
Answers

Indicative solution and marking scheme

It would be expected that candidates would refer to some or all of the following:
 Other valid points will also attract marks.

1 (a) Ratio	Comment	
Interest cover	A primary concern is whether the company can generate sufficient profits to meet interest payments.	
Quick assets ratio	This ratio will provide evidence of the company's liquidity and thus ability to meet capital repayments in the next twelve months.	
Gearing (debt/equity) ratio	It is important to ensure that the company's long-term stability – and hence the security of our repayments in the longer term – is not compromised. This ratio provides evidence of such stability.	
Dividend payout ratio	The proportion of earnings paid to shareholders should be reasonable, but not excessive, as we would wish to ensure that funds that should be used to make payments on our loans are not being diverted from the company's resources.	
Gross profit margin	A decline in the gross profit margin may indicate that the company's financial performance is declining, and this may weaken our position.	
Mark allocation:	for justification of each measure, up to 2 marks	10
	to a maximum of	
	for quality of report	1
(b)	For each valid comment on performance, 1 mark	
	to a maximum of	24
	for quality of report	2
(c)	Candidates would be expected to refer, <i>inter alia</i> , to: purchased goodwill arises when one company acquires an interest in another company; this may be either a significant or controlling interest; and the value of the assets acquired exceeds the value of the consideration; (both of these values should be measured at fair value); impairment arises due to external events; is not the same as depreciation; definition of impairment; explanation of terms such as recoverable amount, carrying value, value in use; earnings are reduced as impairment gives rise to a charge in the income statement; volatility is increased as there may be a need to recognise impairment charges in excess of the amortisation charges which would arise.	
	For each valid comment, 1 mark to a maximum of	12
	for quality of report	1

- 2 (a)** Candidates would be expected to consider the similarities and differences between the companies. Relevant points include:
- Compass seeks to be a benchmark for others
 - Thus it is striving for the excellence which is required in a benchmark.
 - However it is a key company in the industry, and as such is more likely to be able to influence its environment than will be possible for Exfood.
 - Compass operates worldwide, thus:
 - It can offset poor performance in one area by stronger performance in other areas.
 - Overall performance is an average.
 - If Exfood is competing in markets in which Compass is not performing well, the benchmark performance may be weaker than is assumed to be the case.
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| 1 mark per valid point to a maximum of | | 10 |
| for quality of report | | 1 |
- (b)** Candidates may refer to possible measures of shareholder value which make use of financial data such as:
- profit
 - eps
 - return on assets.
- Value based methods such as Economic Value Added (EVA™) or Shareholder Value Analysis might also be used.
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|-----------------|--|--|----|
| Mark allocation | for each valid comment on a means of measuring shareholder value, 1 mark | | |
| | to a maximum of | | 7 |
| | for justification of selected method up to | | 3 |
| | for quality of report | | 1 |
| | | | 11 |
- (c)** 1 mark for each valid comment to a maximum of 8
for quality of report 1
- (d)** For justification of each CSF up to 2 marks to a maximum of 12
for quality of report 1
- (e)** 1 mark for each specific measure to a maximum of 6