

## **Examiner's Approach Interview: P4 - Advanced Financial Management**

**Interviewer:** Welcome to the P4 Examiner's Approach interview.

The following is an Examiner's Approach interview for Paper P4, *Financial Management*.

The content of this interview has been prepared by the examiner, working with the Qualifications team at ACCA, and is presented by actors representing an interviewer and the examiner in discussion. For more detail on the examiner's approach, please see the article produced by the examiner in the May 2007 edition of *student accountant*.

The examiner is Bob Ryan. Bob has many years of business and lecturing experience. He is professor of financial management at a UK university and also a visiting fellow at a number of universities. He has authored many books in finance and accounting and has long experience in education, training and consultancy.

**Interviewer:** I suppose it would be most appropriate to start off by asking where P4 fits within the overall structure of the ACCA Qualification.

**Examiner:** The Professional Level of the ACCA qualification syllabus is divided into two modules – Essentials and Options, with Essentials coming before Options. Both these modules have been set at an intellectual level equivalent to that expected of a student taking a Masters degree.

The focus of the syllabus at the Professional level is to build upon the technical skills already acquired, and to explore more advanced professional techniques, skills and values which are required by the expert accountant acting in an advisory or consultancy role at a senior level.

Studying P4 as an Options paper will allow the student to specialise their expertise in this area drawing upon knowledge obtained from studying the underpinning F9, *Financial Management* in the Skills module and from the P1, *Professional Accountant* paper.

**Interviewer:** From what you have just said, P4 is connected to other papers within the ACCA Qualification. What are the links with other papers, or with other components?

**Examiner:** F2 is where students will encounter some of the first principles and fundamental techniques of financial management, particularly the relevant mathematical and statistical tools. But P4, mainly builds on F9, *Financial Management* capabilities. Students are therefore expected to have a thorough understanding of the F9 syllabus before they choose the P4 options paper.

In addition, P4 builds indirectly on P1, *Professional Accountant*. This is particularly the case in the areas of corporate governance such as strategic planning and the ethical aspects of director remuneration. P4 focuses more specifically on the financial aspects of risk management, introduced at a broader level in P1.

P4 is one of the last papers to be examined within the structure of the qualification, therefore the learning outcomes of P4 are not developed further within the education curriculum.

However, the knowledge and capabilities acquired in P4 will be applied in context within the Practical Experience Requirements.

The specific Performance Objectives relating to P4 are Performance Objectives 15 and 16.

**Interviewer:** What is the overall concept or theme for P4 as a paper?

**Examiner:** P4 is a paper which is mainly about the skills and knowledge required of a practicing financial manager operating at a senior level. It is based primarily on the idea that companies exist in the context of globalised markets which are characterised by risk. By this we mean companies need to be able to adapt financially to rapidly changing circumstances and opportunities.

P4 is therefore concerned with exploring how to make sound financial judgements based upon evidence and how to communicate those judgements persuasively.

The following quote sums up this idea.

‘To decide we need information, to judge we need wisdom.’

This quote nicely sums up the notion that having knowledge is one thing, but using it wisely to make appropriate decisions in financial management is another. It also emphasises the professional level of the paper and the fact that professionals are more than mere technical experts.

**Interviewer:** Are there any other broad themes which run through the P4 syllabus?

**Examiner:** Yes, as previously mentioned, P4 is essentially about the work of the financial manager within a large organisation. It has relevance for the small business practitioner or manager as well.

Theme 1 covers the process of choosing and costing the financial resources of the firm. In this we have moved on from a preoccupation with the equity markets to focus as much on debt in all its different forms.

Theme 2 is about valuation. In this we focus on the optionality which lies at the centre of all financial valuation: investment appraisal and real options, the value of the firm as an option against the underlying assets of the business as well as the classical techniques of DFC, NPV, cash flow valuation and so on.

Theme 3 looks at mergers and acquisitions. Large corporate deals bring together many areas within this and other syllabuses: due diligence; valuation; business strategy; corporate governance and the management of risk.

Theme 4 is about corporate reconstruction and focuses on the problems of turnaround, corporate unbundling, outsourcing and alternative governance structures.

Theme 5 recognises that without risk there is no profit, the fact that companies have to identify the nature of the risk they are dealing with and how it can be exploited and managed.

**Interviewer:** The syllabus for P4 is structured into seven main sections. Can you briefly explain the main content of these syllabus sections?

**Examiner:** The first syllabus section (A) introduces the role of the senior financial executive or advisor and the responsibility towards stakeholders.

In Section B, the advanced aspects of investment appraisal are covered. This is a development of what was introduced in paper F9, *Financial Management*.

Students are introduced to acquisitions and mergers, a commonly pursued growth strategy, in Section C. This section includes the advanced issues surrounding the valuation and financing of acquisitions.

Section D covers the area of corporate reconstructions and re-organisations.

Section E covers treasury and advanced risk management. Again, this is an area which is introduced in F9, *Financial Management* but in P4, it focuses on the more complex hedging instruments, including derivatives.

Section F focuses on the economic environment in which multinationals operate and the strategies they pursue to achieve growth.

Section G deals with emerging issues. Financial Management is a rapidly changing field. The 2007 credit collapse has demonstrated how quickly the financial landscape can change. *student accountant* has articles touching upon methods and issues where students can keep up-to-date. Although the study texts provide the essential elements, students are encouraged to read widely, focusing on good quality financial newspapers, magazines and journals and relevant websites such as [www.CFO.com](http://www.CFO.com) and [www.FT.com](http://www.FT.com).

**Interviewer:** Thank you for explaining the main content of the syllabus for us. What can you tell us about how the exam itself is structured?

**Examiner:** As with all papers at the Professional level, the writing time for this exam is three hours. All ACCA three hour papers have been

allocated an additional 15 minutes reading and planning time, within which students can read the paper, understand the requirements and choose which questions to answer. An article explaining how this time should be productively used has been published in the *student accountant* magazine in the August 2007 edition which can be seen on the website.

**Interviewer:** What exactly can students do in reading and planning time?

**Examiner:** They can make notes and plan answers. This may only be done on the question paper and not on the answer booklet. The answer booklet cannot be used until the exam begins.

**Interviewer:** What kind of questions will appear in the exam and is there any choice?

**Examiner:** As can be seen here, the exam is divided into two sections, A and B.

Section A contains two case study questions totalling 50-70 marks between them – normally 30 marks each. These case studies can potentially assess any area across the syllabus, and may typically assess capabilities from several sections.

Section B contains three 15-25 mark questions (each one is normally 20 marks) which are much shorter scenarios. Each Section B question will normally assess one discrete section of the P4 syllabus and at least one will be wholly discursive.

The student must answer two from the three questions from the optional Section B.

For more information about the exam itself and how it is structured there is a pilot paper and past exam paper available on the ACCA website.

**Interviewer:** How should students deal with a requirement that asks the candidate to do something AND something else?

**Examiner:** Because some questions may ask the candidate to do something 'and' something else, the candidate may have to use judgement to decide how much effort to devote to each aspect. This will be based on the difficulty of different cognitive levels, for example 'describe' is usually easier than 'assess'. However, markers will be asked to exercise quite a lot of flexibility in awarding marks in this situation.

**Interviewer:** What are professional marks?

**Examiner:** Between 4 and 6 professional marks will be awarded within Section A for the form and tone of an answer, for its structure and for the strength and persuasiveness of arguments put forward. There is an article which was published in the October 2007 edition of *student accountant* explaining what professional marks are awarded for. This article will give more information on the awarding of these marks.

**Interviewer:** What advice would you give about revising effectively for, and passing, P4?

**Examiner:** The key tactics to employ are:

- Avoid spotting questions using past papers – look for contemporary issues and themes.
- Practice past questions to build speed and computational accuracy
- Try to obtain a broad understanding of the syllabus and how the different financial topics interrelate
- Make sure that you can use all the quoted formulas and know the assumptions on which they are based
- Remember, I place emphasis on options, mergers and acquisitions and on the broader aspects of the financing decision.

**Interviewer:** What is most important during revision?

**Examiner:** Remember that effective revision involves plenty of question practice. There is no substitute for applying knowledge to situations and using that knowledge within real business contexts as can be found in the pilot paper and in exam style questions. It is also worth dissecting relevant media news stories and applying this form of analysis to these situations.

**Interviewer:** How important would you say time management is?

**Examiner:** Very important. Students must try and ensure that they manage their time effectively, both during revision and the examination itself. Spending too long revising detailed areas of the syllabus is less productive than developing a proper understanding of the main principles, ideas and concepts within each syllabus section and subject area. Remember that students should maximise their potential for earning marks and spend their time in proportion to the marks available – then move on.

**Interviewer:** What else would you say students need to remember during the exam itself?

**Examiner:** Students must ensure that they apply their knowledge and understanding to the case or scenario provided, where this is required.

At this level of exam, most marks will be available for application and analysis, for assessing a situation, using judgment or for developing points and arguments. This also applies to professional marks which were referred to earlier.

**Interviewer:** What do you believe to be the main potential pitfalls in preparing for and taking the P4 exam?

**Examiner:** Students continue to believe that possessing detailed knowledge is the key to exam performance. This is true to some extent, but the highest marks are awarded for those who use their knowledge in the proper context. The main pitfall here is that students feel the need to demonstrate their knowledge, whether required or not. It is because of this that many students fail to complete the exam. Remember that writing 10 good points for a five mark requirement is a 50% waste of effort.

**Interviewer:** Do students get rewarded for including bullet lists and diagrams?

**Examiner:** Very few marks are available for demonstrating knowledge in a vacuum or for bullet lists or for diagrams. If a diagram is included it should be properly explained. Candidates should ensure that every point made refers directly or indirectly to issues within the question requirement or to information made available. For this they will be well rewarded.

**Interviewer:** Are organisational skills important in the exam?

**Examiner:** Yes, very much so. Students must try to ensure that they are disciplined in answering questions once they have chosen which questions to answer. Although they can answer questions in any order, they should try and answer each part of a question in the order written and keep them together on the answer script.

**Interviewer:** It is clearly important to follow the above tips and avoid any common pitfalls in exam revision and performance. What further information about student performance would you give which might help students prepare for exams?

**Examiner:** After each examination session, all ACCA examiners are required to produce an exam report. These reports highlight key issues arising

in the last exam and focus on where students performed particularly well or badly. These are published in February and August and can be found under paper resources for each paper which can be accessed through the website.

In addition, after each exam session has been completed, the exam review board meets. This is a board consisting of ACCA internal Education staff and six representative members of the approved learning partner community. Minutes from this board summarise the comments made by tuition provider representatives, report survey results about the exams from student questionnaires and detail the responses. Again, the minutes from the exam review board are available on the website.

**Interviewer:** And finally, what would be your concluding advice about the P4 examination paper?

**Examiner:** Firstly, students must always read the question as carefully as they can; identifying clearly the instructional verbs contained within each requirement.

Second, it is important to properly understand the requirements, assessing how much the examiner is really looking for in each

question part. Students should also be fully aware of the marks available for each requirement.

And finally, don't forget that answers given should relate to the question actually asked, not the one that a candidate would have liked to answer!

**Interviewer:** Thank you very much for sharing your insight into this exam paper. I'm sure it has given students and tutors lots of useful information.

**Examiner:** Thank you.