

Examiner's report

FFM Foundations in Financial Management

June 2012

The ACCA logo is a black square with the letters 'ACCA' in white, bold, sans-serif font.

General Comments

This was the first sitting of the new two hour exam, with a slightly changed syllabus and a changed paper format.

As in previous sittings, section A consisted of 10 objective testing questions, worth 20 marks overall. The difference was that each question could be worth 1, 2 or 3 marks. Section B comprised six questions, one worth 20 marks, three 10 mark questions and two 15 mark questions. The greater number of questions allows a greater proportion of the syllabus to be examined at each sitting, it is therefore imperative that candidates study the whole syllabus. There was a slight bias towards the calculation element in Section A, whilst there was a slight bias towards the written element in Section B.

Candidates seemed to manage their time well on this paper with the majority of candidates giving all questions an equal attempt. Where parts of questions were left unanswered, this appeared to be due to a lack of knowledge, rather than time pressure. In general, the numerical aspects were answered better than the written aspects in section B.

Presentation varied from script to script, but generally legibility and layout were acceptable. Many candidates provided adequate workings for the numerical parts of section B. It is imperative that candidates show clear workings in their answers, otherwise if the final answer is incorrect, it is impossible to award method marks.

Specific Comments - Section A

The majority of candidates attempted this section, with over 60% passing this section. This section is worth 20% of the final marks, and a good mark here is a sound spring board for section B. It is imperative that candidates spend time practising the MCQ style questions in preparation for the real exam.

Specific Comments – Section B

Question One

Question one required candidates to prepare a cash budget and then tested candidates understanding of why a small organisation can find it difficult to raise finance.

Presentation in part (a) was generally of a high standard and workings were usually clearly shown, so many method marks could be gained. Common errors that were made were:

- The incorrect application of the 30% increase in income – this increase needed to be capped at 100 houses for April and May.
- Not dealing with the delay in income from the industrial window cleaning – payment was received the month after the work had been completed, not in the month the work was completed.
- The timing of the costs from the industrial window cleaning – these should have been based on the month of sale, rather than the month the cash was received.

All of these errors could be eliminated if the scenario was read more carefully.

Answers to part (b) varied greatly in quality. Some candidates knew the problems faced by SME's when trying to obtain finance and gained full marks. Others, who did not know the particular problems faced by SME's tried to use the mnemonic CAMPARI to generate points to score marks, and did score some marks with issues such as difficulties faced in repaying the finance due to uncertainty in cash flow. A minority of candidates misread the requirement and wrote about sources of finance for SME's. It is important that candidates read the requirement carefully before starting to answer the question.

Question Two

Question two was a purely discursive question covering financial intermediation.

If candidates knew this part of the syllabus, then this should have represented 10 very easy marks to gain, as it was purely a test of knowledge. What was clear from some scripts was that some candidates had not learnt this topic, and this reinforces my previous comment that it is imperative that candidates learn the whole syllabus.

Part (a) asked for a definition of financial intermediation. Here I was looking for candidates to show the idea of bringing together borrowers and lenders, by a third party. The point about 'third party' was often missing in answers.

Part (b) asked candidates to 'Identify and explain THREE benefits.....'. Some candidates provided more than three benefits. Whilst it is understandable that candidates want to gain credit for three relevant benefits, this can lead to the points being made not being expanded as much as they should/could be and a lower mark being gained for the question overall.

Question Three

This was again a purely discursive question, looking at leasing.

Parts (a) (ii) and (iii) were generally well answered, but in part (a) (i), candidates showed a lack of understanding as to what is meant by the supplier of the equipment.

In part (a), a surprising number of candidates referred to both operating and finance lease (and split their answer into two sections accordingly), despite the requirement clearly stating that there was no need to make specific reference to either operating or finance leases.

Part (b) was generally not answered very well. The requirement asked for CIRCUMSTANCES when an operating lease would be more suitable than a finance lease, and here I was looking for ideas such as the industry having a fast pace of change etc. Instead many candidates looked at the advantages of operating leases, and so did not answer the requirement set and accordingly gained fewer marks.

Question Four

Question four examined debt collection.

Part (a) required candidates to prepare a schedule of cash inflows for three months. Very few candidates scored full marks here, with the most common errors being:

- Incorrect timing for the advance of \$300,000 and the balance of \$100,000
- Basing the income cash flows on receivables rather than on sales, so income from April sales for example was shown as \$66,667 ($60/360 \times \$400,000$). If this was applied consistently to the advance etc then many method marks were gained. This shows the importance of showing all your workings.
- Whichever method of calculating the income from sales was used, the interest charge calculation was often incorrect, even on an 'own figure rule' basis.

Part (b) asked candidates to outline two advantages of using invoice discounting rather than debt factoring. Some candidates interpreted this as giving a settlement discount to customers to encourage them to pay early, and so gained few marks. Candidates who answered the requirement set, often scored at least half marks.

Question Five

The majority of this question examined the area of investment appraisal. However, there was not a large net present value calculation, and this did seem to throw some candidates, who seemed less well prepared for the question that was set.

In part (a) candidates were asked to calculate the accounting rate of return on an initial investment basis. The two common mistakes here were to not include depreciation in the average annual profit calculation, and to not base the investment on initial investment, but to use average investment. The latter mistake arises from not reading the requirement carefully enough.

Part (b) asked for a payback calculation, and many candidates gained full marks here.

Part (c) was poorly answered. Few candidates picked up that this was a not for profit organisation and therefore ARR was of little use to the hockey club. Many candidates stated definitions, or advantages and disadvantages of ARR and payback, and gained fewer marks.

Part (d) generally scored higher marks. The main error here was not breaking the requirement down, and explaining the difference between capital and revenue expenditure, but not considering the accounting treatment for each.

Question Six

This question looked at inventory management. This has been examined before and in past sittings, performance has not been good. However this was probably the best answered question on the paper at this sitting.

Part (a) asked for three costs associated with inventory and many candidates scored full marks.

Part (b) asked for candidates to produce calculations and conclude whether or not a new supplier should be used. This was well answered with many candidates scoring full marks. It was pleasing that many candidates broke the requirement down and produced not only the calculations but also provided the conclusion requested. The common errors in this question were:

- Calculating an EOQ for both suppliers instead of accepting that the order size for the proposed supplier was 7,000 units.
- Incorrectly applying the discount to the costs for the new supplier.

Overall candidates were stronger on calculations than the written elements within Section B. Candidates reduced their ability to gain marks by not studying the whole syllabus, or not reading the requirement correctly.

Conclusion

This was a paper which a well prepared candidate who had studied the whole syllabus and read the requirements correctly could have passed. Those who did not pass showed a lack of knowledge, or did not read the requirement carefully enough.