

Examiner's report

FFM Foundations in Financial Management

June 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 I commented in my last examiner's report, it is imperative that candidates study the whole syllabus, and do not try and 'question spot'.

As in previous sittings, in general, the questions with a high numerical content were answered the best, whilst those that were written were less well attempted.

Presentation varied from script to script, but generally layout and legibility was acceptable. It is often the case that within Section B, one question will have a presentation mark awarded to it. In order to gain this mark, it is expected that workings will be clearly laid out, and referenced into the main answer, which follows a reasonable layout for the requirement. Another reason for candidates considering the layout of their answers is that if method marks are going to be awarded to answers where the final answer is incorrect, then the workings must be laid out neatly and be clearly referenced into the main answer.

Specific Comments – Section A

Reiterating here what has 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.

Good exam technique would be for candidates to work through the questions in order, and any for which they are unsure of the answer, do not leave blank, but at least take a guess!

The calculation in the following question often causes candidates difficulty:

L Co currently pays its supplier M Co after 65 days. M co is offering a 3% discount if payment is made within 35 days.

**What is the annual compound cost of NOT taking the discount to the nearest percentage point?
Assume there are 365 days in a year.**

- | | | |
|----------|------------|------------------|
| A | 43% | |
| B | 19% | |
| C | 45% | |
| D | 37% | (3 marks) |

One way of approaching these questions is to first work out the percentage cost of the discount, and to then convert that percentage to an annual rate.

Step 1: calculate the percentage cost. This can be calculated as the *cost suffered* by not taking the discount divided by the *benefit gained* from not taking the discount.

Let us say the invoice was for \$100. The *cost suffered* from not taking the discount would be that an extra \$3 would have to be paid (\$97 vs \$100). The *benefit gained* from not taking the discount is that the company does

not have to pay \$97 after 35 days, but has the use of the \$97 for a further 30 days (65 days vs 35 days) within the business.

So the cost divided by the benefit is $\$3/\$97 = 3.09\%$

The problem that candidates often have with this calculation is that they recognise that the numerator should be \$3, but then put the whole invoice amount of \$100 as the denominator. This error is not made if candidates remember that the denominator is the *benefit gained from not taking the discount*, i.e. how much extra cash does the organisation have to use if they do not take the discount.

Step 2 converting to an annual compound rate. In order to do this, candidates need to understand what period the interest rate of 3.09% relates to. Is it a rate for 35 days, 65 days or 30 days? The answer to this question often provides a stumbling block to candidates. The answer is that it is the period for which the benefit of not taking the discount is gained. In this case, the benefit is that the organisation has the use of \$97 for an extra 30 days within the organisation. Therefore the interest rate of 3.09% is for 30 days.

The annual compound rate then is calculated as:

$(1 + 3/97)^{365/30} - 1 = 44.86\%$ which is rounded to the nearest percentage point of 45%

Specific Comments – Section B

The best attempted question in Section B was the cash budgeting question.

The payments provided two key problems for candidates:

- Very few candidates dealt correctly with the opening and closing inventory of raw materials when calculating the material purchases. Inventory adjustments in cash budgeting is regularly tested and candidates must revise well this area. The rental costs were paid **quarterly in advance**. Not all candidates picked this up, which indicates that candidates did not read the scenario carefully enough. Information given within the scenario must be read carefully if candidates are going to avoid losing easy marks.

The weakest questions were the three wholly discursive questions, each of which was worth 10 marks. The answers were weak for three main reasons:

- Lack of knowledge. It was apparent that some candidates are not studying the whole of the syllabus. This lack of knowledge shows up readily within the written questions where candidates often miss out on easy marks by not having the required knowledge. The FFM syllabus is fairly broad, and the exam paper is set to cover as many learning outcomes as possible. It is therefore inadvisable to try and question spot, and focus on some syllabus areas to the detriment of others.
- Candidates did not always read the requirement correctly, and answered the requirement they would like to see, rather than the one that was set. So in a question about financial instruments, where candidates were asked for the '*main purpose and features*' many candidates just focussed on definitions, which was not what was asked for.
- Candidates did not always break the requirement down. So in the same question about financial instruments, the requirement also needed to be broken down and candidates needed to consider *both* the purpose *and* the main features of the three types of financing, but the purpose was rarely included in candidates' answers.



Conclusion

In order to put themselves in the best position to pass this exam, candidates need to study the whole syllabus, and practice questions before the exam, and whilst taking the exam, ensure that they take care when reading both the scenario and the requirement.