



# Examiner's report

## FFM Foundations in Financial Management

### June 2017

#### 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.

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 was not well attempted by the majority of candidates.

*Zub Co's cost of sales for the year was \$146,000 and the company makes a profit margin of 20%. 75% of sales are on credit and receivables at the year end are \$6,000.*

***Assuming there are 365 days in a year, what is the accounts receivable payment period to the nearest day?***

- A**      12 days
- B**      20 days
- C**      9 days
- D**      16 days

The question was worth 3 marks.

The accounts receivable period is calculated as accounts receivable/credit sales x 365. The accounts receivable are given in the question (\$6,000), so it is just the credit sales that need calculating.

Of the sales that are made, 75% of them are on credit, but the total sales need to be calculated using the cost of sales and profit margin before the 75% can be applied.

In this case, it is a margin that is stated, not a mark up, so the sales must be 100% and the cost of sales 80%. So total sales will be  $\$146,000/80\% = \$182,500$ .

Of these sales, 75% are credit sales, giving us  $75\% \times \$182,500 = \$136,875$ .

Now we have all of the elements, we can calculate the receivable days as  $\$6,000/\$136,875 \times 365 = 16$  days.

For the candidates that did not get this question right, the most common mistake was to not use the margin information and calculate the denominator as  $75\% \times \$146,000$  i.e. 75% of cost of sales.

Candidates need to be confident about the definitions of the formula used to calculate the elements of the working capital cycle, as they can be examined, and are regularly done so, within both sections A and B.

Definitions are often tested within Section A questions. One such question asked candidates whether two, unconnected statements were true or false. Many candidates made the right decision about the quantitative controls statement, identifying that the definition given was correct. However, a substantial minority of candidates said incorrectly that the definition of monetary policy was correct, when the definition was actually that of fiscal policy. This shows that candidates do need to spend time learning the definitions as these can be tested within both Section A and B questions.

### **Specific Comments – Section B**

The paper was set, as it always is, with easier marks to be gained from knowledge, and then the remaining marks required candidates to apply their knowledge to a scenario.

Performance generally was better than at the previous sittings, but there were a couple of general areas that candidates need to improve on, and two specific syllabus areas where knowledge shown was poor.

#### General areas

##### Lack of workings

The 20 mark question required candidates to produce a cash budget for four months. The scenario was that of a theatre, with seats being sold at different prices for different locations in the theatre, a proportion of tickets being sold via a ticket agent and the rest being sold for cash. If a candidate made mistake in the base multiplication of the number of seats by the price per seat, it was possible to gain all of the remaining 5 follow on marks if the workings were shown. A substantial minority of candidates did not show all their workings, which makes it harder to award method marks.

##### Reading the requirement

A question on investing surplus funds, required candidates to explain four terms including risk and return, and then consider how the interaction between all four terms can affect where surplus cash is invested.

Some candidates only explained the terms and did not consider the interaction, other candidates explained the interaction but did not explain the terms. Some candidates saw the part of the requirement that mentioned investing surplus cash, and they explained different types of investments and stated whether the risk of each investment was high or low etc, so gaining very few if any marks.

It is important that candidates read the requirement carefully and answer the requirement set, rather than the requirement they would like to see.

##### Poor syllabus knowledge

### Elements of a contract

Very few candidates could explain clearly the three elements of a contract that were asked for, and this area of the syllabus needs reviewing by many candidates.

### Accounting rate of return

Many candidates did not appear to know how to approach this calculation. Rather than calculating profit for the project, and then average profit, many candidates set up a net present value table and put in the cash flows. Although some of the easier marks were gained .e.g. revenue, when this approach was taken, it is a time consuming method and items such as depreciation were not included. Once costs and revenues had been calculated in the table, many candidates used the figures to calculate the net present value or the internal rate of return, rather than looking to calculate the average investment and then the accounting rate of return.

### **Conclusion**

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