Part One – Chartered Governance Qualifying Programme

Interpreting Financial and Accounting Information

Sample Marking Scheme

Time allowed: 3 hours (plus 15 minutes reading time)

You must not take this paper out of the examination workspace.

The examination paper contains **9** questions of which you must attempt **8.** You must attempt **all questions** in Section A, **the compulsory question** in Section B and **2 questions** in Section C.

Section A contains 25 marks, Section B contains 25 marks and Section C contains 50 marks. There are **100 marks** available in total for the paper.

Section A

*Answer **all** the questions in this section.*

1. Explain how social accounting operates in companies that are committed to this aim.

(5 marks)

Question number	Answer
1	**Award up to five marks from the following:** Such a company would have commitment to behave ethically and remaining sensitive to the needs of all stakeholders, whilst contributing to economic development (1). Stakeholders would include employees and their families, but also the local community and society at large (1). A company operating social accounting would make decisions based not only on financial factors but also on the social and environmental consequences of their actions (1). Such a company would undertake regular evaluation to verify its commitment through independent social audit, certification on standards and periodic independent reviews (1). Using feedback from stakeholders, a company can monitor, adjust, and plan its activities to achieve its social objectives (1). Social accounting adds value to such a company's annual report by providing information about non-financial activities and the related costs of business behaviour in society (1). **Reward other valid responses** **Markers note:** Candidates may refer to Carroll's CSR Pyramid - of philanthropic, ethical, legal, and economic responsibilities – which is a model to show how and why organisations should meet their social responsibilities (up to 2 marks for relevant reference to this Model).
	Total: 5 marks

2. Explain the concept of capital maintenance and how it can be applied to company financial statements.

(5 marks)

Question number	Answer
2	Under the concept of capital maintenance, profit earned by a company can be recognised only if the value of its net assets at the end of an accounting period exceeds those at the beginning of an accounting period (1). The MASB Conceptual Framework for Financial Reporting identifies two concepts of capital maintenance, without indicating a preference for either. The two main ways in which the concept can be applied are: • Financial concept of capital maintenance – the concept works where the value of net assets has increased (1). This is adjusted for any dividends paid, or capital raised via equity share issues in the period (1). • Physical concept of capital maintenance – the concept works where the capital is regarded as production capacity (1). This may be based on units of output but is harder to apply than the financial concept (1). **Reward other valid responses**
	Total: 5 marks

3. Outline how the differences between public and private financial markets affect investors.

(5 marks)

Question number	Answer
3	A public market is one in which the public can participate, whereas a private market is one where transactions are held and executed through private security dealers (1). A person with as little as RM100 can participate in a public market, whereas private markets would require a more significant minimum sum (1). Public markets are highly regulated because the exposure of the public is greater. Private markets are not as regulated as the main participants are normally banks, venture capitalists, etc (1). Public markets offer greater liquidity, offering a smoother purchase or sale, whereas in private markets the buyer and seller personally negotiate and execute the transaction (1). Investments in private markets carry greater risk than public market investments, and hence investors would expect a greater return (1). **Reward other valid responses**
	Total: 5 marks

4. Describe how the dividend valuation model can be used to estimate the value of equity.

(5 marks)

Question number	**Answer**
4	The model is based on the principle that the current value of an equity share is the discounted value of all the expected dividend payments that the share is expected to yield in future years (1). The net present value (NPV) is calculated using an appropriate risk-adjusted rate that discounts the value of future cash flows to today's date (1). Future cash flows would include dividends and the selling price of the share when sold (1). The model assumes dividends will be paid in perpetuity and will be constant or growing at a fixed rate (1). For shares that do not pay dividends, the future cash flows would be equal to the intrinsic value of the selling price of the share (1). **Reward other valid responses** **Markers clarification**: the assumption that dividends "will be paid in perpetuity" is as per the study text. However, if a candidate refers to dividends until the shares are sold, that should be marked as correct.
	Total: 5 marks

5. Explain how scenario analysis can assist when evaluating a possible investment.

(5 marks)

Question number	Answer
5	**Award up to five marks from the following:** Scenario analysis can be used to provide information on possible outcomes for a possible investment by creating various scenarios that may occur in the future (1). It evaluates the expected value of a proposed investment in different scenarios expected in a certain situation (1). Scenario analysis involves calculating NPV, so is based on a consideration of the time value of cash flows (1). The most used scenario analysis involves calculating NPV's in 3 possible states – a most likely view, an optimistic view, and a pessimistic view (1). By changing several key variables simultaneously, decision makers can examine each possible outcome from the potential downside or upside of a possible investment (1). Candidates might refer to the limitations of scenario analysis (award a maximum of 2 marks for this): • It does not look at the probability of each scenario occurring when evaluating possible outcomes (1); • It does not consider other scenarios that may occur (1); and, • As the number of variables that are changed increases, the model can become increasingly difficult and time consuming (1). **Reward other valid responses**
	Total: 5 marks

TOTAL FOR SECTION A = 25 MARKS

Section B

*Compulsory question – **you must answer** this question.*

6. Clough Bhd ("Clough") is a long-established producer of soft and carbonated drinks. Most of the company's operations are concentrated in Malaysia and the company exports to other Asian countries.

Clough has expanded through strategic acquisitions within its established marketplace and has built up a leading range of branded products. As such it has significant intangible assets in its statement of financial position, these being goodwill on acquisitions and valuation of its brands.

Clough is looking to expand and is giving consideration to two major acquisitions within the next twelve months, both for important target companies within the established marketplace. These are expected to be at a cost of around RM85 million and RM150 million respectively, with most of that consideration being paid upon completion of the deals. The completion and timing of one or both deals is still being negotiated.

The expansion plan is intended to deliver better financial results and higher shareholder returns.

Total dividends of RM79 million were paid to Clough's shareholders in 2022, this having increased from RM76 million in 2021.

The latest financial statements for Clough are as follows:

Statements of profit or loss for the year ended 31 December		
	2022	**2021**
	RM million	**RM million**
Revenue	**1,504**	**1,431**
Cost of goods sold	**(702)**	**(667)**
Gross profit	**802**	**764**
Selling and Distribution costs	**(401)**	**(393)**
Administrative expenses	**(235)**	**(208)**
Operating profit	**166**	**163**
Finance costs	**(20)**	**(24)**
Profit before tax	**146**	**139**
Tax expense	**(29)**	**(27)**
Profit for the year (Net profit)	**117**	**112**

Statements of financial position as at 31 December		
	2022	**2021**
	RM million	**RM million**
ASSETS		
Non-current assets		
Property, plant, and equipment	**520**	**462**
Intangible assets	**589**	**579**
Total non-current assets	**1,109**	**1,041**
Current assets		
Inventories	**145**	**147**
Trade and other receivables and cash and cash equivalents	**506**	**425**
Total current assets	**651**	**572**
Total assets	**1,760**	**1,613**
EQUITY AND LIABILITIES		
Share capital (RM1 shares)	**53**	**53**
Retained earnings	**324**	**286**
Total equity	**377**	**339**
Non-current liabilities		
Long-term borrowings	**684**	**656**
Total non-current liabilities	**684**	**656**
Current liabilities		
Trade and other payables, provisions, and tax	**699**	**618**
Total current liabilities	**699**	**618**
Total liabilities	**1,383**	**1,274**
Total equity and liabilities	**1,760**	**1,613**

Share information	2022	2021
Market share price at 31 December	**RM8.50**	**RM8.00**
Dividend (per share)	**RM1.49**	**RM1.43**

(a) Calculate the relevant ratios (profitability, gearing, liquidity, efficiency, and investment) needed to review the financial performance and position of Clough, including a focus on investor returns. **(Select no more than eight ratios.)**

(8 marks)

(b) Analyse what the ratios calculated in part (a), together with the financial information provided, reveal about the financial performance and position of Clough over the last two years.

(9 marks)

(c) Discuss the long-term finance options available for the two proposed acquisitions in the light of Clough's financial position at the end of 2022.

(8 marks)

(25 marks)

Question number	**Indicative content**
6 8 marks	

1	Profitability ratios	Return on capital employed	(OP/(Debt + Equity)) x 100	(+166*100)/(684+377) = 15.6%	(+163*100)/(656+339) = 16.4%
2		Return on shareholders' equity	NP/Equity x 100	(117*100)/377 = 31.0%	(112*100)/339 = 33.0%
3		Return on assets ratio	NP/Total assets	(117*100)/1760 = 6.6%	(112*100)/1613 = 6.9%
4		Gross profit margin	GP/Revenue x 100	(802/1504) x 100 = 53.3%	(764/1431) x 100 = 53.4%
5		Operating profit margin	OP (PBIT)/Revenue x 100	(166/1504) x 100 = 11.0%	(163/1431) x 100 = 11.4%
6		Net profit margin	NP/Revenue x 100	(117/1504) x 100 = 7.8%	(112/1431) x 100 = 7.8%
7	Gearing ratios	Capital gearing	(Debt/(Debt + Equity)) x 100	684/(684 + 377) x 100 = 64.5%	656/(656 + 339) x 100 = 65.9%
8		Equity gearing	Debt/Equity x 100	684/377 x 100 = 181.4%	656/339 x 100 = 193.5%
9		Interest cover	(PBIT/Interest expense)	166/20 = 8.3 times	163/24 = 6.8 times
10	Liquidity	Current ratio	Current assets/Current liabilities	651/699 = 0.9:1	572/618 = 0.9:1

11		Quick ratio	(Current assets - inventory)/Current liabilities	(651-145)/699 = 0.7:1	(572-147)/618 = 0.7:1
12	Efficiency ratios	Net asset turnover	Revenue/(Debt + Equity)	1504/(684 + 377) = 1.4 times	1431/(656 + 339) = 1.4 times
13		Non-current assets turnover	Revenue/Non-Current Assets	1504/1109 = 1.4 times	1431/1041 = 1.4 times
14		Total asset turnover	Revenue/Total assets	1504/1760 = 0.9 times	1431/1613 = 0.9 times
15		Inventory holding	Inventory/Cost of sales x 365	145/702 x 365 = 75 days	147/667 x 365 = 80 days
16	Investment ratios	Earnings per share (EPS)	Net profit/average outstanding shares	117/53 = RM2.21	112/53 = RM2.11
17		Price/earnings ratio (P/E)	Market price per share/EPS	8.50/2.21 = 3.8	8.00/2.11 = 3.8
18		Dividend yield	Dividends per share/Market price per share x 100	1.49/8.50 x 100 = 17.5%	1.43/8.00 x 100 = 17.9%
19		Dividend cover	Earnings per share/Dividend per share	2.21/1.49 = 1.5 times	2.11/1.43 = 1.5 times
20		**OR** Pay-out ratio	Dividend per share/Earnings per share	1.49/2.21 = 67.4%	1.43/2.11 = 67.8%

Marking guidance:

A **minimum** of 2 Marks, and a **maximum** of 4 marks, for the focus on investment ratios.

A maximum of 2 marks each for 2 different investment ratios calculated correctly on earnings and on dividends. (16-18 and 19-20 above)

Then, a **maximum** of 6 marks for other ratios, this being 1 mark each for up to 6 different pairs of ratios calculated correctly.

A maximum of 1 mark for ROCE, ROSE and/or ROA. (1-3 above)

A maximum of 1 mark for Gross, Operating and/or Net profit margins. (4-6 above)

A maximum of 1 mark for capital or equity gearing or interest cover. (7-9 above)

A maximum of 1 mark for current and liquid ratios (10-11 above)

A maximum of 1 mark for (net, non-current and total) asset turnover (12-14 above)

A maximum of 1 mark for inventory ratio. (15 above)

Question number	Indicative content
6 (b) 9 marks	Answers should use the ratios calculated in part (a) and the information provided in the question to analyse the financial performance and position of Clough. **Answers could include the following content:** **Investor returns** For Clough investor return is a stated priority, and there is some evidence of this being effective: • The total dividend paid to shareholders increased from RM76 million to RM79 million; • The dividend yield is 17.5% representing an impressive return on the shares • Earnings per share increased from RM2.11 to RM2.21; and, • Both the P/E ratio and the dividend cover ratio remained stable. There are a couple of ratios that have decreased marginally – the dividend yield and the pay-out ratio. For the dividend yield this is due to the 6.25% increase in the share price, so is not a negative indicator. For the pay-out ratio it is because the dividend per share has increased marginally less than the earnings per share, but it has increased by 4.2%. Shareholders are making good, consistent and, on balance, improving returns. **Profitability** For Clough, it is notable that it continues to make significant net profit, and despite minor drops in both gross profit margin and operating profit margin, it has maintained the net profit margin in 2022: • The gross profit margin refers to the margin that companies charge above the cost of goods sold. This has dropped from 53.4% to 53.3% for Clough in 2022. This slight reduction might be acceptable given the company's sales growth but could be a concern if it is part of a year-on-year trend. Clough would want to understand the reason for this decrease and whether it is due to pressure on sales prices or costs, and what market conditions are driving that. • The operating profit margin is the percentage of profit remaining after operating expenses. This has dropped from 11.4% to 11.0% for Clough. This minor reduction in the margin is also of no major concern unless it is part of a year-on-year trend. • Although this can be due to selling and distribution costs, or administration costs, or employment policy etc, it would appear in this case that it is due to the decrease in the gross profit margin. Clough is managing these operating expenses in that they have decreased as a % of revenue, but that it has not been able to make savings to compensate for the loss of gross margin. • The net profit margin has been maintained at 7.8%, which is at a healthy level. It has been supported by a reduction in finance costs.

	Gearing Either gearing ratio shows that Clough has a lot more of its capital from debt than from equity. These reduced slightly in 2022 – capital gearing down to 64.5% from 65.9%, and equity gearing down to 181.4% from 193.5% - both due to a material increase in equity, from retained earnings. If Clough takes on long-term debt for the two acquisitions of RM235 million, these ratios will increase appreciably in 2023. It is encouraging to note that the interest cover ratio has increased to 8.3 times from 6.8 times. This indicates how many times greater profit before interest and tax (operating profit) is than annual interest charges. These numbers are improving because the operating profit for Clough has increased, and the annual finance costs have reduced. Given that Clough is looking at two new acquisitions in the next 12 months period, it is important that the interest cover ratio has materially improved. However, if Clough borrows to finance plans in 2023, and the level of net profit only increases incrementally, then this key ratio would materially drop again. The level of borrowing that Clough might take on will need careful consideration. **Liquidity** Clough has maintained a current ratio of 0.9:1 and a quick ratio of 0.7:1 for both years. A current ratio below two and a quick ratio below one could normally indicate liquidity problems, and Clough is below this. However, given what is known about Clough – it has traded for a long time, it makes and is maintaining a high level of net profit (RM117 million in 2022), its revenues grew by 5% in 2022, its share price and EPS are increasing – this is not the likely interpretation for Clough. It is more likely that Clough exercises good working capital management, sees this level of net current assets as optimal, is giving good dividend returns to its shareholders, and is able to use long-term borrowing to finance profitable growth. It is important to be careful about making any simple assumption that this level of current (or quick) ratio is indicative of liquidity problems and/or an unsustainable position. **Efficiency** The asset turnover ratios – total, net current and non-current – have all remained stable for 2022. This is perhaps not surprising as we are told that Clough is a long-established company. The increases in the asset base have been matched by the increase in the revenue, meaning that Clough is maintaining its ability to generate revenue from its assets. Therefore, Clough might reasonably expect to maintain this with its further strategic acquisitions. There is limited information provided in the financial statements in relation to the working capital. For example, receivables collection days and payables payment days cannot be calculated. Whether the management of these is effective or improving, or not, is not known. Inventory holding days have been reduced from 80 days in 2021 to 75 days in 2022, which is a notable reduction. A decrease in inventory holding days means that inventory levels are being kept under better control in relation to the level of sales. Given the observations on liquidity it is good to see the evidence that supports inventory, at least, that it is being managed effectively. **Summary** Clough appears to be a strongly performing company, providing a good return to its shareholders, but funding either one or both acquisitions will almost certainly (not least given the 2022 year-end net current liabilities position) would require increasing long-term borrowings. The strong performance can clearly be seen by:

	• The improving dividends and earnings per share; and, • The 5.1% growth in revenue for a mature, high revenue business. Furthermore, Clough has maintained the net profit margin at 7.8%, based on net profit for the year of RM117 million, and has stable asset return ratios; However, the current and liquid ratios, whilst remaining stable, are both below 1:1. Although the cash amount within working capital is not shown, the net current liabilities position makes it unlikely that it would be prudent to spend any available cash to fund the acquisitions; and, The indications are that Clough has borrowed effectively to fund the business and its growth, but a question remains whether any further increase in borrowings is affordable given the small increase in PBIT and what future borrowings might do to the interest cover ratio.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1 (Fail)	1 - 4	• The answer demonstrates a limited understanding of the factors that underpin the company's performance. This is communicated in a basic way with simple or generalised statements. • The answer makes few links between theory and practice. • Points made are not applied to the scenario in the question. • There is little application of relevant knowledge and understanding which may not be supported by an evaluative statement. • The answer includes limited analysis of the financial performance and position of the company. • Analysis is not used to make a judgement and is not supported by examples.
Level 2 (Pass)	5	• The answer demonstrates a good understanding of the factors that underpin the company's performance and expresses ideas with clarity. • The answer makes links between theory and practice. • Points made are applied to the scenario in the question. • There is application of relevant knowledge and understanding, supported by an evaluative statement. • The answer includes analysis of the financial performance and position of the company. • Analysis is used to make a judgement and is supported by relevant examples.
Level 3 (Merit / Distinction)	6 - 9	• The answer demonstrates a thorough understanding of the factors that underpin the company's performance and is communicated in a logical writing structure. • The answer makes strong links between theory and practice. • A wide range of points are made which are applied to the scenario in the question. • There is a good application of relevant knowledge and understanding supported by a focused evaluative statement.

		• The answer includes in-depth analysis of the financial performance and position of the company. • Analysis is used to make a clear judgement which is supported by appropriate examples.

Question number	Indicative content
6 (c) 8 marks	Clough has relied previously on long-term finance, by way of long-term borrowings. Clough might consider this, but given its current gearing levels, it might strongly consider raising the funding via a share issue. **Answers could include the following content:** It should be noted these are two separate acquisitions of RM85 million and RM150 million, and the timing of the two acquisitions might be different. Clough, therefore, has the option of proceeding with neither, one or both acquisitions. If it proceeds with both, it could finance them in different ways. Clough has a substantial balance of retained earnings in its statement of financial position - RM324 million at 31 December 2022. Retained earnings are the proportion of the profits earned which have not been distributed to shareholders. They are the most common and preferred source of finance, long- and short-term, because they are internally generated funds, so there is flexibility in using them and they are cheaper as they incur no external costs. However, retained earnings are not a cash amount. The cash generated in relation to these profits may have been spent on other capital projects, for example, and yet the retained earnings figure would remain on the statement of financial position. As at 31 December 2022 the information only gives a combined trade and other receivables and cash and cash equivalents balance. The balance shown for Clough is RM506 million, higher than the RM324 million retained earnings figure, and potentially sufficient to fund acquisitions of RM235 million. However, it is not known whether Clough does have enough cash, but it would be using a significant portion of this current asset. Furthermore, even if the cash levels were sufficient to fund the acquisitions, Clough would need to consider the impact on its liquidity levels. Clough has maintained a current ratio of 0.9:1 and a quick ratio of 0.7:1. Clough has been giving good returns to shareholders and has preferred to use other long-term finance to fund profitable growth. Therefore, it is reasonable to conclude that if Clough proceeds with either or both acquisitions it will decide to use debt or equity financing. For Clough, the gearing ratios show that Clough has more debt compared to equity capital. The level of debt reduced slightly in 2022 – capital gearing down to 64.5% from 65.9%, and equity gearing down to 181.4% from 193.5% - both due to a material increase in equity from retained earnings. If Clough takes on long-term debt for both acquisitions of RM235 million, these ratios will increase appreciably in 2023. Debt would be at around 250% of the level of equity, but this might well be an acceptable capital structure for Clough, and one where further debt might still be added in the future if it is funding profitable growth. Clough has clearly preferred taking on long-term debt in the past, and this is the cheapest option available. If taking on long-term debt financing, a debenture issue could be a suitable alternative to a bank loan. Debentures are a written acknowledgement of a debt, mostly used by large companies to borrow money at a fixed rate of interest. The interest paid is usually at a lower rate compared to dividends paid to shareholders, as debentures are seen as less risky than shares by investors.

	However, given what further long-term debt finance would do to the capital structure, and especially given the level of current ratio and current liabilities that Clough has, it should be recognised that this might not be the preferred or optimal approach at this stage. Therefore, Clough could seriously consider raising additional equity share capital, through a share issue as an alternative strategy. If Clough is to raise capital through a share issue it would appear most likely that it would seek to do this via a rights issue. A rights issue is an offer to existing shareholders to buy new shares in proportion to their existing shareholdings. This enables existing shareholders to retain their existing share of voting rights, and to have the option to sell their rights on the stock market. Issuing further equity shares as a new share issue would be likely to dilute current shareholders control and reduce their earnings per share. Issuing preference shares is rare nowadays because the rate on fixed dividends is effectively greater than the interest rate on loan finance and dividends are not tax deductible. There are other long-term finance options, but these would not appear to be appropriate for Clough for its proposed company acquisitions. These options include: • Leasing, where the lessor purchases an asset and provides it for use by the lessee, but Clough would not own any assets thus acquired. • Securitisation of assets, which is used to pool illiquid assets, but normally applies to financial products, such as mortgages or credit cards. • Government grants or schemes, which provide public sector funds to private companies, but only for projects that fund major public sector capital investment, which is unlikely to be the case for Clough.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1 (Fail)	1 - 3	• The answer demonstrates a limited understanding of the factors that underpin long-term finance. This is communicated in a basic way with simple or generalised statements. • The answer makes few links between theory and practice. • Points made are not applied to the scenario in the question. • There is little application of relevant knowledge and understanding which may not be supported by an evaluative statement. • The answer includes limited analysis of the financial performance and position of the company. • Analysis is not used to make a judgement and is not supported by examples.
Level 2 (Pass)	4 - 5	• The answer demonstrates a good understanding of the factors that underpin long-term finance and expresses ideas with clarity. • The answer makes links between theory and practice. • Points made are applied to the scenario in the question. • There is application of relevant knowledge and understanding, supported by an evaluative statement. • The answer includes analysis of the financial performance and position of the company. • Analysis is used to make a judgement and is supported by relevant examples.

Level 3 (Merit / Distinction)	6 - 8	• The answer demonstrates a thorough understanding of the factors that underpin long-term finance and is communicated in a logical writing structure. • The answer makes strong links between theory and practice. • A wide range of points are made which are applied to the scenario in the question. • There is a good application of relevant knowledge and understanding supported by a focused evaluative statement. • The answer includes in-depth analysis of the financial performance and position of the company. • Analysis is used to make a clear judgement which is supported by appropriate examples.

TOTAL FOR SECTION B = 25 MARKS

Section C

*Answer **two** questions only*

7. Scarpa Berhad ("Scarpa") is considering investing RM800,000 in equipment in order to establish a new product line.

   The new product is expected to generate sales revenue across a five-year period, at RM600,000 for the first year, RM900,000 for each of the next three years, and RM700,000 for the final year. To produce this revenue, it is anticipated that Scarpa will incur a RM75,000 increase in annual fixed costs, and that annual variable costs will be at 60% of revenue. The scrap value of the equipment at the end of five years has been estimated at RM50,000.

   The Board of Scarpa wants to evaluate the financial viability of this proposal. It has calculated that, using a cost of capital of 20%, the project would produce a negative net present value (NPV) of RM60,000. Scarpa has a target rate of return on its capital projects of 15%.

   Assume that all cash flows occur at the year end.

   (a) Calculate the NPV of the project using a cost of capital of 10%, and then obtain the internal rate of return (IRR) using the NPV that you have calculated, and finally comment on what the results suggest regarding the financial viability of the proposed project. Discounted cash flows should be rounded to the nearest RM100,000.

   (15 marks)

   (b) Compare the other main methods that the Board of Scarpa might consider to evaluate this proposed project together with their respective advantages and disadvantages.

   (10 marks)

   (25 marks)

   Calculate IRR using the following formula:
   $IRR = L + (NPV_L / (NPV_L – NPV_H) \times (H – L))$

   Where:
   L and NPV_L represent the lower discount rate and its NPV
   H and NPV_H represent the higher discount rate and its NPV

Question number	Indicative content
7 (a) 15 marks	**NPV calculation (10 marks)** **NPV Calculation** All in RM'000

Year		Revenue RM'000	Variable costs RM'000	Fixed costs RM'000	Net cash flow RM'000		10% DF	PV RM'000
0 (1)	Equipment Net cash flow				-800	(1)	1.000	-800
1		600	-360	-75	165	(1)	0.909	150
2		900	-540	-75	285		0.826	235
3		900	-540	-75	285	(1)	0.751	214
4		900	-540	-75	285		0.683	195
5		700	-420	-75	205	(1)	0.621	127
5	Scrap value				50	(1)	0.621	31
							NPV	152
			(1)	(1)	(1)		(1)	(1)

Marking guidance:

- One mark for correctly calculating variable costs, fixed costs, annual cash flows, correct DFs and calculating the correct NPV.
- One mark for initial cost in year 0, the correct cash flows for years 1, 2-4, and 5, and scrap value return in year 5.

IRR calculation (2 marks)

IRR Calculation

All in RM'000

IRR = 10% + (152 / (152 + 60) X (20%-10%)) (1)

= 10% + (152 / (212) X 10%)

= 10% + (0.717 X 10%)

= 10% + 7.17%

= 17.17% (1)

This project has a NPV of RM152,000, at a cost of capital of 10%. Theoretically, if this level of return was acceptable to Scarpa, and they have the available funds, then they should proceed with this project. (1)

The IRR is calculated as being 17.17%, this being the annual rate of return at which all the cash flows produce an NPV of zero in the discounted cash flow analysis. It is the annual growth rate that the project is expected to generate (1).

The target or acceptable return rate for Scarpa is stated as being 15%, and as this project will exceed this and deliver 17.17% it would be approved to proceed (1).

Question number	Indicative content
7 (b) 10 marks	The answer needs to identify and describe the advantages and disadvantages to Scarpa of using the payback period, the discounted payback period, and the accounting rate of return (ARR) to evaluate the project. **Answers could include the following content:** The payback period is the most common and simplest non-discounting method that Scarpa could use to evaluate this project. The payback period is the time (number of years) it takes a project to recover the original investment. It is based on expected cash flows rather than profits and provides a measure of liquidity. It ignores non-cash items such as depreciation. The formula for the traditional payback period method is: Original cost of investment or initial cash outflows / Annual cash inflows Where annual cash flows are different, the cumulative cash flow over the life of the project is used to calculate the payback period. A project is accepted when it pays back the original investment within the specified time period or a target period. Scarpa should therefore check this project against its target payback period if it has established a suitable period from previous similar projects. The advantages of this method include that it is simple to calculate, and it uses cash flows, rather than profits. This encourages a quick return in cash, maximises liquidity, and can fuel faster growth. It is also possible that there are rapid changes in technology (and product lines) and payback period is a useful methodology in those sorts of situations. However, it ignores any cash flows after the project payback period. Indeed, it ignores the timings of the cash flows although this can be resolved by using the discounted payback period. The other discounted cash flow method that Scarpa could use is the discounted payback period. This method combines the techniques used in the payback period and DCF to calculate a discounted pay back. This involves discounting the cash flows and then calculating how many years it takes the discounted cash flows to repay the initial investment. The discounted payback method was developed to overcome the major limitation of the traditional payback period method, specifically that it does not consider the time value of money. Otherwise, it has the same limitations as the payback period and is more complex to calculate. Either payback method calculates only the payback period and ignores profitability. It is very subjective, as it gives no definitive investment answer to help managers decide whether to invest. The alternative non-discounting method that Scarpa could use is the accounting rate of return (ARR). The accounting rate of return (ARR) method is also known as the return on capital employed (ROCE) method. It uses accounting profits to estimate the average rate of return that the project is expected to yield over the life of the investment. The ARR is measured as: Average annual profits / Initial capital cost or average capital cost × 100%

	Scarpa would undertake the project when ARR is equal to or greater than its target rate of return. Where projects are mutually exclusive, the project with highest ARR (that also meets the target rate) is selected. The main advantages and disadvantages of this method are to do with the fact that it is based on accounting profits. The main advantage is that this makes it widely accepted and quite simple to calculate. It uses profits which are readily recognised by most managers. Managers' performance may be evaluated using ROCE. As profit figures are audited, it can be relied upon to some degree. It is easy to compare with other projects as it links with other accounting measures. Unlike either payback period method, it focuses on profitability for the entire project period. However, the disadvantages are, it is based on accounting profits that vary depending on accounting policies (such as for depreciation). ARR can be calculated using different formulae. For example, ARR can be calculated using profit after tax and interest, profit before tax or profit before tax and interest thus leading to different outcomes. It is important to ensure that ARR is calculated on a consistent basis when comparing investments. Furthermore, the Board of Scarpa should be aware that it ignores factors such as project life (the longer the project, the greater the risk), working capital requirements and other economic factors which may affect the profitability of the project. As this a five-year investment project, these are important considerations. Similar to the payback period, ARR does not consider the time value of money. Although it does not appear to be relevant for this project, it should be noted that ARR is not useful for evaluating projects where investment is made in parts at different times, and that it does not consider any profits that are reinvested during the project period.

Level	Mark	Descriptor
7 (b)	0	No rewardable material.
Level 1 (Fail)	1 – 4	• The answer demonstrates limited understanding of the factors that underpin non-discounting methods of investment appraisal. This is communicated in a basic way with simple or generalised statements. • The answer makes few links between theory and practice. • Points made are not applied to the scenario in the question. • There is little application of relevant knowledge and understanding which may not be supported by an evaluative statement.
Level 2 (Pass)	5 – 6	• The answer demonstrates a good understanding of the factors that underpin non-discounting methods of investment appraisal and expresses ideas with clarity. • The answer makes links between theory and practice. • Points made are applied to the scenario in the question. • There is application of relevant knowledge and understanding, supported by an evaluative statement.
Level 3 (Merit / Distinction)	7 - 10	• The answer demonstrates a thorough understanding of the factors that underpin non-discounting methods of investment appraisal and is communicated in a logical writing structure. • The answer makes strong links between theory and practice. • A wide range of points are made which are applied to the scenario in the question. • There is a good application of relevant knowledge and understanding supported by a focused evaluative statement.

8. Cooper is a group of companies, with Cooper Holdings Bhd as the parent company, and three subsidiary companies: Cooper Electrical Bhd, Cooper Plumbing Bhd, and Cooper Carpentry Bhd. The group has grown over the last decade by Cooper Holdings Bhd strategically purchasing the three subsidiary companies. The purchase of Cooper Plumbing Bhd was a key part of the strategy, and Cooper Holdings Bhd had to pay a price above the fair market value of its net assets.

The aggregate revenue of the group was RM120 million for the year ended 31 December 2022, with the group employing some 600 staff. Cooper continues to invest and grow as a group, and has been pursuing this strategy in several ways as follows:

- During 2021 Cooper Holdings Bhd made a loan of RM10 million to Cooper Electrical Bhd, for the purposes of it looking to expand its geographical spread. Cooper Electrical Bhd now has operations in several South-east Asian countries.
- Cooper Holdings Bhd acquired equity shareholdings in two associate companies – Plant Machinery Bhd and Plant Hire Bhd.
- Cooper Holdings Bhd directly purchased a major high-technology plant costing RM5 million in 2022. This plant is expected to give technological advantages for the company and drive significant increased efficiency for them for the next 5 years, at which point further investment would be required.

(a) Explain how the principles for consolidating financial statements would apply to Cooper Holdings Bhd when preparing its 2022 group financial statements.

(15 marks)

(b) Outline the issues for accounting for the high-technology plant that Cooper Holdings Bhd purchased in 2022.

(10 marks)

(25 marks)

Question number	**Indicative content**
8 (a) 15 marks	Cooper Holdings Bhd would need to produce consolidated group financial statements, depending on the entities it controls. **Answers could include the following content:** The starting point for Cooper is MFRS 10 (Consolidated Financial Statements) which defines the principle of control. It outlines the requirements for the preparation and the presentation of consolidated financial statements, requiring Cooper to consolidate the entities it controls. As Cooper has 3 subsidiary companies, by definition it has control over them, and MFRS 10 requires that a single set of consolidated financial statements (or group accounts) should be prepared. These consolidated statements would reflect the financial performance and position and cash flows of the group as a single financial entity. From the point of view of the shareholders in Cooper Holdings Bhd, who hold their investment in the parent company, it would be inefficient, and potentially complicated, to have to look through the financial reports for each individual company in a group that is effectively operating as one business.

	For Cooper Holdings Bhd it is necessary to ascertain which of the companies it has control over. In accordance with MFRS 10, "control" over an investee consists of three elements – power, variable returns, and the ability to use this power. Power is normally exercised through voting rights, so if Cooper has more than 50% of the equity shares (and the voting rights) in any of the other companies, this would indicate control. The scenario states that Cooper Electrical Bhd, Cooper Plumbing Bhd, and Cooper Carpentry Bhd are all subsidiary companies, which would suggest that Cooper Holdings Bhd has a greater than 50% equity shareholding in each company and the financial statements of these three subsidiaries need to be fully consolidated with the parent company (Cooper Holdings Bhd). However, Plant Machinery Bhd and Plant Hire Bhd are associate companies, which would suggest that Cooper Holdings Bhd has between a 20% and a 50% equity shareholding in these companies. These would be consolidated using the equity method of accounting identified in MFRS 128 (Investments in Associates and Joint Ventures), based on Cooper Holdings Bhd having significant influence over them, but not control. This is as long as Cooper Holdings Bhd does not have de facto control, or control of their boards of directors, or via a contract, even though not through its level of shareholding. For the subsidiaries the basic method of consolidation is to simply add together the items in individual company financial statements on a line-by-line basis to create total figures for the group. However, in doing this there are a number of important principles which Cooper would need to consider and apply. Firstly, to avoid double counting, intra-group items such as sale and purchase transactions must be eliminated on consolidation. Specifically, therefore, the RM10 million inter-company loan from Cooper Holdings Bhd to Cooper Electrical Bhd would need to be eliminated. Secondly, Cooper Holdings Bhd's investments in the three subsidiaries, carried as investments in its own statement of financial position, must be eliminated during the consolidation process, specifically through the calculation of goodwill. The scenario states that the purchase of Cooper Plumbing Bhd was at a price above the fair market value of its net assets, so there will have been (positive) goodwill on this purchase. Purchased goodwill is the difference between the price paid for Cooper Plumbing Bhd and the fair value of its identifiable assets and liabilities. Cooper Holdings Bhd would need to capitalise this goodwill (as an intangible non-current asset) in the consolidated statement of financial position and review it for impairment each year. Furthermore, when Cooper Holdings Bhd acquired control over the subsidiaries, MFRS 3 (Business Combinations) requires such combinations to be accounted for using the "acquisition method." This requires the assets and liabilities of the investee to be measured at their fair value at the acquisition date. This means that Cooper Holdings Bhd should recognise and measure the identifiable assets acquired (and liabilities assumed) and any non-controlling interest (NCI) (which is noted later). It also requires that that Cooper Holdings Bhd recognises and measures any goodwill (positive or negative) – positive representing an additional amount paid that exceeds the fair value of the investee's identifiable net assets and negative representing a "bargain purchase" where the price paid was less than the fair value of the identifiable net assets acquired. The requirement to recognise (positive) goodwill would apply for the acquisition of Cooper Plumbing Bhd.

	Thirdly, the accounting policies of the group companies must be aligned, and all of the subsidiaries should have the same reporting date as Cooper Holdings Bhd (in this case 31 December). In terms of the accounting policies this is to ensure that items are treated in the same way by all members of the group. Fourthly, as noted above Cooper Holdings Bhd must account separately for any share of a subsidiary's equity that is owned by any non-controlling interest (NCI) at the foot of each consolidated financial statement. It is not known if Cooper Holdings Bhd holds 100% of the equity shares in any of its three subsidiary companies, but if it does then this requirement would not apply. There are two main methods that Cooper Holdings Bhd could use to value any NCI – the fair value method or the proportion of net assets method; the former is preferred by MFRS 3

Level	Mark	Descriptor
8 (a)	0	No rewardable material.
Level 1 (Fail)	1 – 7	• The answer demonstrates a limited understanding of the factors that underpin the consolidation of group accounts. This is communicated in a basic way with simple or generalised statements. • The answer makes few links between theory and practice. • Points made are not applied to the scenario in the question. • There is little application of relevant knowledge and understanding which may not be supported by an evaluative statement. • Discussion is not used to make a judgement and is not supported by examples.
Level 2 (Pass)	8 – 9	• The answer demonstrates a good understanding of the factors that underpin the consolidation of group accounts and expresses ideas with clarity. • The answer makes links between theory and practice. • Points made are applied to the scenario in the question. • There is application of relevant knowledge and understanding, supported by an evaluative statement. • Discussion is used to make a judgement and is supported by relevant examples.
Level 3 (Merit / Distinction)	10 - 15	• The answer demonstrates a thorough understanding of the factors that underpin the consolidation of group accounts and is communicated in a logical writing structure. • The answer makes strong links between theory and practice. • A wide range of points are made which are applied to the scenario in the question. • There is a good application of relevant knowledge and understanding supported by a focused evaluative statement.

Question number	Indicative content
8 (b) 10 marks	The answer should outline the main considerations for Cooper Holdings Bhd ("Cooper") under the reporting requirements of MFRS116 (Property, Plant, and Equipment) including initial recognition and measurement of the plant's value and note any likely impairment that might arise in respect of the plant. **Answers could include the following content:** The scenario notes that Cooper has invested in significant new high-technology plant and MFRS116 sets out how companies should report their investment in property, plant, and equipment (PPE). MFRS116 defines PPE as tangible items held for the use in the production or supply of goods and services and expected to be used for more than one accounting period. It does not apply to PPE held for sale (covered by MFRS 5 Non current assets held for sale and discontinued operations), but there is no reason to believe this applies to the plant acquired by Cooper in 2022, but that would need to be confirmed. The next issue is for Cooper to be clear that, from this plant, future economic benefits will flow to Cooper, and the cost of the item can be measured reliably. The scenario strongly implies the former and refers to significant increased efficiency for Cooper Holdings. On that basis, Cooper would be expected to recognise and account for this plant as a tangible non-current asset. In terms of the initial recognition of this asset, it would be measured at its original historical cost or the cash price equivalent at the recognition date. This cost would include: • purchase price, including duties and non-refundable purchase taxes, after deducting trade discounts; • costs directly attributable to bringing the asset to the location and condition necessary for it to operate in the manner intended by management; and • the estimated costs of dismantling and removing the item and restoring the site on which it is located, although that would not appear to be the case here. In terms of subsequent measurement, Cooper would be expected to recognise the cost of replacement of components of the plant in the the carrying amount (where these are deemed to improve its operating capability) but to charge day-to-day or on-going repairs and maintenance to the statement of profit or loss as an expense. After initial recognition, Cooper is most likely to use the cost model in terms of accounting for the plant at each reporting date. This states that after initial measurement the plant should be carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is the systematic spread of the cost of the plant over its useful economic life (the period it will be used to generate benefits). The depreciable amount is the cost of an asset, less any residual value. Cooper would need to estimate the useful economic life (likely to be 5 years) and the residual value of the plant, this being the estimated amount that Cooper would obtain from disposal of the plant, after deducting the estimated costs of disposal if the asset were used to the end of its useful life.

The depreciation charge for each period should be recognised in the profit or loss statement.

The depreciation method used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity, and Cooper would need to determine this method. For example, Cooper might use the straight-line method, and spread the cost of the plant evenly over the plant's useful economic life. although the method and rate chosen are likely to be consistent with similar plant already used by Cooper.

Cooper would need to undertake impairment testing on the plant if there were any indications of impairment, such as a decline in its market value. An asset cannot be carried in the financial statements at a value higher than its recoverable amount. An asset is impaired when its carrying amount exceeds its recoverable amount. As the scenario states Cooper has invested in a high-technology plant, it is possible that impairment might become (or already be) an issue, if technology moves on quickly. The equipment is expected to provide economic benefits for Cooper for five years, and then further investment will be needed, so material impairment of the plant in any year is a possibility.

Reward other valid responses

Marking guidance: Candidates might look at disclosure requirements, forward to the disposal of the PPE or the use of the revaluation model, but these are not a required part of the answer.

In accounting on the basis described above, MFRS116 requires that Cooper makes the following disclosures for each class of property, plant, and equipment:

- the basis for measuring carrying amount;
- the depreciation methods to be used or used;
- useful lives or depreciation rates used;
- the gross carrying amount and accumulated depreciation and impairment losses; and,
- a reconciliation of the carrying amount at the beginning and the end of the period.

When Cooper disposes of this plant (not expected for another four years) then the plant should be removed (derecognised) from the statement of financial position on disposal or when it is withdrawn from use. The gain or loss on disposal is the difference between the proceeds and the carrying amount at the time of disposal and should be recognised in profit and loss as a gain or an expense.

The revaluation model is the alternative measurement model to the cost model referred to in the answer above. This method is available if other plant within the group has already been measured under this model. We have no indication this is the case, and it would appear to be unlikely as it requires a fair value of the plant to be measured reliably during its useful life.

Level	Mark	Descriptor
8 (b)	0	No rewardable material.
Level 1 (Fail)	1 – 4	• The answer demonstrates limited understanding of the factors that underpin accounting for property, plant, and equipment. This is communicated in a basic way with simple or generalised statements. • The answer makes few links between theory and practice.

		• Points made are not applied to the scenario in the question. • There is little application of relevant knowledge and understanding which may not be supported by an evaluative statement.
Level 2 (Pass)	5 – 6	• The answer demonstrates a good understanding of the factors that underpin accounting for property, plant, and equipment and expresses ideas with clarity. • The answer makes links between theory and practice. • Points made are applied to the scenario in the question. • There is application of relevant knowledge and understanding, supported by an evaluative statement.
Level 3 (Merit / Distinction)	7 - 10	• The answer demonstrates a thorough understanding of the factors that underpin accounting for property, plant, and equipment and is communicated in a logical writing structure. • The answer makes strong links between theory and practice. • A wide range of points are made which are applied to the scenario in the question. • There is a good application of relevant knowledge and understanding supported by a focused evaluative statement.

9. Danilo Berhad ("Danilo") is a manufacturing company, which produces major items of engineering plant for selling to several global industrial customers. In order to manufacture the engineering plant Danilo requires multiple component parts to be available at its own plant. These component parts vary significantly in size, complexity and cost, and the effective management of these inventory items, and the manufacturing process, is business critical to Danilo.

Danilo's summarised statements of financial position are as follows:

Statements of financial position as at 31 December		
	2022	**2021**
	RM million	**RM million**
ASSETS		
Total Non-current assets	**167**	**156**
Current assets		
Inventories	**55**	**43**
Trade receivables	**35**	**44**
Cash and cash equivalents	**6**	**4**
Total current assets	**96**	**91**
Total assets	**263**	**247**
EQUITY AND LIABILITIES		
Total equity	**100**	**105**
Total Non-current liabilities	**78**	**78**
Current liabilities		
Trade payables	**63**	**52**
Taxation	**22**	**12**
Total current liabilities	**85**	**64**
Total liabilities	**163**	**142**
Total equity and liabilities	**263**	**247**

Additional information	**2022**	**2021**
Revenue	**RM333 million**	**RM340 million**
Gross profit	**RM84 million**	**RM92 million**
Credit sales as a % of sales	**92%**	**94%**
Credit purchases as a % of purchases	**100%**	**100%**

(a) Calculate the working capital cycle (in days) for Danilo for both years.

(10 marks)

(b) Analyse the methods of inventory management that Danilo might use, as a manufacturing company, to improve its own inventory management.

(10 marks)

(c) Explain the two main alternatives identified in the Malaysian Accounting Standards Board's Conceptual Framework for Financial Reporting for measuring the elements included in the statements of financial position for Danilo.

(5 marks)

(25 marks)

Question number	**Indicative content**							
9 (a) 10 marks	**Workings**			2022 RM million			2021 RM million	
	Revenue			333			340	
	Profit			84			92	
	Cost of sales			249			248	
	% credit sales			92%			94%	
	Credit sales			306	(1)		320	(1)
	Working capital cycle							
				2022 Days			2021 Days	
	Inventory holding (days)	Inventory/ cost of sales x 365	(55 / 249) x 365	81	(1)	(43 / 248) x 365	63	(1)
	Rate of collection of trade receivables (days)	Trade receivables/ credit sales x 365	(35/306) x 365	42	(1)	(44/320) x 365	50	(1)
	Rate of collection of trade payables (days)	Trade payables/ credit purchases x 365	(63/249) x 365	(92)	(1)	(52/248) x 365	(77)	(1)
	Working capital cycle (WCC)			31	(1)		36	(1)

Question number	Indicative content
9 (b) 10 marks	Candidates should focus on JIT as a method, as well as the general issues around re-order levels. Other techniques can also be identified. **Answers could include the following content:** The scenario states that Danilo is manufacturing major items of engineering plant, and the earlier calculations show its inventory holding days increased at the end of 2022 from 2021. It also highlights Danilo's need for multiple components parts and the importance of this in its manufacturing process. Therefore, Danilo might want to consider a just in time (JIT) system, which is a series of manufacturing and supply chain techniques that aim to reduce inventory to an absolute minimum by manufacturing at the exact time customers require, in the exact quantities they need and at competitive prices. This system was developed by Japan in the 1960s and 1970s, particularly at Toyota. Danilo manufactures major items of engineering plant, and if a JIT system is appropriate, and could be implemented well, then it could lead to material reductions in its inventory holding levels and an improvement in its working capital cycle. A key part of JIT is relationships with trusted suppliers because if they do not deliver the raw materials in time, it could become expensive for Danilo. Often this means a reliable, local supplier who can meet small but frequent orders from Danilo. This can mean Danilo could achieve very low inventory holding costs, although possibly for higher inventory reordering costs. Reducing the level of inventory not only reduces the carrying costs, but by using JIT, Danilo would also obtain better control over its manufacturing processes and lower lead times, making it easier to respond quickly when the needs of customers change. However, despite the material advantages, Danilo would need to be aware of some possible drawbacks associated with JIT: • Exposure to price fluctuations in raw materials; • May not be helpful in cases of excess or unexpected demand; • Production is highly reliant on effective suppliers; and, • It may require investment in information systems, including interfaces with supplier systems. If a JIT system is not desirable or achievable for Danilo, there are other inventory management techniques it might apply. Danilo could start by reviewing its re-order levels. This is the level of inventory that must be reached before an order is placed, and maybe this is too high for Danilo and could be lowered. This might depend on how demand varies over time, and the lead time to receive inventory after it is ordered. As determining inventory levels is key to inventory management, Danilo could also identify minimum, maximum and danger levels of inventory. The Economic order quantity (EOQ) is a formal technique that could assist Danilo in taking this a bit further by focussing on maintaining an optimum order quantity for inventory items. This would focus Danilo on minimising the costs of holding and ordering inventory. The EOQ is an analytical approach that provides an optimum inventory order size based on the annual inventory requirement.

	If there are real differences in the importance of the type of inventories that Danilo consumes, then it could consider an ABC inventory control system. In this A category items are the high investment inventories, but only represent a small amount of inventory items. These might only be 15-20% of inventories, but they have the greatest potential to reduce costs or losses, so these are tightly controlled and monitored to ensure these items are not over- or under- stocked. This is as opposed to Category C items, which are the high-use and low-value items. Given the nature of what Danilo is manufacturing, this could be a useful technique. A similar approach is VED analysis, where inventory items are classified as vital, essential and desirable. By defining the criticality of inventory items, the critical items can be kept in hand. This might be less relevant to Danilo, as it's a common approach for start-ups, with limited resources and small budgets.

Level	**Mark**	**Descriptor**
9 (b)	0	No rewardable material.
Level 1 (Fail)	1 – 4	• The answer demonstrates limited understanding of the factors that underpin inventory management, especially JIT. This is communicated in a basic way with simple or generalised statements. • The answer makes few links between theory and practice. • Points made are not applied to the scenario in the question. • There is little application of relevant knowledge and understanding which may not be supported by an evaluative statement.
Level 2 (Pass)	5 – 6	• The answer demonstrates a good understanding of the factors that underpin inventory management, especially JIT, and expresses ideas with clarity. • The answer makes links between theory and practice. • Points made are applied to the scenario in the question. • There is application of relevant knowledge and understanding, supported by an evaluative statement.
Level 3 (Merit / Distinction)	7 - 10	• The answer demonstrates a thorough understanding of the factors that underpin inventory management, especially JIT, and is communicated in a logical writing structure. • The answer makes strong links between theory and practice. • A wide range of points are made which are applied to the scenario in the question. • There is a good application of relevant knowledge and understanding supported by a focused evaluative statement.

Question number	Indicative content
9 (c) 5 marks	To identify and describe historical cost and current value as the two identified measurement methods in the Conceptual Framework. **Answers could include the following content:** The MASB's Conceptual Framework for Financial Reporting provides guidance to Danilo on measurement of the elements included in the statement of financial position, and identifies two categories of measurement bases: • Historical cost • Current value Historical cost is the price of the transaction or event that gave rise to the item being considered for measurement. It is the price paid or cost incurred to acquire or create an asset, or the value of the consideration received pursuant to the incurrence of a liability. This means an asset or liability will always be presented by Danilo in its statement of financial position at the price on the date of the original transaction, rather than its price at the date of the financial statements (subject to any subsequent depreciation, amortisation, or impairment). Whereas current value is based on the current monetary value of the asset or liability, updated to reflect conditions at the measurement date, this being the reporting date. The measurement bases for this approach include fair value, value in use and current cost. The current value basis can be applied by Danilo in circumstances in which a historical costs basis is not available, typically because the asset or liability did not arise from an exchange transaction. In selecting a measurement basis Danilo should consider the two fundamental characteristics of useful information, namely relevance and faithful representation.

Level	Mark	Descriptor
9 (c)	0	No rewardable material.
Level 1 (Fail)	1 – 2	• The answer demonstrates limited understanding of the factors that underpin the valuation of inventory. This is communicated in a basic way with simple or generalised statements. • The answer makes few links between theory and practice. • Points made are not applied to the scenario in the question. • There is little application of relevant knowledge and understanding which may not be supported by an evaluative statement.
Level 2 (Pass)	3	• The answer demonstrates a good understanding of the factors that underpin the valuation of inventory and expresses ideas with clarity. • The answer makes links between theory and practice. • Points made are applied to the scenario in the question. • There is application of relevant knowledge and understanding, supported by an evaluative statement.
Level 3 (Merit / Distinction)	4 - 5	• The answer demonstrates a thorough understanding of the factors that underpin the valuation of inventory and is communicated in a logical writing structure.

		• The answer makes strong links between theory and practice. • A wide range of points are made which are applied to the scenario in the question. • There is a good application of relevant knowledge and understanding supported by a focused evaluative statement.

TOTAL FOR SECTION C = 50 MARKS

TOTAL FOR PAPER = 100 MARKS

The scenarios included here are entirely fictional. Any resemblance of the information in the scenarios to real persons or organisations, actual or perceived, is purely coincidental.

END