Examiner's report

FFM Foundations in Financial Management
June 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, 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. Many candidates used the breakdown of the requirement to give structure to written answers.

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 are reminded that they do not lose marks for incorrect answers, and therefore, even if they are not sure what the answer should be, it is always worth 'taking a guess' and no question within Section A should be left unanswered.

The following question from Section A was not well attempted by the majority of candidates.

An organisation prices its goods based on actual cost plus a fixed percentage mark up.

How will the risk of inflation be split between the customer and the organisation selling the goods?

A *Only the customer will suffer inflation risk*

B *Only the organisation selling the goods will suffer inflation risk*

C *Both parties will suffer inflation risk but not equally*

D *Both parties will share the inflation risk equally*

In a question such as this, if candidates can not see the answer straight away, they may find it easier to create a small scenario and substitute figures in.

Let us say that Company Y is selling widgets to Company Z. To set the price for the sale, Company Y takes the actual cost of the widget and adds on 5% (we are told in the scenario that the price is set by actual cost plus a fixed percentage mark up). What happens if the cost to Company Y is $4, $5 or $6?

Cost of widget to Company Y	$4.00	$5.00	$6.00
5% mark up	$0.20	$0.25	$0.30
Sales price to company Z	$4.20	$5.25	$6.30

We can now see from the figures that whatever the cost of the widget to Company A, they will always recover the cost they have paid and receive the required profit of 5%. Company A therefore does not suffer the inflation risk, but it is Company B (the customer) who suffers the risk, and the answer is option A

The technique of creating a small scenario and substituting figures in can be useful in other Section A questions, for example if candidates are asked what the effect on say the quick ratio is of selling inventory, where it can clarify thinking.

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. This was done well by the majority of candidates in a question which required the candidates to calculate the working capital requirement for an organisation. Many candidates made errors through the calculation, the most common of which seemed to be to include fixed overheads in work in progress, but because the workings were shown, candidates could score method marks and so score well on the question, even though the final answer is incorrect.

Candidates also need to be logical in their approach. A question on the monetary effect of changing payment terms to customers caused some candidates problems. The key here was to consider the current situation, and calculate the cost of banking cheques and the overdraft costs, before moving onto the proposed new policy and calculating the costs/savings associated with that new policy. Too many candidates did not set out their answers in a logical manner, and although workings were shown, candidates got confused between the policies and costs/savings and so marks were lower.

Candidates must read the scenario carefully. The investment appraisal question stated clearly when the cash flows arose, either at the end or the start of the year, but many candidates ignored this information and answered the question as if all the cash flows arose at the end of the year. The same point can be made about a Section A question, where payback was often calculated incorrectly

because candidates had not read the scenario carefully enough, and had not appreciated that the cash flows were in advance.

Candidates generally score less highly on written questions, but some candidates did seem to struggle particularly with a question on the stock market and types of share issue, where a lack of knowledge was apparent. A lack of knowledge was also seen on the written element of the investment appraisal question, where candidates sometimes mixed up the investment appraisal techniques. It is important that candidates do not try and question spot, but do study the whole syllabus.

Conclusion

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