



Think Ahead

# Financial Management

## Sample Questions – March / July 2020

### 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.

The practice exam is reflective of the constructed response section of the live exam but has some differences:

- The live exam will be timed, however there is no time limit in this exam.
- Once you have started this exam you are able to leave at any time by closing the browser window. When you return, anything you have entered into the response options will be saved and you can continue sitting the exam.
- In the live exam your answers to the constructed response questions will be expert-marked. At the end of this exam you should use the solution material provided to assess your performance in the constructed response questions.
- You will be able to access solution material at the end of this exam when using the Self-Marking resources which include a Marking Guide and/or Sample Answer for each question. If you wish to access these without completing the questions, click on **End Exam** on the Item Review Screen and navigate to the Marking tab on the Dashboard to Self-Mark.

## 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 **Next →** or **← Previous**, 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.

#### 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.

## Instruction screens (continued)

### Instructions (2 of 4)

#### Help

- Click the **Help** button provided to access:
- A copy of these exam instructions.
- Help and guidance on constructed response questions.
- 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.

#### Highlight and Strikethrough

- You can highlight key phrases or figures in the question scenario by selecting [Highlight](#)
- You can strikethrough text in the question scenario by selecting [Strikethrough](#)
- Highlighted and strikethrough text will be displayed on all questions relating to the scenario.

#### 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 not be submitted for marking. It 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.

## Instruction screens (continued)

### Instructions (3 of 4)

#### Copy and Paste

- You can copy and paste from the Scratch Pad or question scenario into your answers in the constructed response section of the exam by using the Ctrl-C (Copy) and Ctrl-V (Paste) shortcuts. **Note:** When pasting into a spreadsheet in the live exam you must double-click the cell or paste directly into the formula bar. In this exam you can also paste into the spreadsheet by selecting the cell.

#### 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.

#### 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.

#### Close All

- You can close each window (eg. Calculator or Scratch Pad) individually or you can close multiple windows by selecting **Close All** on the top toolbar.

#### 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 **Next→**.
- This takes you to the Item Review screen.

## Instruction screens (continued)

### Instructions (4 of 4)

#### Item Review Screen

- This screen gives you an opportunity to see the flag and completion status of all questions before you exit the exam.
- 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.

#### Ending 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 - March/June 2020

\$

 Symbol  ▼ Highlight 

✖

 Strikethrough 

🧮

 Calculator 

📝

 Scratch Pad

**This scenario relates to four requirements.**

Pumice Co plans to expand its business operations by opening several new outlets at a cost of \$8m, financed by an issue of loan notes. The company currently generates credit sales of \$80.768m before cost of sales of \$27.700m. All sales are on credit. The current statement of financial position of Pumice Co is as follows:

	<b>\$'000</b>
<b>Assets</b>	
Non-current assets	54,070
<b>Current assets</b>	
Inventories	4,000
Trade receivables	12,320
Cash and cash equivalents	800
	17,120
<b>Total assets</b>	<b>71,190</b>

<b>Equity and liabilities</b>	<b>\$'000</b>
Equity	6,000
Reserves	34,000
<b>Total equity</b>	<b>40,000</b>
Non-current liabilities	18,000
<b>Current liabilities</b>	
Trade payables	9,690
Overdraft	3,500
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Pumice Co expects that the expansion will increase credit sales by 18.7%, with cost of sales being 33% of credit sales and profit after tax being \$6.818m. Non-current assets will increase by 11%.

The bank has demanded that Pumice Co's overdraft be reduced to \$3m and the company expects its cash balance to be \$700,000 after the expansion.

Pumice Co has been receiving complaints from its suppliers about late payment and the company plans to improve its working capital management as part of the expansion: it expects that the following working capital ratios will result:

Inventory holding period	50 days
Trade receivables payment period	60 days
Trade payables payment period	60 days

The finance director of Pumice Co wishes to investigate how the expansion will change the following ratios:

- (i) trade payables payment period;
- (ii) current ratio; and
- (iii) revenue/net working capital ratio (defining net working capital as inventory plus trade receivables less trade payables).

Assume that there are 360 days in a year.

## Scenario 1: requirements

Using the information provided:

(a)(i) Prepare a forecast statement of financial position for Pumice Co; and

(6 marks)

(ii) Calculate the effect of the proposed expansion on the working capital ratios listed by the finance director.

(4 marks)

The image shows a spreadsheet application window. At the top, there are two menu items: 'Edit' and 'Format'. Below the menus is a toolbar containing several icons: a document icon, a scissors icon, a copy icon, a paste icon, an eraser icon, and undo/redo arrows. To the right of these icons is a zoom dropdown menu currently set to '100%'. Below the toolbar is a row of formatting buttons: a font size dropdown set to '11', buttons for bold (B), italic (I), underline (U), text color (A), background color (paint bucket), text alignment (left, center, right), and number formatting (decimal, fraction, percentage, and a clock icon). The main workspace is a grid with columns labeled A through M and rows numbered 1 through 21. Cell A1 is selected and highlighted in yellow. The status bar at the bottom of the window displays 'Sheet1' and navigation controls including arrows and a double bar icon.

**This scenario relates to four requirements.**

Pumice Co plans to expand its business operations by opening several new outlets at a cost of \$8m, financed by an issue of loan notes. The company currently generates credit sales of \$80.768m before cost of sales of \$27.700m. All sales are on credit. The current statement of financial position of Pumice Co is as follows:

	<b>\$'000</b>
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The finance director of Pumice Co wishes to investigate how the expansion will change the following ratios:

- (i) trade payables payment period;
- (ii) current ratio; and
- (iii) revenue/net working capital ratio (defining net working capital as inventory plus trade receivables less trade payables).

Assume that there are 360 days in a year.

(b) Discuss the ways in which implementing the proposed changes in working capital represent:

(i) Changes in working capital investment policy for Pumice Co; and

(5 marks)

(ii) Changes in working capital funding policy for Pumice Co.

(5 marks)

(20 marks)

Paragraph ▾

Table ▾

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Indent

## Scenario 2

### Financial Management (FM) Sample Questions - March/June 2020

\$ Symbol  ▼ Highlight  Strikethrough  Calculator  Scratch Pad

**This scenario relates to six requirements.**

LaForge Co is a listed company which designs and manufactures air-conditioning units, which are then sold through third party retailers and distributors. Economic growth in a number of Asian countries has increased the demand for its products and LaForge Co wishes to target these markets in order to generate sales and profit growth.

To target these markets, LaForge Co needs new machinery which will require investment of \$25.48m.

Two options for raising the finance are being considered:

- (1) A rights issue, at a discount of 30% on the current share price of \$2.60 per share.
- (2) An issue of 6% loan notes, redeemable at nominal value of \$100, in ten years' time.

LaForge Co's P/E ratio is 11 times and this is expected to remain unchanged, whichever financing option is chosen.

Extracts from LaForge Co's most recent financial statements are as follows:

	\$m
Profit from operations	25.50
Profit after tax	16.56
Share capital (\$0.50 per share nominal)	35.00

Without the new investment, the forecast profit from operations for the coming year is expected to be the same as the previous year's actual result. If the investment is undertaken, the forecast profit from operations for the coming year is expected to increase by \$4.5m.

LaForge Co pays tax at 20%.

## Requirements for Scenario 2

(a) For the rights issue, calculate the following:

(i) The theoretical ex-rights price per share; and

(3 marks)

(ii) The value of a right per existing share.

(1 mark)

The screenshot displays the Microsoft Excel application window. At the top, the 'Edit' and 'Format' tabs are visible. Below the ribbon, the formula bar shows '11' and a dropdown menu. The main area is a blank spreadsheet grid with columns labeled A through M and rows numbered 1 through 22. The active cell is A1. The status bar at the bottom indicates 'Sheet1'.

(b) Assuming that the investment goes ahead, calculate LaForge Co's forecast earnings per share, for the coming year AND the resulting share price, if it finances the investment using each of these alternatives:

(i) The rights issue; and

(2 marks)

(ii) The loan notes.

(3 marks)

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Sheet1



(c) Discuss the ways in which a company can issue new equity shares.

(5 marks)

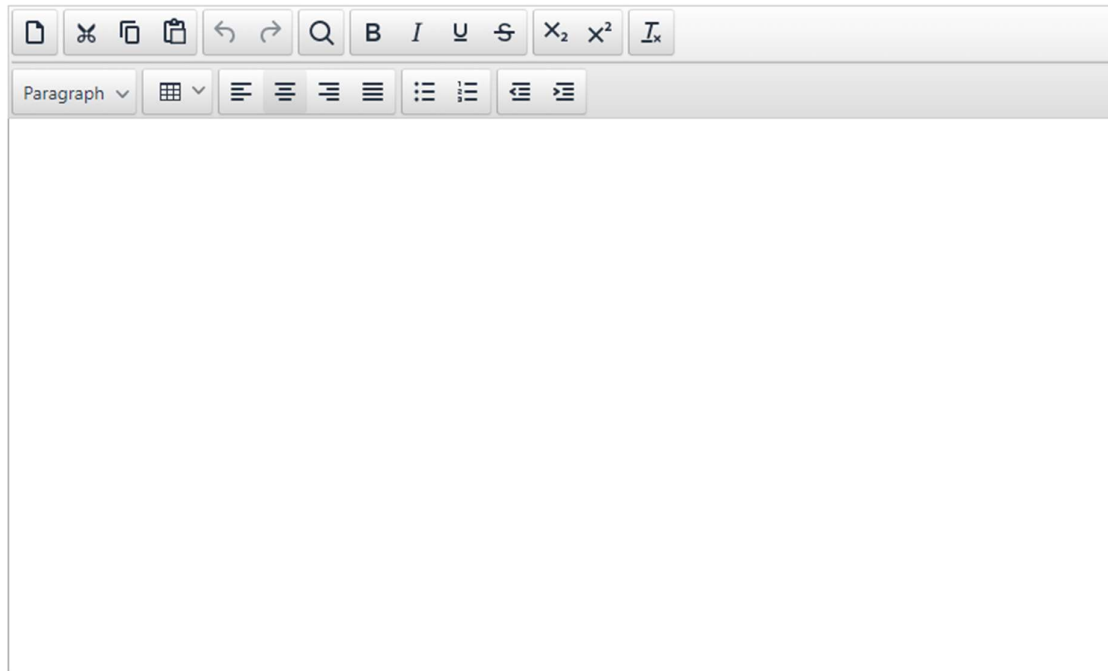
The image shows a rich text editor interface. At the top, there is a toolbar with various icons for text manipulation: a document icon, a link icon, a list icon, a search icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x<sub>2</sub>), a superscript icon (x<sup>2</sup>), and a text color icon (I<sub>x</sub>). Below the toolbar is a second row of icons: a paragraph dropdown menu, a table icon, four alignment icons (left, center, right, justified), two bullet point list icons, and two numbered list icons. The main area of the editor is a large, empty white rectangle with a thin black border, intended for the user to type their response.

At a recent board meeting to discuss the financing options, one of the directors suggested reducing the forthcoming dividend. In the past few years, LaForge Co has consistently paid an annual dividend of \$0.08 per share. Its shareholders include both financial institutions and individuals.

**(d) Discuss and recommend whether LaForge Co should raise the finance it requires by reducing its annual dividend.**

(6 marks)

(20 marks)



## Example view of full CBE constructed response workspace

Financial Management (FM) Sample Questions - March/June 2020
1 of 6
\$ Symbol Highlight Strikethrough Calculator Scratch Pad
Close All Flag for Review

**This scenario relates to four requirements.**

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**Using the information provided:**

(a)(i) Prepare a forecast statement of financial position for Pumice Co; and (6 marks)

(ii) Calculate the effect of the proposed expansion on the working capital ratios listed by the finance director. (4 marks)

Edit Format
100%
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Sheet1
Navigator Next

Help/Formulae Sheet