FP

Chartered Accountant SINGAPORE

Singapore CA Qualification (Foundation) Examination

8 December 2020

Financial Management

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours 15 minutes**.

2. This examination paper has **FOUR (4)** questions and comprises **TWENTY-TWO (22)** pages (including this instruction sheet, Appendix A and Appendix B). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.

3. This is a restricted open book examination. You are allowed to have only the following materials with you at your exam location:

   - One A4-sized double-sided cheat sheet
   - One A4-sized double-sided blank scratch paper

4. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination and **MUST NOT** be within reach or sight or hearing from where you are seated to write the exam. Use of these devices, or, the sight or hearing of these devices, will be flagged as integrity breaches and investigated, unless it is for the purpose as stated under paragraph 6 below.

5. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.

6. Should you encounter any issues during the examination, please contact any of the hotlines below for assistance. The hotlines will be operational from one hour before the scheduled start time of the examination to 45 minutes after the scheduled end time of the examination.

Hotline numbers
6734 9868
6325 0594
8125 1053

7. This examination paper and all video recordings of this exam are the property of the Singapore Accountancy Commission.

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

SINGAPORE ACCOUNTANCY COMMISSION

MODULE-SPECIFIC INSTRUCTIONS:

8. Assume that all dollar amounts are in Singapore dollar (S$) unless otherwise stated.

Examplify Question Number	Compulsory pre-exam steps to be recorded in video
1	Before you begin this exam, you are to perform a 360 degrees environment scan (via webcam), including a view of your table top, so that the location where you are taking the exam is being recorded in the video. Next, show each side of your A4-sized double-sided cheat sheet to the webcam so that your cheat sheet is being recorded in the video. Lastly, if you are using a calculator and a blank sheet of A4-sized scratch paper, show the calculator and both sides of the blank scratch paper to the webcam so that these items will be recorded in the video. Should you encounter any issues during the examination, please contact any of the hotlines below for assistance. 1. 6734 9868 2. 6325 0594 3. 8125 1053

Question 1 – (a), (b) and (c)

The Thermal Clothing Company (TCC) has recently patented a glove liner that plugs into a discrete battery pack. The liner heats the hand to a constant temperature and feeds back basic information, like remaining battery life, to a smartphone app.

A new subsidiary is to be set up in India for the manufacture and sale of the 'Liner Glove', with the main base of operations located on the outskirts of Mumbai. The subsidiary would be set up as an investment centre, with the Centre Manager responsible for revenues, costs and investment. At a recent Board Meeting, the proposal was discussed. The Marketing Director said he was concerned at the exchange rate risks it would expose TCC to, given the global target market for selling the product.

The Finance Director responded saying steps could be taken to mitigate that risk by putting suitable hedging instruments in place.

The initial investment would be 500 million Indian Rupees (or INR 500 million).

Sales in the first year are forecast to be INR 1,500 million. Volumes are expected to grow by 10% per year thereafter. Sales price inflation is expected to be 7% per year. Contribution margin is expected to be 30% in Year one, with variable costs per unit increasing by 5% per year thereafter. Fixed costs are anticipated to be INR 500 million in the first year, rising by 3% per year thereafter. The project is expected to last for four years, after which the site can be sold for 30% of the initial investment in monetary terms.

You may assume that initial investment will happen almost immediately. The Singapore money cost of capital is 10%. General inflation in Singapore is running at 1% per year, and 4% in India. This is expected to continue for the foreseeable future.

The exchange rate today is 52.71 Indian Rupees to each Singapore dollar.

Ignore taxation.

Examplify Question Number	Question 1 required:	
2	**(a)**	Describe the THREE main types of foreign exchange risk, using the project in the question to illustrate your points. **(6 marks)**
3	**(b)**	By calculating the foreign cash flows and translating them into Singapore dollars using a predicted exchange rate, calculate and comment on the Net Present Value of the Indian project. You should work to the nearest INR 100,000 in your calculations. **(15 marks)** **Note:** You may want to use the spreadsheet tool in Examplify to prepare your answer. You are required to copy your answer in the spreadsheet tool to the Examplify answer window.
4	**(c)**	Following from the Finance Director's comment, describe TWO possible methods for hedging the exposure to foreign exchange risk posed by the payment for the initial investment. Recommend, with justification, which method should be used. **(4 marks)** **(Total: 25 marks)**

Question 2 – (a) and (b)

Today is 1 January 20x6. Safe and Sound Singapore Limited (SSS) is a listed locks and security company. It is currently planning on launching a new smart enabled lock which uses a combination of mobile phone GPS and retina scanning to allow homeowners to simply walk into their house when they return home, and for the home to be locked when they leave.

This will require significant investment, and the Board of SSS is debating whether to raise further external debt finance to provide the required funds.

A summary of the current financial position is given below:

Note		S$m
	Net assets	**252**
1	Share capital (S$0.10 ordinary shares)	10
	Retained profits	141
	Total equity	151
2	4% Convertible debentures	75
	6% Bank loan	26
		252

Note 1 – The share price on 1 January 20x6 is $1.25 per ordinary share. The historical dividends per share have been paid as follows in recent years:

Date paid	31 Dec 20x1	31 Dec 20x2	31 Dec 20x3	31 Dec 20x4	31 Dec 20x5
Amount (cents per share)	5	5.5*	6	14**	14.6

*There was a 1 for 5 rights issue in 20x2

** There was a share consolidation exercise during 20x4 – every 2 ordinary shares were replaced with one ordinary share.

Note 2 – The convertible debentures are currently priced at $98 (ex-interest) per $100 nominal. They have 4 years left to run at which point they will be redeemable at a 10% premium, or convertible into 55 ordinary shares at the investor's choice. Share price is anticipated to grow at the same rate as the historical dividends. The interest is tax deductible, but capital repayments are not.

SSS pays corporation tax at rate of 17%. The industry average level of gearing is 40%, measured by debt/debt plus equity using market values.

Examplify Question Number	Question 2 required:
5	**(a)** Calculate the current weighted average cost of capital for SSS. Present your workings and answer to the nearest 2 decimal places. **(16 marks)** **Note:** You may want to use the spreadsheet tool in Examplify to prepare your answer. You are required to copy your answer in the spreadsheet tool to the Examplify answer window.
6	**(b)** By considering all 3 theories of capital structure – Modigliani and Miller (with and without tax), and the Traditional view – discuss the impact that financing the investment with debt is likely to have on the weighted average cost of capital of SSS. **(9 marks)** **(Total: 25 marks)**

Question 3 – (a), (b), (c) and (d)

Today is 1 January 20x5.

Singapore Medical Supplies Pte Ltd (SMS) is a family owned business. It has 2 subsidiaries:

- The trading subsidiary that imports medical supplies for onward sale into Singapore.
- A research subsidiary, that is soon to start research into new materials for the manufacture of bedding to make them more resistant to germs.

The trading subsidiary

Actual sales in the last quarter of 20x4 and forecast for the first 4 months of 20x5 are as follows, in millions of Singapore dollars (S$):

20x4 (S$m)			**20x5 (S$m)**			
Oct	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
30	15	40	20	50	60	40

Customers settle their debts as follows: 20% for cash, 60% in 1 month, 18% in 2 months, and 2% bad debts.

Gross margin is 40%. Purchases are made to ensure closing inventory at the end of the month is set to satisfy 50% of the following month's sales. Creditors grant 1 month's credit.

Overheads amount to $10m each month, including $2m depreciation. These are paid in the month incurred. A dividend of $30m is planned for February, and the purchase of $10m of new warehousing equipment is due in January. The opening cash balance is $25m.

Examplify Question Number	Question 3 required:
7	**(a)** Prepare monthly cash flow forecasts for the 3 months to the end of March 20x5. Present your workings and answers to the nearest thousand dollars. **(15 marks)** **Note:** You may want to use the spreadsheet tool in Examplify to prepare your answer. You are required to copy your answer in the spreadsheet tool to the Examplify answer window.
8	**(b)** Suggest and justify ONE way in which any cash flow shortfalls could be managed. **(2 marks)**
	The research division The newly founded research division has calculated it will need to spend S$10m on research over the years and has requested funding from the SMS head office. Funds at head office are held in a portfolio of investments which earns an annual return of 5% per year. Each transaction to sell securities costs a fixed brokerage and administration fee of $1,000. Head office is planning how many times in the year to sell securities to provide funds for the research division.
9	**(c)** Using the **Baumol model of cash management**, advise how many times a year the head office should sell a block of securities, and how much in Singapore dollars should be sold each time. **(4 marks)**

Examplify Question Number	Question 3 required:
10	**(d)** State and assess the appropriateness of TWO assumptions underpinning the Baumol model in this case. **(4 marks)**

(Total: 25 marks)

Question 4 – (a), (b), (c) and (d)

Moon Based Broadcast Ltd (MBB) is a listed satellite company that is planning to base data relay equipment on the moon. The equipment will not suffer from the usual issues of orbital decay that traditional orbiting satellites suffer from, and so it should be a much more stable technology. The Board are in their monthly meeting, reviewing MBB's risk management processes.

The Marketing Director states: 'We should have robust controls in place to completely eliminate risk, as risk only damages the business.'

The Finance Director disagrees and says: 'What we need to focus on is the extent of our risk appetite and base our risk management processes on that.'

The Marketing Director responds by saying: 'Our capacity for risk is zero, so we shouldn't be accepting any at all.'

The Human Resources Director adds that 'Risk can be managed, but uncertainty cannot, so there is little point in considering uncertainty any further.'

The Chairman says: 'I think we can all agree that risk management is important. We need to make sure that risk management is embedded in our business. So, let's consider how we can best achieve that.'

After the meeting, the Finance Director debriefs you, the Financial Controller. She asks you to help her prepare a report for the Board to clarify some technical matters in relation to risk, and asks that you consider the following two risks by way of examples:

- The risk that the development process for the brand new moon-based technology fails.
- The risk that rocket fuel prices increase, increasing the cost of delivering equipment to the moon.

Examplify Question Number	Question 4 required:
	Write sections for inclusion in the report:
11	**(a)** Explain the difference between risk and uncertainty, and respond to the Human Resources Director's comment. **(3 marks)**
12	**(b)** In response to the Marketing Director's comments:
	i. Explain why an understanding of risk is needed in business. **(2 marks)**
	ii. Give THREE reasons why "robust controls" cannot be 100% effective. **(6 marks)**
	iii. Explain the difference between risk appetite and risk capacity. **(2 marks)**
	iv. Explain how risk appetite affects risk policy at MBB. **(2 marks)**
13	**(c)** In response to the Chairman's comments, explain why and how risk management should be embedded within the business. **(6 marks)**

Examplify Question Number	Question 4 required:
14	**(d)** In relation to the TWO risks identified by the Finance Director, assess the risks and recommend and justify an appropriate course of action. **(4 marks)**

(Total: 25 marks)

END OF PAPER

Appendix A – Formulae and Present Value Tables

Financial ratios

Current ratio	= Current assets / Current liabilities
Net working capital	= Current assets - Current liabilities
Return on total assets	= Net income / Average total assets
Return on equity	= Net income / Average shareholders' equity
Receivables days	= (Accounts receivable balance / annual credit sales) x 365
Receivables turnover	= (Annual credit sales/ Accounts receivable balance) to give 'times a year'
Payables days	= (Accounts payable balance / annual purchases or cost of sales) x 365
Payables turnover	= (Annual purchases or cost of sales/ Accounts payable balance) to give 'times a year'
Inventory days	= (Inventory balance / cost of sales) x 365
Inventory turnover	= (Cost of sales / inventory balance) to give 'times a year'

Dividend growth model

$K_e = [D_0(1+g) / P_0] + g$

Where:

K_e = The cost of equity

D_0 = The current dividend per share

g = Future anticipated annual growth rate in dividends per share

P_0 = The current ex-div share price

g can be estimated as

$(D_r / D_e)^{(1/n)} -1$

Where:

D_r = The latest dividend in a historical pattern

D_e – The earliest dividend in a historical pattern

n = The number of years between the earliest and the latest dividend in a sequence of historical dividends.

Or g = b x r

Where:

b = the proportion of earnings held back

r = the return on reinvested earnings

Capital Asset Pricing Model (CAPM):

$K_e = R_f + \beta(R_m - R_f)$

K_e = the cost of equity

R_f = The risk-free rate of return

R_m = the return on a market portfolio

β = the systematic risk factor

Valuations

Weighted Average Cost of Capital (WACC)

WACC% = [(Ve/(Ve+Vd) x Ke] + [(Vd/(Ve+Vd) x Kd]

Where:

Ve = The market value of all ordinary shares

Vd = The market value of debt

Ke = Cost of Equity

Kd = After-tax Cost of Debt

Constant Growth Dividend discount model

$P_0 = D_0 (1+g) / (K_e-g)$

Where:

K_e = the cost of equity

D_0 = the current dividend per share

g = future anticipated annual growth rate in dividends per share

P_0 = the current ex-div share value of one share

Price-Earnings (P/E) model (EPS)

P_0 = P/E x EPS

Where:

P_0 = value of 1 ordinary share

P/E = an applicable price/earnings ratio (calculated as price per share / earnings per share)

EPS = earnings per share (being earnings available for distribution to ordinary shareholders / number of ordinary shares)

Present value of an annuity

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

Where:

r = discount rate

n = number of periods

Present value

$PV = FV_n/(1 + i)^n$

Where:

PV = Present Value

FV_n = Future value at end of period n

i = Interest rate per period

n = Number of periods

Internal Rate of Return

IRR is approximately $A + \frac{(B-A)N_A}{(N_A - N_B)}$

Where:

A = The lower discount rate chosen

B = The higher discount rate chosen

N_A = The net present value calculated at A%

N_B = The net present value calculated at B%

The Baumol model of cash management:

$$Q = \sqrt{\frac{2C_O D}{C_H}}$$

Where:

Q = The value of securities to sell each time

C_o = The fixed costs associated with selling a parcel of securities

D = The annual demand for cash

C_H = The annual interest rate, as a decimal. Associated with holding cash as opposed to investments

Present value interest factor of an (ordinary) annuity of $1 per period at i% for n periods, PVIFA(i,n).										
Period	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	15.678	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365
20	18.046	16.351	14.877	13.590	12.462	11.470	10.594	9.818	9.129	8.514

Period	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

Present value interest factor of $1 per period at i% for n periods, PVIF(i,n).

Period	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

Period	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	0.074	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

Appendix B – Common verbs used by the Examiners

Verb	Description
Advise / Give advice	This type of question requires you to give specific guidance to an individual or a group (e.g. a taxpayer, audit client, management, etc.), so your answer must provide specific information or make a **recommendation** tailored to the individual or group and **justify** you position.
Assess	Make a judgment about the value, quality, outcomes, results, or size. Often there will be a qualifier in the instruction, which will tell you exactly what to **assess**. For instance, "**Assess** the adequacy of the disclosures in the financial statements relating to …". Professional scepticism and professional judgment are called for when making an **assessment**. **Appraise** and **Assess** are interchangeable.
Calculate / Compute	Do the number crunching and derive the correct answer. Make sure that you write down your workings and crosscheck your numbers.
Comment	**Comment** is similar to **evaluate** in that you are required to make a judgment or provide your opinion based on the facts at hand. Professional scepticism and professional judgment are called for when **commenting**.
Describe	**Describe** requires you to provide the characteristics and features of an item or situation without going into step-by-step detail of how to perform that procedure.
Discuss	**Discuss** requires you to provide the 'for' and 'against' arguments, you cannot have a discussion without opposing views otherwise it would be just a conversation. If **discuss** is placed near the front of the instruction, then it requires you to provide an answer that is similar to **explain**, but addresses both the for and against arguments.
Explain	**Explain** requires you to write at least several sentences conveying how you have **analysed** and **synthesised** the information in a way that a layperson can easily understand the concept or grasp the technical issue at hand. For instance, "**Explain** whether an 'emphasis of matter' paragraph or an 'other matter' paragraph would be most appropriate in this instance", or "**Explain** how a partnership is assessed for tax".
Justify	Whenever you see the word **justify** you must provide reasons for your answer, in other words, provide support for your argument or conclusion. If you fail to **justify** your answer, you will lose valuable marks. **Justify** is similar to **defend**.

Verb	Description
Prepare	**Prepare** requires you to produce your answer using a specific format. For instance, "**Prepare** the Statement of Cash Flows for …" or "**Prepare** all the relevant journals …". Remember, a journal is only complete if it shows the date of the entry, the correct accounts, the correct amounts, and has a description (narration) - easy marks are often thrown away through carelessness.
Recommend	Make a statement about the most appropriate course of action. If there is more than one possible course of action, **state** which action you would choose and why (**justify** your choice). Your professional judgment and your ability to analyse and synthesis the wider situation are critical to scoring well in these types of questions. Don't forget to think about the future and the past, not just the present when making a **recommendation**.
State	**State** is similar to **list**, but the items require your professional judgement. For instance, "**State** any restrictions that apply". One of the easiest ways to make sure that you **state** comprehensively is to think, "**list** AND **justify**". You will note that **state** appears in many of the verb descriptions given.