

Financial Management

Sample Questions – September/December 2019

Get to know your exam

These graphical representations are intended to give an indication of past exam requirements and associated question content.

Please note that you will not be able to complete answers within these documents and in isolation they will not sufficiently prepare you for your exam.

We encourage you to visit the ACCA Practice Platform in order to attempt up to date practice exams within the computer-based exam environment.

Introduction screen



Introduction

These sample questions show the likely style and range of **constructed response questions** that could be asked in the live exam.

You should use these questions to become familiar with the question types and the features and functionality contained within the live exam.

This exam is reflective of the constructed response section of the live exam in terms of how it will be structured and assessed, but has some differences:

- There is no timer in this exam however the live exam will have a time limit.
- In the live exam your answers to the constructed response questions will be expert-marked. In this exam you should use the relevant solution material, available from the Past Exam section of the ACCA website, to assess your performance.
- In the live exam you will be able to highlight and strikethrough text in the question scenario (this feature is not currently available in this exam).

Instruction screens

Instructions (1 of 4)

The instructions displayed below are representative of those displayed in the live exam. Where there are differences between this exam and the live exam these are explained.

General Instructions

- In this exam, the instruction screens are not timed however in the live exam they will be available for a maximum of 10 minutes prior to the exam starting.
- In the live exam, the stated exam time will automatically start once the 10 minute period has passed (or earlier if you choose to start the exam within the 10 minute period).
- A copy of the instruction screens can be accessed at any time during the exam by selecting the Help button provided.

Answering and Navigating

- Please read each question carefully.
- The question number you are viewing is displayed in the top display bar. You can hide or restore this display by selecting .
- You can navigate between screens by selecting  or , or by clicking on a question number from the Navigator or Item Review screens.
- A warning message will display to remind you that you cannot navigate away from a question if you have not viewed all of the question content. Ensure that you use all scrollbars and/or open any on-screen exhibits before navigating from each question.
- Some questions have the scenario and answer area divided by either a horizontal or vertical splitter bar. You can move this splitter bar to see more or less of the scenario or answer area.
- Please ensure you provide an answer for all elements of each question.
- You can revisit questions and change your answers at any time during the exam.

Instruction screens (continued)

Instructions (2 of 4)

Flag for Review

- If you wish to revisit/review a question later in the exam, click  **Flag for Review**
- Click the button again if you no longer wish to revisit/review the question later in the exam.

Help

- Click the **Help** button provided to access:
 - A copy of these exam instructions.
 - Help and guidance on constructed response questions (in the constructed response section of the exam only).
 - Formulae sheets/tax tables if your exam requires these. Note that the name of the Help button will indicate if formulae sheets/tax tables are available i.e.  **Help**,  **Help/Formulae Sheet** OR  **Help/Tax Tables**

Calculator

- You have the option to use the on-screen standard or scientific calculators by selecting  **Calculator**
- Note that in the live exam you are also permitted to use your own calculator providing it does not have the facility to store or display text.

Workings/Scratch Pad

- You may use an on-screen Scratch Pad to make notes/workings by selecting  **Scratch Pad**
- The Scratch Pad retains all notes/workings entered for all questions and these are available for the duration of the exam. They will not be submitted for marking after your live exam.
- You will also be provided with paper for notes/workings for your live exam, should you prefer to use it. This will be collected at the end of the exam and must not be removed from the exam room.

Important:

- The notes/workings entered onto the Scratch Pad or your workings paper during the live exam will not be marked.
- If you want the marker to see any notes/workings for questions in the constructed response section of the live exam you must show them within the answer areas.

Insert Symbol

- You can add a selection of currency symbols to your answers in the constructed response section of the exam by selecting  **Symbol** on the top toolbar.

Instruction screens (continued)

Instructions (3 of 4)

Navigator Screen

- The Navigator screen can be accessed at any time during the exam by selecting  Navigator
- This screen allows you to jump to any question number in the exam.
- It also allows you to see the status of questions and whether they have been viewed, are complete or incomplete, or have been flagged for review.

Reviewing the Exam

- You can review your exam once you have attempted any, or all, of the questions.
- To do this:
 - Navigate to the **last question** in the exam.
 - Click the Next button.
- This takes you to the Item Review screen.

Item Review Screen

- This screen gives you an opportunity to see the flag and completion status of all questions before you exit the exam.
- In the live exam this screen will indicate whether the question is complete or incomplete. In this exam, it will show the following:
 - **Unseen** – you have not yet viewed the question.
 - **Blank** – you have viewed the question.

There will be no indication on whether these questions have been answered or whether the answers are correct or incorrect. You should refer to the relevant solution material, available from the Past Exam section of the ACCA website, for guidance to assess your own performance.

Instruction screens (continued)

Instructions (4 of 4)

Revisiting Questions

- You can select individual questions you wish to revisit, or quickly access groups of questions from the Item Review screen.
- During the item review period Navigator is not available however you can navigate to questions by selecting **Next**, **Previous** or **Review Screen**.
- When reviewing questions you can change your answer and click **Review Screen** to view any updated status on the Item Review screen.
- You can review your answers against the relevant solution material provided in the Past Exam section of the ACCA website.

Exiting the Exam

- Once you have completed your item review and wish to finally end the exam click **End Exam**.
- Once you end the exam, you cannot revisit any questions.

Select **Next** to move to the Exam Summary screen.

Exam summary screen

Exam Summary

Time allowed: This sample exam is not timed.

- You will be presented with **two constructed response questions**, each containing a scenario which relates to one or more requirement(s). The requirements may be split over multiple question screens.
- Each constructed response question is worth **20 marks** in total.
- **40 marks** in total.
- All questions are compulsory.

Important: In your live exam you must:

- (1) Enter your answer for each question in the response area provided for that question. Any answers entered into a response area provided for a different question will not be marked.
- (2) Show all notes/workings that you want the marker to see within the response area provided for the question. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

Select **Next** to start your exam.

Sample exam questions

Scenario 1

Financial Management (FM) Sample Questions - September/December 2019

 Symbol  Calculator  Scratch Pad

This scenario relates to five requirements.

Dink Co is a small company that is finding it difficult to raise funds to acquire a new machine costing \$750,000. Dink Co would ideally like a four-year loan for the full purchase price at a before-tax interest rate of 8.6% per year.

The machine would have an expected life of four years. At the end of this period the machine would have a residual value of \$50,000. Tax-allowable servicing costs for the machine would be \$23,000 per year. Tax-allowable depreciation on the full purchase price would be available on a 25% reducing balance basis.

A leasing company has offered a contract whereby Dink Co could have use of the new machine for four years in exchange for an annual lease rental payment of \$200,000, payable at the start of each year. The contract states that the leasing company would undertake maintenance of the machine at no additional cost to Dink Co. At the end of four years the leasing company would remove the machine from the manufacturing facility of Dink Co.

Dink Co pays corporation tax of 30% one year in arrears.

Scenario 1: requirements

(a) For the new machine:

(i) Calculate the present value of the cost of borrowing to buy.

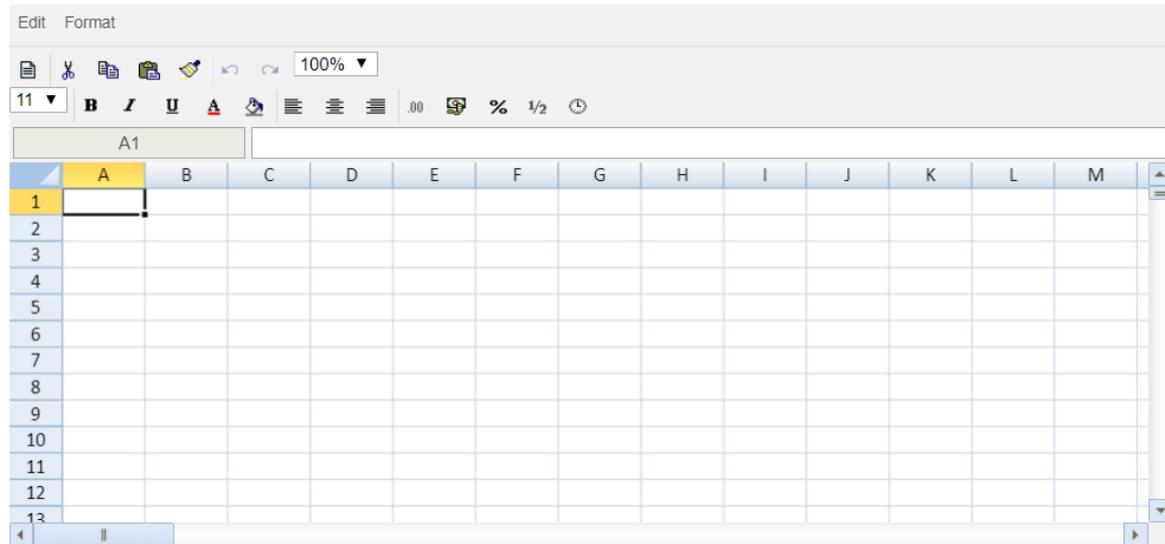
(6 marks)

(ii) Calculate the present value of the cost of leasing.

(3 marks)

(iii) Recommend which option is more attractive in financial terms to Dink Co.

(1 mark)



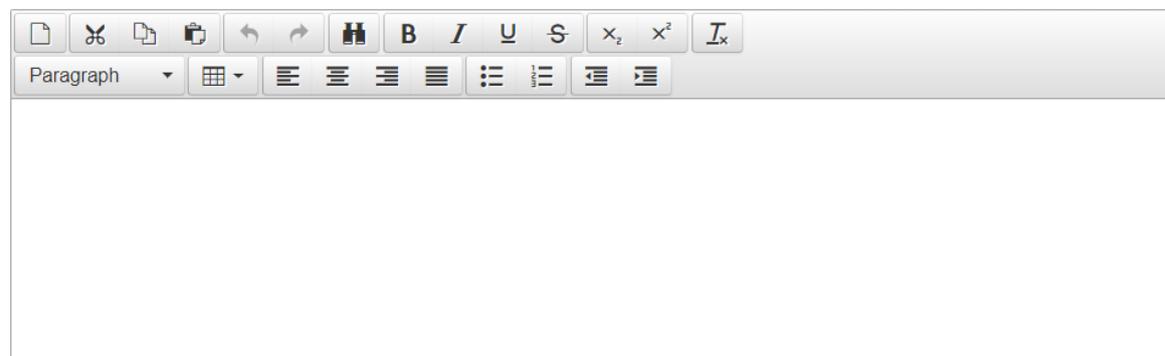
(b)(i) Discuss general reasons why investment capital may be rationed.

(6 marks)

(ii) Discuss ways in which the external capital rationing experienced by Dink Co might be overcome.

(4 marks)

(20 marks)



Scenario 2

Financial Management (FM) Sample Questions - September/December 2019

Æ Symbol  Calculator  Scratch Pad

This scenario relates to five requirements.

Dusty Co wishes to improve its working capital management as part of an overall cost-cutting strategy to increase profitability. Two areas the company has been considering are working capital funding strategy and inventory management. Dusty Co currently follows a policy of financing working capital needs as much as possible from long-term sources of finance, such as equity. The company has been considering its inventory management and has been looking specifically at component K.

Current position

Dusty Co purchases 1,500,000 units of component K each year and consumes the component at a constant rate. The purchase price of component K is \$14 per unit. The company places 12 orders each year. Inventory of component K in the financial statements of Dusty Co is equal to average inventory of component K.

The holding cost of component K, excluding finance costs, is \$0.21 per unit per year. The ordering cost of component K is \$252 per order.

Economic order quantity

Dusty Co wishes to investigate whether basing ordering of component K on the economic order quantity will reduce costs.

Bulk order discount

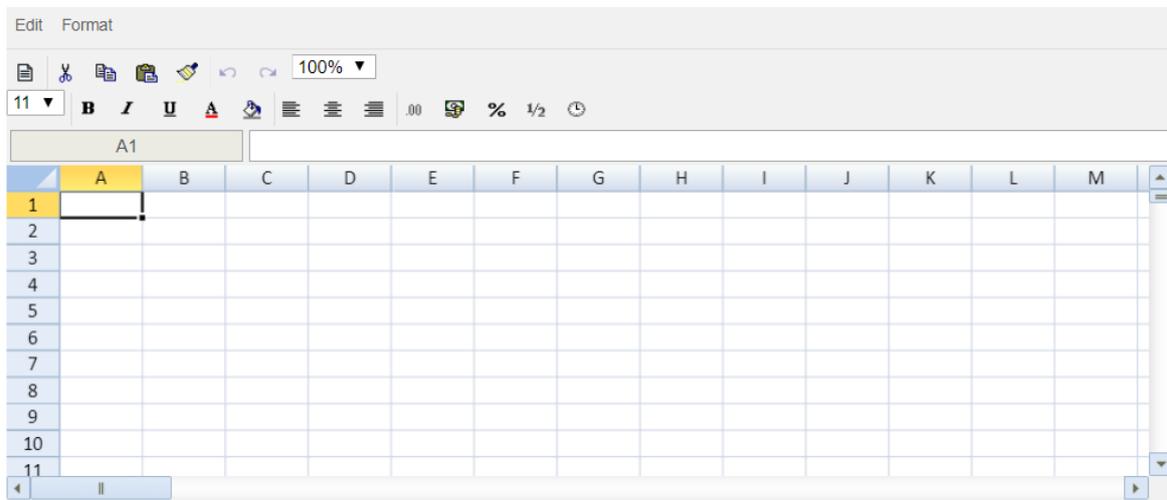
The supplier of component K has offered Dusty Co a discount of 0.5% on the purchase price of component K, provided the company orders 250,000 units per order.

Other information

Dusty Co has no cash but has access to short-term finance via an overdraft facility at an interest rate of 3% per year. This overdraft currently stands at \$550,000.

Requirements for Scenario 2

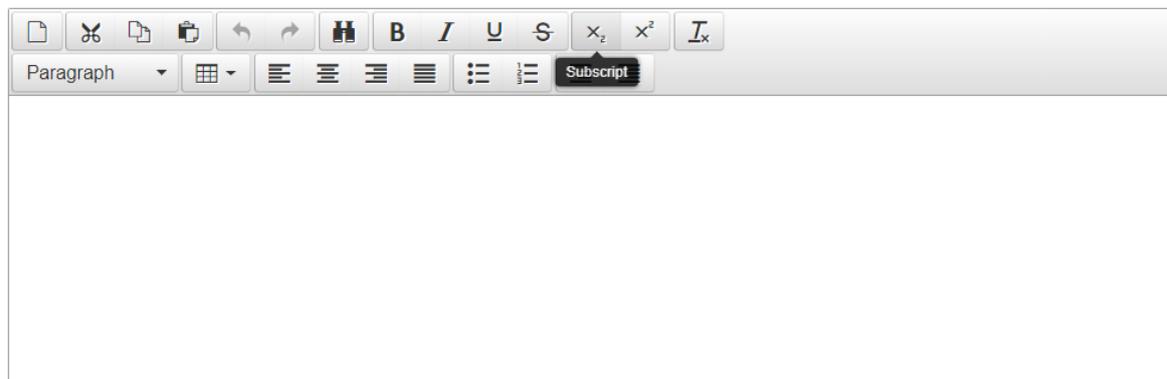
- (a)(i) Calculate the annual holding and ordering costs of Dusty Co's current inventory management system. (1 mark)
- (ii) Calculate the financial effect of adopting the Economic Order Quantity as the basis for ordering inventory. (4 marks)
- (iii) Calculate the financial effect of accepting the bulk order discount. (4 marks)
- (iv) Recommend, with justification, which option should be selected by Dusty Co. (1 mark)



- (b) Discuss the key factors in determining working capital funding strategies.

(10 marks)

(20 marks)



Example view of full CBE constructed response workspace

Financial Management (FM) Sample Questions - September/December 2019 1 of 4

Symbol Calculator Scratch Pad Flag for Review

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Dink Co pays corporation tax of 30% one year in arrears.

(a) For the new machine:

(i) Calculate the present value of the cost of borrowing to buy. (6 marks)

(ii) Calculate the present value of the cost of leasing. (3 marks)

(iii) Recommend which option is more attractive in financial terms to Dink Co. (1 mark)

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Help/Formulae Sheet Review Screen Next