



Part 1: Demonstration of professional skills

1: Using your recent work experience, describe how you identified two different business or professional issues.

1.1: Identification of overly generous contractual terms to exhibitors as reason for poor profitability (May 2017)

Between 2016 and 2017, the Town & Country Association made significant losses in one of its major events - The Game-zone Fair. The show was the biggest countryside event in Europe, attracting more than 30,000 people over the course of the four days of the show. It also had a significant role in enhancing their branding. Nonetheless the net financial outflow put pressure on other parts of the TCA's business.

As the Interim Financial Controller, I was responsible for preparing management information and providing the Board with financial insights. An area of concern to the management that existed when I joined the TCA was the poor profitability of The Game-zone Fair. In order to prepare a management report on this matter, I produced various forms of background information including:

- Desktop research on the events industry in general;
- Monthly statistics of ticket purchase for the last three years;
- High level review of the organisation's business model;
- High level review of the contracts with exhibitors;
- Control environments and their weaknesses.

I also discussed the issue with other senior colleagues, e.g. marketing director and The Game-zone Fair director, in order to understand the corporate strategy. The Game-zone Fair model was to provide a marketplace where exhibitors and sponsors would have the captive audience of the TCA's members.

As part of my review, I discovered that one of the reasons for the losses could be attributed to inadequate control of contracts with exhibitors. My review suggested that the standard terms for the exhibitors' contracts might have not been properly considered, with the financial risks being allocated to the TCA, rather than shared between the parties. They included generous cancellation and payment policies which allowed exhibitors to pull out from the show at the last minute.

I further collated statistics about the number of exhibitors, the agreed prices and the pattern of cancellations on a spreadsheet. Through reviewing the information, I noticed that this generous policy clearly affected the overall profitability of the show. The exhibitors, especially the smaller ones, took advantage of the generous terms and effectively hedged their positions.

Under the cancellation policy, the TCA would allow almost a full refund if the exhibitors cancelled their places four week prior to the show. Via discussion with colleagues in the events team, I identified that by that time, it would be too costly for the TCA to find a replacement exhibitor. I established that cancellations also had a knock-on impact on other areas affecting profitability, including typesetting of the show guide and the site plan, amongst other things.

1.2: Identification of potential tax liability before Incorporation (June 2019)

The Optics Association, a membership organisation, was established in 1984 and operates as an unincorporated association. It did not have charitable status until 2019 when the organisation successfully incorporated itself as a Charitable Incorporated Organisation (CIO) with the Charity Commission. As the trustees were unsure of their obligations under the new structures, in June 2019 they asked me to provide an overview of their duties, in particular on the financial management and internal controls aspect, at their next meeting.

In order to ensure that I was prepared for the meeting and understood their affairs fully, I requested copies of their financial accounts, constitutional documents as well as their Board minutes. I also verified information in the public domain, including from Companies House and the Charity Commission. In the course of my preparation, I discovered that they might have overlooked their corporation tax position prior to incorporation. I also noticed that the organisation's income was mostly from membership subscriptions, but approximately 20% was attributable to events income.

I discussed this matter with the Chair before the meeting and asked him for his understanding of the situation. He confirmed that the trustees had always held the belief that they were exempt from taxation as they saw themselves as a charity, albeit without official status. It seemed to me that the trustees did not have a full understanding of their tax position.

I expressed my concerns to him, as I knew that unincorporated associations were caught by the corporation tax regime and that the non-for-profit motive would be irrelevant from the taxation perspective. However, there were complex rules relating to mutual trading which could provide them with certain tax exemptions on their membership subscription, but the profits from events could be charged to corporation tax.

I did a 'back of an envelope' calculation to estimate the impact of this potential tax liability on the organisation's reserves, the potential impact on the members and the CIO. Advice was not given at this stage - the objective was to raise the trustees' awareness of the newly identified issue.

I subsequently suggested to the Chair that this was an area where they would need help from a tax specialist.

2.1: Using your recent work experience, describe how you have used your technical expertise and/or business knowledge to analyse a business or professional situation.

Analysing client trade debtor balances to determine appropriate level of bad debt provisioning (July 2015)

In 2015 the real estate industry in Zedd City suffered a severe jolt due to a recession in that sector mainly because of a law and order situation. Additionally, relations with the neighbouring country of Obo nose-dived causing loss of business for nearly all manufacturing companies, including the steel industry. Cross-border terrorism channelled through Obo also badly hit almost all business activity in Zedd City.

With this background information, I prepared my audit planning strategy for the annual audit of EEE Steel Mills Ltd for the year ended March 2015. Two of the most significant audit areas at the client were that of stock and receivables or trade debtors. The audit plan and audit program for the Trade Debtors that I had designed for my audit team aimed at testing the design and operational effectiveness of controls over debtors. It also aimed at finding other critical audit information about trade debtors that could indicate potential problems – for example, in the quality of and therefore the valuation of trade debtor balances for e.g. debtor types (Federal/Local Government bodies, Corporate and other customers), the total debtor balances by debtor type, debtor turnover days, debtor payment history etc.

To analyse the situation further, I constructed a customised debtor ageing analysis that analysed the age of the receivable balances (grouped by customer type and individual customers constituting each type) and related that to the probability of receiving the balance based on multiple criteria like customer type, location, industry, payment history (i.e. poor, average, good), financial strength (analysing debtor liquidity from their annual reports) and credibility (gauged from the CIB Report which is a public document released by the state central bank that shows all loans taken by corporates and government bodies from scheduled banks including those on which they are defaulting). I instructed my team on how to fill out the special debtor ageing analysis template I had constructed, with information from the client and other sources.

Based on the results of the above analysis and a more granular analysis of debtor turnover days (i.e. quarterly and yearly) I reached the conclusion that bad debt provisioning was insufficient to the extent that it distorted the receivables valuation thereby putting into question the reliability of the financial statements. The client's contention was that most of the receivables were owed from Local and Federal Government Bodies and were, therefore, relatively secure. However, considering the outlook of the economy and the poor payment history of these government organisations (with long-stuck receivables and loan defaults with other banks) I considered it prudent to increase the bad debt provision substantially. The provision amount calculation was based on the results of the special debtor ageing analysis that I had constructed for this purpose.

Utilising this audit approach for the trade debtors I was able to determine the appropriate bad debts provision and get the client to recognise the same in their financial statements in order to fairly value trade debtor balances. This analysis and its findings were key to getting the client to write-off some bad debts.

2.2: Using your recent work experience, demonstrate how you have used numerical techniques to analyse a business or professional situation.

Preparation of feasibility study for a client planning to move into another business activity (Nov 2015)

My firm was approached by BB Lighting Ltd, a manufacturer of light bulbs, to advise them on changing their principal activity from manufacturing light bulbs to manufacturing safety matches. BB Lighting was suffering net operating losses in its current business activity mainly due to much cheaper Chinese electrical equipment readily available in the market. For this reason they were contemplating a shift to manufacturing of safety match-sticks which required less investment and had good profit margins due to their export potential to the US, Europe, Africa and the Middle East.

I determined that the planned change of principle business activity required a Cost-Benefit Analysis working based on the analysis of projected relevant cash flows. The planned shift of business required the determination of terminal cash flows from the disposal of the existing business asset infrastructure and subsequently an initial investment (with competing uses) that would generate projected relevant cash inflows and outflows. I, therefore, decided to prepare a feasibility report for the planned project based on a 7-Year financial statement model constructed in MS-Excel. I then subjected the resulting net projected relevant cash flows to multiple capital budgeting techniques to assess if the planned change would be worthy from a financial point of view or otherwise. Finally, I supported the workings with industry benchmark information and publicly available information on the economic forecast for the next 10 years (e.g. the State Central Bank's fortnightly analysis on the economy, Stock Exchange Market Analyses, investment analyst reports etc).

To create the model, I first identified all current and projected relevant cash flow sources (i.e. disposal of old asset infrastructure, investment in new asset infrastructure, working capital requirements, future revenues from the new investment and operating costs) all adjusted for the effects of taxation. I based each working of a relevant cash flow source on a set of clearly defined assumptions. The assumptions were categorised into macro and micro level assumptions. Since the project clearly involved non-diversifiable risk (mainly due to dicey economic conditions) I used a RADR Discount Rate (Risk adjusted Discount Rate) that was based on the CAPM (Capital Asset Pricing Model). I used historical market returns of similar projects to calculate the beta-coefficient of the asset investment. I also used the historical market return data to assess the sensitivity of the expected project return by calculating the standard deviation of the returns on similar projects. The resulting yearly net cash flows were then discounted using the RADR rate to calculate the Payback Period and NPV. A separate working was made for calculating the IRR of the project.

With the financial statement model workings and their results complete, I turned my focus on supporting them with qualitative information obtained from publicly available information referred to above.

The findings gleaned from the results of my report helped the client reach a more insightful decision by balancing the risk-adjusted quantitative workings with the qualitative aspects of the planned shift in principal business activity.

3.1: Using your recent work experience, describe how you have used your professional judgement in choosing between options.

Restructuring of a family farming business (Sept 2018)

Mr J Katerson, a member of the CLA, owned a family farming business. Due to legacy reasons, the business was managed through two companies. The first one, Ram Ltd, being the land-owning company, let the farm land to the second one, HAP Ltd (HAP), for the day-to-day farming activities. In other words, Ram was a property company and HAP was a trading company. In 2018, Mr Katerson approached me with the desire to simplify the business structure and to ensure inheritance tax (IHT) reliefs are maintained.

The mutually exclusive options I considered were:

- Ceasing HAP and operating under Ram;
- Merging the two entities under Ram;
- Running a contract farming arrangement between the two companies.

The main advantage of ceasing HAP and running the farming activities from Ram was that the business affairs would be simplified. The restructuring mechanism would also be the most straightforward. However, there were a significant issue in terms of how to extract the retained profits from HAP effectively, bearing in mind that it had built up a reserve of almost £2 million over the years. The financial accounts suggested that this reserve related to an amount due from Ram, which meant that the shareholders could be exposed to a capital gains tax (CGT) charge when there was not any 'real' profit.

There were advantages of merging the two companies under a paper for paper exchange, i.e. HAP shareholders would exchange HAP shares (old holding) for Ram shares (new holding) as part of the reorganisation. Under this scenario, any capital gains could be rolled-over under sections 126-138A Taxation of Chargeable Gains Act (TCGA) 1992. However, the complication here was that the three family members did not have 75% voting rights in HAP and this might restrict their share capital. The remaining shares were owned by the family Trust, and there was, therefore, some uncertainty about whether the trustees would agree with the family members about significant decisions.

The third option involved Ram engaging HAP under a contract farming arrangement where HAP would provide labour and machinery. This would allow Ram to release working capital that would otherwise be tied up in machinery. By taking business risks in a contract farming arrangement, Ram would trade as a farmer for tax purposes. This approach could, however, be cumbersome as Mr Katerson would need to ensure that income and expenditure were paid into/from the correct bank account. An additional layer of administration would, therefore, be required. It would not simplify the business. The only benefit of this option was to allow the shareholders of both companies to gain a trading status so as to qualify for IHT business property relief (BPR).

On balance, I considered the second option of merging being the best option in long-run. The benefit of rolling over the capital gains tax was clear, and I judged that the risk of not passing any Special Resolution required would be low enough to warrant the choice of this option, as the interests of different parties should generally have aligned.

3.2: Using your recent work experience, describe how you have applied professional judgement to prioritise issues.

Prioritising start-up tasks with limited cash (Jan 2018)

The Community Law Centre (CLC) was a member of TCA. The CLC asked me for advice.

As a start-up entity, one of the key challenges for the CLC was the lack of financial resources. One of my immediate tasks was to develop a solid foundation for the CLC - including recruitment of staff and implementing an IT infrastructure, amongst other things. Whilst the five founders provided different support, this was mostly intangibles. The only source of income during the early stage was a three-year grant from the Tin Chang Foundation (TCF). The grant was paid in quarterly instalments in advance and the CLC needed to invest in certain items (e.g. staff and IT) in order to become operational. Prudent management of cash flow was therefore important.

The following issues were identified by the board as priorities:

- The need to develop an IT system to support the work flow of CLC, in particular to record details of cases handled and by whom;
- Recruitment of additional staff who would be responsible for case management and working with volunteers;
- Recruitment of volunteers to work at CLC, who would be asked to help with cases handled by CLC and with fundraising; and
- Development of the suite of pro bono services that could be offered by CLC by the volunteers.

One of the key challenges that I encountered at this stage of development was the lack of financial and staffing resources. Armed with just £50k (c.£25k- being the first instalment from TCF) and an administrator, it meant that it was not possible to resolve the above issues at the same time, and some of these issues were interlinked.

Having considered the potential impact for delaying each of the tasks and the cash flow constraints, I concluded that it was vital to first recruit operational staff as there would generally be a gap between recruitment and the candidates joining. It would not deplete the bank balance in the first quarter. On that basis, I decided to place an advertisement first.

The next priority was to develop and implement an IT infrastructure. I took a staged process and started with the core requirement, i.e. basic PCs, email system etc, so that we became operational. My rationale was that a comprehensive system for managing volunteers and cases could be added once the CLC gained full momentum. There was also an opportunity for me to apply for capital grants from the Singapore government for major IT spends that improve productivity.

I then discussed pro bono service ideas with the court representatives and developed prototypes of these services. This was less urgent than the recruitment of operational staff, as without operational staff the pro bono services could not be provided by CLC as the necessary support facilities would not be in place.

Finally, I was able to produce volunteers' job descriptions based on the pro bono services identified. I chose to approach things in this order as I judged that if I had recruited volunteers before this their skillset might not have matched with our requirements, leading to poor engagement.

At the end of the quarter, I reported my progress to the Board and TCF, as I wanted to better engage them by sharing the impact made from their contribution. This also served as a helpful discussion point to prompt TCF for the next payment, allowing me to maintain positive cash flow.

By adopting this approach, I successfully 'jump started' the CLC, and achieved significant impact before the official launch later in the year.

4: Using your recent work experience, describe two situations where you have used your technical knowledge and/or practical experience to develop advice.

4.1: Developing client advice on improving their current cost accounting system (Feb 2016)

My firm (Sands) was approached by AAA Engineering & Steel Mills Ltd, a single member company (or SMC), to study their cost accounting system and suggest improvements to the same. AAA Engineering was losing sales and market share due to more competitively priced products. Consequently, they decided to seek professional advice from my firm.

From the study of AAA Engineering's cost accounting system I found that the company had a process costing system in place that used the average costing method to account for finished and work-in-process inventories. Factory costs were analysed by cost elements (*direct materials, direct labour and overheads*) and departments (*coke ovens, blast furnacing, sintering, pelletising, oxygen furnacing, vacuum degassing, alloy injecting, continuous casting, and rolling mills*). A review of their factory overhead control account and its subsidiary ledgers revealed to me that a blanket pre-determined factory overhead rate was used based on machine hours.

The study revealed to me that AAA Engineering's cost accounting system had some fundamental flaws. Further analysis of the system clearly indicated that an improved costing system was needed that could address all of the aforementioned shortcomings present in the system. To address these flaws I decided to prepare a report for the management on the findings gleaned from the study of their costing system with advice on how to design and implement an improved costing system.

In reporting on the current costing system I observed that the costing system was not linked to the product, customer and service rationalisation steps taken by the management to control costs. Secondly, it was not linked to managements' strategy initiatives making it ineffective to support their future decision-making (*e.g. new product offerings, change in market dynamics, change in production method etc*). Both of these flaws existed due to the usage of a classic or traditional costing system. Thirdly, it focussed on the sub-division of cost elements rather than trace costs to the cost drivers influencing them. Fourthly, it was limited to allocating only the total manufacturing costs as opposed to other costs that are involved in the entire value chain (*consisting of activities in different departments*) like quality costs, R&D costs, distribution costs and customer service costs.

I emphasised to management that in order for AAA Engineerin to achieve its critical success factors, it needed to better understand the entire value chain that consisted of various cross-functional activities that drove costs (or cost drivers) needed to provide the goods and services to the ultimate customer. The current costing system did not link these activities and their costs to the final product resulting in incorrect costing and pricing of final products. I therefore, advised management to implement an ABC (Activity-based costing) costing system in order to address the problem of costing its products competitively. I explained how to identify activities, cost drivers, create cost pools, relate activities to cost pools using cost drivers and allocate costs to products depending on the amount of activities they consumed. I explained the practical usage of ABC by constructing different matrices namely the *Resource Identification Matrix, Activities Identification Matrix, Resource-Activity Matrix, Product-Activity Matrix* and the *Resource-Product Matrix* that would be used for cost allocation to products.

Using a real-world example (from a previous assignment that I had done for another client) I contrasted the product costs resulting from the use of process costing with that of ABC costing method, proving that the current system was inadequate at capturing and reflecting the costs consumed by the products. I further proved through this example that ABC costing would result in a truer picture of product costs and relate them to the entire chain of activities that were involved in providing the end product to the consumer.

Through this advice (provided in the form of a report) AAA Engineering & Steel Mills were able to not only correctly cost their products and bring product-costing in line with their strategy but also price the product competitively.

4.2: Tax Planning: advising a farming business on diversification and the IHT implications (March 2016)

Mr Lang, another TCA member, recently inherited a family farm and wanted to diversify. He had little interest in farming. His plan was to reduce the agricultural activities by letting some of his land on a farm business tenancy (FBT) and to diversify into the hospitality industry. He suggested operating as a wedding venue with cottages let to wedding guests. The concept was to allow the guests to bring in their own caterers, entertainment etc and Mr Lang merely supplies the venue. He was concerned about inheritance tax (IHT) implications. In 2017, I was responsible in giving him tax advice on his proposal on diversification.

The starting point was that the properties would no longer qualify for agricultural property relief (APR) once assets were taken away from agricultural use. Therefore, APR could be limited to the land retained for the FBT, and the site used for the wedding business would lose APR. The challenge of securing business property relief (BPR) for the wedding business was that Mr Lang would need to ensure there would be sufficient trading activities to meet the relevant qualifying conditions under section 105 of the inheritance Tax Act (IHTA) 1984.

Having gained a detailed understanding of Mr Lang's proposal and read his business plan, I was of the opinion that he could claim BPR under *Inland Revenue Commissioners v George* (2003) All ER (D) 102. A claim for BPR was upheld in that case as the owners devoted significant time to the 'management activities' (i.e. day to day maintenance of the exterior and the common areas, and 'policing' the common areas to ensure that tenants complied with the terms of their leases). The situation was not dissimilar to Mr Lang's proposal. Once his business was in full operation, he would be spending a lot of time in practice conducting the same management activities as in *George*.

However, in my advice I highlighted the risk of him adopting a phased-in-strategy. Before the wedding business could take off, I noted that I thought he may be using the cottages as furnished holiday lets (FHLs), and that from a BPR perspective, this could fall on the wrong side of the equation. Mr Lang commented that I was very astute to pick up this point even though he had not written it down in his business plan. We concluded that given his age, this was not necessarily a serious problem for the time being, but he should keep this under regular review. I also advised him that an alternative strategy was to consider running a shared farming or contract farming arrangement, instead of granting a FBT, so as to secure the BPR for the farmland. Depending on the turnover from the contract farming, he may also benefit from the *Balfour* principle by arguing that he runs a farming business predominantly, thereby securing BPR on all his properties.

5: Using your recent work experience, demonstrate how you dealt with an ethical issue.

Dealing with the issue of bribes received by client management (August 2016)

During the 2016 annual audit of my client AAA Healthcare Ltd, a general hospital in Zedd City, I made a number of observations that were related to the actions of certain members of middle management. These managers were mainly staff in the supplies and procurement department of the hospital. The observations suggested the possibility of acceptance of bribes by these employees from pharmaceutical companies paid to secure larger orders or large supply contracts.

The list of observations that I made are set out, below:

- Some of the companies stated on the quotations supposedly invited from them never existed. The presence of such fake quotations indicated the involvement of the favoured pharmaceutical company in arranging such fake questions to make their own 'appear' the best.
- Frequent leave often involving international travel by the suspected employees. It was a known fact that pharmaceutical companies gave generous 'benefits-in-kind' to secure large supply orders and contracts.
- The suspected employees had a standard of living (luxury cars etc.) that was way above their salary level making it virtually impossible to afford such amenities considering some of them had families to support.

It was I who had uncovered the issues by requesting information during the audit. What made this a particularly awkward situation was that I knew one of the middle managers from having gone to the same university as them.

This was a serious issue because it involved not only ethical concerns at the workspace but also the health of the individuals since the favoured supplier would not necessarily be the best in terms of product and service quality. Objectivity and due care principles demanded that I take up these matters with the top management that comprised senior medical doctors and consultants, who also made up the Board of Directors (BoD) of the hospital. This was done by me calling a special meeting to discuss my findings.

The observations that I discussed with the BoD were subsequently investigated further by the company's internal audit team who interviewed and probed each of the suspected middle managers.

For some of the suspected employees further evidence was obtained and their involvement in bribe-taking was confirmed. Depending on the magnitude and frequency of the bribe-taking some of them were terminated from service whereas the rest were disciplined.

Although my duty of confidentiality required me not to disclose the matter to an outside party but since the offence involved outside stakeholder (i.e. suppliers) and risk to public health I advised the BoD to apprise appropriate personnel at the pharmaceutical companies of the situation. As a result of my advice the sales team of the suppliers currently dealing with the hospital were also investigated and their employment was subsequently terminated.

The actions that I and the top management of AAA Healthcare Ltd took greatly improved the ethical environment of AAA Healthcare.

Part 2: Summary of Employment – example template. For each of the last five years, add into relevant yearly box, a short paragraph of your role during that year, the work you carried out during that period, and the question(s) to which this activity refers in your Examination answers in Part 1.

For each year, you will need to include, where relevant, different employers, or different roles with a single employer, or different projects within a single role.

Date (12 month sections)	Description of your role	What you did during this period	Referred in your answer to the question number
01 Jan-31 Dec 19	The Optics Association	Advised the Board of Trustees on their governance duties and financial matters including the tax consequences of incorporation.	1.2
01 Jan-31 Dec 18	Interim Financial Controller Town & Country Association (TCA)	Advised members on a wide range of tax issues, including income tax, CGT, IHT, VAT and SDLT. Assisted with their business restructuring, trust probate matters as appropriate. Prepared the year-end statutory accounts together with detailed variance analysis for the organisation and its pension fund. Developed internal policies and governance framework. Developed markets and new services.	3.1 3.2
01 Jan-31 Dec 17	Interim financial Controller Town & Country Association (TCA)	Carried out a detailed review of The Game-zone Fair and increased its profitability. Developed a profitability budget for The Game-zone Fair and monitored its performance. Disseminated monthly management information and financial analysis to senior staff. Advising clients on diversification and IHT.	1.1 4.2
01 Jan-31 Dec 16	Senior Audit Associate Sands Accountants	Audit planning and supervisory work, including forensic investigations. Audit of clients – including in the healthcare sector. Advised clients – for example on improving their cost accounting systems.	5 4.1

		General accounting work.	4.2
01 Jan-31 Dec 15	Audit Associate Sands Accountants	Preparation and execution of audits for a range of clients. Business appraisal work – for example, a feasibility study for a client planning to move into another business activity. Accounts preparation for a number of different clients.	2.1 2.2