LEVEL 4 ACCOUNTING TECHNICIAN APPRENTICESHIP

JUNE 2025

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 10 June 2025 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: Role simulation exam | ICAEW.

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 2024 Role Simulation Workbook and the 2024 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.

Montabo plc

List of exhibits

Appendices

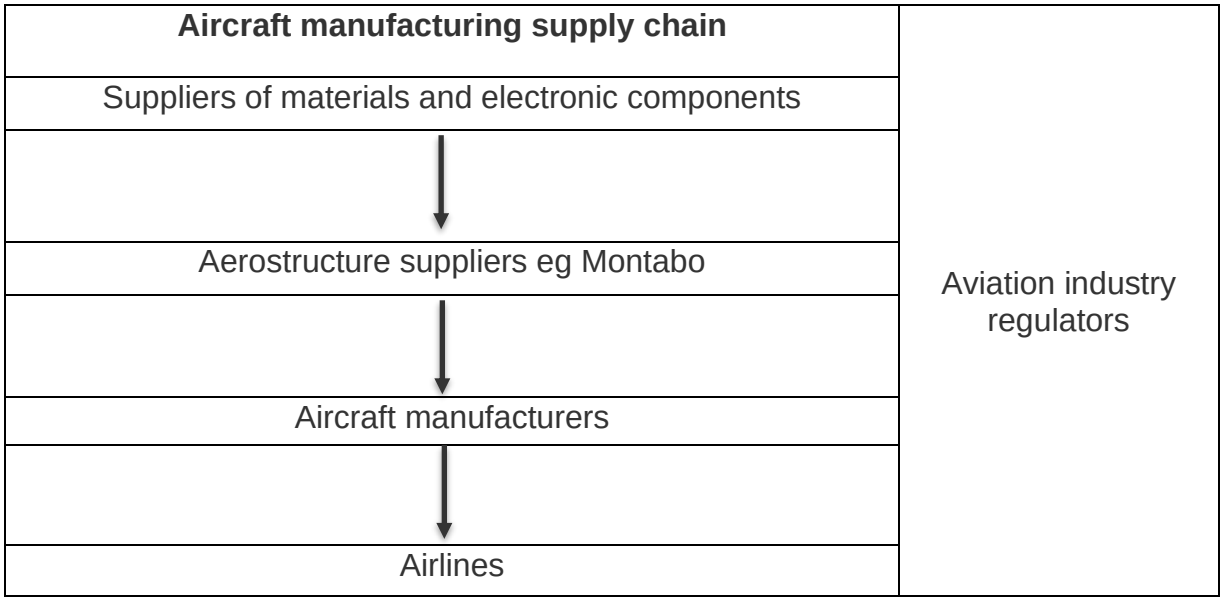
This document reflects information available as at 15 April 2025.

Introduction: Montabo plc

Montabo plc (Montabo) is a privately owned company operating in the aircraft manufacturing industry. It is a UK-based aerostructure supplier of parts and sub-assemblies for aircraft wings.

Industry background: aircraft manufacturing

Aircraft manufacturing is a mature industry with many participants. There are a few huge, global aircraft manufacturers which supply new aircraft to passenger and freight airlines, but multiple industry participants are involved in the design and production of each new aircraft and so the supply chain is long and complex.



Aircraft manufacturers

Aircraft manufacturers design aircraft in collaboration with their airline customers and their aerostructure suppliers. The aircraft manufacturers enter into long-term contracts with aerostructure suppliers for parts such as engines, wings and fuselages. The aircraft manufacturers are responsible for assembling the finished aircraft and delivering it to the airline.

Aerostructure suppliers

Aerostructure suppliers like Montabo are key partners in the supply chain, being integral in the design and manufacturing process of new aircraft by aircraft manufacturers. Once an aircraft is in use, the airline which operates the aircraft requires a reliable supply of spare parts from aerostructure suppliers during its life.

Key issues for the aircraft manufacturing and aerostructure supply industries are:

- research and development of existing and new products;
- a reliable supply of steel and electronic components;
- having specialist facilities in strategic locations to minimise transportation costs within the supply chain.

The industry faces pressure from airlines and regulators in relation to:

- Aircraft safety: quality standards are enforced globally and nationally by bodies such as the International Aerospace Quality Group, the EU Aviation Safety Agency Regulations (EASA), and the International Civil Aviation Organization.

- Sustainability:

    - Consumer expectations and government regulation are focused on aircraft becoming increasingly sustainable in terms of fuel efficiency, low CO_2 emissions and low noise. To work towards achieving net zero targets, manufacturers need to invest in producing more sustainable aircraft in terms of materials, design and manufacturing processes.

    - Industry participants must comply with environmental as well as safety regulations. For example, the European Commission has set an intermediate target of at least 55% net reduction in greenhouse gas emissions (GHGs) in the aviation sector by 2030.

- Innovation: rapidly evolving technology is used widely, including in the design of aircraft and components; in manufacturing and assembly processes; in tracking compliance with regulations; and for in-flight operations and safety.

Company information

Montabo is considering a listing on the Alternative Investment Market (AIM) in the next one to two years. Montabo's board is aware that it will need to meet strict listing rules in relation to corporate governance.

Montabo was founded in the early 1990s by Jude Forner, who remains the CEO. Initially Montabo grew by acquiring several small aerostructure suppliers. It operates from several factories across central England. Although Montabo is a large business (revenue £206.4 million in the year ended 31 March 2024), it is a relatively small participant in the global aircraft manufacturing industry.

Operations

Montabo manufactures parts and sub-assemblies for incorporation into aircraft wings.

Much of Montabo's output is sold to aircraft manufacturers for assembly into new passenger aircraft of medium size (accommodating between 50 and 130 passengers). These aircraft are best suited to operating short-haul flights of less than three hours.

Montabo also supplies spare parts and sub-assemblies to airlines for aircraft in which Montabo's products were originally incorporated.

Quality of output is key for Montabo. Its factories are highly automated. The workforce is skilled, well-trained and well-paid, leading to excellent employee retention. Quality assurance is embedded throughout Montabo's operations, and the R&D function has an excellent reputation.

Montabo's procurement function works closely with the R&D, design and manufacturing functions. Procurement of electronic components is essential. In the past, procurement of steel has also been important, but increasingly aircraft manufacturers demand wings that are made of composite materials instead of steel. This reduces weight and improves the environmental footprint of aircraft. This in turn helps to mitigate the effects of climate change.

IT, including production technology, is crucial for Montabo to manufacture products of the right specification and quality, which comply with the stringent safety and environmental

requirements placed on aircraft parts and sub-assemblies. Montabo's systems are highly integrated with both suppliers and customers, and so large quantities of data are shared.

Throughout the aviation industry, advanced data analytics and artificial intelligence (AI) are used to help monitor and respond to factors during aircraft flight like passenger load, fuel burn, wind speed, altitude and weather patterns, and to predict fuel consumption. As a result, Montabo's products increasingly incorporate electronic components which facilitate the required data capture and processing.

Customers

Montabo has two types of customer: aircraft manufacturers and airlines.

Montabo's contracts with aircraft manufacturers that supply new aircraft to airlines are long-term and of high value. The aircraft manufacturers have high expectations in terms of sales and after-sales service, and they value close relationships. The participation of suppliers like Montabo in co-specifying, co-designing and producing improved products is expected. Montabo delivers its products to the aircraft manufacturers' factories, which are mostly in the UK.

Montabo also has contracts to supply spare parts and sub-assemblies directly to airlines. For quality and security of supply reasons, airlines usually prefer to source spare parts and sub-assemblies directly from the aerostructure supplier that originally made them, although sometimes they buy from aircraft spares dealers. Most of these airline customers are European and so Montabo uses agents based across mainland Europe to provide sales and after-sales services to them.

Montabo finds that its margins on sales to airlines are higher than on its sales to aircraft manufacturers.

Montabo, in line with aircraft manufacturers and other aerostructure suppliers, is impacted by issues that affect the passenger airline industry, and is dependent on that industry for its derived demand.

Performance

Extracts from Montabo's financial statements for the year ended 31 March 2024 are included in **Appendix A**.

Since 2022 Montabo has experienced steady growth, with operating margins of about 10%. This steady growth derives from:

- increased demand from aircraft manufacturers as airlines replace large aircraft with smaller ones so they can optimise capacity utilisation;
- a growing stream of sales of spare parts and sub-assemblies for aircraft which are in use.

Working capital

Materials purchases (steel, electronic components etc) comprise 80% of Montabo's costs, and prices are volatile. Montabo keeps high levels of inventories of materials, and also of finished goods (manufactured parts and sub-assemblies) for maintenance and urgent repairs of existing aircraft by airlines.

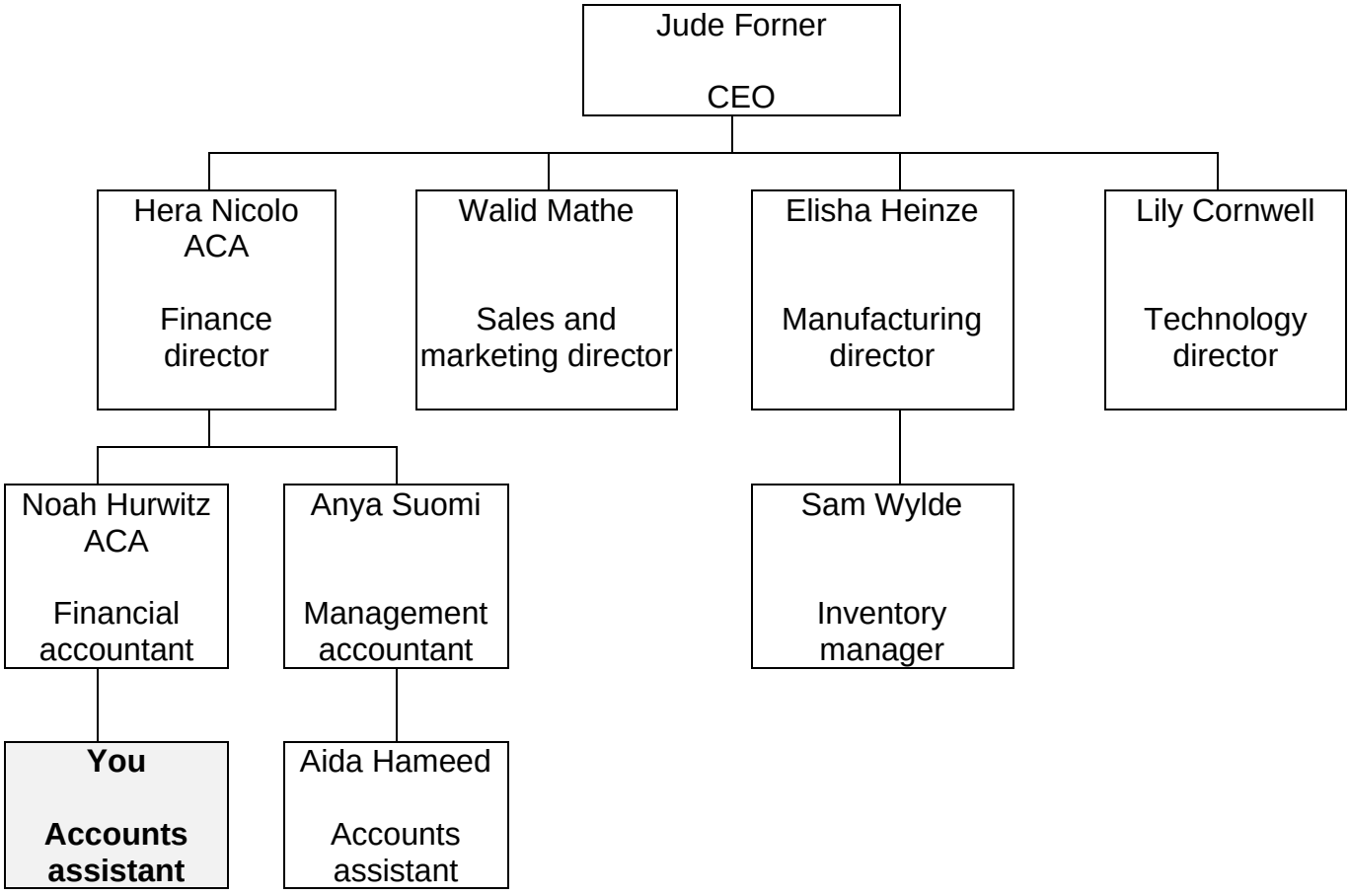
Montabo requires a large amount of capital to support its contracts with aircraft manufacturers and airlines, in particular its need to maintain high inventory levels. It allows substantial credit to its large, powerful aircraft manufacturer customers. Airlines typically take shorter periods of credit and pay more promptly, but present a higher risk of irrecoverable debts. Montabo monitors its cash operating cycle closely. As at 31 March 2024, the cash operating cycle was 209.9 days.

Financial gearing

Like others in the industry, Montabo has quite a high proportion of debt in its capital structure and so it monitors its financial gearing ratio closely. As at 31 March 2024, the financial gearing ratio was 32.7%.

More information about the financial gearing and cash operating cycle targets set by Montabo's bank is included in **Appendix B**.

Organisational structure (extract)



You are a second-year accounting apprentice at Montabo. Your line manager is Noah Hurwitz, financial accountant, who reports to Hera Nicolo, finance director. As part of your training, you are shadowing members of the board and assisting them when requested to do so.

Both you and Aida Hameed are accounts assistants and student members of ICAEW, but Aida is at an earlier stage in her accounting apprenticeship than you. Noah has asked you to support Aida in her studies when necessary.

Extracts from the finance function handbook are included in **Appendix B**.

The need for an internal audit function

In March 2025 one of Montabo's airline customers complained about the quality of some sub-assemblies supplied by Montabo. The customer claimed that the sub-assemblies had not been through adequate quality assurance processes in line with regulations. The claim was thoroughly investigated by Montabo's management team and no issues were found, but it highlighted the critical importance of quality assurance and risk management in Montabo. The board now believes an internal audit function will help to ensure excellence in quality assurance, and will help in other respects in future as well (**Appendix C**).

Statutory audit

Strensall LLP (Strensall) performs the statutory audit of Montabo's financial statements. Allen Devlin is the engagement partner at Strensall. Recently Allen had a meeting with Hera to discuss the audit of the financial statements for the year ended 31 March 2025. Hera's note from the meeting is in **Appendix D**.

Challenges and opportunities

Expanding the product range via a joint venture

Montabo's board wants to diversify into products relating to the landing gear of aircraft. Jude believes that setting up a joint venture with Dreenar Ltd (Dreenar), an aerostructure supplier specialising in landing gear, is the best way to achieve this (**Appendix E**). The board accepts that expanding the product range may help Montabo to grow profits, but it has yet to formally approve setting up a joint venture.

Dealings by an agent in Europe

All Montabo's staff, and the agents who act on Montabo's behalf, are expected to comply with Montabo's statement of business ethics (**Appendix E**). While most of Montabo's agents are reliable and are trusted to comply, concerns have developed over one agent, Bob Hargreave.

Production technology investment: Project Compo

Montabo is seeking ways to improve the sustainability of its processes and products. The first major sustainability project that Montabo will embark on will be Project Compo. This is a production line for producing parts and sub-assemblies made from composite materials, which are lighter than steel and therefore allow for better fuel efficiency for aircraft (**Appendix F)**. Project Compo will provide clear environmental benefits and so it is likely to meet the eligible environmental objectives recognised in the Green Bond Principles.

Supporting the use of data analytics by airlines

Montabo's biggest aircraft manufacturer customer, Leopard Aircraft plc (Leopard), approached Jude about new requirements related to the use of data analytics by airlines. Jude took Lily Cornwell, technology director, to a meeting with Leopard last week. Together they subsequently prepared a briefing note for the board, setting out how far these new requirements present an opportunity to increase Montabo's competitive advantage (**Appendix G**).

Appendix A – Montabo plc: Financial statements for the year ended 31 March 2024 (extracts)

Statement of financial position as at 31 March 2024

	£m
ASSETS	
Non-current assets	85.3
Current assets	
Inventories	76.8
Trade and other receivables	79.1
Cash and cash equivalents	9.0
Total assets	**250.2**
EQUITY AND LIABILITIES	
Equity	
Equity share capital (£1 shares)	15.0
Share premium	10.0
Retained earnings	125.6
Total equity	150.6
Non-current liabilities	
Long-term borrowings	48.0
Current liabilities	
Short-term borrowings	1.2
Trade and other payables	48.3
Income tax payable	2.1
	51.6
Total equity and liabilities	**250.2**

Statement of profit or loss for the year ended 31 March 2024

	£m
Revenue	206.4
Cost of sales	(148.6)
Gross profit	57.8
Distribution costs and administrative expenses	(37.1)
Profit from operations	20.7
Finance costs	(3.0)
Profit before tax	17.7
Income tax expense	(4.4)
Profit for the period	13.3

Appendix B – Finance function handbook (extracts)

The following are extracts from the handbook which is used as a reference source by Montabo's finance function.

Accounting policies (extracts)

Inventories comprise materials, work-in progress (WIP) and finished goods. They are valued at the lower of cost and net realisable value, in accordance with IFRS® Accounting standards and the IFRS® Conceptual Framework for Financial Reporting.

Trade receivables relate to amounts due from customers less specific allowances for receivables where relevant. Other receivables comprise prepaid expenses and accrued income.

Where relevant, provisions are presented separately in the statement of financial position.

The share premium and retained earnings balances are eligible for use in recording bonus issues of shares.

Financing (extracts)

Targets for bank lending

As a condition of its lending to Montabo, the bank has set out targets for Montabo to meet in relation to two measures:

Measure	Calculation	Target set by bank
Solvency: financial gearing ratio	Borrowings/Equity x 100	No more than 60%
Liquidity: cash operating cycle (Note)	Inventory holding period + Receivables collection period – Payables payment period	No more than 220 days

Note: Calculation of the cash operating cycle uses the figures for inventories, trade and other receivables, and trade and other payables, in the relevant statement of financial position. Assume a 12-month period is 365 days.

Green Bond Principles

Staff need to be aware of the environmental objectives that are treated as eligible by suppliers of finance under the Green Bond Principles.

Appendix C – Setting up an internal audit function

Montabo's directors want to follow best practice in the industry by establishing an internal audit function to support the company in achieving its primary and secondary corporate objectives.

Clarifying corporate objectives

Last month the board held a strategy meeting to specify Montabo's corporate objectives more clearly. The directors agreed that Montabo's primary corporate objective was to increase the wealth of its shareholders. They also agreed that its secondary corporate objectives related to achieving excellence in the following:

- Quality assurance throughout all production
- Risk management, especially in relation to product failure and cyber-risk
- Supply chain management.

Benefits and activities of the internal audit function

Some of the directors asked for more clarity about the benefits of an internal audit function and what it would do to help Montabo achieve its corporate objectives. The board therefore asked Hera to prepare a briefing paper for the next meeting.

Appendix D – Note of a meeting to discuss the statutory audit

Recently Hera had a meeting with Allen Devlin, Strensall's engagement partner for the statutory audit of Montabo's financial statements for the year ended 31 March 2025. She made the following note after the meeting:

Audit of trade receivables balance

Allen told me that, as in previous years, substantive procedures in relation to trade receivables would include direct confirmation with customers of amounts owed to Montabo as at 31 March 2025. Allen wants to ask the customers to confirm the accuracy of the balance shown in Montabo's records at that date, or to state why the balance in their records is different (the positive method). He pointed out he needs to do this as soon as possible, because in previous years customers have been very slow to reply, and as a result Strensall had to rely on alternative procedures to verify some of the trade receivable balances.

Appendix E – Ethics

Montabo's statement on business ethics

Montabo has a statement of business ethics which it publicises both inside and outside the company. The following are extracts from the statement:

'At Montabo we:

- supply our products in an ethical and sustainable manner, based on our core values of quality and safety
- comply in full with relevant laws and regulatory requirements
- conduct business in an honest and transparent way
- do not give preference to customers or suppliers outside the terms of a contractual agreement
- treat people with courtesy and respect.'

Joint venture with Dreenar

Jude Forner, CEO, has been responsible to date for negotiations to set up a joint venture with Dreenar to manufacture and supply parts and sub-assemblies for aircraft landing gear. Jude has requested a great deal of financial information from Dreenar, so he can present the case in favour of the joint venture to Montabo's board. Dreenar delivered this information to Jude last week. Jude has asked Noah to come to see him about adapting the information to make sure it gives a positive impression when presented to the board.

European agent

Bob Hargreave is one of Montabo's agents. He provides sales and after-sales service on Montabo's behalf to small airlines in southern Europe in relation to spare parts and sub-assemblies.

Montabo issues invoices directly to these airlines for sales negotiated by Bob. Montabo's agency agreement with Bob forbids him from issuing invoices to customers with which he deals on Montabo's behalf.

Montabo pays Bob a flat fee per month, plus commission that is calculated as a percentage of sales invoiced.

Bob reports directly to Walid Mathe, sales and marketing director. Bob often deals with Sam Wylde, inventory manager, about the details of despatching parts and sub-assemblies to his customers.

A customer, Historia SE (Historia), called Walid recently to express concern that Bob asked Historia to pay a fee directly to him. Bob had not told Walid about asking the customer for this fee.

The actions taken by Walid so far have been to ask Bob for an explanation and to remind him of:

- the legal duties Bob owes to Montabo as its agent
- Montabo's statement on business ethics.

Appendix F – Production technology investment: Project Compo

Elisha Heinze, manufacturing director, needs to make decisions about Project Compo, a substantial investment in Montabo's production using composite materials. The first step is to invest in a robot for a production line for composite material sub-assemblies for the HR-654 aircraft.

Anya Suomi, management accountant, has prepared some initial cost estimates for Elisha. The estimates cover an initial four-year period. They assume that the robot will be purchased and installed in an existing Montabo factory on 1 January 2026 and that production of the sub-assemblies will start immediately.

Project Compo production cost estimates				
For 12 months ended:	**31/12/2026**	**31/12/2027**	**31/12/2028**	**31/12/2029**
	£m	**£m**	**£m**	**£m**
Materials and other variable operating costs	10.0	10.4	11.6	12.0
Share of factory fixed costs	2.5	3.0	3.5	4.0

The cost to purchase the robot will be £7 million. Factory fixed costs will not increase as a result of using the robot.

At a recent board meeting, Elisha stated that the investment appraisal would be based on discounted cash flow methods: net present value (NPV) and internal rate of return (IRR). Some of the directors expressed concern that they would struggle with understanding and using these figures.

Note:

IRR is calculated as follows:

IRR = a + [(NPVa/(NPVa – NPVb)) x (b – a)]

Where:

- a is the first discount rate, giving the positive NPVa
- b is the second discount rate, giving the negative NPVb

Appendix G – Supporting the use of data analytics by airlines (briefing note)

To: Montabo board
Prepared by: Jude (CEO) and Lily (Technology director)
Date: 10 April 2025

Briefing note on how data analytics support airlines

As you know, Leopard is an aircraft manufacturer and our biggest customer. We met with the team from Leopard last week, to discuss requirements in relation to data analytics.

Electronic components embedded in aircraft allow capture of data by airlines when the aircraft is in flight. Airlines use several types of data analytics to help manage the aircraft's flight in real time in terms of load, drag, fuel consumption, speed etc. Data analytics also helps airlines to develop a maintenance and replacement schedule for their aircraft and the parts and sub-assemblies they contain.

To facilitate using the four types of data analytics that are commonly available, Leopard made it clear that it will increasingly require aerostructure suppliers to use specific, more expensive electronic components in parts and sub-assemblies. These will allow the capture and transfer of huge amounts of digital data while an aircraft is in flight.