

INITIAL TEST OF COMPETENCE, JUNE 2014
PROFESSIONAL PAPER 2

The required section of this question consists of two parts. Answer each part in the correct answer book.

PART I OF QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
(a)	With reference to the Alpha share option scheme granted to the executive committee of APM, discuss, with supporting calculations, the amounts that should be recognised in profit before taxation for the financial year ended 31 December 2013 of – (i) APM; and (ii) the Alpha group. <i>Communication skills – clarity of expression</i>	13 6 1	20
Total for part I			20

Continued

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The required section of this question consists of two parts. Answer each part in the correct answer book.

PART II OF QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
(a)	Provide a detailed explanation of how share options are taxed.	5	5
(b)	Calculate any tax benefit accruing to Messrs Smith, Jones and Sibanda arising from the exercise of their options.	6	6
(c)	Calculate any tax benefit accruing to Mrs Moyo arising from the exercise of her options.	3	3
(d)	Calculate any capital gains tax liability for –		
	(i) Mr Smith, and	4	
	(ii) Mr Sibanda.	2	6
Total for part II			20
TOTAL FOR THE QUESTION			40

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QUESTION 2 – REQUIRED		Marks	
		Sub-total	Total
(a)	Identify and describe the conflicts of interest that arise from the composition of the Investment Oversight Committee of OPM. <i>Communication skills – logical argument</i>	10 1	 11
(b)	Perform valuations of OPM's equity interest in CC at 31 May 2014, using the following valuation techniques: <ul style="list-style-type: none"> • Free cash flow method, • Earnings-based method; and • Net asset value method. Show all workings and set out the key assumptions you have used in each method.	41	41
(c)	Based on the results of your valuation workings in part (b) above, make a recommendation, with reasons, to the Investment Oversight Committee regarding the appropriate value of the investment in CC as at 31 May 2014. <i>Communication skills – logical argument</i>	7 1	 8
Total			60