Examiner's report

FFM Foundations in Financial Management
December 2014

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. Where questions were not answered this appeared to be through lack of knowledge, rather than time pressure.

Presentation of written questions was generally good, with many candidates using the breakdown of the requirement to provide subheadings to their answers.

Good exam technique was shown by most candidates within the calculation questions where even if mistakes were made candidates continued to the end, so gaining method marks for the calculation and any conclusion marks that were available.

Specific Comments – Section A

I reiterate here what I have said in past examiner's reports, that 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 question was not well attempted by the majority of candidates:

An organisation is considering a project with the following cash flows:

Time	Description	Cash flow ($)
0	Initial investment	(60,000)
0-7	Yearly costs	(12,000)
4-10	Yearly revenues	35,000

Using a cost of capital of 10%, which annuity factors should be used to discount the yearly costs and yearly revenues?

	Yearly costs	Yearly revenues
A	5.868	4.355

B	4.868	4.355
C	4.868	3.658
D	5.868	3.658

When answering this question, it is important to look carefully not only at the cost of capital (in this case 10%) but also at the time periods in which the cash flows arise.

Considering the costs first, the cash flows arise at T0, T1, T2, T3, T4, T5, T6 and T7, so we need the annuity factor (AF) from T0-T7, i.e. AF_{0-7}. The annuity factor tables given in the exam show the annuity factors when the first cash flow is at T1. Looking at our cash flows again, we can see that there are cash flows in T1-T7 inclusive, and then an extra cash flow at T0. The table can give us the AF_{1-7} @10% (it is 4.868), and the discount factor that is always applied to the cash flow at T0 is 1. When we add the two elements together:

$DF_0 + AF_{1-7} = 1 + 4.868 = 5.868$

The mistake that many candidates made was to not add on the discount factor at T0, and give the answer as 4.868.

Candidates struggled less with the revenues where the cash flows arise at T4, T5, T6, T7, T8, T9 and T10. To get the annuity factor that we need, AF_{4-10}, one approach would be to use the discount factor tables provided in the exam and add up the discount factor at 10% for each of the time periods, and this would give the correct answer of 3.658.

A quicker way though would be the subtraction method. The annuity factor tables give us AF_{1-10}. We only want AF_{4-10}, so we can take the AF_{1-10}, and simply deduct the annuity factor for the years we do not want, in this case deduct the annuity factor for years 1-3 inclusive.

In effect we are saying $AF_{4-10} = AF_{1-10} - AF_{1-3}$.

Using the annuity factor tables $AF_{4-10} = 6.145 - 2.487 = 3.658$.

So the answer is D.

Specific Comments – Section B

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

Within the numerical questions, candidates must consider the layout that they use - often a clear layout means that confusion is avoided. Specifically, there was one particular question where an improved layout by some candidates may have reduced confusion. This was a question requiring candidates to prepare calculations to decide whether a factoring company should be employed or not.

Some candidates tried to do all the workings up front, and in the process, confused which sales and receivables figures they should be using for which scenario. They then produced two separate cost calculations, one for the cost without the factoring company, and one for the cost with the factoring company. However, as the layout for the answer had not been fully thought through, an example of where confusion arose was that the overdraft cost if a factoring company was not used was included in the calculation of costs if the factoring company was used.

A more logical approach would have been to complete the workings and overall cost calculation for the scenario when no factor is used, and then move on and deal with the situation when a factor is employed in its entirety. Candidates must approach calculations methodically and logically to reduce mistakes, and so increase the mark awarded for the question

Candidates must also ensure that they read the requirement carefully and completely. One question tested candidate's knowledge about a stock exchange listing, but a reasonable minority of candidates must have 'latched onto' the word 'stock' and not read the full requirement - their answers were about inventories of goods and did not answer the question set. Another written question asked candidates to include a discussion of risk in their answer, but majority of candidates did not cover this part of the requirement in their answers.

In addition, candidates need to take time whilst reading the scenarios to questions to ensure that they pick up all the detail supplied - in the investment appraisal question, cash flows were often included in the incorrect time period.

Although the syllabus for FFM is fairly wide ranging, candidates must ensure that they study the whole syllabus - there seemed to be a lack of knowledge about bills of exchange, with a significant number of candidates not answering this section of a written question. Candidates did then show good exam technique, by going on to provide comprehensive answers to the following section of the same question.

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.