Question Tutorial - Level 4 Role Simulation (EPA1)

Level 4 Professional Accounting Technician Apprenticeship

Question tutorial

The Level 4 EPA 1 question tutorial provides you with an opportunity to practice a full length role simulation exam using computer based assessment. We have prepared a sample role simulation exam based on the Level 4 Professional Accounting Technician Standard. This document contains all the supporting material you will need before and after you have completed the tutorial.

Before the tutorial

Pre-seen material can be accessed here

Take the tutorial

The question tutorial is available on the Pearson Vue website and can be accessed here.

To access an exam you will need to create an account and then select the exam ('Level 4 Professional Accounting Technician End Point Assessment - Role Simulation Practice Exam'). There is no charge. Exams can be taken immediately or within 1 month.

After the tutorial

Review model answers and marking schemes:

- The model answer can be accessed here
- The marking scheme can be accessed here

Chartered Institute of Management Accountants

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Prototype synoptic L4 assessment

Pre-seen materials

First Class Bakery

Contents

Introduction

First Class Bakery manufactures cakes and desserts which are packaged and sold directly to food retailers. All production is carried out on a single site in the west of Beeland, a country that has B$ as its currency.

Most of the cakes manufactured are for large food retailers who sell the cakes as their own brand. First Class Bakery packages the cakes using the brand required by each retailer. Some cakes and desserts are sold to small independent food retailers under First Class Bakery's own brand. All sales are made in Beeland, in B$.

First Class Bakery was established over 30 years ago by three brothers: John, James, and Frank Mitchell. The three brothers owned and ran the business until recently when 80% of its equity shares were sold to Universal Foods, a large group quoted on Beeland's stock market. The two older brothers John and James retired from the business altogether. Frank Mitchell, who is 62, has remained with the business with a 20% equity stake and is now the Managing Director. Frank has until now always worked in the production side of the business.

Since the acquisition, Universal Foods has brought in a number of directors and managers from other parts of the group to work exclusively in First Class Bakery. This includes Rajiv Patel, the new Finance Director and Fred Knight, the new Sales and Marketing Director.

First Class Bakery is situated on the outskirts of a major town. The production site is large, with the main production in a single large building but with several separate buildings for stores and offices.

Products

First Class Bakery manufactures a range of cakes and desserts at its production site. This range is split into three product lines: slab cakes, special occasion cakes and desserts.

Slab cakes: 	Slab cakes are cakes which have no frosting or decoration. They are made in the following flavours: lemon, banana, ginger, vanilla, cherry, walnut, chocolate and coffee. The ingredients for slab cakes are mixed one flavour at a time and are baked in long deep tins. Once cooled and removed from the tins the cake is cut to size and then packaged in a clear wrapping with the appropriate label affixed. Slab cakes are sold predominately to large food retailers under that retailer's own brand, although some are sold to small independent retailers under a First Class Bakery brand. Slab cakes account for approximately 60% of First Class Bakery's revenue.
Special occasion cakes: 	Special occasion cakes have frosting and decoration. The base cake is vanilla or chocolate flavoured, which is mixed and then baked in individual shallow foil tins. Once cool, special occasion cakes are topped with a frosting and embellished with decorations. A variety of frosting colours and decorations are used depending upon customer requirements, although most special occasion cakes are topped with sprinkles and small sweets. Seasonally appropriate decorations are also used depending on the customers' requirements. All special occasion cakes are sold under the food retailer's own label, and these account for approximately 35% of First Class Bakery's revenue.
Desserts: 	The desserts made by First Class Bakery are cake based. This is a relatively new product line and has its own designated small production line within the production facility. Currently three flavours of dessert are made: chocolate, toffee and treacle. The dessert is sold in a plastic pot. Each pot includes a layer of sauce below the cake. The desserts are designed so that the person eating it can warm it up and then turn the pot upside down. Desserts currently account for approximately 5% of First Class Bakery's revenue and are all sold with a First Class Bakery label to small independent food retailers.

Shelf-life

First Class Bakery products have a shelf life of between eight and 12 weeks. The packaging that First Class Bakery uses ensures that freshness is maintained, so that the quality of the product is maintained.

Product development

Other than dealing with customer specification changes in terms of flavours and decoration, there has been little product development at First Class Bakery in respect of slab and special occasion cakes for a number of years.

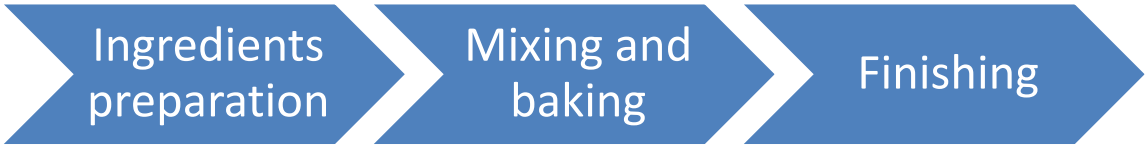
The focus over the past three years has been on the design and launch of the desserts range. As yet the desserts range has not secured a major customer.

Universal Foods recently brought in a new Product Development Manager, Tony Swift, who now works exclusively within First Class Bakery. His role is to:

- focus on expanding the desserts range
- introduce a range of products which cater for the latest consumer preferences for healthier cakes, using unrefined sugars and organic ingredients
- develop a new range of Gluten Free cakes.

Production

Production can be broken down into 3 main processes for all product ranges:



Slab cake and special occasion cakes are manufactured on the main production line, whilst desserts are manufactured on a small self-contained line.

Slab cakes and special occasion cakes

Ingredients preparation:

Production is carried out on a batch basis. Each flavour of slab cake and special occasion cake is mixed in a batch which will make 500 units of finished product. Each type of product uses the same basic recipe for the cake mixture, which includes butter, sugar, flour and eggs.

At the ingredient preparation stage, the dry ingredients (flour and sugar) for a batch are measured out and placed into bags which are stored in a wheeled bin. Butter and eggs are stored in a large refrigerated unit. The butter and eggs required for a batch are added into the wheeled bin shortly before mixing.

Mixing and baking:

Mixing is carried out in large industrial mixers by qualified bakers. The butter and sugar are initially mixed together until light and fluffy and then the flour and eggs are gradually added and beaten into the mixture. Flavourings are added at the end of the mixing process. When the baker is satisfied with the mixture consistency it is poured into a vat at the start of the automated production line.

The mixture from the vat is poured into the appropriate sized tins on the production line, which pass on the conveyor belt to the ovens. All cakes are baked in one of three industrial ovens, which are loaded and unloaded by hand. The ovens are computer controlled with a set baking time programmed for the type of cake. After baking, the cakes are left to cool in large stacking trolleys.

Finishing:

The finishing process for slab cakes is automated. Once cool slab cakes are cut to the appropriate size, they are wrapped in cellophane and have the appropriate customers label attached.

The finishing process for special occasion cakes is semi-automated. Firstly, each cake will have frosting piped onto the top of the cake by machine. Frosting is made in chocolate and vanilla flavours by a small team of bakers who continually fill the vats within the machine. Then the cakes are decorated by hand with the appropriate decorations according to the

customer's requirements. After decoration, each special occasion cake is placed into the appropriate customer box.

Desserts:

The production process for desserts is similar to cakes, although it is carried out on its own line. The desserts production line is only two years old and is mostly automated.

Ingredients preparation:

The ingredients for desserts are stored in their own storage area. The procedures for measuring ingredients for a batch are the same as for cakes.

Mixing and baking and finishing:

The mixing of the cake mixture is carried out in the same way as cakes. The sauce that is included in the desserts is made in large industrial pans because it involves the heating of butter and sugar as appropriate to create the sauce. Cake and sauce mixtures are poured into the appropriate vats at the start of the production line.

The production line starts with sauce and then cake mixture being poured into the individual dessert pots which then pass along the production line straight into ovens. The desserts are baked for a set time and once baked are passed through a cooling phase before being packaged. All of this is automated.

First Class bakery customers

Slab cakes:

Approximately 85% of slab cakes manufactured are sold to three national food retailers under the retailer's own label. Each of these major retailers purchases different flavours, although the lemon and coffee slab cakes are common to all three. The other 15% of slab cakes manufactured are sold with a First Class Bakery label to small independent food retailers. At any one time, there are approximately 30 small independent retailers, although this does fluctuate, as customers come and go.

Special occasion cakes:

All of the special occasion cakes manufactured are sold to three national food retailers under the retailer's own label. Two of these three retailers also purchase slab cakes from First Class Bakery, although one does not. Therefore, across slab cakes and special occasion cakes there are four national food retail customers. Each retailer has its own specifications for special occasion cakes in terms of frosting colours and decorations. These specifications regularly change due to the time of year.

Desserts:

All of the desserts manufactured are sold as First Class Bakery branded products. Currently these desserts are only sold to small independent retailers.

Customer relationships:

First Class Bakery has close relationships with its large food retailer customers through personal contact, but due to resource constraints has not been able to develop such links with smaller retailers. As a result, sales to smaller retailers have achieved very little growth.

Credit terms:

First Class Bakery offers 30-day credit terms to all its customers. Two of the national retailers pay promptly, although the other two national retailers often delay payment for the smallest discrepancy in paper-work. The small independent customers often pay late.

Customer perception:

First Class Bakery is regarded by its national and independent food retail customers as a manufacturer of high quality cakes and desserts. Whilst occasionally cakes and desserts have had to be returned as a result of damage in transit, a customer has never returned any products as a result of poor manufacturing quality.

In a recent customer survey to all customers, First Class Bakery scored highly in respect of quality of product and value for money, although was marked down in respect of promptness of delivery. This survey also showed customers increasing concerns about environmental issues and the notion of responsible sourcing of ingredients.

Suppliers:

First Class Bakery sources most of its ingredients from single suppliers. To date, the directors of First Class Bakery have believed that single sourcing ensures better quality of both product and service.

Flour is purchased directly from a single flour mill which is located near the First Class Bakery production site. The directors have always considered that to create the best quality products, flour should be as fresh as possible to ensure that the rising agents in the flour work to the optimum. Hence, they have always been keen that the flour supplier is reasonably close by so that deliveries can be small and often.

Sugar is sourced from a major importer and distributor of sugar and sugar products. This supplier has warehouses and a distribution network all over Beeland.

Butter is purchased from a national dairy products supplier.

Eggs are usually purchased from a nearby supplier. Occasionally an additional supplier is used for eggs, if the local supplier is unable to fulfil the order.

Flavourings and decorations used in the cakes and desserts are sourced from a total of seven different suppliers, some of which are located in other countries. Each of these suppliers supplies a different type of flavouring or decoration.

Recycling and environmental policy:

First Class Bakery seeks as far as possible to recycle packaging for ingredients. Sacks used to transport flour and sugar and egg trays are usually given back to suppliers for further use. The majority of production waste is sold to local farms as pig feed. A small amount of waste is disposed of at a cost to the business.

Employees:

First Class Bakery has four directors:

- Frank Mitchell is Managing Director (MD)
- Rajiv Patel is Finance Director (FD)
- Nisha Sanders is Production Director (PD)
- Fred Knight is Sales and Marketing Director (SMD)

There are also a number of senior managers within the business. The key senior managers are detailed on the next page.

Total employee numbers:

	Number
Production	330
Administration	40
Total	**370**

Production employee numbers:

	Departments				
	Ingredients preparation	Mixing and baking	Finishing	Warehouse and general factory support	Total
Production operatives	50	100	140	0	290
Supervisors	2	10	10	5	27
Management (including PD)				10	10
R&D kitchen				3	3
Total	**52**	**110**	**150**	**18**	**330**

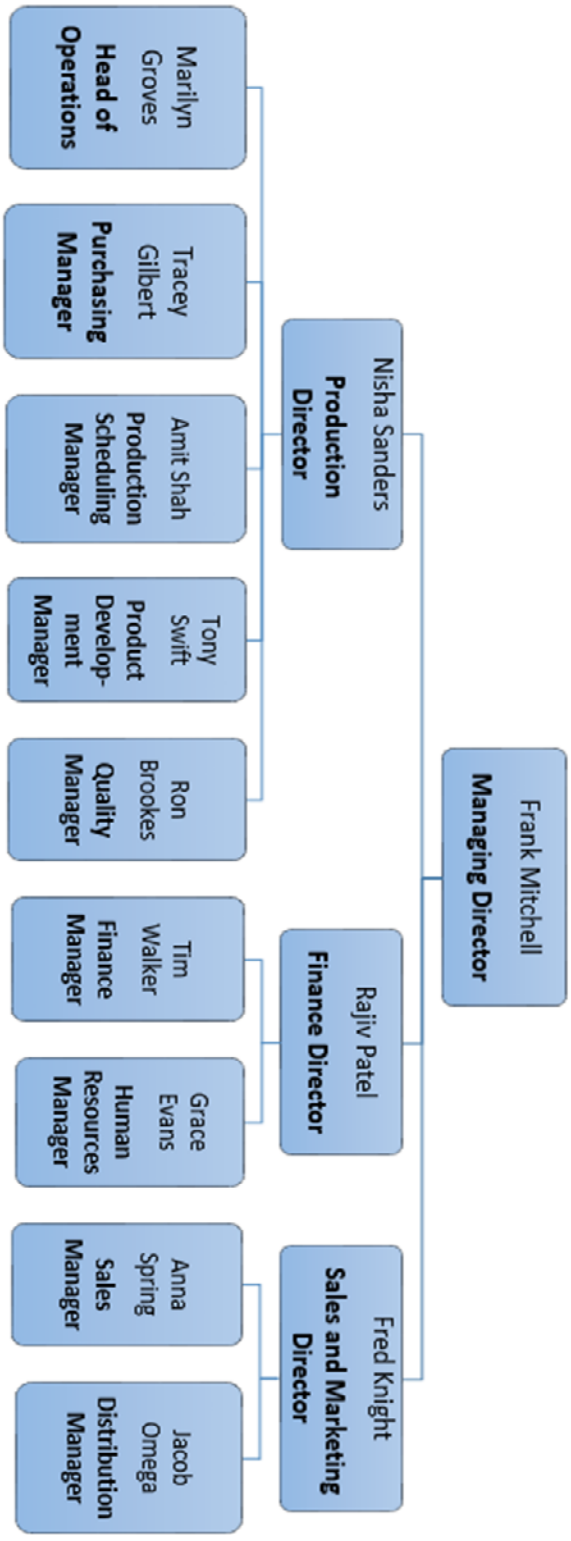
Administration employees:

	Number
Directors (MD, FD and SMD)	3
Finance *	7
Sales and marketing	10
Purchasing administration support	5
Production scheduling and stores administration support	5
Human Resources and payroll	4
Information technology support	3
General administration support	3
Total	**40**

*Finance includes the Finance Manager, Tim Walker, who is a qualified accountant. You are a member of the finance team and work directly for Tim Walker.

Key People:

The key members of management and the chain of command are shown in the following organisational chart.



Financial statements for the year ended 30 June 2017

First Class Bakery
Statement of profit or loss for the year ended 30 June:

	2017 B$000	2016 B$000
Revenue	56,125	58,243
Cost of sales	(39,849)	(40,188)
Gross profit	**16,276**	**18,055**
Distribution costs (Note 1)	(2,578)	(2,160)
Administrative expenses (Note 1)	(11,964)	(11,358)
Finance costs	(191)	(183)
Profit before tax	**1,543**	**4,354**
Tax	(465)	(1,304)
Profit for the year	**1,078**	**3,050**

First Class Bakery
Statement of financial position at 30 June:

	2017 B$000	2017 B$000	2016 B$000	2016 B$000
ASSETS				
Non-current assets				
Property, plant and equipment (Note 2)		5,463		6,146
Current assets				
Inventories	1,814		1,672	
Trade and other receivables	5,620		5,146	
Cash and cash equivalents	-		870	
		7,434		7,688
Total Assets		**12,897**		**13,834**
EQUITY AND LIABILITIES				
Ordinary share capital issued		1		1
Retained earnings		5,934		5,356
Total equity		5,935		5,357
Non-current liabilities				
Bank loan		1,800		2,500
Current liabilities				
Bank overdraft	385		-	
Trade and other payables	4,312		4,673	
Tax payable	465		1,304	
		5,162		5,977
Total equity and liabilities		**12,897**		**13,834**

First Class Bakery
Statement of cash flows for the year ended 30 June 2017

	B$000	B$000
Cash flows from operating activities		
Profit before tax		1,543
Adjustments		
Depreciation	1,083	
Finance costs	191	
		1,274
Movements in working capital		
Increase in inventories	(142)	
Increase in trade and other receivables	(474)	
Decrease in trade payables	(361)	
		(977)
Cash generated from operations		1,840
Tax paid	(1,304)	
Finance costs paid	(191)	
		(1,495)
Net cash from operating activities		345
Cash flows from investing activities		
Purchase of property, plant and equipment	(400)	
Net cash from investing activities		(400)
Cash flows from financing activities		
Dividend paid	(500)	
Loan repayment	(700)	
Net cash from financing activities		(1,200)
Net decrease in cash and cash equivalents		**(1,255)**
Cash and cash equivalents at the beginning of the year		870
Cash and cash equivalents at the end of the year		**(385)**

First Class Bakery
Notes:

Note 1:

Distribution costs include the costs of the external distributor used and the costs of operating the on-line sales.

Administrative expenses include the costs of marketing.

Note 2:

The movement note for property plant and equipment included with the financial statements is as follows:

	Property B$'000	Plant and equipment B$'000	Total B$'000
COST:			
At 1 July 2016	1,400	8,612	10,012
Additions	-	400	400
At 30 June 2017	1,400	9,012	10,412
ACCUMULATED DEPRECIATION:			
At 1 July 2016	1,136	2,730	3,866
Charge for the year	26	1,057	1,083
At 30 June 2017	1,162	3,787	4,949
NET BOOK VALUE:			
At 30 June 2017	238	5,225	5,463
At 1 July 2016	264	5,882	6,146

Depreciation policy:

All items of property, plant and equipment other than land with a cost of B$360,000 are depreciated over their useful economic life. In the year of purchase the depreciation charge is pro-rated to reflect the period of use. In the year of disposal, an asset is depreciated until the date of disposal.

Buildings are depreciated over 40 years on a straight-line basis.

Items of plant and equipment are depreciated over their useful economic life (which ranges from 3 to 20 years) using either the straight-line or reducing balance method.

Budgeting and standards:

Summary budget information for the year ended 30 June 2018

Budgeted profit for the year to 30 June 2018:

	B$'000
Revenue	58,215
Cost of sales	(40,189)
Gross profit	**18,026**
Distribution costs	(2,600)
Administrative expenses	(12,000)
Finance costs	(190)
Profit before tax	**3,236**

Average selling price and gross margin for each product line:

	Slab cake B$	Special occasion B$	Desserts B$
Average selling price per unit	1.20	3.60	1.50
Average contribution per unit	0.44	1.38	0.65

Budgeted sales volume:

	Slab cake	Special Occasion	Desserts
Budgeted sales volume in units	28,500,000	5,800,000	2,090,000

First Class Bakery uses an incremental approach to budgeting. Each year the finance team prepares the new budget based on the previous year's data, updated for known changes in volumes, prices, wages rates and overhead costs. Standards for time and usage of ingredients have not been updated for two years. This is justified by the finance team on the grounds that the production process and the recipes used have not changed in that period. Each month a variance report is produced by the finance team which has typically been distributed to all key managers and then discussed in management meetings.

Standard cost card for an example of each product type (batch of 500 products):

	Ginger slab cake		Vanilla and sprinkles special occasion		Toffee desserts	
	B$	B$	B$	B$	B$	B$
Revenue		600.00		1,800.00		750.00
Ingredients (note 1):						
Butter	68.75		68.75		34.38	
Flour	31.25		31.25		15.63	
Sugar	25.00		25.00		12.50	
Eggs	80.00		80.00		40.00	
Flavouring	40.00		35.00		30.00	
Embellishments	0.00		520.00		100.00	
		(245.00)		(760.00)		(232.51)
Packaging		(8.00)		(42.00)		(35.00)
Direct labour (note 2):						
Ingredient prep.	18.75		18.75		18.75	
Conversion	45.00		50.00		70.00	
Finishing	40.50		180.00		36.00	
		(104.25)		(248.75)		(124.75)
Variable production overhead (note 3):		(24.44)		(61.19)		(31.39)
Fixed production overhead (note 4):		(44.51)		(89.26)		(55.50)
Budgeted gross profit per batch		**173.80**		**598.80**		**270.85**

Notes:

1. Budgeted costs per kilogramme are B$1.10 for butter, B$0.50 for flour and B$0.40 for sugar. Eggs are budgeted to cost B$0.08 each.
2. Conversion incorporates the mixing, pouring, baking and cooling aspects of the production process. Finishing includes cutting of cakes, decoration and packing. Wage rates are B$15.00 for ingredients preparation, B$20.00 for conversion staff and B$18.00 for finishing staff.
3. Variable overheads are B$4.25 per direct labour hour for slab cakes, B$4.45 for special occasion cakes and B$4.65 for desserts. Total direct labour hours per batch are 5.75 for slab cakes, 13.75 for special occasion cakes and 6.75 for desserts.
4. Production overheads are first allocated across five departments; three production (ingredients preparation, conversion and finishing) and two service (stores and general factory support). Allocation bases include the carrying value of machinery, employee numbers and area of factory space utilised. The production overhead allocated to the service departments is reallocated to the production departments on a pre-determined basis that has remained the same for the last two years. Each of the three production departments has its own overhead absorption rate which is based on direct labour hours. These are B$8.00 per direct labour hour for ingredients preparation, B$9.88 for conversion and B$5.46 for finishing.

The Industry

The market

Beeland is a developed economy with a population of 35 million. Demand for pre-packaged cakes and desserts saw significant growth from the early 1970's through until 1995. This growth in pre-packaged cakes and desserts coincided with the growth in supermarkets and consumers' demand for convenience foods.

Since 1995, as the population became more health conscious, there has been a small but steady decline in demand. Indeed, in the past few years, with the increasing popularity of home baking, this decline in demand has speeded up.

In 2014 the retail value of pre-packaged cakes and desserts sold In Beeland was B$1,680 million compared to an equivalent value (based on 2014 prices) of B$2,016 million in 1994. In 2015 this retail value has fallen further to B$1,650 million.

The market for pre-packaged cakes and desserts has two elements to it: branded products and food retailer own-label products. Branded products account for approximately 65% of all sales and food retailer own-label for 35%.

The branded market is dominated by three brands, which collectively account for 80% of the branded market. The other 20% of this market is made up of over 100 separate brands.

The manufacturers

There are 150 facilities manufacturing pre-packaged cakes and desserts in Beeland. Over half of these are owned by large corporations, either directly or as a subsidiary. The rest operate as independent companies, many of them family run.

Five years ago there were 175 such facilities and ten years ago there were 250.

There are three large corporations which dominate much of the packaged food production in Beeland. These are Universal Foods, Southern Foods and Hallett Foods. Each of these corporations operate as a large group with a number of subsidiaries which manufacture a range of pre-packaged foods either as a branded product or a food retailer own-label product.

Universal Foods is the largest of these groups and manufactures 20% of all pre-packaged food in Beeland. Universal Foods owns a number of well-known brands.

Daily News

16 July 2017 | No. 7823 | B$1.00

The rise of Gluten Free

Ahmed Shah Lifestyle Correspondent

It used to be the case not that long ago, that the mere mention of the words "gluten free", would conjure up an image of dry and uninspiring bread and pasta substitutes. To be diagnosed as gluten intolerant meant a life time of uninteresting alternatives and little in the way of sweet treats. Not anymore!

The past five years has seen a relative explosion in the numbers of people in Beeland being diagnosed as gluten intolerant, with a reported 600 new people a month joining the GFSB (Gluten Free Society of Beeland). Indeed, the chairperson of the society Claire Higgins, said that eating a gluten free diet is no longer just about having to. Many people are now choosing to do so for health and lifestyle reasons.

This growth in demand for gluten free products such as bread, pasta and bakery items has pushed manufacturers to look at ways to make gluten free versions of their products.

The bread industry was the first to really grasp the issue and it is now common place to find specialist gluten free bread on our supermarket shelves.

The cake and bakery manufacturers are finally starting to catch up. Just last week Mr Smarty cakes launched two new gluten free cakes, which not only look great, but taste great as well. We're told that an expansion of the range will come in the next six months.

Being gluten intolerant myself – I can finally say that I can have my cake and eat it!

Level 4 Apprenticeship – Prototype Assessment
Answers

TASK 1

Answer for screen 1.3:

Production budget for lemon slab cakes (in number of batches):

	January	February	March
Sales volume		640	680
Plus: closing inventory	320	340	360
Less: opening inventory		(320)	(340)
Production quantity	**320**	**660**	**700**

Refined sugar: materials usage budget in kilogrammes (kg):

	January	February	March
Production (number of batches)	320	660	700
	kg	**kg**	**kg**
Kilogrammes per batch	62.50	62.50	62.50
Total material usage	**20,000**	**41,250**	**43,750**

Refined sugar: materials purchases budget in kilogrammes (kg) and B$:

	January	February
	KG	**KG**
Total material usage	**20,000**	**41,250**
Plus: closing inventory	20,625	21,875
Less: opening inventory	-	(20,625)
Total material purchases	**40,625**	**42,500**
Total material purchases (kg)	40,625	42,500
	B$	**B$**
Cost per kg	0.52	0.52
Total material purchases	**21,125**	**22,100**

Workings:

In the production budget closing inventory for each month is based on 50% of the next months' sales. So, for January this is 640 (February sales) x 50% = 320.

In the materials usage and purchases budget closing inventory is based on 50% of the next months' usage. So, for January this is 41,250kg (February usage) x 50% = 20,625 kg.

Level 4 Apprenticeship – Prototype Assessment
Answers

Answer for screen 1.5:

Fixed production overhead cost item	Basis of apportion-ment	Total B$	Preparation B$	Conversion B$	Finishing B$	Stores B$	General factory support B$
Apportioned costs	Various	2,694,500	337,430	1,162,855	845,775	308,125	40,315
Heat and light	Area	980,000	98,000	392,000	343,000	98,000	49,000
Insurance of machinery	Cost of machinery	130,000	19,500	65,000	26,000	19,500	0
Total		**3,804,500**	**454,930**	**1,619,855**	**1,214,775**	**425,625**	**89,315**
Re-apportionment of stores			255,375	42,562	127,688	(425,625)	0
Re-apportionment of general factory support			17,863	35,726	35,726	0	(89,315)
Total B$		**3,804,500**	**728,168**	**1,698,143**	**1,378,189**		
Direct labour hours (hrs)		610,186	106,324	202,683	301,179		
Fixed production overhead rate per direct labour hour (B$)		6.23	6.85	8.38	4.58		

Answer for screen 1.6:

The correct answers are A and E.

Rationale:

A is correct because if expenditure is as budget and production units are lower than budget this means that the FOAR will have been applied to fewer units.
E is correct because if production units are as budget, the fixed overhead absorbed will equal budgeted expenditure and the fact that actual expenditure is higher than budget would result in an under-absorption.

B is incorrect because both higher production units and lower expenditure would lead to an over-absorption of fixed overheads
C is incorrect because although it may lead to an under-absorption of overheads, it is necessary to know whether the units produced, not the units sold, are higher or lower than budget
D is incorrect because if production units are as budgeted the fixed overhead absorbed with equal budgeted expenditure and the fact that actual expenditure is lower than budget would result in an over-absorption (this is the opposite of option E)

Level 4 Apprenticeship – Prototype Assessment
Answers

Answers for screen 1.7:

OTQ 1:

The correct answers are C and E.

Rationale:

C is correct because a flexible budget is one where the volume of activity is changed to reflect that being achieved.
E is correct because in order to flex the budget it is necessary to know which costs will change as activity level changes (variable costs) and which costs will remain constant (fixed costs).

A is incorrect because this explains an incremental budget.
B is incorrect because this explains a rolling (or continuous) budget.
D is incorrect because the only adjustment made in flexible budgeting is to adjust to the actual level of activity. This would be a revised budget.

OTQ2:

The correct answers are B and E.

Rationale:

B is correct because adjusting the budget to reflect the actual volume of activity, whilst keeping standards the same, allows the actual performance to be compared to the standard performance for that volume of activity.
E is correct because in order to provide a meaningful comparison of the actual and budget figures it is necessary to flex the costs to the actual level of activity.

A is incorrect as items may not be fully justified before inclusion as for any other type of budget.
C is incorrect as there is no attempt to separate controllable and uncontrollable costs in a flexible budget.
D is incorrect as fixed cost are also included in a flexible budget.

Level 4 Apprenticeship – Prototype Assessment
Answers

TASK 2:

Answer for screen 2.2:

Correct answers are: A, B and C

Rationale:

A is correct because the oven cannot be installed without the concrete base and a safe electricity supply; this is a cost of bringing the oven to its working condition.

B is correct because as a specialised piece of equipment it needs to be installed by specialists so that is can be ready for its intended use.

C is correct because this is directly associated with the supply of the oven to site.

D is incorrect because maintenance will happen to the asset after it is ready for its intended use and will not enhance the performance or life of the asset. Maintenance should be charged to profit or loss as an expense. Any up-front payment should be recorded as a prepayment asset in the statement of financial position.

E is incorrect because training costs are not a cost to bring the asset to its intended working condition and so will be charged to profit or loss as an expense. The benefits from training costs cannot be controlled by the business as staff are free to leave at any time and take their expertise with them.

Answer for screen 2.3:

Draft response to Tony Swift, Product Development Manager:

The depreciation method applied to any asset should reflect the pattern in which we expect to use that asset to generate income. This should be applied consistently within each category of asset, for example ovens.

Depreciation should be calculated on a systematic basis over an asset's useful economic life; this being an accounting estimate based on judgement. We depreciate the ovens that we already have over an eight-year useful economic life (which to date has been our best estimate), so unless we can show that the new oven will operate for considerably longer or in a different way to our existing ovens we must be consistent with this policy. Either the new oven should be depreciated over eight years or the useful life of similar ovens must be reviewed.

In applying a longer useful economic you are correct that the depreciation charge would be reduced, which would indeed improve the profit for the year that we report. However, as an accountant we must follow the guidelines laid down in International Financial Reporting Standards and CIMA's Code of Ethics when recording all financial accounting information.

We should be objective in our judgement of estimates and not be tempted to choose a policy that helps to improve results. We should act with integrity being honest in all professional and business relationships and should not knowingly be associated with information where the professional accountant believes that the information is misleading. Professional competence and due care imposes obligations on all professional accountants to act in accordance with applicable technical and professional standards when applying judgement for accounting estimates and treatment.

I understand the pressure for the expansion into gluten free products to be a success but the financial statements of First Class Bakery must adhere to these regulations and guidelines.

Answer for screen 2.4:

Correct answer is:

		B$
Debit	Plant and equipment - depreciation expense	1,400
Credit	Plant and equipment - accumulated depreciation	1,400

Rationale:

Accounting entry is to debit depreciation expense and credit accumulated depreciation.

B$1,400 is correct because the residual value must be deducted from the cost of the asset before the useful life is applied and pro-rated from the date of acquisition to the end of the year ((B$25,000 cost - B$4,000 residual value) ÷ 10 years) x 8/12) = B$1,400

B$1,667 is incorrect because it takes no account of residual value (B$25,000 cost ÷ 10 years) x 8/12) = B$1,667

B$2,100 is incorrect because it takes no account of the policy to pro rata depreciation from the date of purchase to the date of disposal ((B$25,000 cost - B$4,000 residual value) ÷ 10 years) = B$2,100

B$2,500 is incorrect because it takes no account of residual value or the policy to pro rata depreciation from the date of purchase to the date of disposal (B$25,000 cost ÷ 10 years) = B$2,500

Answer for screen 2.6:

Correct answers are: A, C and E

Rationale:

The full journal to record the disposal of the mixing machine is:

Debit or credit	Account name	B$
Debit	Suspense	10,000
Debit	Plant and equipment – accumulated depreciation	8,203
Debit	Loss on disposal	3,797
Credit	Plant and equipment - cost	22,000

A is correct because it debits accumulated depreciation; B is therefore incorrect.
C is correct because it debits suspense; D is therefore incorrect.
E is correct because as a loss on disposal this is a debit; F is therefore incorrect.

Answer for screen 2.8:

	B$
Cash from investing activities:	
Disposal proceeds	50,000
Purchases of plant and equipment (working 1)	(472,550)

Workings:

Working 1 – purchase of plant and equipment:

	B$
Net book value at start of year (from pre-seen)	5,225,000
Depreciation	(1,379,000)
Disposals at net book value (working 2)	(38,550)
Cash purchases (balancing figure)	472,550
Net book value at end of year (B$9,380,000 – B$5,100,000)	**4,280,000**

Working 2 – Net book value of disposals:

	B$
Proceeds	50,000
Net book value at disposals (balancing figure)	(38,550)
Profit on disposal	**11,450**

Level 4 Apprenticeship – Prototype Assessment
Answers

TASK 3:

Answer for screen 3.2:

OTQ 1:

Gap Fill: The correct answer is 27 or 26/26.7/26.8/26.77

Drop down box: correct answer is a deterioration

Rationale:

Gross profit margin = gross profit ÷ revenue x 100

So, gross profit margin = B$16,600,000 ÷ B$62,000,000 x 100 = 27% (rounded).

The gross profit margin has fallen from 29%, therefore this is a deterioration.

OTQ 2:

The correct answer is 10 or 11/10.3/10.34

Rationale:

Return on capital employed = operating profit ÷ capital employed x 100

So, return on capital employed = (B$690,000 + B$210,000) ÷ B$8,700,000 x 100 = 10% (rounded).

Answer for screen 3.3:

REPORT SECTION

Gross profit margin:

The gross profit margin shows us the percentage of revenue we retain as profit after all production costs have been deducted. The gross margin for the year ended 30 June 2018 is 27% compared to 29% in the previous year. This means that our gross margin has worsened during the year and we are on average making less gross profit per unit.

The new GA range will undoubtedly be part of the reason from this reduction in overall gross profit margin. Initially this range was budgeted to have a similar gross margin as the average of our existing ranges, which means that that the new range would not have had much impact on the overall margin. However, we know that this budgeted GA range gross margin has not been achieved for two reasons:

- We have had to discount the GA range's selling price to our independent retail customers to encourage them to place orders.
- In order to use quality ingredients, we have had to pay higher prices than we anticipated.

Both of these will reduce the gross margin achieved on the GA range compared to what we were expecting and consequently is part of the explanation for the reduction in overall gross margin.

Return on capital employed:

The return on capital employed ratio is a measure of the efficiency with which we utilise our capital (equity plus debt) to generate a return (profit). The return on capital employed for the year ended 30 June 2018 is 10% compared to 22% last year. This means that we haven't been as efficient at using our capital this year.

A main reason for this is likely to be the impact of the GA range on performance. As explained above the gross margin for this range has been below that of the rest of the business and hence as a result overall gross profit margin has reduced. In addition, distribution costs and administrative expenses have also increased compared to last year as a result of the additional on-line sales staff, additional postage costs and the marketing campaign. All of this has resulted in operating profit falling from B$1,734,000 for the year to 30 June 2017 to B$900,000 this year.

One other factor that will impact the return on capital employed ratio is that we have invested nearly B$500,000 on new plant and equipment during the year as a result of expanding production capacity for the GA range. All of this investment is included in the capital employed value at 30 June 2018, whilst the profit for the year only includes five months-worth of GA sales.

Answer for screen 3.5

Correct answer is:

Debit/Credit	Nominal ledger account	B$
Debit	Purchase ledger control account	14,000
Credit	VAT control account	4,000
Credit	Purchases	20,000
Debit	Administrative expenses	10,000

Rationale:

Correct answer:

The sales tax on the purchases is B$4,000 (= B$24,000 x 20/120). Therefore, the journal will be as above.

A wrong answer using the distractors would be where the sales tax is calculated as 20% of the gross amount. So, B$24,000 x 20% = B$4,800. Using this figure, the journal would be, DR PLCA B$14,000, CR Sales tax control account B$4,800, CR, Purchases B$19,200, DR AE B$10,000

B$14,000 and B$0 are distractors in case they decide to ignore VAT.

Answer for screen 3.6:

BRIEFING NOTE ON IMPROVEMENTS TO INTERNAL CONTROLS

The main issue is that the purchasing assistant was able to set up a supplier, to raise purchase orders and to also approve goods received notes. This shows a lack of segregation of duties and an inappropriate authorisation process.

This can be improved by ensuring that:

- Suppliers are not set up by the Purchasing Department. Any new supplier requested by the Purchasing Department should be approved and set up on the system by the Finance Department.
- Each new supplier should go through an appropriate vetting process before being set up. This should be conducted by the Finance Department and might involve a visit to the premises or a meeting with key staff.
- A member of the Purchasing Department cannot authorise goods received notes. This should be done within stores as part of checking that the ingredients received are of the correct quality and equate to what has been ordered.

Level 4 Apprenticeship – Prototype Assessment
Answers

TASK 4:

Answer for screen 4.3:

REPORT TO FRED KNIGHT ON THE DECISION TO ACCEPT AN ORDER AT BELOW STANDARD SELLING PRICE

What is relevant cost analysis:

Relevant costs and revenues are future, incremental cash flows that arise as a result of the decision. In this case, the decision is whether to accept a special order at below our normal selling price and as such, we need to consider the incremental costs, that is, the additional costs that will be incurred as a direct consequence of accepting the order. Any costs that have already been incurred (sunk costs) or are committed are irrelevant.

The incremental costs will be the variable costs of the contract and any additional specific fixed costs incurred. General fixed overheads which will be incurred whether the contract is accepted or not are unavoidable costs and, as such, are irrelevant costs. We also need to consider any opportunity costs, that is, the benefit foregone by choosing one course of action rather than the next best alternative.

Analysis of the costs for this decision:

With reference to the schedule and notes that you have provided:

1. The relevant cost of the refined sugar is B$19,000 as the sugar is in continual use and will be replaced. The future cash flow is therefore the replacement cost.
2. The other materials are in continual use and therefore if used on this order they will be replaced. The relevant cost is therefore the replacement cost which in this case is the same as the original cost of B$136,000.
3. The packaging has already been purchased and therefore the original purchase price of B$5,000 is irrelevant. However, if not used in this contract, it could be sold for B$2,000. The relevant cost is therefore the opportunity cost of B$2,000.
4. The cost of the 2,000 hours of direct labour is irrelevant since the labour would continue to be paid whether or not the order was accepted. The incremental cost of 875 hours at 50% above normal rate is however relevant. The relevant cost is therefore B$23,625 (875 hours x B$18 x 1.5).
5. Since the supervisory staff will be retained whether or not the contract is accepted, the cost is unavoidable and therefore irrelevant.
6. Only the specific manufacturing overheads are relevant. Therefore, the relevant cost is B$15,000.
7. The selling and administration overheads are unavoidable and therefore irrelevant.

We can calculate the total cost of the contract on a relevant cost basis and compare this to the price. If the order makes a profit on a relevant cost basis it should be accepted and if not, it should be rejected. In this case the total relevant cost is B$195,625 and therefore the contract is profitable on this basis.

Other factors to consider before making a decision:

This type of analysis assumes that the decision will be made on the basis of short term cash flows however there are wider issues that we should consider before making a final decision.

Is this really a one-off order or will it have an impact on future orders? It is suggested that the customer will provide future business if we accept this order. If this future business is expected to be profitable then there may be a case for accepting this order even if it makes a small loss. However, we need to consider what the effect of accepting this order at a low price will be on future orders. Have we set a precedent with this order which means that the customer would be reluctant to accept a price increase on future orders?

We would also need to consider the potential effect of accepting this order on our existing customers. We rely on our existing customer for the majority of our business and it is important that we keep them happy and maintain their future business. If our existing customers find out that we have given a highly discounted price to this new customer, they may react badly. They may ask for a similar price to be given to them on future orders and if this is not forthcoming, they may take their business to a competitor.

The other question we would need to consider Is whether this a long-term decision rather than a short-term decision? Is there an over-capacity issue and should we consider getting rid of the excess capacity? It is probably too early in the life of our GA range to make this decision as sales may increase in the future. However, in the longer-term we must cover our fixed overheads and therefore this type of analysis should only be used for a one-off decision and should not be employed on a regular basis.

Level 4 apprenticeship - prototype assessment
Marking guidance

TASK 1

		Max Mark
Calculate production and material purchases budgets (8 marks):		
Constructed response	Production budget: • January – 1 mark • February /March– inventory adjustment 2 marks	3
	Material usage budget: • 2 mark (OF) Material purchases budget: • Correct adjustment for inventory – 1 mark (OF volumes) • Material purchase budget (kg) – 1 mark (OF) • Material purchases budget ($) – 1 mark (OF)	5
Calculate a revised fixed overhead absorption rate (8 marks)		
Constructed response	Apportionment of overhead costs: • 2 marks each	4
	Reapportionment: • 1½ marks each (OF)	3
	FOAR: • Calculation of FOAR (OF)	1
Implication of not meeting budgeted volumes (3 marks)		
OTQ	Computer marked (partial marking – 1 mark possible if only one correct option selected)	3
Use of flexible budgets (6 marks):		
OTQ	Computer marked (partial marking – 1 mark if only one correct option selected)	3
OTQ	Computer marked (partial marking – 1 mark if only one correct option selected)	3
Total		**25**

Level 4 apprenticeship - prototype assessment
Marking guidance

TASK 2

		Max Mark
Initial recognition of new plant & equipment (3 marks):		
OTQ	Computer marked (partial marking - 1 mark for each correct option).	3
Choice of depreciation policy (9 marks):		
Constructed response	• 3 marks for explaining the concept and calculation of depreciation in accordance with IFRS. • 2 marks for the principle of consistency of the depreciation policy. • 4 marks for explaining the ethical implications of choosing the appropriate policy.	9
Calculate depreciation charge (3 marks)		
OTQ	Computer marked (Partial marking - 1 mark for depreciation expense and accumulated depreciation being in the correct boxes and 1 mark for B$1,400 as debit and 1 mark for B$1,400 as credit).	3
Calculate profit or loss on disposal (3 marks)		
OTQ	Computer marked (Partial marking - 1 mark for each correct answer).	3
Prepare information for cash flow statement (7 marks)		
Constructed response	• 1 mark for inclusion of disposal proceeds as an inflow • 1 mark for inclusion of cash purchases as outflow • 5 marks for calculation of cash purchases: o 1 for principle of reconciling opening and closing balances / principle of purchases being balancing figure o 1 for principle of adjusting disposal at NBV o 2 for calculation of disposal at NBV (correct figure) – 1 for principle and 1 for correct figure o 1 for principle of adjusting for depreciation	7
Total		**25**

Level 4 apprenticeship - prototype assessment
Marking guidance

Task 3

		Max Mark
Calculate financial ratios (6 marks):		
OTQ	Computer marked (split marking - 2 for the gap fill element and 1 for the drop-down box)	3
OTQ	Computer marked (3 or nil)	3
Analysis of financial ratios (9 marks):		
CR	• Explaining movement in gross margin (Max 5 marks): o Demonstrate understanding of what gross margin represents (2 marks) o Each reason up to 2 marks (lower price to encourage sales and higher ingredient costs). Award sensible other comments as well. • Explaining movement in ROCE (Max 5 marks): o Demonstrate understanding of what ROCE represents (2 mark) o Each reason up to 2 marks (invest in PPE part way through the year, fall in gross margin, increase in DC linked to on-line sales and increase in AE linked to marketing campaign.	9
Correction journal (3 marks)		
OTQ	Computer marked (split marking – 1 mark for each correct number selected).	3
Internal control issues (7 marks)		
CR	• Recognise that this is a lack of segregation of duties issue (1 mark) • For each suggestion for improvement up to 2 marks or possibly 3 if very well applied. (For example, supplier set up, authorising GRN's, matching invoices, vetting of new suppliers. Please also award for any other sensible comments related to this situation).	7
Total		**25**

Level 4 apprenticeship - prototype assessment
Marking guidance

TASK 4

		Max Mark
Special pricing decision (25 marks):		
Constructed response	Marks are for an explanation of relevant costs and how a relevant cost approach would be applied to this particular decision.	4
	Marks are for establishing which costs would be relevant in the contract and justifying their inclusion / exclusion. 2 marks each of cost items 1,2,3,4 & 6 1 mark for each of cost items 5 & 7	12
	Marks are explanation of how to make decision and other consideration i.e. longer-term implications and the implication of accepting the order on existing customers • Accept if total relevant costs are lower than buyer's price but need to consider longer term implications • If future business likely to be profitable may be worth accepting but the contract may set a precedent • Effect on existing customers • Is it really a one-off decision or is there excess capacity? Up to 2 marks each	4
	Communication	5
Total		**25**