

# ACA MASTERS

## *Playfree Limited* *Mock Exam*

### Guidance:

To obtain maximum benefit, this mock exam should be sat under full exam conditions using the Case Study CBE software which is available from the ICAEW website. You should use the exam technique taught during the 'How to ace the ACA Case Study' class and demonstrated in the November 18 model answer.

Once you have completed the exam, you should use the marking grids provided to calculate whether you have scored enough passing grades for each requirement and the executive summary.

In order to improve your grade, you should carefully analyse how the report has been structured and written in the prize-winner model answer.

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## EMAIL

**From:** Rosemary Connor  
**To:** Daryl Ross  
**Subject:** Playfree  
**Date:** 24 July 2019

Playfree has produced its draft management accounts for the year ended 30 June 2019. Playfree's board has asked Kemp Crossley to help with assessing Playfree's financial performance for the year ended 30 June 2019. The board has also asked for advice on some specific financial matters and broader strategic and operational issues. I am attaching the following:

- Playfree's draft management accounts for the year ended 30 June 2019 (**Exhibit 15**)
- An email from Tina Cleves providing additional information about the management accounts and a summary of activity during the year (**Exhibit 16**)
- An email from Francis Toynbee about a new design and installation proposal (**Exhibit 17a**) and related media articles (**Exhibit 17b**)
- An email from Oliver Johnstone concerning a new inspection contract (**Exhibit 18a**), together with media articles (**Exhibit 18b**)

Please draft for my review a report addressed to the Playfree board. The report should comprise the following.

1. A review of Playfree's draft management accounts for the year ended 30 June 2019 in comparison with the year ended 30 June 2018.

Your review should be based on the draft management accounts as set out in **Exhibit 15**. It should cover revenue, gross profit and operating profit. In your review you should refer to the additional information provided in **Exhibit 16**. You should also advise the board on which action to take in respect of the warranty issue (**Exhibit 16**).

2. An evaluation of the proposal to tender for the MSC project (as detailed in **Exhibit 17a**).

Using the assumptions in **Exhibit 17a**, prepare the detailed budget for the project and calculate Playfree's expected profit if Playfree were to be successful in the tender. You should analyse Playfree's competitors who are also tendering and assess their likelihood of winning. You should also assess the adequacy of the assumptions as well as any business trust and ethical issues, taking account of the media articles in **Exhibit 17b**. Provide a clearly justified recommendation as to whether Playfree should tender for the MSC project.

3. An evaluation of the municipal playground inspection opportunity (**Exhibit 18a**).

You should evaluate the financial, operational and strategic factors, including any business trust and ethical issues arising from the information provided in **Exhibit 18b**. You should provide appropriate calculations and commentary to support your evaluation.

**Playfree Limited**  
**Draft management accounts**

**Statement of profit or loss year ended 30 June 2019**

	£000
Revenue (Note 1)	8,285
Costs of sales (Note 2)	(6,555)
<b>Gross Profit (Note 3)</b>	<b>1,730</b>
Administrative expenses (Note 4)	(1,199)
<b>Operating profit</b>	<b>531</b>
Net finance income	7
<b>Profit before taxation</b>	<b>538</b>
Income tax	(102)
<b>Profit after tax</b>	<b>436</b>

**Statement of financial position at 30 June 2019**

<b>Non-current assets</b>	<b>£000</b>
Property, plant and equipment (PPE) (Note 5)	517
	<u>517</u>
<b>Current assets</b>	
Inventories	166
Trade and other receivables (note 6)	901
Cash and cash equivalents	1,233
	<u>2,300</u>
<b>TOTAL ASSETS</b>	<b>2,817</b>
<b>Equity</b>	
Ordinary shares	75
Retained earnings	1,800
	<u>1,875</u>
<b>Current liabilities</b>	
Trade and other payables (Note 7)	837
Taxation	105
	<u>942</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,817</b>

## Statement of cash flows for years ended 30 June

	£000
<b>Cash flows from operating activities</b>	
Profit before tax for the period	538
Adjustments for:	
Depreciation	200
(Profit)/loss on disposal of PPE	81
Finance income	(7)
	<hr/> 812
Change in inventories	(21)
Change in trade and other receivables	(65)
Change in trade and other payables	110
	<hr/> 836
Income tax paid	(111)
<b>Net cash generated from operating activities</b>	<hr/> <b>725</b>
 Cash flows from investing activities	
Acquisition of PPE	(379)
Proceeds from disposal of PPE	-
Interest received	7
<b>Net cash generated from investing activities</b>	<hr/> <b>(372)</b>
 <b>Net cash generated from financing activities</b>	 <b>-</b>
 <b>Net change in cash and cash equivalents</b>	 <b>353</b>
<b>Cash and cash equivalents at start of period</b>	<b>880</b>
<b>Cash and cash equivalents at end of period</b>	<hr/> <b>1,233</b> <hr/>

## Notes to the management accounts

### Note 1: Revenue

	£000
Design and installation	6,894
Inspection and maintenance	<u>1,391</u>
	<u>8,285</u>

### Note 2: Cost of sales

	£000
Design and installation	
Design costs	423
Equipment and site-work components	3,874
Installation	742
Surfacing	<u>573</u>
Subtotal – design and installation	5,613
Inspection and maintenance	<u>942</u>
	<u>6,555</u>

### Note 3: Gross profit

	£000
Design and installation	1,281
Inspection and maintenance	<u>449</u>
	<u>1,730</u>

### Note 4: Administrative expenses

	£000
Personnel (sales and head office)	678
Premises and IT	378
Other costs	<u>142</u>
	<u>1,199</u>

**Note 5: Property, plant and equipment**

	<b>£000</b>
<b>Cost</b>	
At 1 July 2018	1,027
Additions	379
Disposals	(180)
At 30 June 2019	<u>1,226</u>
<b>Depreciation</b>	
At 1 July 2018	608
Charge for year	200
Disposals	(99)
At 30 June 2019	<u>709</u>
<b>Carrying amount</b>	
At 1 July 2018	<u>419</u>
At 30 June 2019	<u>517</u>

**Note 6: Trade and other receivables**

	<b>£000</b>
Trade receivables	654
Other receivables and prepayments	247
	<u>901</u>

**Note 7: Trade and other payables**

	<b>£000</b>
Trade payables	584
Other payables and accruals	253
	<u>837</u>

EMAIL

**From:** Tina Cleves  
**To:** Rosemary Connor  
**Subject:** Other information  
**Date:** 24 July 2019

**Summary of activity and commentary**

Year ended 30 June	Sites No.	2019 Revenue £000
D&I – total	102	6,894
Inspection	1,494	716
Maintenance	595	675
I&M – total	2,089	1,391
		<b>8,285</b>
D&I tenders	225	17,750

- 1. We have been very busy right up until our financial year end as we won several new D&I leisure contracts during the year. We found the tender process to be much more competitive when compared with schools and nurseries so we had to lower our fee slightly in order to secure the work.
- 2. I&M has continued to demonstrate strong growth as increased legislative and public focus on health & safety has resulted in more operators seeking assurance that their facilities are up to standard. As usual, this has led to substantial rectification work being carried out.
- 3. We invested in new IT software during the year to impress potential customers during tender and reduce the time taken by our design teams.
- 4. We also acquired new surfacing equipment. Due to the dilapidation of our previous equipment, we were unable to find a buyer so this had to be scrapped.
- 5. Our suppliers continued to increase their prices at above inflation rates across their full range of products.

**Warranty claims**

During the year, the warranty on 50 sites which we previously installed expired. Shortly before the expiry date, we received claims from 40 of the sites. Whilst 75% of these claims were rejected, the other claims were valid and we were required to install replacement equipment free of charge.

Under our agreement with manufacturers, we were able to recover the equipment costs. However, we had to wait several weeks (even months in some cases) to do so and we still incurred £20k of installation costs.

Furthermore, once the warranty period had expired, we continued to find that the cost of rectification work was not being covered by the maintenance fee.

Please advise how serious this issue is and advise what action can be taken to reduce the impact on Playfree.

**EMAIL**

**From:** Francis Toynbee  
**To:** Rosemary Connor  
**Subject:** New D&I tender  
**Date:** 24 July 2019

Last week, Playfree was contacted by MSC Limited, a shopping centre company. MSC is undertaking a wholesale refurbishment to modernise all of the shopping centres which it owns and manages in the UK. As part of this project, MSC is looking for a supplier to design and install new play areas. MSC plans to rollout the refurbishment in stages and will begin in October with its largest shopping centre (based in East London). MSC has requested that Playfree tender for the project.

**Assumptions and information**Assumptions

- Based on my initial market research, MSC would be prepared to pay a maximum fee of £1million so please use this in your calculation.
- From start to finish the project should take 4 weeks: one week to design, two weeks to install and one week to get necessary sign-offs.
- Having had a quick discussion with Miranda, assume OPE costs will be £150k and AE will £250k.
- Site-work costs will be £140k, installation costs (excluding labour) will be £141k and surfacing costs (excluding labour) will be £107k.
- It's going to be a very big job so we will need 30 installers to get it done; if we don't have enough available, then we can get some freelancers in. Either way, total cost will £25k per person.
- Labour costs should be split 60/40 between surfacing and installation.
- Design costs will be £25k as the new IT software has proved very efficient so far.

Other information

- Our contact at MSC informed me that Rox and Eversley will also be tendering for the work.
- I've had a look online and the Centre is unusual in that the building has a slight gradient due to being built on a slope. We may need to factor this in to our planning.
- MSC are part of the UKSCA (UK Shopping Centre Alliance), which is where the directors of the UK's biggest shopping centres meet for monthly conferences and industry updates.
- The assumption is that we will use Surfacing Services for the surface and site-work supplies. However, if we need to trim costs a bit to keep our price competitive, then we could look into using Crazy Kids who I'm told are 15% cheaper.
- Payment will be on our normal terms.

## **Sustainable Business Journal May 2019**

### **Cheaper for us, but at what cost?**

In recent decades, an increasing amount of manufacturing has been moved to low-wage economies in order to reduce costs and ultimately reduce prices for Western consumers. Whilst we are all well aware that this is where our high-tech gadgets are made before being shipped long distances for our enjoyment, it may come as a surprise that this is where much of your child's play equipment comes from.

Recent studies have shown that approximately 20% of children's play equipment is manufactured in the low-cost economies of Asia. It is no secret that working conditions in some of these places can be very poor, and some even employ child labour. We are sure that many parents would not want their children playing with equipment which had been made by another child, working underage and in poor conditions. It is up to us as consumers to ensure the traceability of the goods we use.

## **Investor Chronicle December 2018**

### **The new kid on the block**

Every seasoned investor knows what to look for when selecting companies to buy shares in: high, stable profits; cash generation; and a sustainable advantage over competitors.

One of our top tips for next year is Crazy Kids Limited, a UK play equipment manufacturer who is sourcing material and manufacturing in Asia to benefit from low material and labour cost. Revenue and profits have grown by more than 20% in each of the last three years as it has been able to leverage its low-cost base to undercut its rivals who predominantly manufacture in the UK. The UK made products are going up in price, whilst Crazy Kids are dropping their prices! In an ultra-competitive market, it won't be long until everyone is buying from Crazy Kids.

With revenue growth set to soar in 2019 as it wins more custom, we expect to see a steady flow of dividend returns to shareholders. Buy now!

**EMAIL**

**From:** Oliver Johnstone  
**To:** Rosemary Connor  
**Subject:** New inspection contract  
**Date:** 19 July 2019

Playfree has been approached by Hertfordshire County Council (HCC) who require inspections to be carried out at the 68 municipal parks which they operate throughout the county now that their maintenance agreement with Total Parks has expired. This is a great opportunity for us to enter the public sector and because Hertfordshire is right next to Essex, it is a convenient geographical expansion. However, we firstly need you to crunch the numbers and identify the main points for consideration.

**HCC proposal**

HCC would like us to conduct an annual inspection at each of their 68 parks. The parks vary in size and each is classified as either small (42 parks), medium (20 parks) or large (6 parks). HCC have offered two alternative payment structures for our services. These are set out below.

1. Payment for inspection will be as follows: small parks (£250), medium parks (£500), large parks (£600). Rectification work will be paid at our normal rates.
2. Payment for inspection will be as follows: small parks (£150), medium parks (£400), large parks (£500). Rectification work will be paid at our normal rates plus 30%.

Our HCC contact advised that due to budget cuts, there is no room for negotiation on price. I explained our normal payment times and they said it should be okay but they would need to get approval first.

They also pointed out that all councils are facing increased monitoring from central government health and safety officials, so it may be the case that they will need the inspection reports turned around within 24 hours if they are notified about an upcoming visit.

To help with your financial analysis, our initial estimates are set out below.

- Like most public parks, there is likely to be significant dilapidation, so on average we can expect rectification work of £500 per park.
- Each small park should take no more than a full day to inspect (including the increased travel time to Hertfordshire) and half a day to write up the report.
- Each medium and large park should take no more than a day and a half to inspect (including the increased travel time to Hertfordshire) and half a day to write up the report.
- Salaries for our fully qualified inspectors are £42k per year (they just had a pay rise so this won't increase again for a while). This will also be the same for the new inspectors we will have to recruit.
- Minor repairs will cost £200 per site and we will incur an additional £7k in travel costs.

I want to take this to the board next week so I look forward to your timely response.

## **Hertfordshire Gazette May 2019**

### **Another park injury**

Following our article in last week's paper, it appears as though another child has injured themselves in a public park. Harry Watson, 7, injured himself whilst playing in the St Albans town centre park when a low-level rung on the treehouse steps gave way. Whilst he only suffered light bruising, it raises serious concerns about the safety of our public parks.

Whilst Hertfordshire County Council refused to comment, our investigation has revealed that the equipment was manufactured by Auchen and installed by Total Parks. An industry source told us that Total Parks is a name to watch out for in the industry as they have a reputation for shortcutting when installing parks and this often results in significant rectification works for local authorities.

## **Business Inside Out December 2018**

### **Who's to blame?**

As any lawyer will tell you, establishing liability is not always straightforward. The recent case of *Mattis v Manchester City Council* only further emphasised this point.

Mattis installed water features in the city centre in 2012 but the annual maintenance contract was awarded to another company. In late 2017, a fault arose which caused significant water spillage in the main retail district. Not only did this result in the main shopping area being closed for 6 hours, it also caused damage to the pavement. Upon investigation it was revealed that certain parts were not tightened properly on installation.

Mattis successfully challenged the lawsuit by arguing that the maintenance company took over liability when they were engaged to undertake maintenance and safety work. The judge agreed that Mattis was discharged of responsibility at this point.

This case highlights the legal complexities which can arise where the installing company is separate from the maintenance company and a fault subsequently occurs.

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