Examiner's report

FFM Foundations in Financial Management
December 2015

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 sub-headings 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.

Candidates should be aware that they do not lose marks for incorrect answers, and therefore no question within Section A should be left unanswered - it is always worth taking a guess!

The following calculation was not well attempted by the majority of candidates.

A company is considering two mutually exclusive projects. The cash flows for each project are as follows:

Year	0	1	2	3
Project X	\$(15,000)	\$8,000	\$8,000	\$8,000
Project Y	\$(15,000)			\$26,000

The company evaluates projects using the net present value method and uses a cost of capital of 10%.

Which project(s) should the company undertake?

A Both projects
B Project X only
C Project Y only
D Neither project

In this question, the first thing candidates should note is that the projects are mutually exclusive. This means that either Project X, or Project Y, or neither project can be undertaken, but not both projects. This therefore discounts option A (both projects) straight away. This was actually the option picked by the majority of candidates implying that candidates did not read the question with enough care.

Candidates are now left to choose between options B, C and D. To do this the method of project appraisal needs to be found, and in this case we are told that the company uses the net present value method to appraise projects with a cost of capital of 10%. The candidate therefore needs to calculate the net present value of both projects:

NPV of X = ($15,000) + 2.487 x $8,000 = $4,896
NPV of Y = ($15,000) + 0.751 x $26,000 = $4,526
Note that in doing the calculation, I have used annuity factors, which are a valuable tool when answering questions under exam time pressure, and yet this is a technique few candidates generally use in Section B questions

This shows that both projects have a positive net present value, and so in an ideal world, the company would accept both projects. However, as the projects are mutually exclusive, only one project can be undertaken. Therefore selecting the project with the higher new present value, gives Project X, and hence the answer is B.

Specific Comments – Section B

In the question above, I commented that candidates should ensure they read the question carefully. This advice is equally important for Section B questions, and there were two specific questions where candidates appeared to not read the question with enough care.

One question required candidates to prepare a cash budget. The information in the scenario was mostly laid out in bullet point form to aid candidates under exam pressure. However, many candidates did not read the scenario carefully enough, and missed for example that the company rented out three sets of play equipment for $3,000 each, so the total rental income was $9,000 per month, not the $3,000 included by the majority of candidates. Thus many candidates lost easy marks. The other issue that caused problems in this question was the payment to suppliers. Here candidates often correctly calculated the purchases figures using sales and gross profit percentages, but then did not read the relevant bullet point carefully enough about when purchases were made and suppliers paid, and therefore the timing of the payments was incorrect in the cash budget.

The second question where candidates did not appear to read the question with care was an accounting rate of return question, where the requirement specifically asked for the calculation to be on an initial investment basis. Many candidates calculated the accounting rate of return on an average investment basis, again losing easy marks.

Candidates should ensure that they are fully aware of which calculations should include both cash flows and non cash items, and which should *only* include cash flows. For example, a significant minority of candidates included depreciation within the cash budget, and the majority of candidates did not include depreciation within the accounting rate of return calculation.

There was some evidence that candidates are not studying the whole syllabus. A written question on gearing and earnings per share was not particularly well attempted, with a clear lack of knowledge on display in many cases. Similarly, a question on financial intermediation showed a gap in some candidate's knowledge. The latter question was a 'test of knowledge', which if candidates had learnt that area of the syllabus should have provided some easy marks.

Conclusion

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