

Examiner's report

FFM Foundations in Financial Management December 2013



General Comments

The examination consisted of ten objective testing questions in Section A, worth 20 marks overall, and six questions in Section B, one worth 20 marks, three 10 mark questions and two 15 mark questions. All questions were compulsory.

The majority of candidates attempted all of the questions, showing little evidence of time pressure. Where questions were not answered, this appeared to be through lack of knowledge. As commented in the last examiner's report, it is imperative that candidates study the whole syllabus, and do not try and 'question spot'.

Presentation varied from script to script, but generally layout and legibility was acceptable. Workings were generally clearly laid out, which is imperative if method marks are going to be awarded to answers where the final answer is incorrect.

Specific Comments – Section A

To reiterate here what have been said in past examiner's reports, it is imperative that candidates practice the MCQ style questions, as a good mark here provides a solid base from which to attempt Section B.

The following calculation question is a core calculation and was included in the December 2013 exam. As well as being examined in Section A, it can form part of the basis for a long form question within Section B, and often provides candidates with difficulty, as it did in this exam.

The following information about J Co is available:

	\$
Profit before tax	600,000
Tax	168,000
Preference share dividend	70,000

J Co has 2,000,000 authorised ordinary shares, of which 1,500,000 are issued.

What is the earnings per share in \$? Work to two decimal places.

- A \$0.24
- B \$0.40
- C \$0.29
- D \$0.18 (3 marks)

The formula for earnings per share is easy to learn, being the net profit divided by the number of shares. What confuses candidates though, is obtaining the correct figure for net profit, so should it be for example profit before or after tax, and whether to use authorised or issued shares.

What candidates need to consider is that this ratio can be considered as a way for the ordinary shareholders to assess the company. Therefore the ratio should include profit attributable to the ordinary shareholder, and the shares actually issued to the ordinary shareholders.

In relation to the attributable profit, the ordinary shareholders come a long way down the 'pecking order' when considering the distribution of profits. Before a dividend can be paid out to the shareholders, tax, interest and preference dividends all have to be paid out. Therefore in the above question, it is only after the tax and preference dividends have been deducted that the remaining profit can be attributed to the ordinary shareholders.

So the answer is A : $(\$600,000 - \$168,000 - \$70,000) / 1,500,000 = \0.24

Specific Comments – Section B

Overall, the numerical questions were better attempted than the written questions.

A small minority of candidates answered the 20 mark question last. Answering the longest question last can be a risky strategy, because if candidates have run over slightly on previous questions, they leave themselves short of time, the scenario is not read properly, answers are rushed and silly errors creep in.

The best attempted question in Section B was the cleared funds forecast question, which also asked for an uncleared funds float to be shown for each day for a company that produces wooden play equipment and sells to major stores on credit and in the factory shop for cash..

The payments provided two main problems for candidates:

- The calculation for the wood payment, where the cost of the wood was 40% of the sales revenue. Not all candidates included the cash sales in their calculation, basing their calculation on credit sales only. However, if workings were shown, it was possible to gain half of the marks available even if the cash sales were not included. This also shows the importance of laying out all workings clearly and referencing them into the main answer – method marks can only be awarded if workings are shown.
- Within the scenario were some payments that due to their timing should not be included within the cleared funds forecast that was being prepared. Many candidates included these payments incorrectly within their answer.

Some candidates did not complete this question as they did not show the uncleared funds float for each day. It is imperative that candidates answer every part of the requirement if they are going to put themselves in the best position to pass the exam.

The calculation question that required candidates to calculate the net loss or gain from a change in supplier terms caused quite a few problems. Many candidates tried to calculate a percentage answer rather than a monetary figure. This was disappointing, as it shows that candidates did not read the requirement carefully enough, and also shows that candidates are not taking note of articles that have been written. Whilst articles are not written with any particular exam sitting in mind, they do cover core areas of the syllabus and a candidate's chances of passing the exam can only be enhanced if technical articles are read.

The standard of the answers to the written questions varied greatly.

- Some candidates had studied across the breadth of the syllabus and had the knowledge to answer the questions, whilst others did not.
- Not all candidates are reading the requirement carefully enough, for example:

- The question on centralisation was often answered too generally, rather than focussing on the treasury department as was required.
- Candidates are not looking at the verb used in the requirement. State, explain, interpret all have different meanings and candidates should look at the verb used and tailor their answers accordingly.

Conclusion

This was a paper that a candidate who had studied the whole syllabus, and took care when reading the requirements could have passed. Those that did not pass, showed a lack of knowledge, or did not read the requirement carefully enough.