



ADVANCED LEVEL EXAMINATION

TUESDAY 25 AUGUST 2020

(3½ HOURS)

STRATEGIC BUSINESS MANAGEMENT

This exam consists of **two** questions (100 marks).

Marks breakdown

Question 1	56 marks
Question 2	44 marks

1. Please read the instructions on this page carefully before you begin your exam. If you have any questions, raise your hand and speak with the invigilator before you begin.
2. Please alert the invigilator immediately if you encounter any issues during the delivery of the exam. The invigilator cannot advise you on how to use the software. If you believe that your performance has been affected by any issues which occurred, you must request and complete a candidate incident report form at the end of the exam; this form must be submitted as part of any subsequent special consideration application.
3. Click on the **Start Exam** button to begin the exam. The exam timer will begin to count down. A warning is given five minutes before the exam ends. When the exam timer reaches zero, the exam will end. To end the exam early, press the **Finish** button.
4. You may use a pen and paper for draft workings. Any information you write on paper will not be read or marked.
5. The examiner will take account of the way in which answers are structured. Respond directly to the exam question requirements. Do not include any content or opinion of a personal nature. A student survey is provided post-exam for feedback purposes.
6. Ensure that all of your responses are visible on screen and are not hidden within cells. Your answers will be presented to the examiner exactly as they appear on screen.

The questions in this paper have been prepared on the assumption that candidates do not have a detailed knowledge of the types of organisations to which they relate. No additional credit will be given to candidates displaying such knowledge.

Question 1

Bristol Batteries plc (BB) is a company, listed on the London Stock Exchange, which manufactures lithium-ion batteries for electric vehicles.

You are Jenny Dean, an ICAEW Chartered Accountant who recently joined BB's planning and development department. Yesterday, the departmental head, Narish Lal, sent you the following email:

Email

To: Jenny
From: Narish
Subject: Planning and development issues

The board has asked me to prepare a report evaluating significant planning and development issues facing BB. I would like your help.

I realise that you have only recently joined BB, so I have provided some background notes on the electric vehicle battery industry (**Exhibit 1**) and on BB (**Exhibit 2**).

I have also provided you with information on a number of specific issues:

- BB sells lithium-ion batteries to three car manufacturers. There are concerns about the continuing availability of the natural resources used in lithium-ion battery production. This also raises sustainability and environmental impact issues. More information is provided in Exhibit 2.
- The long-term success of BB depends largely on a major R&D project for developing an alternative, innovative, solid-state battery technology. Significant costs are being incurred on this R&D project. There are uncertainties over the eventual outcome but, if successful, the new technology will transform BB. I have provided some notes on this R&D project (**Exhibit 3**).
- BB currently does not have sufficient funds to complete the solid-state battery R&D project. I have prepared notes for you on the financing choices (**Exhibit 4**).
- The BB board is concerned about how the matters identified above will impact on disclosures in the company's annual report and financial statements.

I have set out instructions for you, explaining more precisely what I would like you to do in respect of each of the issues raised (**Exhibit 5**).

Requirement

Respond to the instructions from the head of the planning and development department, Narish Lal (Exhibit 5).

Total: 56 marks

Exhibit 1: Background – electric vehicle battery industry

Battery production for electric vehicles (EV) is a rapidly changing global industry. EV comprise mainly electric cars, but also trucks, buses and other battery-powered vehicles.

Petrol and diesel vehicles have a basic, small battery used to power lights and instruments. For EV, the battery needs to be much larger to power the wheels and therefore uses different technology.

Other methods for powering vehicles, such as hybrid and hydrogen technologies, are being developed by some companies in the industry. However, BB is not involved with these technologies.

Developments in EV battery technology have been significant in recent years, resulting in major improvements in EV battery performance. The scale of the industry has also increased, as the number of EV produced globally has grown rapidly, thereby providing an expanding market for EV battery manufacturers.

The vehicle industry

Historically, nearly all cars and other road vehicles have been powered by either petrol or diesel (fossil fuels). However, there has been increasing concern about the environmental damage caused by fossil fuel emissions, resulting in legislation in many countries.

EV were developed as an alternative to vehicles powered by fossil fuels, as EV produce minimal emissions. The first EV, launched around 2010, had a restricted kilometre range for each charge of the battery and performed poorly.

As a result, demand for EV was initially low but, with continuous technological and performance improvements, global sales are now expanding rapidly. Over 2 million EV were sold globally in 2018 and nearly 3 million in 2019. Estimates suggest that, at the end of 2019, there were 8 million EV in use globally. It is forecast that there will be 125 million EV in use globally by 2030, compared with an estimated 1,800 million vehicles using fossil fuels at that date. However, there is great uncertainty over these long-term forecasts.

Lithium-ion battery production

EV batteries can be made using a variety of technologies. Currently, the dominant technology is the lithium-ion battery, requiring lithium as a key raw material.

Lithium is a natural resource which is in limited supply. About 75% of lithium is mined in just three countries: Australia, Argentina and Chile. Some estimates suggest that there may only be enough lithium available globally to satisfy EV battery production requirements for the next 20 years.

The production of lithium-ion batteries also requires other natural resources which are in short supply, including cobalt. About 50% of the global resources of cobalt comes from the Democratic Republic of Congo.

Some car manufacturers produce their own EV batteries. Others buy EV batteries from specialist producers, mainly located in China and Japan.

Solid-state batteries

A developing innovation in the EV battery industry is solid-state battery technology, which has the potential for much better performance than lithium-ion.

Solid-state batteries already exist for small electronic devices. However, nobody has yet developed a solid-state battery which has enough power to be suitable for EV and which can be mass-produced at a reasonable price.

Solid-state batteries need fewer scarce natural resources than lithium-ion batteries.

Exhibit 2: Company background and data

BB operates from a single factory located in the UK.

Governance

At 30 June 2020, the directors and shareholders of BB were as follows:

Director/Shareholder	Board role	Ordinary shares (million)
James Hooth	Chief executive	2
Mary Laver	Finance director	1
Victor Moore	Production director	1
TechInvest	-	3
Kim Morris	Non-executive director	-
Individual shareholders (each owning less than 2%)	-	3
Total		10

Kim Morris was appointed by TechInvest, a private equity firm.

The BB share price on 30 June 2020 was £48.50 per £1 ordinary share.

Customers

BB's production capacity for lithium-ion batteries is 250,000 units per annum. BB's sales for the financial year ended 30 June 2020, to its only three customers, were as follows:

Customer (location)	Revenue earned by BB (year to 30 June 2020)	Number of batteries sold by BB (year to 30 June 2020)	End date of current contract
Bluchi (Italy)	£126m	60,000	30 June 2023
Eastern (US)	£60m	30,000	30 June 2022
Whiston (UK)	£19m	10,000	30 June 2021
Total	£205m	100,000	

Selling prices per EV battery are fixed for each customer over the contract term.

Bluchi

Bluchi is an upmarket car manufacturer that produces mainly petrol and diesel-powered cars. It recently commenced production of EV. Bluchi sources its EV batteries from a number of suppliers, including BB.

Bluchi expects its overall EV battery requirements to grow from its current annual total of 200,000 batteries, by 20% per annum over the next five years, before stabilising at a constant level.

Bluchi's current contract with BB has a minimum agreed annual quantity of 50,000 batteries. The selling price specified in this contract is denominated in euro.

Eastern

Eastern manufactures only EV. It sources its EV batteries from a number of suppliers, including BB.

Eastern expects its overall EV battery requirements to grow, from its current annual total of 60,000 batteries, by 40% per annum over the next four years, before stabilising at a constant level.

Eastern's current contract with BB has a minimum agreed annual quantity of 30,000 batteries. The selling price specified in this contract is denominated in US\$.

Whiston

Whiston is a specialist sports car manufacturer which recently introduced EV into its existing range of cars. Future demand for Whiston's EV is uncertain.

Whiston's current contract with BB specifies that BB will be Whiston's only supplier of EV batteries during the contract period, but there is no minimum quantity agreed. The selling price specified in this contract is denominated in £.

Sourcing raw materials – lithium

BB sources all its lithium from an Australian mining company, Lilley. Lithium is costly to store for more than a short period and can be hazardous. Inventory levels are therefore kept to a minimum.

BB purchases lithium monthly, in Australian \$, contracting separately for each delivery. The price of lithium per kilo in global commodity markets is volatile, but it has been generally increasing over time.

The BB board is concerned about price risk and security of supply, given the scarcity of lithium as a natural resource. Consideration is being given to two alternatives to mitigate these risks:

- (a) Enter into a four-year, fixed-price contract with Lilley to purchase lithium. This price would be denominated in Australian \$ and would be 25% higher than the current price per kilo charged by Lilley.
- (b) Continue to acquire lithium from Lilley, on monthly contracts, at the market price in Australian \$ on each contract date. Also, enter into rolling 6-month commodity forward derivative contracts for lithium to hedge risk. These forward contracts are denominated in US\$.

The 6-month forward contracts would be written each month. For example, in August 2020 a forward contract would be written to hedge lithium purchases in February 2021.

Exhibit 3: R&D project – solid-state battery technology

BB's R&D department has been working on a major project to develop technology to produce a solid-state battery to replace its current lithium-ion battery.

Many rival companies are also investing in R&D for solid-state batteries. BB made significant progress last year and has patented a number of process innovations, but it has not yet succeeded in developing a usable and commercially viable solid-state product. To maximise the benefits of its R&D, BB must get its product to market before rival companies.

The BB board has identified three possible outcomes, assuming that it continues the R&D project to 30 June 2024:

Outcome 1 – Failure of R&D project

Under this outcome, the R&D project will ultimately fail to produce a usable solid-state product. Given the amount of investment in R&D and the ultimate decline of lithium-ion technology, if the project fails there is significant uncertainty about BB's ability to continue as a going concern.

There is an estimated 25% probability of this outcome occurring.

Outcome 2 – Moderately successful

Under this outcome, the R&D project will be successful and production of a new solid-state battery will commence on 1 July 2024. Estimated sales will be 180,000 batteries in the year ending 30 June 2025, with volume growth, from that date, of 12.5% per annum until 30 June 2032. Thereafter, as yet unknown technology will take over and no further sales will be made. Contribution will average £780 per battery at 1 July 2024 prices. After that date, contribution per battery will increase at 4% per annum for the remainder of the 8-year life.

There is an estimated 60% probability of this outcome occurring.

Outcome 3 – Highly successful

A more optimistic outcome is that 270,000 units will be sold in the year ending 30 June 2025. Thereafter, Outcome 3 will have the same volume growth rate of 12.5% per annum and same contribution per battery as Outcome 2, over the 8-year life.

There is an estimated 15% probability of this outcome occurring.

Working assumptions

- The annual discount rate for the R&D project is estimated to be 17%, given the high risks involved.
- BB will incur further R&D costs to complete the project between July 2020 and June 2024. These can be assumed to have a present value of £200 million at 1 July 2024.
- Fixed costs of production over the 8-year period, excluding R&D, will have a present value at 1 July 2024 of £150 million if R&D succeeds and production takes place.
- Cash flows occur at financial year ends.
- The above sales volumes do not include any potential sales to Pleuron (see Exhibit 4).

Exhibit 4: Financing the solid-state battery R&D project

The costs of the solid-state battery R&D project incurred up to 30 June 2020 have been greater than expected. This has caused pressure on BB's liquidity.

Banks have refused to lend any further amounts, given the uncertainty of the R&D project and BB's lack of assets to act as suitable security on a loan.

Forecasts show that BB will not generate sufficient cash to finance the remainder of the R&D project and it therefore needs to raise new finance of £200 million. Without access to this amount, the R&D project will have to be closed down immediately.

There have been three offers of finance:

Offers of finance

1. A private equity firm, PrivEqu, has offered £200 million cash immediately for 5 million new £1 ordinary shares in BB and the right to appoint one new non-executive director.
2. Pleuron, a French car manufacturer, has offered £200 million cash immediately for 4.75 million new £1 ordinary shares in BB and the right to appoint four new non-executive directors. Pleuron also requires the right, but not the obligation, to buy up to 30,000 EV solid-state batteries in the year ending 30 June 2025, at a price which gives a zero contribution for BB.

From 1 July 2025, sales volumes and prices will be by agreement, between BB and Pleuron. However, Pleuron is likely to want at least 30,000 EV solid-state batteries per annum. After 1 July 2025, the price charged to Pleuron is expected to generate a contribution per unit equal to the average contribution from BB's other customers.

3. A strategic arrangement with Lith-Ox, an Argentinian lithium mining company. Lith-Ox will:
 - provide immediate loan finance to BB of £100 million; and
 - provide a further £100 million cash immediately in return for:
 - 2.25 million new £1 ordinary shares in BB; and
 - a call option on a further 250,000 £1 ordinary shares in BB, exercisable before 31 December 2030 with an exercise price of £50 per share.

Exhibit 5: Instructions from Narish Lal

I would like you to draft a report for the BB board in which you:

- (1) Using Exhibit 2 and the other information provided:
 - (a) analyse and evaluate the risks relating to future revenues from sales of lithium-ion batteries. Explain how these risks can be mitigated. Ignore future sales of solid-state batteries.
 - (b) explain and evaluate the risks relating to the price paid by BB for lithium and the security of supply of lithium. Recommend, with reasons, which of the two alternatives for mitigating these risks should be selected.
- (2) Evaluate the benefits and risks of the R&D project for solid-state battery technology. Provide a balanced appraisal and a recommendation of whether BB should continue with the R&D project beyond July 2020. Use Exhibit 3 and other information provided.

Show supporting calculations using the working assumptions (Exhibit 3). Assume that sufficient finance is available to complete the R&D project. Ignore any potential sales to Pleuron (Exhibit 4).

- (3) Assuming that BB decides to continue with the R&D project, explain and evaluate the factors it should consider in choosing between the three offers of finance (Exhibit 4). Provide a reasoned recommendation.
- (4) Using all the information provided, identify and explain for the annual report and financial statements of BB for the year ended 30 June 2020:
 - Going concern disclosures.
 - Environmental impact and sustainability disclosures.

Question 2

International Leisure Attractions plc (ILA) is listed on the London Stock Exchange. It operates three large leisure parks, located in the UK, the US and India.

You work as a junior manager for Perkins LLP, a firm of ICAEW business advisors and assurance providers. ILA is a client of Perkins, but not an audit client.

Harold Hester, the chief executive of ILA, asked Emma Lister, a partner in Perkins, to attend a meeting with him.

Harold opened the meeting: "Thank you for coming to see me. The finance director has recently become ill and will be in hospital longer than she initially expected. There are some matters that the ILA board needs to address which cannot wait for her return to work. I would therefore like to engage Perkins to advise ILA on these matters.

"We have just completed our financial year ended 30 June 2020 and the results are poor. Visitor numbers at our leisure parks are down about 5% from last year, even though we held prices constant. The leisure parks in the UK and the US operate in a mature market, so we expected to maintain our visitor numbers at these locations. However, the Indian leisure park should still be in its growth phase, but its visitor numbers have declined.

"Market analysts have become aware that ILA's visitor numbers have fallen this year, but they are perhaps not fully aware of the extent of the decrease. The ILA share price has fallen from £3.23 to £2.25 over the last year.

"The annual report and financial statements for the year ended 30 June 2020 are due to be released on 28 August 2020. The board is facing operational and financial challenges and it would like to have a firm recovery plan to announce on that date. We hope to indicate to market analysts that the board is taking actions to deal with the poor performance. Otherwise, we fear that the share price will fall further when our results are publicly announced.

"I have prepared background notes on the company (**Exhibit 1**) and provided management accounts extracts and operating data prepared by the finance director before she became ill (**Exhibit 2**). I have also set out the financial and strategic challenges facing ILA (**Exhibit 3**).

"One of the proposals that the board is considering is to open a new leisure park in Japan. To finance this project, ILA would need a bank loan. Yokosata bank has agreed to consider a loan application, but it requires cash flow forecasts, together with an assurance report. The ILA board has agreed with Yokosata that Perkins should be asked to provide this report.

"I have provided information on the Japanese proposal and the financing arrangements, with some additional comments from me emphasising how important the assurance report is to ILA in obtaining the loan (**Exhibit 4**).

"The directors have particular concerns over foreign currency risk and different views were expressed at the last board meeting. I have provided you with some notes, prepared by the finance director before she became ill (**Exhibit 5**)."

Partner's instructions

After the meeting, Emma explained what happened and gave you the following instructions:

"I would like you to help me respond to the ILA board's requests.

"However, I am also concerned about ethical issues relating to the assurance engagement that we have been asked to carry out.

"I have prepared a document setting out in more detail what I would like you to do (**Exhibit 6**)."

Requirement

Respond to the instructions of the engagement partner, Emma Lister (Exhibit 6).

Total: 44 marks

Exhibit 1: Company background notes – prepared by Harold Hester, chief executive

ILA opened its first leisure park in the UK in 1980. In 2001, it opened a second leisure park in the US and in 2016 it opened its newest, and smallest, leisure park in India. All three leisure parks are located just outside major cities.

Each leisure park offers a range of attractions (rollercoasters and other rides; live entertainment; and themed educational exhibits).

ILA's business model is to charge a single daily entry price, enabling visitors to use all attractions. Other revenue streams come from: on-site hotels; food and drink; and retail outlets.

Business is seasonal, depending on weather and local holidays, but all three parks stay open all year.

Revenue and costs for each leisure park are in local currencies. The functional currency of ILA is the £.

The required investment in property and equipment for each leisure park is significant. Annual fixed costs are high, but the variable cost of operating attractions for each additional visitor is near zero.

Exhibit 2: Management accounts extracts and operating data – prepared by finance director

Extracts - key financial data at 30 June

	2020	2019
	£m	£m
Market value of non-current assets	610	630
Loans – 2.8% bank loans 2028	330	330
Share capital – £1 ordinary shares	80	80
Reserves	185	170

Extracts - statement of profit or loss for the years ended 30 June

	2020	2019
	£m	£m
Revenue – attractions (entry tickets)	139.00	145.25
Revenue – other	55.60	58.10
Variable costs	(16.68)	(17.43)
Fixed costs	(153.00)	(153.00)
Operating profit	24.92	32.92

Analysis by leisure park for the year ended 30 June 2020

	UK	US	India
	£m	£m	£m
Revenue – attractions(entry tickets)	60.00	63.00	16.00
Revenue – other	24.00	25.20	6.40
Variable costs	(7.20)	(7.56)	(1.92)
Fixed costs	(65.00)	(66.00)	(22.00)
Operating profit/(loss)	11.80	14.64	(1.52)

Other operating data for the year ended 30 June 2020

	UK	US	India
Average price per entry ticket	£30	£35	£20
Number of attractions	100	80	50
Market value of non-current assets	£220m	£250m	£140m

Number of visitors

Year to 30 June	UK	US	India
	000s	000s	000s
2017	2,200	1,780	600
2018	2,150	1,810	700
2019	2,120	1,830	880
2020	2,000	1,800	800

Exhibit 3: Financial and strategic challenges – prepared by Harold Hester, chief executive

The decline in visitor numbers has caused a reduction in both profitability and operating cash flows. This is likely to continue unless the board takes action.

A further decline in share price is likely over the next year, unless the ILA board can set out and implement a clear plan for recovery.

ILA's policy is to continue to invest in new attractions to encourage visitors to return. However, a shortage of finance has limited ILA's ability to invest and, in particular, the Indian leisure park has not expanded its attractions. Customer surveys suggest this is a key reason for reduced visitor numbers in India.

Investment in new attractions is needed if visitor numbers are to be increased. However, there is currently insufficient cash available to build new attractions.

Given the decline in share price this year, the board does not want to issue new share capital until the share price has recovered and this may take a number of years.

Despite high financial gearing, the ILA board approached banks in the UK and the US for additional debt finance to build new attractions. However, it could not obtain a loan with acceptable lending terms.

Exhibit 4: Proposal for a new leisure park in Japan – prepared by Harold Hester, chief executive

The board is considering constructing a new leisure park in Japan, near Tokyo.

It believes that there would be significant demand and that the ticket prices for entry would be similar to the UK or US. Prices would be set, and most costs incurred, in Japanese yen (¥).

Cash flow forecast

The ILA directors have made a cash flow forecast for the first three years of operations in Japan from 1 July 2022, assuming that the number of visitors per year will be constant, at an entry price of ¥4,500 per ticket.

The initial investment in Japan for construction costs is estimated to be ¥26,000 million. This investment would be made on 1 April 2021 and the leisure park would open on 1 July 2022.

Annual operating cash flow forecasts for the Japanese leisure park, in yen, for the three-year period 1 July 2022 to 30 June 2025 are as follows:

	Amount per annum ¥m
Revenue – attractions	10,000
Revenue – other	4,000
Variable costs	(1,200)
Incremental fixed costs	(8,450)

Operating assumptions

Number of attractions	70
Assumed exchange rate	£1 = ¥130
Discount rate required	10% pa
Average price per entry ticket	¥4,500

After the first three years of operations of the Japanese leisure park, estimates are more uncertain. However, the ILA directors have made a working assumption that annual visitor numbers will remain at the same level indefinitely as in each of the first three years.

Financing the project

The ILA board has made an application for a loan of ¥32,000 million from a Japanese bank, Yokosata. This loan amount exceeds the required initial investment for construction costs of ¥26,000 million for the new leisure park in Japan. This is because the ILA board wishes to use the additional ¥6,000 million to improve the attractions in the Indian leisure park.

The additional ¥6,000 million investment in the Indian leisure park would be made on 30 June 2021.

Yokosata has been made aware of this and, in principle, does not object, on the condition that the primary purpose of the loan is to invest in the Japanese leisure park.

The proposed terms of the loan are:

Principal amount: ¥32,000 million.

Date loan granted: 1 April 2021.

Term: 40 years (principal repaid in full in 2061)

Interest rate: 2.5% pa fixed, paid annually.

Security:

- Fixed charge over all Japanese leisure park assets.
- Securitisation over revenues from entry tickets in first ten years of trading at the Japanese leisure park.
- Floating charge over all other ILA assets.

Yokosata is supported by the Japanese government, which is keen to encourage tourism in Japan.

Yokosata has not yet made a final decision on whether to lend. It requires an independent assurance report on the cash flow forecasts made by ILA for the Japanese leisure park for:

- Initial construction costs and financing; and
- Operating cash flows for the three-year period 1 July 2022 to 30 June 2025.

Additional comments by Harold Hester

As chief executive, I want to emphasise how important this loan is to ILA and I want Perkins to be aware of the consequences of issuing an unfavourable assurance report.

Failure to obtain the loan could put ILA in serious financial distress. More particularly, it would mean scaling down, or even closing, the Indian leisure park. This would mean the loss of many jobs, including low-income employees whose families are dependent on the wages from ILA. Both ILA and Perkins have a social responsibility to make sure that this does not happen.

The ILA board recognises that the three-year forecasts are at the high end of the acceptable range, but they are still within the acceptable range. We are therefore asking for Perkins' support for the full ¥32,000 million loan in your assurance report.

Exhibit 5: Foreign exchange risk – prepared by the finance director

In making our application for the ¥32,000 million loan from Yokosata, we are satisfied that no serious currency risk arises from the ¥26,000 million to be invested in the Japanese leisure park, as this will be currency matched by revenues generated in yen.

There was some concern expressed at the last board meeting, however, that there will be currency exposure from the ¥6,000 million not invested in Japan, as ILA's functional currency is £. A currency forward contract was suggested at the board meeting to hedge the foreign exchange risk in the three months to 30 June 2021 that it will take to invest the ¥6,000 million element of the loan for the Indian leisure park.

I was asked to prepare calculations about the impact of a currency forward contract using the following illustrative data. I have not had chance to do this yet.

Illustrative data

The working assumptions for the period 1 April 2021 to 30 June 2021 are as follows:

Loan issued at 1 April 2021:	¥32,000 million
Loan to be hedged at 1 April 2021:	¥6,000 million
Exchange rate at 1 April 2021:	£1 = ¥130
Exchange rate at 30 June 2021:	£1 = ¥120

On 1 April 2021, a £/¥ currency forward contract will be taken out at a nil price to hedge ¥6,000 million of the loan. The estimated fair value of the forward contract to ILA at 30 June 2021 will be £3.73 million.

The production director suggested at the board meeting that ILA does not need a currency forward contract but, if ILA is to have one, it should be based on Indian rupee, not £.

Exhibit 6: Detailed instructions – prepared by Emma Lister, Perkins partner

I would like you to:

- (1) Analyse the financial performance and position of ILA and each of its three leisure parks, using the information provided.
- (2) Evaluate the proposal to open a new leisure park in Japan, including its financing. Include supporting calculations and reasoned advice.
- (3) Set out the key assurance procedures to be carried out by Perkins when assessing the reasonableness of each of the forecast cash receipts and payments and the underlying assumptions. Ignore ethical issues.
- (4) In respect of the proposed assurance engagement, including the comments by the chief executive, Harold Hester (Exhibit 4):
 - Set out any ethical implications for Perkins and Harold.
 - Recommend actions that Perkins should take.
- (5) With respect to the proposed yen loan and currency forward contract (Exhibit 5):
 - Explain the foreign currency risk on the ¥32,000 million loan. Evaluate the extent to which the forward contract hedges the risk and respond to the comments of the production director.
 - Using the illustrative data, set out and explain the financial reporting treatment of these transactions in the financial statements of ILA for the year ending 30 June 2021.