



# ***ROLE SIMULATION EXAMINATION***

## ***ADVANCE INFORMATION***

This material is issued prior to the exam session.

A clean copy of the Advance Information will be available as a PDF in the exam software.

Candidates may add a copy of this Advance Information to their bookshelf which can be annotated in advance and then accessed during the exam.

Candidates can also bring a paper copy to the exam.

## ADVANCE INFORMATION

This Advance Information is issued prior to the exam session held on 11 June 2024, to allow you to familiarise yourself with the information provided and to undertake any other appropriate research and analysis.

You should add your copy of the Advance Information to your bookshelf, which you can then annotate. You will be able to access your bookshelf during the exam. A clean copy of the Advance Information will also be available as a PDF in the exam software and you may bring a paper copy to the exam, annotated if you wish, and any other notes of your preparatory work.

The Advance Information is also published on the website: [www.icaew.com/students](http://www.icaew.com/students)

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 exam; 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 exam is based on the 2023 Role Simulation Workbook and the 2023 Certificate Learning Materials.

### Assessment of the Role Simulation exam

The marks in the Role Simulation exam 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 exam. 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.

Answer all questions.

Respond directly to the exam question requirements. Do not include any content or opinion of a personal nature, such as your name.

**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.

# Chequer Ltd

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**This document reflects information available on 16 April 2024.**

## **Company background: Chequer Ltd**

Chequer Ltd (Chequer) supplies freshly-made pizzas from Chequer shops across the UK. The shops are operated by Chequer itself or by its franchisees. Customers can buy pizzas in the shop or can order via an app and either collect from the shop or arrange delivery to their home.

Chequer was founded in the UK in February 2017 by its CEO Nigel Lewis. Its share capital is owned by Nigel and several members of the extended Lewis family.

### Licence from HCI

HomeChequer Inc (HCI) operates shops supplying freshly-made pizzas across North America. It has developed a strong Chequer brand which is well known for high-quality, innovative and varied pizzas that are cooked fresh by trained chefs.

On 1 February 2017, Chequer paid HCI £6,000,000 for a 12-year licence, giving it the exclusive right to use the Chequer brand across the UK. The licence fee was largely funded by an interest-free loan of £5,000,000 that Nigel made to Chequer.

The terms of the licence require Chequer to submit regular financial statements and operational reports to HCI. The licence allows Chequer to operate its own shops and to franchise the Chequer brand in the UK, but places strict conditions on franchisees regarding the marketing and quality of all Chequer shops, to preserve the good Chequer reputation.

### Chequer's business model

From 2017 to 2020, Chequer opened 20 of its own shops in large towns and cities in the North West of England, all of which are still owned and operated by Chequer. Since 2020, Nigel has expanded the business by franchising additional shops. Franchisees now own and operate an additional 80 Chequer shops elsewhere across the UK. Franchisees operate as independent businesses which are not owned by Chequer.

### Terms of franchise agreements

The terms of a single-area franchise agreement between Chequer and a franchisee means that the franchisee agrees to:

- Operate one or more Chequer shops in accordance with strict criteria aimed at preserving the good Chequer reputation
- Only sell products made to recipes that are approved by Chequer
- Purchase all ingredients from Chequer
- Pay to Chequer two types of fee:
  - a fixed franchise fee of £7,500 per shop, annually in advance
  - a profit-based franchise fee of 25% of each shop's gross profit, quarterly in arrears
- Use an agreed sales and marketing strategy.

A key part of a single-area franchise agreement is that the franchisee has the exclusive right to operate Chequer shops within a defined geographical area. This protects the franchisee from other Chequer shops being opened in direct competition during the period of the franchise agreement with Chequer. Some major franchisees have several single-area franchises and operate multiple Chequer shops.

## **Operations**

### Delivery or collection of pizzas from Chequer shops

Pizzas are made from fresh ingredients in Chequer shops by specialist chefs. The pizzas are premium quality but for optimum enjoyment they should be consumed hot, as soon as possible once they are cooked. Speedy receipt of pizzas by customers is therefore critical. Shops are open for customers to come in, place an order, pay by cash or card, and take the pizzas away. Alternatively, via the Chequer app, customers can order pizzas and choose a time-slot either to collect them from the shop or to have them delivered by a Chequer electric van or e-bike. Customers pay for pizzas, and delivery if relevant, on the app.

Because Chequer and its franchisees aim to ensure pizzas are received promptly by customers while still hot, the pizzas cannot be ordered and delivered via third party apps such as Deliveroo or Uber Eats.

### Supply hubs

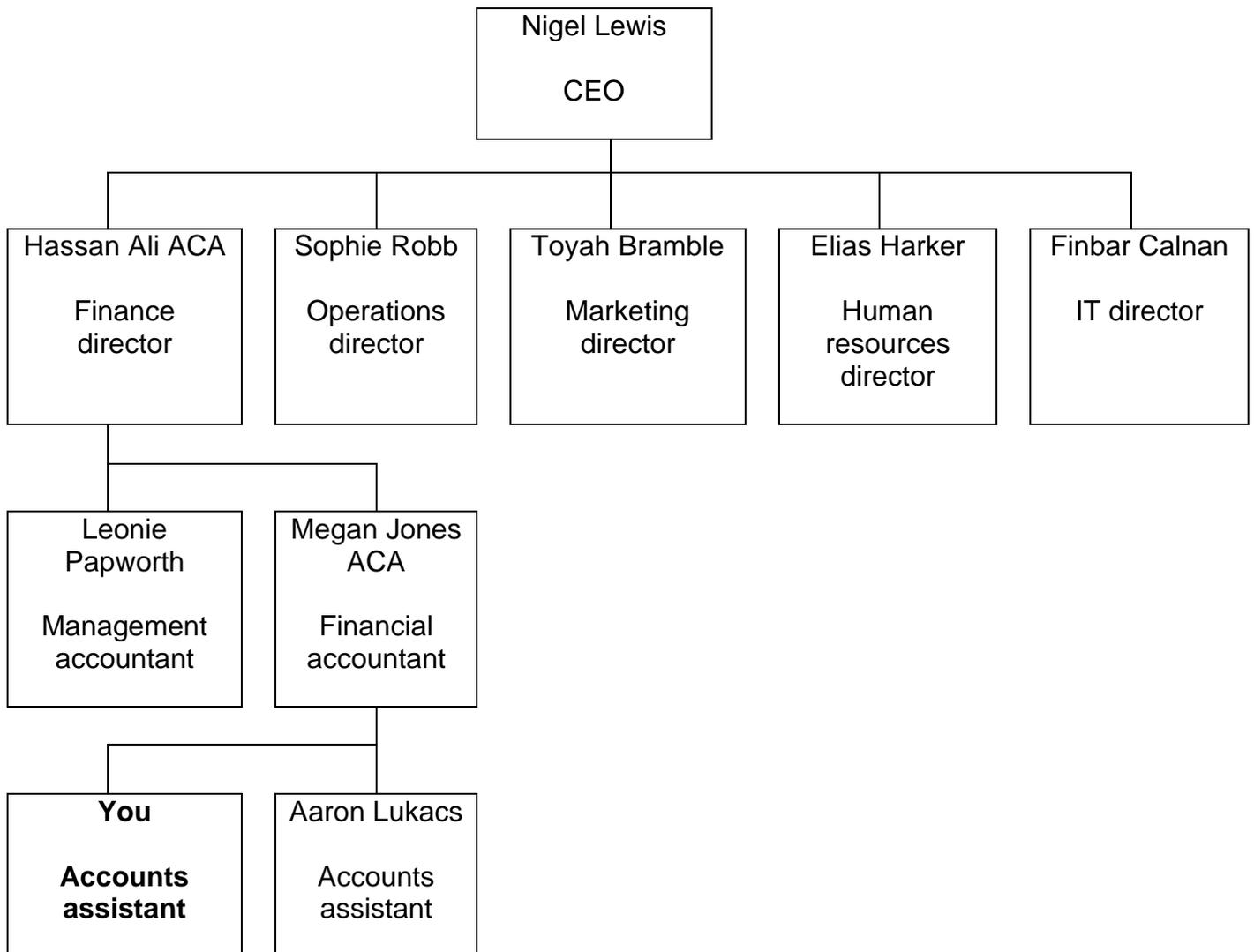
Chequer operates supply hubs spread across the UK which stock the ingredients necessary to make Chequer pizzas. The hubs distribute ingredients daily to owned and franchised Chequer shops using electric vans. The first supply hub was built in the North West in 2017. In each financial year Chequer makes a significant investment in refurbishing one supply hub and some of its owned shops.

### Management information

All Chequer shops are busy working environments and shop managers often encounter operational problems, such as running out of fresh ingredients or having insufficient chefs at key times. A lack of useful management information is frequently cited by managers when they struggle to address these problems.

## Organisational structure

You are a second-year accounting apprentice at Chequer. Your line manager is Megan Jones, financial accountant, who reports to Hassan Ali, finance director.



As part of your training, you are currently shadowing members of the board and assisting them when requested to do so.

Both you and Aaron are accounting apprentices and student members of ICAEW but Aaron is at an earlier stage in his studies than you. Megan has asked you to support Aaron in his studies when necessary. She has also told you that the finance function may soon be under pressure to provide detailed financial information to help attract new franchisees, so she may need you to work late to help with this.

### Staff conduct and performance appraisal

Chequer's code of conduct for its directors and staff is included in **Appendix A**.

The performance of all members of staff is regularly appraised by line managers, and salary grades are determined in the light of the outcomes of these performance appraisals.

## Financial information

Chequer's year end is 31 January. Extracts from its financial statements for the year ended 31 January 2023 are included in **Appendix B**. Extracts from the finance function's accounting procedures handbook are included in **Appendix C**. These procedures apply to Chequer's owned shops and to its transactions with its franchisees.

### Internal and external audit

It is important that franchisees fairly report their gross profit because 25% of this figure is payable to Chequer quarterly in arrears as part of each franchise agreement, Chequer therefore has an internal audit function which rigorously checks the financial information that franchisees supply.

Velop LLP (Velop) is the external auditor of Chequer's financial statements. Kang Song is the audit senior. Kang has already identified cash and cash equivalents as a significant risk area and raised some issues of concern in relation to the audit of the financial statements for the year ended 31 January 2024 (**Appendix D**).

## Current issues

Hassan and Nigel have recently met with Katy Bowen, the commercial director of Driscoll Ltd (Driscoll), a company which operates a large number of fast-food shops. Driscoll's board wants to begin operating several shops under a Chequer franchise, but Katy requires some further information before advising the Driscoll board whether to proceed (**Appendix E**).

Since he founded Chequer, Nigel has worked with Finbar Calnan, IT director, and HCI to develop the Chequer app for smartphones and tablets. The Chequer app has proved very successful in terms of increasing the quantity of orders and level of customer satisfaction. However, the board believes that Chequer could get more value from the app (**Appendix F**).

Some time ago the Chequer board discussed seeking agreement from HCI, under the licence that it has with them, to extend the range of products offered by Chequer shops in the UK. Nigel visited HCI in the US in January and February 2024 and negotiated an agreement to offer non-pizza products in the UK under the Chequer brand, provided the new products meet strict criteria on quality. The Chequer board therefore asked Toyah Bramble, marketing director, to develop some suggested products (**Appendix G**).

Nigel has always encouraged his team to demonstrate a strong commitment to all aspects of sustainability. As the network of shops grows, however, he is concerned that sustainability management is not consistent between shops, which is affecting Chequer's reputation. One of the major franchisees, Grimball Ltd (Grimball), presents particular sustainability-related and legal issues (**Appendix H**).

## **Appendix A – Chequer Ltd code of conduct (extract)**

### Introduction

This Code applies to all employees and directors of Chequer Ltd and forms part of the contract of employment with the company.

### Professional behaviour

All directors and employees are expected to act in a manner which is professional, courteous and ethical when dealing with colleagues, franchisees, suppliers and customers.

Directors and employees who are members of a professional body (either qualified or in training) must act in accordance with both this Code and the ethical and professional requirements of their professional body.

### Sustainability

A core value of Chequer Ltd is sustainability in support of Net Zero and the UN's Sustainable Development Goals (UN SDG). Directors and employees are actively encouraged to identify opportunities to improve the sustainability of the company's strategy and operations, and to bring these to the attention of relevant managers.

### Concerns

Staff wishing to raise a concern or grievance should, in the first instance, do so with their immediate line manager. If this is either not possible or not appropriate, or if this does not resolve the issue, they should approach a more senior manager.

**Appendix B – Chequer Ltd financial statements for the year ended 31 January 2023  
(extracts)**

**Statement of profit or loss for the year ended 31 January 2023**

	<b>£'000</b>
<b>Revenue</b>	23,568
Cost of sales	(10,296)
Gross profit	<u>13,272</u>
Distribution costs	(3,214)
Administrative expenses	(4,998)
<b>Profit before tax</b>	<u>5,060</u>
Income tax expense	(1,012)
<b>Profit for the period</b>	<u>4,048</u>

## Statement of financial position as at 31 January 2023

	£'000	£'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment		7,330
Intangible assets		3,000
		<u>10,330</u>
<b>Current assets</b>		
Inventories	490	
Trade and other receivables	1,106	
Cash and cash equivalents	6,588	
	<u>8,184</u>	
<b>Total assets</b>		<u>18,514</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Ordinary share capital (£1 shares)		4,000
Retained earnings		9,152
<b>Total equity</b>		<u>13,152</u>
<b>Non-current liabilities</b>		
Long-term borrowings		3,000
<b>Current liabilities</b>		
Borrowings	1,000	
Trade and other payables	856	
Income tax payable	506	
	<u>2,362</u>	
<b>Total equity and liabilities</b>		<u>18,514</u>

## Statement of cash flows for the year ended 31 January 2023

£'000

### Cash flows from operating activities

Profit before tax	5,060
Depreciation and amortisation	2,850
Increase in inventories	(70)
Increase in trade and other receivables	(36)
Decrease in trade and other payables	(11)
Cash generated from operations	<u>7,793</u>
Income tax paid	<u>(1,019)</u>
<b>Net cash from operating activities</b>	<u><b>6,774</b></u>

### Cash flows from investing activities

Purchase of property, plant and equipment	(380)
Proceeds from disposal of property, plant and equipment	90
<b>Net cash used in investing activities</b>	<u><b>(290)</b></u>

### Cash flows from financing activities

Dividends paid	(2,800)
Borrowings repaid	(1,000)
<b>Net cash used in financing activities</b>	<u><b>(3,800)</b></u>

<b>Net increase in cash and cash equivalents</b>	2,684
<b>Cash and cash equivalents at 1 February 2022</b>	<u>3,904</u>
<b>Cash and cash equivalents at 31 January 2023</b>	<u><b>6,588</b></u>

## Appendix C – Accounting procedures handbook (extracts)

The following are extracts from Chequer's accounting procedures handbook for maintaining the nominal ledger and preparing the financial statements.

### Financial statements and financial reporting standards

Chequer prepares its financial statements in accordance with IFRS® Standards.

Assets, liabilities, expenses, income and equity items are recognised and measured in the financial statements in accordance with IFRS® Standards and the IASB's *Conceptual Framework for Financial Reporting*.

### Accounting procedures

The following procedures were applied when preparing Chequer's financial statements for the year ended 31 January 2023:

- Revenue includes sales in owned Chequer shops and amounts receivable from franchisees, which comprise sales of ingredients to franchisees and franchise fees.
- Cost of sales includes relevant costs of the owned shops, plus the cost of ingredients sold to franchisees.
- Intangible assets comprise the amount Chequer paid HCI for the 12-year licence on 1 February 2017, amortised evenly over the licence period.
- Land is not depreciated; buildings are depreciated on the straight-line basis over 50 years; plant and equipment are depreciated on the straight-line basis over four years; vehicles are depreciated at 40% pa on the reducing balance basis.
- Depreciation charges are split as appropriate between cost of sales, distribution costs and administrative expenses. Amortisation charges are included in administrative expenses.
- Trade and other receivables comprise amounts due from franchisees for ingredients, plus prepayments and accrued income from profit-based franchise fees receivable in arrears.
- Cash and cash equivalents comprise bank balances and cash in hand.
- Trade and other payables consist of amounts due to suppliers and HCI, plus accruals and deferred income from fixed franchise fees receivable in advance.
- Borrowings relate to the interest-free loan received from Nigel on 1 February 2017. Chequer began to repay the loan in equal annual amounts in the year ended 31 January 2023.

## **Appendix D – External audit issues relating to cash and cash equivalents**

The external audit conducted by Velop covers only the financial statements of Chequer, not those of franchisees, as they are independent businesses.

Kang Song, audit senior, has raised the following issues with Hassan.

### Cash sales and cash in hand in owned Chequer shops

An increasing number of customers pay by debit or credit card either on the Chequer app or in person at a shop, so cash sales are decreasing year on year. As a result, Hassan established a new procedure in June 2023 that owned shops should bank cash once a month only, on the last working day of each month. However, on 31 January 2024, due to bad weather, most of the shop managers were unable to visit a bank and complete cash banking. Some of the shops had made substantial cash sales during January.

Hassan did not tell Kang about the change in procedures for cash banking until February 2024. As a result Kang did not organise a cash count at any of the owned shops on 31 January 2024.

### Bank accounts

Nigel and Hassan have opened and retained several bank accounts since Chequer started operations, as they have struggled to find a single bank which meets all of the company's business requirements. Kang has contacted all Chequer's banks to confirm bank balances as at 31 January 2024 and has discovered a number of discrepancies.

### Nigel's cash expenses and cash in hand

Nigel is the only director or employee who holds a corporate payment card. He uses this card to pay for business expenses. He can make cash withdrawals with the card provided he agrees each withdrawal with Hassan in advance. Nigel makes cash withdrawals when he is in the US or Europe on business and needs local currency for paying business expenses. He is required to submit receipts to the finance function for his cash expenditure at the end of each month, but rarely does so.

Nigel does not make a distinction between his own personal money and company money because he and his family own all the shares in Chequer. For example, he often uses his own money to pay for incidental business expenses. However, this creates significant problems when the finance function performs reconciliations. The amount of cash that Nigel has withdrawn and spent, and exactly how much cash in hand he still holds, cannot always be confirmed. It takes a long time to perform bank reconciliations and identify the reasons for differences.

### Audit of cash and cash equivalents

Because of these issues Kang has notified Hassan that the audit of cash and cash equivalents will be a major focus during the final audit of the financial statements for the year ended 31 January 2024.

## **Appendix E – Potential franchisee: Driscoll Ltd**

Driscoll Ltd (Driscoll) wants to become Chequer's newest franchisee in the UK. Driscoll already operates fast-food shops under several other franchises. Nigel believes that Driscoll's experience indicates it will be a very lucrative source of franchise revenue for Chequer.

In an initial meeting Nigel and Hassan told Driscoll's commercial director, Katy Bowen, that a typical Chequer shop makes a 61.5% contribution margin (Contribution/Selling price) per pizza, and it sells on average 110 pizzas a day for an average selling price of £13 each. Over a year, it breaks even if it sells 87 pizzas every day it is open (360 days of the year).

While Katy did not query these figures, she asked Nigel and Hassan to provide her with more details so she could assess the expected breakeven point and margin of safety for Driscoll in light of its own fixed costs.

They all agreed upon the importance of sustainability in building the Chequer brand. Katy asked whether Chequer Ltd had sustainability policies that Driscoll would be required to follow as a Chequer franchisee.

## Appendix F – The Chequer app

Finbar Calnan, IT director, is investigating how the Chequer app collects and uses data, and whether Chequer can use data analytics to create more value from the app for Chequer and its shop managers.

The collection, storage and processing of data by the app complies fully with the Data Protection Act. This is particularly important in relation to the fact the app requires the customer to pay using a debit or credit card, by connecting with a payment provider.

The app collects data about:

- the exact type and size of pizzas required for each customer order;
- the volume, value, location, timing and frequency of customer orders; and
- whether the pizzas are collected or delivered.

This data is currently used, by Chequer shop managers, only to ensure that orders are completed effectively. Finbar believes that some of the operational and other problems encountered by shop managers (see **Operations**) could be resolved using information derived from data collected by the app. He is aware that many shop managers have neither the time nor the inclination to interpret detailed quantitative data themselves, though they would be happy to make use of visualisations.

## Appendix G – Pasta product range

Toyah Bramble, marketing director, has worked with a celebrity chef to create two luxury pasta products which have proved popular in taste tests: Lasagne and MacNCheese. The size of each product means that a single unit will serve three to four people.

With Leonie Papworth, management accountant, Toyah has prepared some initial estimates of the expected demand, selling prices and costs, based on a trial of making and selling the products in a single shop:

	<b>Lasagne</b>	<b>MacNCheese</b>
Maximum demand forecast per day	18 units	30 units
	<b>£</b> <b>per unit</b>	<b>£</b> <b>per unit</b>
Selling price	24.00	22.00
Costs		
Ingredients	(4.80)	(6.10)
Other variable costs	(6.00)	(6.40)

Other variable costs include the costs of preparing and cooking each unit, ready for collection or delivery.

The shop acquired a new specialist oven for the trial. As oven capacity is limited in terms of hours, Toyah has asked Leonie to consider whether it will be possible to meet the forecast demand for both Lasagne and MacNCheese.

## **Appendix H – Employment practices and sustainability**

### **Employment practices**

Throughout its operations Chequer works hard to ensure that it is a very good employer of its own staff.

However, complaints have been made on social media about instances in some Chequer shops of discrimination and other activities which are outlawed by the Equality Act 2010. Chequer's board believes these complaints relate to franchised Chequer shops owned by Grimball Ltd (Grimball), a major franchisee. It has asked Elias Harker, human resources director, to investigate the complaints, establish whether they are justified and consider whether they can be defended on the grounds of objective justification if necessary.

### **Sustainability**

Commitment to sustainability is a key element of Chequer's social media posts as well as its operations, and the brand has become well-known for its credentials in this respect.

Chequer's staff in its owned shops have always been encouraged to support sustainability as much as possible. Actions which have been carried out by managers in Chequer's owned shops include:

- Use of recyclable packaging for pizzas
- Minimal waste of ingredients
- Employment of disadvantaged individuals eg ex-offenders
- Paying employees above the relevant national living wage rate
- Training available for all employees
- Strict health and safety compliance
- Using energy from renewable sources

To date Chequer has adopted an informal approach to sustainability management.

Sophie Robb, operations director and Nigel are now considering developing specific sustainability policies which all Chequer shops, owned and franchised, must implement. Nigel is keen to link the policies specifically to the UN's Sustainable Development Goals (UN SDGs) as he attended a seminar on these at the UN in New York, when he was away in January.