

## **Examiner's interview 2009: F9 – Financial Management**

**Interviewer:** Hello. Welcome to the examiner's interview for F9, *Financial Management*. The examiner – Tony Head – has provided the answers and his words are spoken by an actor.

The interview covers a range of issues, focussing on candidates' performance over the last 3 exam sessions and how to improve it.

Can you start by reviewing candidate performance over the past three exam sessions?

**Examiner:** Yes. I will review examination performance from December 2007 to December 2008. I would like to begin by highlighting what was done well.

**Interviewer:** Are there specific areas where candidates performed well?

**Examiner:** Yes, there are. As you can see here, working capital management and investment appraisal are two areas where students often do well, perhaps because they are large areas of the syllabus and so each has several chapters in the official workbooks.

Successful students tend to be able to apply investment appraisal methods, such as net present value and internal rate of return, while also understanding something of the underlying theory and the range of factors linking these methods to real-life applications. Many students are able to bring their own practical understanding of working capital and its management into the exam room, perhaps from regular involvement with receivables, payables and cash management.

Topics such as the choice between equity and debt were done quite well in June 2008. WACC calculations have improved in general and were done well in December 2008, a comment which is also true of the dividend growth model. Perhaps because of an examiner article in *student accountant*, market efficiency is a topic that students appear to enjoy.

**Interviewer:** Thank you. Are there other areas where candidates have struggled?

**Examiner:** Yes, there are. In general, ratios are often handled poorly or used inappropriately. In the context of working capital management, time is lost if irrelevant ratios are calculated and discussed. Students often confuse working capital policies on level of investment, and financing mix. The same terms (aggressive and conservative) are used in both policies.

Problems with IRR can arise when it is believed that both a positive and a negative NPV are needed for linear interpolation. In fact, the textbook approach will both interpolate and extrapolate.

A successful student ought to have a good comparative knowledge of investment appraisal methods, for example NPV versus IRR.

Inflation is sometimes applied incorrectly.

This can lead to further problems when working capital is a factor in investment appraisal. The three cash flow elements of initial investment, incremental investment and recovery of working capital must be understood. Some students are unclear about the distinction between real and nominal approaches.

**Interviewer:** Were any other areas not done well?

**Examiner:** Yes, unfortunately there are other weaknesses.

Rights issues continue to cause problems, either because the form of the issue is misinterpreted or because students are unfamiliar with the terminology involved.

While dividend policy may appear to be a small part of the syllabus, its importance in relation to investment decisions and financing decisions means it cannot be neglected.

In the same syllabus area of business finance, the closely linked topics of gearing, financial risk and ratio analysis are often poorly understood and not discussed well. It may help here to link gearing with capital structure theory.

The syllabus area of cost of capital is one in which students have been making progress.

While cost of equity calculations using the dividend growth model and the capital asset pricing model are getting better, a significant number of students show uncertainty in identifying and applying the relevant variables in these models.

WACC calculations were done poorly in June 2008, although as we just saw this is now being done well by candidates. Calculating the cost of debt, however, tends to give more errors than calculating the cost of equity.

The CAPM was covered in three articles in *student accountant*, and the comparative approaches of using WACC and using a CAPM-based project-specific cost of capital are becoming more understood.

The last diet indicates that applying the CAPM in investment appraisal is an area where candidates need to improve. While many were able to list the limitations of the CAPM, few were able to describe the un-gearing and re-gearing process.

Valuation methods continue to be challenging for candidates, with the price/earnings ratio method, the dividend growth model and bond valuation leading to errors.

A couple more areas also need highlighting.

While candidates have an ability to *discuss* market efficiency, its implications can be poorly understood, for example in terms of the effect on share prices of announced information.

A similar comment can be made about hedging methods, since many candidates offered good discussions of hedging instruments, without a clear understanding of how hedging was achieved or how different hedges

might be evaluated. The first main area of misunderstanding was hedging techniques for foreign currency risk.

The other area was hedging for interest rate risk.

**Interviewer:** So, having been through candidate performance over the past three papers, would you say there are there any lessons to be learned?

**Examiner:** Yes. The syllabus now appears to be generally understood and the approach taken by the examination has become familiar. Tuition providers and candidates must, however, appreciate the need for understanding underlying theory and properly applying appropriate techniques.

**Interviewer:** Are there any specific sources of information which can help prepare candidates?

**Examiner:** Tuition providers and candidates should study my examiner's reports from previous examinations in detail. These highlight areas where improvements can be made, as well as areas where tuition providers and candidates are doing well. It is recommended that candidates should practice as many past examination questions as possible, in order to improve their understanding and their examination technique.

**Interviewer:** So, what would you say are the key focus points?

**Examiner:** The first point is study the whole syllabus in order, section by section.

Candidates must practice key techniques in the classroom and at home, using practice questions to start with and building up to answering exam standard questions.

While practice is important, it is also important to have a proper understanding of the theory underlying the practical techniques used in calculation questions.

By understanding the theory, candidates will be able to link theory to techniques and be able to evaluate them.

When answering a range of investment appraisal questions, it is important to consider the timing of and amount of cash flows as this is crucial to project and company valuation.

When preparing for F9, and when taking the exam, always bear in mind what a financial manager would do in a given situation.

**Interviewer:** Does reviewing past exam questions and answers help candidates improve?

**Examiner:** Candidates need to reflect on where their answers differ from suggested answers. Reflection is an important stage in the learning process and an essential ingredient in revision.

Practicing past exam questions is also very important, as it is the only effective way to understand what is required and what the exam standard is.

Another useful technique is to prepare revision cards which summarise key knowledge and content in a manageable way.

There is no substitute for planning written answers or at least thinking about the structure of an answer in your mind. This would simply involve jotting down the main headings of what you intend to cover – don't spend too long on the plan though, as this itself will not attract more than a mark or two, if any.

I would also urge candidates to ensure that they write legibly. Many scripts lose marks because neither the marker nor myself can read what the

candidate has written. This is very frustrating for us but can be disastrous for the candidate.

Finally, it is worth reminding candidates that many of the marks for the calculating questions are earned through the calculation of preliminary workings. These should be labelled clearly to help the marker.

ACCA examiners use the 'method' or 'own figure rule' for marking so an incorrect working will not be penalised as long as the subsequent method used is correct. Candidates who don't put down their workings and who happen to make errors, will not get the credit for the correct method unless this is visible to the marker.

**Interviewer:** Can you please give us some advice about the shape of future F9 exams?

**Examiner:** Future examinations will continue to examine the whole syllabus. Question-spotting is counter-productive, since examination questions can cast a broad net over related areas of the syllabus. While no one area of the syllabus is more important than any other, past examinations do help candidates to become familiar with the examiner's style and general approach to the F9 syllabus. Essentially, the future holds more of the same.

**Interviewer:** Is there anything new to announce about F9?

**Examiner:** There are no plans to introduce any new areas into the F9 syllabus for the foreseeable future. In some ways, I think that stability in the exam structure and in the content of the exam will allow tuition providers and candidates to become more familiar with its style and standard, which on balance I believe is a good thing.

**Interviewer:** So, what are the guiding principles for examining the F9 paper for the next few examination sessions?

**Examiner:** The main point to remember is that the F9 syllabus will not change in terms of content.

I will continue to examine across the whole syllabus and some exam questions will draw from different areas of the syllabus.

There are no planned changes to the structure of the F9 paper, and the level and length of the questions set will remain the same.

**Interviewer:** Before we finish, is there anything else you would like to add?

**Examiner:** Yes, I would just like to emphasise three words, which I believe are crucial to effective exam preparation.

The first is 'study'. Nobody will pass an exam unless they study effectively and efficiently. There is no substitute for effort and motivation in learning.

The second is 'plan'. By this I mean plan your revision, by deciding when and what you will revise, how you will revise and how you will practice. I also believe that candidates need to make the best use of the 15 minutes reading and planning time available to them before the exam starts. There is an article about this published in *student accountant*, which is available on the ACCA website.

Finally, there is no substitute for allowing enough time for revision and for doing this effectively. Re-reading notes or auditing the answers to past questions is not a good use of revision time. As mentioned earlier, it is best to select the areas to concentrate on, to write summary revision cards and to practice exam standard questions under timed conditions.

**Interviewer:** Thanks very much.