



Examiner's report

Financial Management (FM)

September 2019

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

General comments

The Financial Management (FM) exam is a computer-based exam (CBE). The CBE exam delivery model means that candidates do not all receive the same set of questions.

- Section A objective test questions – we focus on two specific questions that caused difficulty in this sitting of the exam
- Section B case-based objective test questions – here we look at the strengths and weaknesses in specific syllabus areas
- Section C constructed response questions - here we provide commentary around some of the main themes that have affected candidates' performance in this section of the exam, identifying common knowledge gaps and offering guidance on where exam technique could be improved, including in the use of the CBE functionality in answering these questions.

Congratulations to those candidates who were successful in this examination diet. If you were not successful, I hope that you will study the content of this report carefully as part of your preparation for your next attempt.

Section A

The objective test questions in Section A ensure a broad coverage of the syllabus, and so all areas of the syllabus need to be carefully studied, as all learning outcomes can be tested in this part of the examination. Candidates preparing for the examination are therefore advised to work through as many objective test questions as possible, reviewing carefully to see how correct answers are derived in areas where they experience difficulty.

The following questions are reviewed with the aim of giving future candidates an indication of the types of questions asked which have caused difficulty and guidance on dealing with such exam questions.

Example 1 is numerical and tests the dividend growth model.

Example 2 is a question testing knowledge of interest rate risk.

Example 1

The following information is available for a listed company:

| | |
|--------------------------------------|------------------|
| Dividend recently paid | \$0.10 per share |
| Dividend cover | 4 times |
| Price earnings ratio | 5 times |
| Estimated future growth in dividends | 8% |

Using the dividend growth model, what is the cost of equity for this company (to one decimal place)?

The correct answer is 13.4%

This question tests the use and understanding of the dividend growth model and its inputs. The correct calculation is as follows

$$P_0 = \text{Dividend} \times \text{dividend cover} \times \text{price earnings ratio} = \$0.10 \times 4 \times 5 = \$2.00$$

$$k_e = ((D_0 \times (1 + g))/P_0) + g = (0.1 \times 1.08)/2 + 0.08 = 13.4\%$$

Example 2

Which of the following is a description of gap exposure?

- A The difference between short-term and long-term interest rates
- B The difference between the amounts of interest-sensitive assets and liabilities
- C The difference between spot interest rates and futures interest rates
- D The difference between fixed and floating interest rates

The correct answer is B.

The difference between the amounts of interest-sensitive assets and liabilities is a description of gap exposure. A significant number of candidates chose other options to this question, suggesting that this topic is not well understood by many candidates.

Section B

Similarly to Section A, questions can come from any area of the syllabus. This reinforces the earlier point about the need for candidates to study the whole syllabus.

General comments

Candidates should read the question carefully and follow the instructions on how to answer the question. For example if a question asks the candidate to select two correct statements, then marks can only be awarded if two statements have been selected. There is no partial marking, so an answer which only selects one statement will be awarded no marks. A candidate who selects three statements will also receive no marks.

In addition, when answering a number entry question, candidates must ensure they are entering their answer in the correct format as stated in the requirement. If a number is being requested in millions, there will be an 'm' after the number entry box. If a candidate puts a full answer of say 13000000 in the box rather than 13, this will be marked as incorrect.

If there is no format specified, answers may be given as an integer or to one or two decimal places. The exam system is configured to allow any correct answer, under these formats, to be awarded the available marks.

Issues that were noted under specific syllabus areas are as set out below.

Working capital

A number of candidates were unable to correctly calculate the cost effects of introducing accounts receivable factoring or offering an early settlement discount.

A further question, testing what impact given actions would have on a company's working capital position led to many incorrect answers, with a significant number of candidates thinking that offering an early settlement discount would increase the cash operating cycle.

Business finance

A number of candidates made errors on a question requiring a WACC calculation, with many using a before-tax cost of debt rather than after-tax.

Another issue, which has appeared in many different exam sessions, is that some candidates use cum dividend share prices in the dividend growth model, rather than ex dividend prices. Some candidates also do not correctly include growth in their calculations of the cost of equity, using the dividend growth model.

Business valuation

One issue noted from this session, and from some past sessions is that candidates typically struggle more with questions about the uses and limitations of the valuation models, rather than applying the models to produce valuation. In particular understanding when it can be appropriate to use the dividend growth model caused difficulty for many candidates.

One question highlighted that a significant number of candidates appeared to be unsure what earnings yield represents and how it is calculated.

A number of candidates also struggled to correctly identify the impact on share prices under various forms of market efficiency. In particular, it is commonly thought that in a weak form efficient market that share prices are slow to react to new information, however this is not the case.

Risk management

It continues to be the case that candidates are not strong on questions which feature derivatives. One specific example in this session was a question testing the features of options and futures contracts.

A further question involved testing understanding of different forms of foreign exchange risk. Future candidates should read questions carefully to ensure they understand the full scenario in the question to determine what the relevant risks are in each specific instance.

A number of candidates appeared to not know the features of a forward rate agreement. It also remains the case that some students are confused between forward exchange contracts and forward rate agreements.

Section C

This section of the examination is where candidates are required to have deeper knowledge of topics. Whilst there were many reasonable attempts at most parts of questions, especially numerical based requirements, there were too many candidates whose responses to discursive questions displayed limited knowledge.

Question requirements must be read carefully and answered directly. Candidates writing 'all that they know about the topic' without answering the question will invariably score few marks. Instead, the focus should be on the requirement and relating this to the scenario provided.

Question requirements will often make reference to the company in the scenario, in which case candidates need to refer to the company's circumstances in order to be able to gain all of the marks on offer.

Candidates at this diet were presented with Section C questions drawn mainly from the following areas of the Financial Management syllabus:

- The nature, elements and importance of working capital
- Management of inventories, accounts receivable, accounts payable and cash
- Determining working capital needs and funding strategies
- Investment appraisal techniques
- Allowing for inflation and taxation in Discounted Cash Flow (DCF)
- Adjusting for risk and uncertainty in investment appraisal
- Specific investment decisions
- Sources of and raising business finance
- Sources of finance and their relative costs
- Capital structure theories and practical considerations
- Finance for small and medium sized entities (SMEs)

The nature, elements and importance of working capital

In this part of the syllabus, candidates are expected to identify the objectives of working capital management in terms of liquidity and profitability, and discuss the conflict between them. Overall, this was done fairly well by candidates, but illustrating their answers by reference to the required calculations in the preceding part of the question was less well performed.

It was surprising how many candidates offered no definitions of either liquidity or profitability, or both. These were straightforward marks that most students would be expected to pick up. Many answers correctly discussed the 'conflicting' part of the requirement, although some answers chose to ignore it.

Some answers offered general discussions of working capital elements and their management, or (occasionally lengthy) discussions of working capital investment policies, or (less frequently) working capital funding strategies. Such answers failed to address the question requirement.

Future candidates should note that where a requirement is framed in terms of the scenario presented, then responses will score more marks when theory is applied to the given circumstances. This includes using the figures given in the scenario and, where appropriate, the candidates' own figures from a previous part-question. Candidates often seem to lack confidence in discussing their own figurework, but can be reassured that sensible, appropriate comments based upon their own figures will be awarded marks by the marker.

A helpful article, which includes a discussion of the objectives of working capital management, can be found on the ACCA website:

<https://www.accaglobal.com/uk/en/student/exam-support-resources/fundamentals-exams-study-resources/f9/technical-articles/wcm.html>

Management of inventories, accounts receivable, accounts payable and cash

This part of the Financial Management syllabus tests candidates' abilities in respect of the management of various areas of working capital including an outcome requiring candidates to discuss, apply and evaluate the use of relevant techniques in managing inventory, including the Economic Order Quantity (EOQ) model.

One question at this diet required candidates to evaluate two alternatives to the current inventory position, namely adopting the EOQ as the basis for ordering inventory or accepting a bulk order discount.

Calculating the EOQ was often done well, as was calculating the holding and ordering costs of it and the various alternatives. Nonetheless, it was disappointing that many candidates did not properly calculate the required financial effect of adopting each option by comparing the cost of each option with the original position. In fact some candidates simply compared the two alternatives on offer, without considering whether either proposal was advantageous.

Other common errors here included:

- Not recognising the financing cost effect of a change in average inventory values (the annual interest rate was provided for this purpose). It seems strange that far more candidates know that a change in value of accounts receivable brings about a change in the corresponding financing cost than they do when the average inventory values change, even though the principle is the same;
- Not 'halving' the order quantity to obtain an average inventory level, thereby yielding incorrect holding costs;
- Including the cost of overdraft interest as a unit cost in the holding cost per unit;
- Lack of care and precision in computations, such as treating a 0.5% bulk purchase discount as a 5% discount, not using the full demand figure in the EOQ formula (e.g. using 1,500 instead of 1,500,000) and not using brackets appropriately in computing the EOQ when using the power of one-half to execute the square root part of the computation;
- Lack of a justified recommendation, even though it was specifically required.

The past question Nesud Co (September 2016) demonstrates the evaluation of adopting an EOQ approach to inventory ordering.

This part of the syllabus also tests the candidates' ability to discuss, apply and evaluate the use of relevant techniques in managing accounts receivable, including offering early settlement discounts. Nesud Co (September 2016) demonstrates this concept also, as does ZXC Co (September/December 2015).

Some answers showed confusion about the relationship between sales and trade receivables, treating sales as though they were trade receivables and vice versa.

Other errors encountered included:

- Calculating the cost of the discount from total credit sales, when not all customers were expected to take the discount;
- Basing the revised trade receivables balance on customers taking the discount, rather than all customers;
- Using the daily interest rate where a candidate's approach needed the annual interest rate;
- Using the interest rates in the question as discount rates.

A useful article on Accounts Receivable Management is here

<https://www.accaglobal.com/uk/en/student/exam-support-resources/fundamentals-exams-study-resources/f9/technical-articles/arm.html>

In the same question, candidates were also tested on their ability to discuss and apply the use of relevant techniques in managing cash, which in this scenario involved two cash management models, Baumol and Miller-Orr. Most candidates demonstrated good knowledge of the return point, but less so the upper limit, in using the Miller-Orr model, but it was very much a case of candidates either knowing it well or not at all.

In calculating the spread using the formula provided in the examination formula sheet, the recommended approach would be to enter the calculation in the cell in the spreadsheet provided. Markers could then clearly see where errors had been made and award marks accordingly. Where candidates performed the calculation on a calculator and entered the resulting value in a spreadsheet cell, markers could not apply the own figure rule, since even where a candidate had written out the equation in the spreadsheet, a marker could not know what calculator keys the candidate had pressed.

Furthermore, care needs to be taken when using a cell formula. For example, in the spread formula a third root is required and hence the correct use of brackets is needed to be able to raise a figure to the power of one third in the correct manner. Also, some candidates used an annual rate of interest instead of the required daily rate.

Finally, candidates were asked to discuss the use of one cash management model as opposed to the other. Whilst there were some good responses, there was often a shallow level of discussion here with generic advantages given (simple, quick, understandable) as an attempt to be seen to write something. Disadvantages were scarcely discussed.

Many candidates struggled to gain good marks here because they adopted a descriptive approach. Candidates should recognise that simply describing features of a cash management model such as Miller-Orr, for example stating that it calculates an upper limit or that it calculates a lower level, is not the same as discussing its advantages or disadvantages.

Determining working capital needs and funding strategies

One part-question at this diet required candidates to discuss the key factors in determining working capital funding strategies.

Questions in this syllabus area usually require in depth discussion and previous Examiner's Reports have commented upon this. On this occasion, good answers would have focussed on the areas listed in the Financial Management syllabus, namely:

- the distinction between permanent and fluctuating current assets;
- the relative cost and risk of short term and long-term finance;
- the matching principle;
- the relative costs and benefits of aggressive, conservative and matching funding policies;
- management attitudes to risk.

Disappointingly, candidates' answers often did not do this and hence failed to gain enough of the marks on offer. Specifically, some answers:

- Were far too brief for the marks on offer;
- Made simple, general points yielding few marks;
- Offered only bullet points, although the requirement was for a discussion. Short bullet points do not comprise a discussion;
- Failed to consider or explain the analysis of current assets into fluctuating and permanent current assets, thereby leading to points far too general to gain marks such as 'use long-term finance for non-current assets and short term finance for current assets';
- Failed or only briefly attempted, to consider the relative risk and cost of short-term and long-term finance;
- Did not consider a matching or moderate policy.

Furthermore, some candidates talked about working capital management in general terms, working capital investment policies or about sources of funds (including a debt versus equity discussion) rather than working capital funding policies, once again not addressing the requirement. Instead, candidates seem to answer the question they would have preferred rather than the one that was actually asked.

Investment appraisal techniques and allowing for inflation and taxation in DCF

As has been commented upon in previous reports, candidates tend to score well on questions requiring the computation of a net present value (NPV), but future candidates must be aware that there is more than one way of being tested in this area, and must practice a wide range of past questions in order to be able to score good marks.

Timing errors in respect of cash flows occurred quite frequently at this diet, which result from candidates not taking the time to read and fully process the information provided in the scenario. For example, it is not always the case that operations, and hence operational cash flows such as sales revenue, variable and fixed costs, will commence immediately after the purchase of an asset such as a new piece of machinery. It is possible that it could take a year or more for operations to commence and hence the operational cash flows need to be delayed by the correct period of time.

Timing issues also arise in respect of tax related cash flows. Question scenarios will always state whether tax is payable at the end of the year in which the liability arises, or if it is payable one year in arrears. The timing applies to all tax related cash flows including the benefits arising from tax allowable depreciation (TAD). It seems strange to the examining team that candidates treat different tax related cash flows in different ways, for example by placing TAD benefits 'in the year', but deferring tax payments by one year. Such a 'hedging your bets' approach will result in the failure to score the tax timing mark.

The cash flows relevant to working capital is another area with which candidates often have difficulties. Errors include:

- the omission or incorrect timing of initial working capital;
- incorrect calculation of incremental working capital, sometimes being included in each year at its total value for the year, rather than the change on the previous year;
- the omission or incorrect timing of working capital recovered at the end of the project's life.

These issues have been covered well in this article on the ACCA website and it is recommended reading for future candidates.

<https://www.accaglobal.com/uk/en/student/exam-support-resources/fundamentals-exams-study-resources/f9/technical-articles/advanced-investment-appraisal.html>

Other errors (many of which have been stated in previous reports) in calculating a net present value include:

- Omission of relevant cash flows, where items such as marketing costs, research and development costs and fixed costs can be future, incremental cash flows relevant to a project, according to the wording of the information in the question scenario;
- Inflation, such as applying just one year's inflation to cash flows arising more than one year in the future;
- Misinterpreting the selling price (and/or unit cost) information provided in the question and using the year 1 selling price (and/or unit cost) as the basis of all inflated sales income (and/or variable costs).
- Tax, such as failing to recognise or correctly calculate the final year TAD, taxing cash flows that included working capital figures and/or the residual value of the asset and not displaying an understanding of the difference between computing TAD on a straight line as opposed to a reducing balance basis, despite the basis being clearly stated in the scenario.
- Locating the cost of the planned investment at the end of year 1 rather than at year 0.
- Using the real after-tax cost of capital as the discount rate for nominal (inflated) cash flows, when the given nominal after-tax cost of capital should have been used.

- Failing to make a justified comment on the financial acceptability of the proposed investment project or recommending both projects when it was clearly stated that the projects were mutually exclusive.

Future candidates are advised to study the following questions for further guidance in this area: Pinks Co (March/June 2019), Pelta Co (September/December 2017), Vyxyn Co part (b) (March/June 2017) and Hebac Co part (a) (September 2016),

In addition to calculations, candidates are expected to be able to discuss investment appraisal such as evaluating a draft investment appraisal presented in the scenario or being able to suggest ways to improve the reliability of an appraisal.

In respect of the former, candidates were generally able to identify errors in a draft investment appraisal, but many candidates were unsure about the impact on the investment appraisal of the errors they had identified (which was also required). Many candidates used vague or imprecise phrases to describe the impacts made, which failed to gain any credit. Saying, for example, that an error 'affected profit figures' does not indicate what the impact of the error was, nor the direction of the impact. Responses that focused on the effect of the error on the NPV calculated were more likely to gain higher marks.

In terms of improving the reliability of an investment appraisal, candidates needed to consider the appropriateness of the historic cost of capital for a new project in a different business area (see Hebac Co part (b) (September 2016)) and the accuracy of forecasts used, such as a sales forecast, to arrive at the operational cash flows.

The calculation of Return on Capital Employed (ROCE) was required at this diet. ROCE was generally calculated well with most candidates able to compute average investment. The most common errors were in computing average profit, including discounting the cash flow figures, calculating after-tax profits, and deducting no or incorrect depreciation.

Adjusting for risk and uncertainty in investment appraisal

In this area of the syllabus, candidates were tested on their ability to discuss the difference between risk and uncertainty. Overall, descriptions of risk and uncertainty were relatively good. The question Vyxyn Co (March/June 2017) has a suggested solution to part (a) that gives guidance as to the type of response which would attract these marks. At this diet, candidates needed to discuss their answer in the context of the sales volume, and this was not done well, despite it being a clear requirement to relate the discussion to the scenario.

Candidates were also asked a part-question in relation to being able to apply and discuss other techniques of adjusting for risk and uncertainty in investment appraisal, which at this diet included a discussion as to how simulation can assist investment decisions. Responses rarely went beyond the notion that simulation looks at more than one variable changing at the same time, thereby being an improved form of sensitivity analysis. A developed discussion here and more on how decision making can be helped by including all of envisaged outcomes, would have attracted more marks.

Specific investment decisions

Within this section of the Investment Appraisal area of the syllabus, it is expected that candidates are able to evaluate leasing and borrowing to buy using the before- and after-tax costs of debt, evaluate investment decisions under single-period capital rationing via the calculation of profitability indexes for divisible investment projects and to discuss the reasons for capital rationing. Questions at this diet tested candidates in this part of the syllabus.

In a question requiring a 'leasing versus borrowing to purchase' choice, there were few completely correct answers. That said, fundamental errors, such as the inclusion of interest charges within the discounted cash flow schedule or presenting a loan repayment schedule, were seen less frequently.

Nonetheless, future candidates are reminded not to include interest payments within the computation of net cash flow. The correct cost of capital to be used to discount the cash flows incorporates the cost of the debt finance being used, and hence the inclusion of interest payments in the cash flow schedule means that such interest payments are effectively being double counted.

The most common errors in questions from this part of the syllabus have been made in previous Examiner's Reports. These include:

- Borrowing to buy
 - Using the before-tax interest rate instead of the after-tax interest rate;
 - Omission of service costs or treating them as an inflow;
 - Omission or errors in service costs' tax benefits, such as treating them as an outflow or mistiming them;
 - Not recognising the need for a balancing allowance in the TAD calculation;
 - Applying the corporation tax rate directly to the purchase cost;
 - Not discounting the annual cash flows.
- Leasing
 - No tax relief on the lease rental payments;
 - Mistiming of the lease rental payments and related tax benefits;
 - Not discounting the annual cash flows.

Candidates often lacked clarity in justifying their recommendation, sometimes by referring to factors other than the financial benefit, measured by NPV, of their chosen option.

Future candidates are advised to study the question Melanie Co (September/December 2018) for further guidance in this area.

Candidates were also required to discuss how the problem of choosing between assets of unequal lives could be resolved in the context of investment appraisal. Candidates who discussed the equivalent annual cost (EAC) or equivalent annual benefit (EAB) approaches to investment appraisal were able to gain good marks here. Weaker answers discussed other forms of investment appraisal, such as payback and internal rate of return, or praised the superiority of NPV as an investment appraisal technique.

Candidates needed to recognise that ranking by absolute NPV would not necessarily indicate the best investment, since investments with longer lives might reasonably be expected to have higher NPVs.

On the ACCA website, there is an article explaining this process.

<https://www.accaglobal.com/uk/en/student/exam-support-resources/fundamentals-exams-study-resources/f9/technical-articles/eac.html>

The past question Melanie Co (see above) also covers this area.

Finally here, candidates were asked to discuss investment decisions under single-period capital rationing such that a company maximises shareholder wealth. Once again, discussion was too brief for the marks on offer, with often just a surface level of knowledge displayed for the differing approaches to take for divisible and for non-divisible projects respectively. Some candidates performed calculations, even though they were specifically not required.

In a part-question where candidates were asked to discuss the reasons why investment capital may be rationed, there were some very good answers. Where responses did not gain the marks on offer, it was often due to a lack of awareness of the difference between hard and soft capital rationing, the reasons advanced for capital rationing were often brief and/or the answers were poorly structured.

Sources of and raising business finance

As a part of this syllabus area, candidates are expected to identify and discuss internal sources of finance, including the theoretical approaches to, and the practical influences on, the dividend decision, including legal constraints, liquidity, shareholding expectations and alternatives to cash dividends.

Responses to a requirement asking why dividends may not be paid and instead use the funds to finance a proposed investment were disappointing. Such responses were often far too brief for the marks on offer, in doing so demonstrating a lack of detailed knowledge of M&M Irrelevancy Theory. Very few candidates managed a structured response, often mixing theories and views.

Good answers correctly commented on the needs of some shareholders to receive dividend income (Clientele theory), liquidity preference for a certain return rather than uncertain future growth and discussed the signalling effect of dividends. Weaker answers were quite general and needed to be developed more for additional marks to be gained.

Part (b) of past question Corfe Co (March/June 2019) is worth studying in respect of this area.

A good article covering elements of Dividend Theory is here

<https://www.accaglobal.com/uk/en/student/exam-support-resources/fundamentals-exams-study-resources/f9/technical-articles/dividend-theory.html>

Sources of finance and their relative costs

At this diet, candidates were required to assess the impact of sources of finance on financial position, financial risk and shareholder wealth using appropriate measures, including ratio analysis using the financial gearing ratio and the interest coverage ratio.

Calculation of financial gearing and interest cover ratios was generally done well.

The most common errors here were:

- Omitting retained earnings from the equity portion of the denominator for the gearing ratio;
- Not using the financial gearing ratio as defined in the question.

Furthermore, in assessing two alternative sources of finance for a proposed investment, the gearing and return on equity (ROE) ratios often failed to take into account the changes in equity brought about by the new retained profit resulting from the financing proposals.

Most candidates would adjust the profit before interest and tax figure correctly as a result of the proposed investment, but there were many errors made in making the adjustment to the retained earnings figure. The adjusted profit figure was frequently not adjusted by the interest costs before charging tax. The required dividend adjustments were quite often left out of the calculation as well. There seemed to be a lack of detailed knowledge of the order of the appropriation of profit adjustments.

There was also confusion displayed by some candidates as to whether ROE and interest cover ratios were calculated using profit before or after tax.

Some candidates didn't seem to realise that a set of ratios was required for each alternative financing proposal i.e. one for the rights issue option and another for the loan note issue option. This was clearly stated in the requirement and is another example of how candidates must read carefully every word of the requirement.

Discussions about which of two financing options to choose were of mixed quality, with candidates often struggling to evaluate the financing options, instead just describing the ratios and stating whether the ratios had gone up or down and/or whether they were above or below company targets or industry averages. Other relevant factors such as issue costs, the availability of security for new debt, tax relief on interest payments and the willingness of shareholder to provide more finance, amongst others, were not seen often enough.

Furthermore, despite a requirement clearly asking candidates to 'recommend' how the new investment should be financed, many candidates hedged their bets, rather than making the required clear decision between the two options based upon the evidence.

Future candidates are advised to study this article from the ACCA website analysing the suitability of financing alternatives

<https://www.accaglobal.com/uk/en/student/exam-support-resources/fundamentals-exams-study-resources/f9/technical-articles/suitability-financing-alternatives.html>

Capital structure theories and practical considerations

As a part of this area of the syllabus, candidates are required to explain the relevance of pecking order theory to the selection of sources of finance. There was a requirement at this diet to do this and explain how it would affect the financing decision of the company in the question.

Many candidates were able to give a general understanding of pecking order theory but were often unable to develop the discussion clearly. Few were able to describe how the theory would affect the financing decision of the company, once again exemplifying that candidates need to do more to relate their theory to the circumstances outlined in the given scenario.

Some responses yielded very few marks since they gave the correct order but little else, or talked about debt and equity, but ignored retained earnings in the discussion.

Finance for small and medium sized entities (SMEs)

Identifying and evaluating the financial impact of sources of finance for SMEs is a part of this syllabus area. One scenario at this diet provided candidates with a small company experiencing hard capital rationing, a common problem for SMEs, referred to as a funding gap.

Good responses needed to discuss the sources of finance suggested in the syllabus to score the marks on offer, namely business angel financing, government assistance, supply chain financing and crowdfunding or peer-to-peer funding.

Candidates generally did not interpret the requirement well, and often incorrectly restated sources of finance which clearly were not available to the small company in question.

The following article discusses business finance for SMEs and is recommended reading.

<https://www.accaglobal.com/uk/en/student/exam-support-resources/fundamentals-exams-study-resources/f9/technical-articles/sme-finance.html>

Spreadsheet and Word Processing Technique

The extent to which spreadsheet functionality is being used by CBE candidates continues to rise. There were many instances where numerical responses were well-presented, professionally constructed and clearly labelled, with workings showing how the final figures were computed.

However, candidates need to use care and precision in spreadsheets. It is good practice for candidates' work to be presented in a way that can be easily read and understood i.e. it should be clearly visible without the need for markers to manipulate the cell. Furthermore, where text is entered into a cell, the presentation should be as good as it would be in a professional work environment.

Cell formulae can, of course, be used to perform computations, but care must continue to be taken in entering formulae in the spreadsheet. For instance (and highlighted above), brackets must be used correctly when raising a figure to a 'power', especially when that 'power' is in the form of a fraction such as a half or one third.

Markers can see the formula in a cell and hence apply the own-figure rule where appropriate. However, as also highlighted above, the own-figure rule cannot be applied to figures, rather than formulae, placed in spreadsheet cells with no supporting calculations.

The same principles apply to calculations in computer based examinations as in previous paper based ones. Workings should be shown in order that 'method marks' can be awarded and workings should be shown where markers can see them, in other words close to the main schedule being presented.

In word processed answers, candidates should remember that they are being examined as part of their education and training to enter the profession of accountancy and therefore they should present work here as they would be expected to do in the professional work environment, including the use of continuous prose and appropriate Financial Management terminology.

Discursive responses still seem to pose a problem for some candidates. For discussion type requirements, candidates should think before answering the requirement, maybe making an outline plan for an answer before putting down their final response and also, crucially, check back and make sure that their answer is in line with the entire requirement.

Furthermore, CBE candidates should continue to be guided by the provision of the designated spaces for some discursive responses. For example, a requirement asking to 'Discuss two errors' will, in the CBE environment, ask candidates to respond in two separate 'boxes'. This should help candidates focus on providing the correct number of 'errors' or 'ways' or whatever is being asked for.

Guidance and Learning Support resources to help you succeed in your exam

Preparing for the Financial Management exam can appear challenging but there are many resources available to help you. You should refer to these throughout your studies.

You should make sure you have made use of all of the resources found under [technical articles for FM](#) – these include technical articles, study support videos and exam technique resources – all developed with you in mind.

Additionally [Examiner's Reports](#) are available after each exam session. These are a valuable tool for understanding the exam, avoiding common pitfalls and developing exam technique. Work through the FM resource 'A guide to using the examiner's report' if you are sitting the exam for the first time or 'A guide to reflection' if you are retaking your exam. Both of these interactive tools can be found under the [technical articles page](#) for FM. These have been developed to sit alongside the self-study guide and the [retake guide](#) respectively, and provide you with further pointers for using the examiner's reports for previous sittings.

It is essential to practise as many exam standard questions as you can in the lead up to your exam. We strongly recommend that you use an up to date question and answer bank from one of our [Approved Content Providers](#) and also to work through the most [recent past exams](#) on our website. However, please note if you are using the past exams that these are not updated for syllabus changes or changes to the exam format since September 2016 and so should be used with caution – so check the [latest syllabus and study guide for changes](#).

It is essential that you have a good understanding of the verbs typically used in ACCA FM exam questions. Take a look at the article [What is the examiner asking?](#) which sets out some of the most commonly used verbs, and ensure that you understand how these are used in the FM questions.