Question 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.

EXAMPLE ANSWER

Associated disposal for capital gains tax

ABC Ltd is a private company specialising in the sale of second hand motor vehicles. It has one director and shareholder, known as CO. I am the accounts partner for the company and deal with CO personal tax affairs. The company was operating from premises owned by CO and he wanted to sell this as part of his exit plan from the business. The company was to then move into a rented industrial unit.

In early 2023 CO approached me to advise on the personal tax implications of this sale. Immediately I knew that this disposal would not be eligible for business asset disposal relief (BADR). However, as I was aware of the associated disposal rules for capital gains tax, and the clients plan to bring his children into the business if we could align the two, both disposal would qualify for BADR.

To assess the viability of this, I needed to analyse his previous capital disposals and ABC financial statements, budgets and forecasts to perform a company valuation.

Previous disposals

CO has previously made capital disposals of assets, which included business' commercial properties and residential properties. To establish his entitlement to BADR in relation to this proposed disposal, I had to analysis his previous personal tax returns, identifying capital disposals and BADR claims, previous known as Entrepreneurs Relief, or any disposal under taper relief, comparing these to his lifetime limit. Knowing that the lifetime limit had reduced to £1m from £10m, in March 2020, this analysis was integral as any tax planning performed previously may have been on the basis that the £10m limit would remain. This analysis would also help identify any unutilised losses being carried forward. If he has used his lifetime limit, there would be no need to align his disposal with the sale of his shares to his children because he would have no entitlement to BADR therefore any gain would be subject to the full rate of capital gains tax at 20% because he was already a higher rate tax payer.

ABC Financial Statements

To put a valuation on the company for CO to sell his shares to his children, I needed to value ABC. To do this I prepared a 5 year analysis of the company's financial statements, which included profitability ratios, return on investment, movement in shareholders' funds, with specific attention to any material or one off events which would affect operating profit and dividends, as it was these two figures, I was going to use for the earnings multiplier method to value the Company. Earnings

per share was considered as a valuation technique, however I could not find any other business to compare the results to.

This analysis highlighted to me that CO was not taking a commercial salary from ABC. This would cause the results of the company to be inflated. I spoke to CO about this and together we analysed his typical working week to assess his main roles and the hours he worked. As expected, as the director he carried out many roles but was still involved in the day to day operations of the business. To put a monetary value on this we utilised Indeed, the recruitment website, and analysed similar jobs on offer. I then took as average of these to incorporate into our valuation.

After this analysis was undertaken, I was able to advise CO on the value of ABC and his eligibility to BADR on both the disposal of the business premises and the sale of a proportion of his shareholding to his children.

EXAMPLE ANSWER

Financial Analysis for Strategic Investment in LNG Storage Project

In April 2023, I was tasked with analyzing the ABC LNG Storage and Distribution Base Project for XYZ Gas Limited (XYZgas), a key expansion initiative with a total investment of approximately RMB 5 billion. As Vice General Manager and Finance Director, ensuring the financial viability of this significant investment was crucial.

I concentrated on performing a Discounted Cash Flow (DCF) analysis to evaluate the financial feasibility of the ABC LNG Storage and Distribution Base Project. This method was selected for its ability to provide a detailed valuation by incorporating the time value of money and assessing potential profitability.

To begin with, I estimated the future cash flows expected from the project. This process involved a comprehensive approach to forecasting both revenues and costs. For revenue forecasting, I analyzed market demand for LNG in the Central China, using market research reports and consulting industry experts to predict LNG consumption and pricing trends. I projected annual sales volumes based on these insights and historical data on LNG demand and pricing fluctuations. This allowed me to estimate the revenue streams the project would generate over its operational lifespan.

In terms of operational costs, I evaluated expenses necessary for running the LNG facility, including maintenance, labor, utilities, and other ongoing costs. I reviewed historical cost data from similar projects and consulted with operational managers to develop realistic cost projections. These estimates were adjusted for anticipated inflation and regional economic conditions to ensure their accuracy.

For construction and land acquisition, I collected detailed cost estimates. This involved obtaining bids and cost breakdowns from contractors and real estate professionals. I reviewed these estimates, including material, labor, and permit costs, and cross-checked them with historical data from similar projects to verify their validity.

Once the future cash flows were estimated, I applied the Discounted Cash Flow (DCF) method to determine the Net Present Value (NPV) of the project. Calculating the discount rate was a critical step in this process. I determined the Weighted Average Cost of Capital (WACC), which reflected the project's specific risk profile and the time value of money. This involved assessing risks such as construction delays and market volatility, and consulting financial analysts for an appropriate rate. The WACC combined the cost of equity and debt, weighted according to the project's capital structure.

With the discount rate established, I calculated the present value of each year's projected cash flows. For instance, if a year's projected revenue was RMB 100 million and the discount rate was 8%, I discounted this amount to its present value using the formula RMB 100 million / (1 + 0.08)^n, where n represents the number of years into the future. I performed this calculation for all future cash flows and summed these present values to determine the total NPV.

Interpreting the results involved evaluating whether the NPV was positive, which would indicate that the project was expected to generate value exceeding its cost, thus making it a financially

viable investment. A positive NPV suggested the project could potentially create value for the company, while a negative NPV would signal that it might not meet the desired financial returns.

Finally, I prepared a comprehensive report and presentation for the senior management team. This included a summary of the estimated future cash flows, the discount rate used, the calculated NPV, and an analysis of the project's financial feasibility. My report also highlighted potential financial risks and provided recommendations to address these risks. Through this detailed DCF analysis, I offered the management team a robust foundation for making an informed decision about the project.