marks)**

- (c) Explain to Hafsa **two** additional reasons why marginal cost plus pricing may be better than full cost plus pricing for Belobio flour. **(4 marks)**

Total: 11 marks

Task 2.3

Holly Pennington, who has previously worked as an IT consultant for Panifica (**Advance Information – Changes to directors**) is meeting Jo Selsdon, CEO, next week. They will discuss Holly joining Panifica's board of directors as a new executive director with specific responsibility for IT.

Jo knows that you have recently studied the Companies Act 2006 and so has asked you to provide some information on the legal duties of directors. In particular Jo wants to discuss with Holly how she could manage a possible conflict of interest with her own business. Holly has stated that she would like to continue to work on a consultancy basis for one of her long-established clients, Entrico Ltd (Entrico), a small food retailer. Entrico is a customer of Panifica. In the year ended 31 January 2022, Panifica made sales of £115,000 to Entrico.

Jo also wants to discuss cyber-risk with Holly. Jo is concerned about Panifica's exposure to cyber-risk in general and some of the problems associated with the new payroll software in particular (see **Advance Information – Appendix D**).

Requirements

- (a) In relation to Holly's potential appointment as an executive director:
- explain how Holly could manage any conflicts of interest which may arise as a result of her relationship with Entrico
 - explain **two other** duties of directors from the Companies Act 2006, in addition to avoiding conflicts of interest, that are relevant to Holly. **(6 marks)**
- (b) State whether each of the following statements is true or false.
- A Holly's personal skills and experience as an IT consultant would be relevant to the standard of care that she would be expected to exercise as an executive director.
- B Holly's appointment as an executive director should be approved by special resolution. **(2 marks)**
- (c) Explain **two** ways in which the implementation of the new cloud-based version of payroll software has increased Panifica's exposure to cyber-risk. **(4 marks)**
- (d) Identify **two** controls that Panifica could implement to reduce cyber-risk. For each control, briefly explain **one** example of a related technical protection. **(4 marks)**

Total: 16 marks