Solutions

Marking: **K** knowledge, **App** use of the case or data, **An** analysis (a chain of reasons: cause, then effect), **Ev** evaluation (a judgement with a reason). In calculations, **M1** is for the method and **A1** for the answer; **B1** is an independent mark.

Each answer shows the steps, then the **result**.

2.1

(a) the audit committee challenges the estimates

(b) a dividend policy based on cash cover

(c) a written re-plan at the first warning

2.2

reserve $3 \times 8{,}000 = £24{,}000$

largest dividend **£6,000**

2.3

a company follows the Code's rules, or says publicly why it does not

it works only if the explanation is honest

2.4

she declares the interest and leaves the decision

the board approves on price and quality against another quote, and the minutes record it

3.1

(a) by profit $\dfrac{50{,}000}{20{,}000} = \mathbf{2.5}$; by cash $\dfrac{15{,}000}{20{,}000} = \mathbf{0.75}$

(b) cash cover: the dividend is paid in cash, so with cover below 1 it is funded by borrowing, which explains the rising debt

(c) Carillion kept paying dividends while its cash weakened and debt grew; profit on paper hid the cash problem until the write-downs came

3.2

(a) $\dfrac{12{,}000}{100{,}000} = \mathbf{12}\%$

(b) write a new plan using the actual figures, with costs, cash and targets changed to match

(c) early action has more options and costs less; treating each miss as bad luck lets problems grow, as at Carillion

3.3

7–8: the same failures happen in small firms: hopeful forecasts, dividends without cash, ignored warnings (An); with one director, no one challenges her estimates or her related-party deals (An); the 30% investors need to trust the figures, and may not invest again without controls (App); full Code compliance would be too costly for a bakery, so the controls should be scaled down (Ev); simple written rules (a cash test for dividends, a re-plan on the first missed forecast, declared interests) cost little (K); recommendation with a condition, e.g. add one independent adviser or non-executive director and adopt three written controls, reviewed each year (Ev). **4–6**: sound analysis with limited use of the case or a weak judgement. **1–3**: relevant points, mostly descriptive.

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