



Financial Pillar

F1 – Financial Operations

25 November 2010 – Thursday Morning Session

Instructions to candidates

You are allowed three hours to answer this question paper.
You are allowed 20 minutes reading time before the examination begins during which you should read the question paper and, if you wish, highlight and/or make notes on the question paper. However, you will not be allowed, under any circumstances , to open the answer book and start writing or use your calculator during this reading time.
You are strongly advised to carefully read ALL the question requirements before attempting the question concerned (that is all parts and/or sub-questions).
ALL answers must be written in the answer book. Answers written on the question paper will not be submitted for marking.
You should show all workings as marks are available for the method you use.
ALL QUESTIONS ARE COMPULSORY
Section A comprises 10 sub-questions and is on pages 3 to 6.
Section B comprises 6 sub-questions and is on pages 8 to 11.
Section C comprises 2 questions and is on pages 12 to 15.
The country 'Tax Regime' for the paper is provided on page 2. Maths tables and formulae are provided on pages 17 and 18.
The list of verbs as published in the syllabus is given for reference on page 19.
Write your candidate number, the paper number and examination subject title in the spaces provided on the front of the answer book. Also write your contact ID and name in the space provided in the right hand margin and seal to close.
Tick the appropriate boxes on the front of the answer book to indicate the questions you have answered.

F1 – Financial Operations

COUNTRY X - TAX REGIME FOR USE THROUGHOUT THE EXAMINATION PAPER

Relevant Tax Rules for Years Ended 31 March 2007 to 2012

Corporate Profits

Unless otherwise specified, only the following rules for taxation of corporate profits will be relevant, other taxes can be ignored:

- Accounting rules on recognition and measurement are followed for tax purposes.
- All expenses other than depreciation, amortisation, entertaining, taxes paid to other public bodies and donations to political parties are tax deductible.
- Tax depreciation is deductible as follows:
 - 50% of additions to Property, Plant and Equipment in the accounting period in which they are recorded;
 - 25% per year of the written-down value (i.e. cost minus previous allowances) in subsequent accounting periods except that in which the asset is disposed of;
 - No tax depreciation is allowed on land.
- The corporate tax on profits is at a rate of 25%.

Value Added Tax

Country X has a VAT system which allows entities to reclaim input tax paid.
In country X the VAT rates are:

Zero rated	0%
Standard rated	15%

SECTION A – 20 MARKS

[You are advised to spend no longer than 36 minutes on this section]

ANSWER ALL TEN SUB-QUESTIONS IN THIS SECTION

Instructions for answering Section A:

The answers to the ten sub-questions in Section A should ALL be written in your answer book.

Your answers should be clearly numbered with the sub-question number and then ruled off, so that the markers know which sub-question you are answering. For **multiple choice questions, you need only write the sub-question number and the letter of the answer option you have chosen.** You do not need to start a new page for each sub-question.

Question One

- 1.1 CR is resident in Country X. CR makes a taxable profit of \$750,000 and pays an equity dividend of \$350,000.

Equity shareholders pay tax on their dividend income at a rate of 30%.

If CR and its equity shareholders pay a total of \$205,000 tax between them, what method of corporate income tax is being used in Country X?

- A The classical system
- B The imputation system
- C The partial imputation system
- D The split rate system

(2 marks)

- 1.2 Which ONE of the following is NOT a benefit of pay-as-you-earn (PAYE) method of tax collection?

- A It makes payment of tax easier for the tax payer as it is in instalments.
- B It makes it easier for governments to forecast tax revenues.
- C It benefits the tax payer as it reduces the tax payable.
- D It improves governments cash flow as cash is received earlier.

(2 marks)

TURN OVER

1.3 In relation to a Value Added Tax (VAT) system, which ONE of the following would be classified as the formal incidence of VAT?

- A** The entity submitting a VAT return and making payment to the tax authorities.
- B** The date the tax is actually paid.
- C** The person that pays a retail entity for the goods plus VAT.
- D** A retail entity paying a wholesale entity for goods plus VAT.

(2 marks)

1.4 Which ONE of the following is NOT a reason for governments to set deadlines for filing tax returns and payment of taxes?

- A** To enable governments to enforce penalties for late payments.
- B** To ensure tax deducted at source by employers is paid over promptly.
- C** To ensure tax payers know when they have to make payment.
- D** To ensure that the correct amount of tax revenue is paid.

(2 marks)

1.5 UF manufactures clothing and operates in Country X. UF and ZF are both registered for VAT.

UF manufactures a batch of clothing and pays expenses (taxable inputs at standard rate) of \$1,000 plus VAT. UF sells the batch of clothing to a retailer ZF for \$2,875 including VAT at standard rate. ZF sells the clothing items separately to various customers for a total of \$6,900 including VAT at standard rate.

Calculate how much VAT UF and ZF **each** has to pay in respect of the above transactions?

(2 marks)

1.6 An external auditor has completed an audit and is satisfied that proper records have been maintained and that the financial statements reflect those transactions. However the auditor has one disagreement with the management of the entity. The disagreement involves the treatment of one large item of expenditure that has been classified by management as an increase in non-current assets. The auditor is of the opinion that the item should have been classified as maintenance and charged as an expense to the statement of comprehensive income. The amount is material in the context of the reported profit for the year.

Assuming that the management refuse to change their approach, which ONE of the following modified audit reports should the auditor use?

- A** Emphasis of matter
- B** "Except for" qualification
- C** Adverse opinion
- D** Disclaimer of opinion

(2 marks)

- 1.7** TS purchased 100,000 of its own equity shares in the market and classified them as treasury shares. At the end of the accounting period TS still held the treasury shares.

Which ONE of the following is the correct presentation of the treasury shares in TS's closing statement of financial position in accordance with IAS 32 *Financial Instruments – Presentation*?

- A** As a current asset investment
- B** As a non-current liability
- C** As a non-current asset
- D** As a deduction from equity

(2 marks)

-
- 1.8** Which ONE of the following is NOT a topic included in the International Accounting Standards Board's (IASB) *Framework for the Preparation and Presentation of Financial Statements (Framework)*?

- A** The objective of financial statements
- B** Concepts of capital maintenance
- C** Regulatory bodies governing financial statements
- D** Measurement of the elements of financial statements

(2 marks)

-
- 1.9** Which ONE of the following would be regarded as a related party of Z in accordance with IAS 24 – *Related Parties*?

- A** FG is Z's banker and has provided an extensive overdraft facility on favourable terms.
- B** JK is Z's principal customer, accounting for 60% of its revenue.
- C** MN is Z's marketing director who holds 20% of Z's equity shares.
- D** QR is Z's main supplier, supplying nearly 50% of Z's purchases by value.

(2 marks)

TURN OVER

1.10 Which ONE of the following is NOT included in the definition of an operating segment in accordance with IFRS 8 *Operating Segments*?

- A** A component of an entity that earns the majority of its revenue from sales to external customers.
- B** A component of an entity that engages in business activities from which it may earn revenues and incur expenses.
- C** A component of an entity whose operating results are regularly reviewed by the entity's chief operating decision maker, to make decisions about resource allocations and assess performance.
- D** A component of an entity for which discrete financial information is available.

(2 marks)

(Total for Section A = 20 marks)

Reminder

All answers to Section A must be written in your answer book.
Answers or notes to Section A written on the question paper will **not** be submitted for marking.

End of Section A

Section B starts on the next page

TURN OVER

SECTION B – 30 MARKS

[You are advised to spend no longer than 9 minutes on each sub-question in this section.]

ANSWER ALL SIX SUB-QUESTIONS IN THIS SECTION – 5 MARKS EACH

Question Two

- (a) ZK is part of a group of entities and has traded profitably for a number of years. During the year to 31 August 2009, ZK made a tax adjusted trading loss of \$30,000 and a capital gain of \$5,000. In the following year to 31 August 2010, ZK made a taxable trading profit of \$10,000. ZK expects to increase taxable trading profits to \$50,000 for the year to 31 August 2011. ZK does not expect any capital gains or losses in the year to 31 August 2011.

Required:

Explain FOUR methods that a Country can allow to relieve trading losses of an entity and **illustrate** the effect of each method on ZK for the years ended 31 August 2009 to 2011.

(Total for sub-question (a) = 5 marks)

- (b) HW, an entity resident in Country X, owns 40% of the equity shares in SV, an entity resident in a foreign country, Country Y. For the year to 31 March 2010 SV had taxable profits of \$12,500,000 and paid corporate income tax of \$1,875,000. On 31 October 2010 HW received a dividend of \$3,375,000 from SV, the amount received is net of tax of 10%.

Country X has a double taxation treaty with Country Y. The treaty provides for a group of entities to only be taxed once on each entity's profits. Credit is given for withholding tax and underlying tax paid in other countries, but no refunds are available if a higher rate of tax has been paid.

Required:

- (i) **Explain** the meaning of "withholding tax" and provide an explanation as to why countries levy "withholding" taxes. *(2 marks)*
- (ii) **Calculate** the amount due to be paid by HW on receipt of this dividend in Country X. Show all workings. *(3 marks)*

(Total for sub-question (b) = 5 marks)

(c)

Required:

Explain the FOUR qualitative characteristics of financial information specified in the IASB's Framework.

(Total for sub-question (c) = 5 marks)

- (d) HB paid \$2.50 per share to acquire 100% of PN's equity shares on 1 September 2009. At that date PN's statement of financial position showed the following balances with equity:

	<i>\$000</i>
Equity shares of \$1 each	180
Share premium	60
Retained earnings	40

PN's net asset values were the same as their book values, except for land which was valued at \$70,000 more than its book value.

HB directors estimate that any goodwill arising on the acquisition will have a useful life of 10 years.

Required:

- (i) **Calculate** goodwill arising on the acquisition of PN. *(2 marks)*
- (ii) **Explain** how HB should record the goodwill in its group financial statements for the year ended 31 August 2010, in accordance with IFRS 3 *Business Combinations*.

(3 marks)

(Total for sub-question (d) = 5 marks)

Section B starts on the next page

TURN OVER

- (e) HI, a parent entity, is planning to acquire a shareholding in ABC. The following alternative investment strategies are being considered:
- (i) HI can purchase 80,000 preferred shares in ABC;
 - (ii) HI can purchase 40,000 equity shares and 50,000 preferred shares in ABC;
 - (iii) HI can purchase 70,000 equity shares in ABC and no preferred shares.

ABC has the following issued share capital:

	\$
\$1 Equity shares	100,000
\$1 10% Preferred Shares	100,000

Holders of preferred shares do not have any votes at annual general meetings.

Required:

Identify with reasons how HI would classify its investment in ABC in its consolidated financial statements for each of the alternative investment strategies.

(Total for sub-question (e) = 5 marks)

Section B starts on the opposite page

- (f) MN obtained a licence free of charge from the government to dig and operate a gold mine.

MN spent \$6 million digging and preparing the mine for operation and erecting buildings on site. The mine commenced operations on 1 September 2009.

The licence requires that at the end of the mine's useful life of 20 years, the site must be reinstated, all buildings and equipment must be removed and the site landscaped. At 31 August 2010 MN estimated that the cost in 19 years' time of the removal and landscaping will be \$5 million and its present value is \$3 million.

On the 31 October 2010 there was a massive earthquake in the area and MN's mine shaft was badly damaged. It is estimated that the mine will be closed for at least six months and will cost \$1 million to repair.

Required:

- (i) **Explain** how MN should record the cost of the site reinstatement as at 31 August 2010 in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(2 marks)

- (ii) **Explain** how MN should treat the effects of the earthquake in its financial statements for the year ended 31 August 2010 in accordance with IAS 10 *Events After The Reporting Period*.

(3 marks)

(Total for sub-question (f) = 5 marks)

(Total for Section B = 30 marks)

End of Section B

Section C starts on page 12

TURN OVER

SECTION C – 50 MARKS

[You are advised to spend no longer than 45 minutes on each question in this section.]

ANSWER *BOTH* QUESTIONS FROM THIS SECTION – 25 MARKS EACH

Question Three

XB trial balance at 31 October 2010 is shown below:

	Notes	\$000	\$000
Administrative expenses		185	
Cash and cash equivalents		216	
Cost of sales		237	
Distribution costs		62	
Donations to political party		5	
Entertaining expenses		12	
Equity dividend paid	(i)	50	
Interest paid	(ii)	3	
Inventory at 31 October 2010		18	
Land at cost – 31 October 2009	(iii)	730	
Long-term borrowings	(ii)		200
Ordinary Shares \$1 each, fully paid at 31 October 2010	(iv)		630
Property, plant and equipment – at cost 31 October 2009	(iii)	320	
Provision for deferred tax at 31 October 2009			10
Provision for property, plant and equipment depreciation at 31 October 2009	(v)		192
Purchase of property, plant and equipment during the year	(v)	110	
Retained earnings at 31 October 2009			168
Revenue			690
Share premium at 31 October 2010	(iv)		99
Suspense	(vi)	3	
Taxation	(vii)	6	
Trade payables			77
Trade receivables		109	
		<u>2,066</u>	<u>2,066</u>

Additional information provided:

- (i) The final dividend for the year to 31 October 2009 of \$50,000 was paid on 31 March 2010.
- (ii) Long-term borrowings consist of a loan taken out on 1 May 2009 at 3% interest per year. Six months loan interest has been paid in the year to 31 October 2010.
- (iii) At 31 October 2009 the tax written down value of XB's assets was \$90,000. None of these assets were fully depreciated at this date.
- (iv) XB issued 330,000 equity shares on 30 June 2010 at a premium of 30%.
- (v) Property, plant and equipment is depreciated at 20% per annum using the straight line method. Depreciation of property, plant and equipment is considered to be part of cost of sales. XB's policy is to charge a full year's depreciation in the year of acquisition and no depreciation in the year of disposal.
- (vi) Purchased goods, invoiced at \$3,000 received in September 2010 were returned to the supplier in October. At 31 October 2010 the supplier had not issued a credit note. XB had correctly deducted the amount from purchases with the corresponding double entry posted to the suspense account.
- (vii) The balance on the taxation account is the income tax underestimated in the previous year's financial statements.

Required:

- (a) **Prepare** XB's statement of comprehensive income for the year to 31 October 2010, including a **calculation** of income tax expense.

(Note there are up to 8 marks available for the taxation computation)

(14 marks)

- (b) **Prepare** XB's statement of changes in equity for the year to 31 October 2010 **and** a statement of financial position at that date.

(11 marks)

All statements should be in a form suitable for presentation to the shareholders and in accordance with the requirements of International Financial Reporting Standards.

Notes to the financial statements are not required, but all workings must be clearly shown. Do not prepare a statement of accounting policies.

Note: Your answer should be to the nearest \$000.

(Total for Question Three = 25 marks)

Section C continues on page 14

TURN OVER

Question Four

The financial statements of YG are given below:

Statement of Financial Position as at:

	31 Oct 2010		31 Oct 2009	
	\$000	\$000	\$000	\$000
Non-current Assets				
Property, plant and equipment	4,676		4,248	
Development expenditure	<u>417</u>		<u>494</u>	
		5,093		4,742
Current Assets				
Inventory	606		509	
Trade receivables	456		372	
Cash and cash equivalents	<u>1,989</u>	<u>3,051</u>	<u>205</u>	<u>1,086</u>
Total Assets		<u>8,144</u>		<u>5,828</u>
Equity and Liabilities				
Equity shares of \$1 each	3,780		2,180	
Share premium	1,420		620	
Revaluation reserve	560		260	
Retained earnings	<u>1,314</u>	7,074	<u>1,250</u>	4,310
Non-current liabilities				
Long term borrowings	360		715	
Deferred tax	<u>210</u>	570	<u>170</u>	885
Current liabilities				
Trade payables	425		310	
Current tax	70		170	
Accrued interest	5		3	
Provision for redundancy costs	<u>0</u>	<u>500</u>	<u>150</u>	<u>633</u>
Total Equity and Liabilities		<u>8,144</u>		<u>5,828</u>

Statement of Comprehensive Income for the year ended 31 October 2010

	\$000	\$000
Revenue		6,640
Cost of sales		<u>(3,530)</u>
		3,110
Administrative expenses	(2,040)	
Distribution costs	<u>(788)</u>	<u>(2,828)</u>
		282
Finance cost		<u>(16)</u>
		266
Taxation		<u>120</u>
Profit for the year		146
Other Comprehensive Income		
Gain on revaluation of property, plant and equipment		<u>300</u>
		<u>446</u>

Additional information:

- (i) On 1 November 2009, YG issued 1,600,000 \$1 ordinary shares at a premium of 50%. No other finance was raised during the year.
- (ii) YG paid a dividend during the year.
- (iii) Plant and equipment disposed of in the year had a net book value of \$70,000; cash received on disposal was \$66,000. Any gain or loss on disposal has been included under cost of sales.
- (iv) Cost of sales includes \$145,000 for development expenditure amortised during the year.
- (v) Depreciation charged for the year was \$250,000.
- (vi) The income tax expense for the year to 31 October 2010 is made up as follows:

	\$000
Corporate income tax	80
Deferred tax	<u>40</u>
	<u>120</u>

- (vii) During the year to 31 October 2009 YG set up a provision for redundancy costs arising from the closure of one of its activities. During the year to 31 October 2010, YG spent \$177,000 on redundancy costs, the additional cost being charged to administrative expenses.

Required:

- (a) **Prepare** a statement of cash flows, using the indirect method, for YG for the year ended 31 October 2010, in accordance with IAS 7 *Statement of Cash Flows*.

(20 marks)

- (b) Someone you have known for many years has heard that you work for YG, a well known international entity. There are rumours in the press that YG's latest share issue was to raise cash to enable it to launch a takeover bid for another entity. Your friend wants to treat you to dinner at an expensive local restaurant, so that you can give him details of the proposed takeover before it is made public.

Explain how you would respond to your friend. Your answer should include reference to CIMA's Code of Ethics for Professional Accountants.

(5 marks)

(Total for Question Four = 25 marks)

End of Question Paper

Maths Tables and Formulae are on Pages 17 and 18

Maths Tables and Formulae are on Pages 17 and 18

MATHS TABLES AND FORMULAE

Present value table

Present value of \$1, that is $(1 + r)^{-n}$ where r = interest rate; n = number of periods until payment or receipt.

Periods (n)	Interest rates (r)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Periods (n)	Interest rates (r)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026

Cumulative present value of \$1 per annum, Receivable or Payable at the end of each year for n years

$$\frac{1-(1+r)^{-n}}{r}$$

Periods (n)	Interest rates (r)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201
19	17.226	15.679	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365
20	18.046	16.351	14.878	13.590	12.462	11.470	10.594	9.818	9.129	8.514

Periods (n)	Interest rates (r)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12	6.492	6.194	5.918	5.660	5.421	5.197	4.988	4.793	4.611	4.439
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675
16	7.379	6.974	6.604	6.265	5.954	5.668	5.405	5.162	4.938	4.730
17	7.549	7.120	6.729	6.373	6.047	5.749	5.475	5.222	4.990	4.775
18	7.702	7.250	6.840	6.467	6.128	5.818	5.534	5.273	5.033	4.812
19	7.839	7.366	6.938	6.550	6.198	5.877	5.584	5.316	5.070	4.843
20	7.963	7.469	7.025	6.623	6.259	5.929	5.628	5.353	5.101	4.870

FORMULAE

Annuity

Present value of an annuity of \$1 per annum, receivable or payable for n years, commencing in one year, discounted at $r\%$ per annum:

$$PV = \frac{1}{r} \left[1 - \frac{1}{[1+r]^n} \right]$$

Perpetuity

Present value of \$1 per annum, payable or receivable in perpetuity, commencing in one year, discounted at $r\%$ per annum:

$$PV = \frac{1}{r}$$

LIST OF VERBS USED IN THE QUESTION REQUIREMENTS

A list of the learning objectives and verbs that appear in the syllabus and in the question requirements for each question in this paper.

It is important that you answer the question according to the definition of the verb.

LEARNING OBJECTIVE	VERBS USED	DEFINITION
Level 1 - KNOWLEDGE What you are expected to know.	List State Define	Make a list of Express, fully or clearly, the details/facts of Give the exact meaning of
Level 2 - COMPREHENSION What you are expected to understand.	Describe Distinguish Explain Identify Illustrate	Communicate the key features Highlight the differences between Make clear or intelligible/State the meaning or purpose of Recognise, establish or select after consideration Use an example to describe or explain something
Level 3 - APPLICATION How you are expected to apply your knowledge.	Apply Calculate Demonstrate Prepare Reconcile Solve Tabulate	Put to practical use Ascertain or reckon mathematically Prove with certainty or to exhibit by practical means Make or get ready for use Make or prove consistent/compatible Find an answer to Arrange in a table
Level 4 - ANALYSIS How are you expected to analyse the detail of what you have learned.	Analyse Categorise Compare and contrast Construct Discuss Interpret Prioritise Produce	Examine in detail the structure of Place into a defined class or division Show the similarities and/or differences between Build up or compile Examine in detail by argument Translate into intelligible or familiar terms Place in order of priority or sequence for action Create or bring into existence
Level 5 - EVALUATION How are you expected to use your learning to evaluate, make decisions or recommendations.	Advise Evaluate Recommend	Counsel, inform or notify Appraise or assess the value of Advise on a course of action

Financial Pillar

Operational Level Paper

F1 – Financial Operations

November 2010

Thursday Morning Session