

# Examiner's report

FFM Foundations in Financial Management  
June 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, showing little evidence of time pressure. Where questions were not answered this appeared to be through lack of knowledge.

Presentation varied from script to script, but generally layout and legibility was acceptable.

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

It should be reiterated here what have been 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 calculation was not well attempted by the majority of candidates.

**L Co is considering replacing a machine in four year's time. The cost of the machine has a present value of \$40,000. To finance this, L Co will set aside four equal instalments at the start of each year starting immediately. These amounts will be invested at 10% each year.**

**What should the annual investment be, to the nearest \$?**

- A      \$10,000
- B      \$11,471
- C      \$12,618
- D      \$16,084

Candidates know that the cash flow multiplied by the annuity factor is equal to the present value. Here, candidates were given the present value and enough information to calculate the annuity factor, and they then needed to work back to the cash flow.

To calculate the annuity factor, candidates need the percentage (10%) and the timing of the cash flows. Here there are four cash flows, but they are starting immediately, so the cash flows must arise at T0, T1, T2 and T3.

$$\text{Cash Flow} \times \text{Annuity Factor}_{0-3} @ 10\% = \$40,000$$

$$\text{Cash Flow} \times (1 + 2.487) = \$40,000$$

$$\text{Cash Flow} = \$11,471$$

The answer is therefore B



### Specific Comments – Section B

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

Within the numerical questions, candidates must show all their workings if they are to gain method marks. Within the investment appraisal question, there were a couple of cash flows which required calculating before being incorporated within the net present value calculation. A sizeable number of candidates did not have the correct figures within their net present value calculations, and did not show their workings as to how they had arrived at their incorrect figures. This made awarding method marks difficult.

Within the net present value calculation, some basic mistakes such as including depreciation and sunk costs as relevant cash flows were made, and so easy marks were lost.

Candidates must also take care when reading the requirement. One question specifically asked candidates to calculate the operational cash flow for a business from the information provided, but a sizeable number of candidates calculated the working capital cycle. . Another question about post completion audits '*within the context of capital projects*' was often answered as a question about auditing from a financial reporting view point thus gaining no marks

The standard of the answers to the written questions varied, but candidates generally performed well in the three wholly written questions.

### 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.