



LEVEL 4 ACCOUNTING TECHNICIAN APPRENTICESHIP

TUESDAY 14 MARCH 2023

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.

Important information

Please read this information carefully before you begin your exam.

Starting the exam

Click on the **right-hand arrow** in the header to begin the exam. The exam timer will begin to count down.

Preparing your answers

Answer all questions.

Respond directly to the exam question requirements. Do not include any content 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.

Issues during the exam

If you encounter any issues during the exam you should tell the online chat support as they may be able to resolve the issue at the time. The online chat support cannot advise you on how to use the software.

Ending the exam

When the exam timer reaches zero, the exam will end. To end the exam earlier, go to the last question and click the right-hand arrow button, then click the **Submit** button to close the exam.

After the exam

We will invite you to complete a student survey after the exam.

If you believe that your performance was affected by issues which you raised during the exam, you should submit a special consideration application to ICAEW, **within 7 days of the exam**, as per ICAEW's published policy. Please refer to anything of note which occurred and will have been recorded, for use as evidence to support your case.

Task 1

This task consists of **four** parts worth a total of 58 marks.

Task 1.1

John Edwards, financial accountant, is currently preparing the financial statements of Mistral Train Operations Ltd (Mistral) for the year ended 31 January 2023. He asks you to help in preparing:

- journal entries to update the nominal ledger; and
- the statement of cash flows.

John gives you details on the following matters:

1. On 31 January 2023, as part of the refurbishment of a train depot, Mistral sold some equipment (see **Advance Information – Current issues**). The equipment originally cost £160,000, and on the date of disposal the accumulated depreciation was £96,000. Mistral received cash proceeds of £70,000. The only accounting entries made at the date of disposal were to debit £70,000 to cash at bank and credit £70,000 to property, plant and equipment (cost).
2. On 2 March 2023, Mistral received a bill for £54,000 for electricity used in the period 1 December 2022 to 28 February 2023. This has not been recorded at all in the nominal ledger. The bill is due for payment on 31 March 2023.
3. In August 2022, Cemec Ltd (Cemec), made a claim against Mistral (see **Advance Information – Current issues**). On 30 January 2023, Mistral's lawyers provided new information and estimated that the revised cost of settling Cemec's claim would be £240,000. This new information has not been reflected in the draft financial statements.

Requirements

- (a) Calculate the profit or loss on disposal of the equipment. **(2 marks)**
- (b) Set out the debits and credits to record the necessary accounting adjustments in the nominal ledger for the year ended 31 January 2023 for the three matters above. Do not provide narrative explanations. **(6 marks)**

Total: 8 marks

Task 1.2

John provides you with the draft statement of profit or loss for the year ended 31 January 2023 and the draft statement of financial position at 31 January 2023, which do not yet reflect the adjustments you prepared in **Task 1.1**. John explains that Mistral must communicate some key financial information, including the figure for cash flows from operating activities, in a regulatory return to the government (see **Advance Information – Appendix C**).

John is meeting Melissa Gao, the finance director, tomorrow and needs a statement of cash flows to review at the meeting before submitting the regulatory return required by the government. He asks you to prepare the statement of cash flows for the year ended 31 January 2023, incorporating the effects of the adjustments that you made in **Task 1.1**.

Mistral Train Operations Ltd: Draft statement of profit or loss for the year ended 31 January 2023

	£'000
Revenue	982,101
Operating expenses	<u>(953,689)</u>
Operating profit	28,412
Finance costs	<u>(7,005)</u>
Profit before tax	21,407
Income tax expense	<u>(4,069)</u>
Profit for the period	<u>17,338</u>

Mistral Train Operations Ltd: Draft statement of financial position at 31 January 2023

	£'000	£'000
ASSETS		
Non-current assets		
Intangible assets		2,100
Property, plant and equipment		<u>145,337</u>
		147,437
Current assets		
Inventories	558	
Trade and other receivables	57,224	
Cash and cash equivalents	<u>87,166</u>	
		<u>144,948</u>
Total assets		<u>292,385</u>
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital (£1 shares)		1,000
Retained earnings		<u>45,761</u>
Total equity		46,761
Non-current liabilities		
Borrowings		125,106

Current liabilities		
Borrowings	7,428	
Provisions	280	
Trade and other payables	<u>112,810</u>	
		<u>120,518</u>
Total equity and liabilities		<u>292,385</u>

Notes on property, plant and equipment

- New property, plant and equipment (PPE) was purchased for cash on 1 November 2022 at a cost of £12,000,000. This was the only addition during the year ended 31 January 2023.
- The total depreciation and amortisation expense for the year ended 31 January 2023 is £17,970,000.
- The purchase of the new PPE and the total depreciation and amortisation expense have been correctly accounted for.
- The only disposal of PPE was of the equipment referred to in **Task 1.1**.

Requirements

Refer to **Advance Information – Appendices A and B** and your answers to **Task 1.1**. The draft financial statements above do not reflect the adjustments you prepared in **Task 1.1**.

- Calculate the revised profit before tax figure to be used in the statement of cash flows. **(3 marks)**
- Prepare the statement of cash flows for the year ended 31 January 2023, in a form suitable for publication. Do not show comparatives. Show your workings clearly. **(17 marks)**

Total: 20 marks

Task 1.3

Rebecca Morris, the assistant accountant, tells you that John has asked her to help prepare for visits by the internal auditors from Valoro Group plc (Valoro) and the external auditors from Smith and Henry LLP (see **Advance Information – Appendix C**). Rebecca tells you:

‘John wants me to prepare some notes on aspects of Mistral’s internal control environment. He explained to me that both the internal auditors and the external auditors will assess the internal control environment.

‘I understand what external auditors do but could you explain what internal auditors do?’

‘I remember when I started to work here, Melisa Gao said that Mistral had a strong control environment. But I didn’t really understand what she meant and I didn’t ask at the time.

‘John wants me to include an explanation of how segregation of duties affects the internal control environment. Other than saying that different members of staff do different tasks I am not sure how to explain that.’

Requirements

- (a) State **three** activities that Valoro’s internal audit staff are likely to undertake in each group company that they visit. **(3 marks)**
- (b) Explain to Rebecca:
- what the internal control environment is **(2 marks)**;
 - how segregation of duties affects Mistral’s internal control environment **(2 marks)**;
 - how Mistral achieves segregation of duties **(2 marks)**;
 - **two** factors that strengthen Mistral’s internal control environment, in addition to segregation of duties **(2 marks)**; and
 - how the external auditor’s assessment of the internal control environment affects the external audit **(3 marks)**.
- (c) State **three** tests of controls which the internal auditors could perform on Mistral’s purchases and payables system. **(3 marks)**

Total: 17 marks

Task 1.4

Pratap Devi, business development director, reminds you that Mistral is launching a marketing campaign for Project Golden Arrow that is based on the sustainability of travelling by train, rather than by plane or car (see **Advance Information – Current issues** and **Appendix D**).

He asks you, as a member of the finance function, to review the figures to be used in the marketing campaign.

Mistral's directors will also use sustainability data in the sustainability statement required by the government under its national rail contract (NRC). This statement will include information on carbon emissions associated with the company's activities and how the company's operations contribute to the government's commitment to the United Nations Sustainable Development Goals.

Pratap says to you:

'I have some data from Onmotiv on carbon emissions per passenger kilometre. This assumes that every train is fully occupied throughout the journey, to get the lowest possible emissions figure. In the marketing campaign we will compare this data with similar data for planes and cars.

'I would like you to review these figures for me so that I can be confident they have been approved by someone working in the finance function.

'I know that Onmotiv is manipulating the data from the lab tests. I think Federigo Benigno (train operations director) is unhappy about this because he suspects the data is unrealistic. He has also accused me of choosing particularly heavily polluting models of planes and cars to use in the comparison. But my job is marketing, not engineering. And in a marketing campaign anything goes. No one should believe marketing materials!'

You are concerned about being involved in reviewing this information which will then be used in marketing materials and in the sustainability statement submitted to the government.

Requirements

- (a) Explain how Mistral's operations contribute to achieving **two** relevant United Nations Sustainable Development Goals. **(4 marks)**
- (b) Explain the threats to ethical principles which arise for you as a result of Pratap's request. **(6 marks)**
- (c) Explain the actions that you should take as a result of Pratap's request. **(3 marks)**

Total: 13 marks

Task 2

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

Task 2.1

John asks you to help analyse the profitability of the three new breakfast items introduced to morning trains on 30 January 2023 as part of Project Ambrosia (see **Advance Information – New opportunities** and **Appendix E**) so that Alex O’Leary, the onboard services manager and Federigo can determine how successful this new initiative is.

John explains to you that actual sales volumes were different from forecast. He asks you to calculate sales volume variances and sales price variances so that he can see the effect on contribution.

Alex has provided details of actual sales quantities and sales prices of the three products for the four-week period ended 26 February 2023:

Item	Rolls	Granola pots	Fruit salads
Actual volume (units)	19,160	10,960	7,880
Actual price (£ per unit)	4.95	3.55	3.55

She confirms that variable costs per unit were as budgeted.

The supplier failed to deliver 800 rolls in the first week because they could not source the ingredients. As a result of this, rolls were not available for sale on several trains.

Federigo wants to improve the quality and timeliness of information available about catering sales and is considering how technology such as electronic data interchange (EDI) and the use of big data might help with this. Federigo asks you to draft a short email about this which he could send to Diane Bullard, the managing director, to make the case for investment in this area.

Requirements

- (a) For each of the three products, calculate:
- the sales volume variance (in units and contribution); and
 - any sales price variance
- for the four weeks ended 26 February 2023. **(8 marks)**
- (b) Suggest possible reasons for the variances and explain what your calculations imply about the success of the three new breakfast items. **(5 marks)**
- (c) Draft an email that Federigo could send to Diane, which:
- briefly explains how Mistral could use EDI and big data to increase the efficiency of catering operations

- suggests **two** actions that Mistral could take to respond to high variation in passenger demand for breakfast products on trains.
(5 marks)

Total: 18 marks

Task 2.2

Melissa asks you to help her and Pratap prepare a presentation for the Valoro board of directors on business development in general and Project Golden Arrow in particular (see **Advance Information – New opportunities** and **Appendix F**). Melissa knows you have recently completed your law studies and has asked you to make some notes on how to structure the operations of Project Golden Arrow.

Mistral's directors need to decide whether Project Golden Arrow open access train services should be operated by the existing company, Mistral Train Operations Ltd, or by a new, separate limited company. They know that there may be commercial factors that mean that one is preferable to the other. They think there may also be some legal reasons why a separate company might be needed.

If the directors decide to use a separate limited company, they will need to choose between:

- using an off the shelf company
- asking Valoro's legal function to form a new company.

Requirements

- (a) Explain **four** factors that Mistral should consider when deciding whether to use Mistral Train Operations Ltd or to use a separate limited company to operate Project Golden Arrow services. Your answer should include both commercial and legal factors. **(8 marks)**
- (b) Assume that Mistral uses a separate limited company to operate project Golden Arrow services. Explain, using the information provided by Federigo in **Advance Information – Appendix F**, whether the new limited company would be categorised as:
- a micro-entity
 - a small company
 - a medium company
 - a large company
- (2 marks)**
- (c) State **two** advantages and **two** disadvantages, to Mistral, of using an off the shelf company rather than asking Valoro's legal function to form a new company. **(4 marks)**

Total: 14 marks

Task 2.3

Melissa asks you to prepare some additional information for the presentation about Project Golden Arrow which she and Pratap will make to the Valoro board of directors (see **Advance Information – Appendix F**).

Melissa knows that the directors will be concerned about starting new, open access train services, at a time when there is economic uncertainty and when the regulatory environment is still changing. She has asked you to undertake a PESTEL analysis in relation to the passenger train services industry.

She is concerned about cost control and the profitability of new services if, for example, energy prices increase again and this affects profit margins.

Requirements

- (a) Explain **one** factor under each heading of the PESTEL framework that may impact Mistral's ability to successfully implement Project Golden Arrow. **(6 marks)**
- (b) Explain **two** actions that Mistral could take to maximise the profitability of Project Golden Arrow. **(4 marks)**

Total: 10 marks