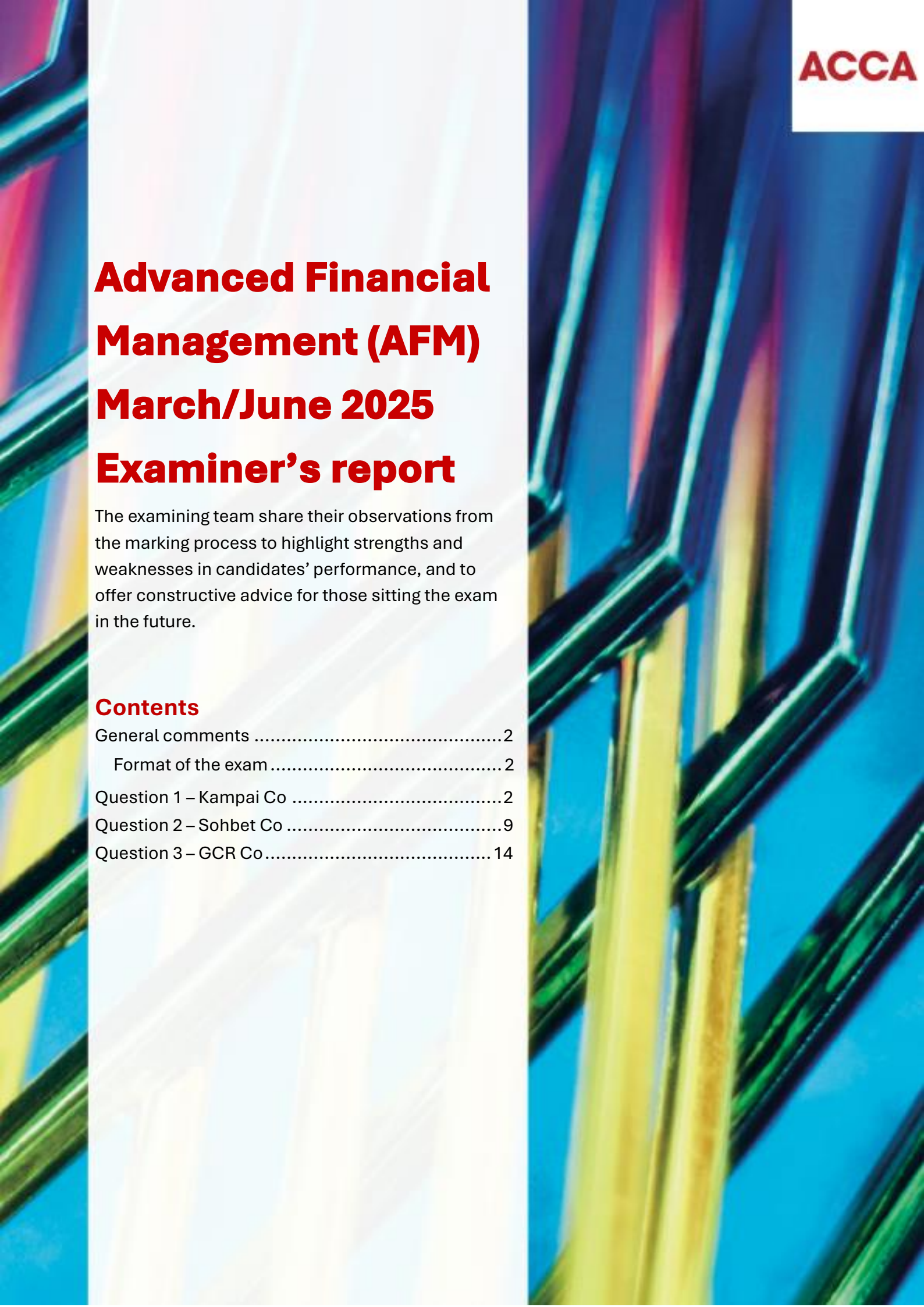

Advanced Financial Management (AFM) March/June 2025 Examiner's report

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

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General comments

This examiner's report should be used in conjunction with the published March/June 2025 sample exam which can be found on the ACCA Practice Platform.

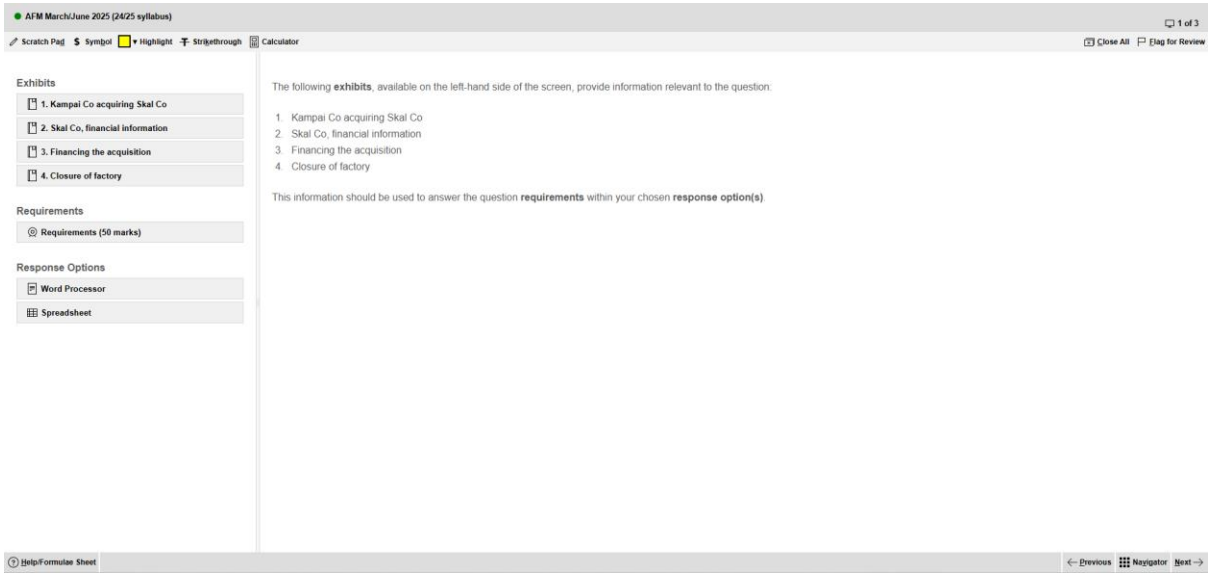
In this report, the examining team provide constructive guidance on how to answer the questions whilst sharing their observations from the marking process, highlighting the strengths and weaknesses of candidates who attempted these questions. Future candidates can use this examiner's report as part of their exam preparation, attempting question practice on the ACCA Practice Platform and reviewing the published answers alongside this report.

Format of the exam

The examination comprised two sections, A and B. Section A consisted of one compulsory question for 50 marks in total. Section B consisted of two compulsory questions for 25 marks each. 10 professional skills marks were available within Section A for communication, analysis and evaluation (A&E), scepticism and commercial acumen. In Section B there are 5 professional skills (P) marks in each question from at least two of analysis and evaluation, scepticism and commercial acumen.

Section A

Question 1 – Kampai Co



Format of the question

Kampai Co was drawn from sections A and C of the syllabus, mainly covering mergers and acquisitions and the ethical and sustainability issues associated with a potential takeover. This scenario is broadly similar in complexity to previous questions from the same syllabus areas that have been examined in the past. The six requirements of this question tested the ability of candidates to undertake several detailed calculations and to discuss associated issues relevant to the scenario of the question.

Exam technique and time management

Kampai Co is worth 50 marks which translates into 90 minutes for candidates to spend on this question. Candidates should read the question thoroughly to become familiar with the scenario and then plan their time carefully in order to address the specific issues in the question and gain maximum marks for each requirement. Candidates must then plan their answer to enable them to have the opportunity to gain maximum marks for each section. Candidates should ensure they address the requirement in the time allotted and avoid unnecessary detail such as copying the facts from the scenario. Marks are not allocated for information which is repeated from the scenario without any analysis or evaluation.

Scenario and requirements

This question was about a large, listed company (Kampai Co) involved in the production of machinery for the logistics industry. The company had been growing by undertaking acquisitions of competitor companies and had made initial enquiries about acquiring Skal Co, a large, unlisted company.

The requirement of this question was to prepare a report. Within the report there were six requirements. The first three of these requirements were calculative. Initially candidates had to calculate the price-to-earnings ratio of Kampai Co and then use this to calculate the additional equity value generated from the acquisition. The next two requirements asked candidates to estimate the percentage gain in shareholder wealth for both the Kampai Co and Skal Co shareholders, given the proposed cash offer and the proposed share-for-share offer. Additionally, candidates also needed to estimate the number of Kampai Co shares that would need to be allocated to the Skal Co shareholders given the proposed share-for-share offer. In the first discursive requirement candidates were asked to discuss the acceptability of the two offers proposed and the assumptions made when estimating the additional value generated from the acquisition. The next requirement focused on the cash offer and asked candidates to discuss the financial issues Kampai Co would face if they were to acquire Skal Co using cash. Candidates were also asked to briefly conclude whether a mixed offer would be a better choice although no calculations were expected here. Finally, candidates were asked how Kampai Co could address negative comments arising from the proposed closure of a factory recently established by Skal Co. The factory produced hydrogen powered vehicles in a less developed area. Up to 10 professional marks were available in this question.

General comments

Performance in this question was rather mixed. Whilst many candidates were able to have a reasonably balanced attempt at the requirements, many other candidates seemed to struggle. Some of the candidates who struggled may have been overawed by the fact that in this question all the marks available were for the report. Most Section A questions start and/or finish with a separate but connected requirement that has often been a relatively easy area in which to earn marks and the presence of which means the report itself becomes smaller and perhaps more manageable. Candidates should remember that this will not always be the case and should be prepared for a question such as this. Additionally, candidates often scored well on the broad communication and analysis and evaluation marks which naturally accompany a good attempt to earn the technical marks in a question. However, candidates did not generally earn so many of the scepticism and commercial acumen marks that were available.

The detailed review below focuses on each of the requirements, highlights the approach taken by candidates and any issues that need to be addressed when using this question as a study aid. Candidates were expected to incorporate the following requirements into their report:

Requirement (i) – 8 marks

Prepare a report for the Board of Directors (BoD) of Kampai Co which includes:

(i) An estimate of Kampai Co's price-to-earnings ratio and the additional equity value generated from the acquisition.

(8 marks)

This was the largest question part and was worth 8 marks and, as indicated, required candidates to calculate the price-to-earnings ratio of Kampai Co and then use this to calculate the additional equity value generated from the acquisition. In order to calculate the additional equity value generated, candidates were expected to calculate the current equity value of Skal Co using free cash flows and subtract this from a post-acquisition value of Skal Co calculated using the price-to-earnings ratio previously calculated. Performance in this question part was generally good. The calculation of the price-to-earnings ratio of Kampai Co and the current free cash flow value of Skal Co were done well. Common mistakes when calculating the free cash flow value included:

a) Deducting the interest cost when calculating the free cash flows to the firm.
b) Failing to deduct the debt value from the total company value calculated to find the equity value of the company.

It was encouraging to see that most candidates seem to be able to confidently calculate the present value of a perpetuity with growth. The calculation of the post-acquisition value was often done less well. Too often candidates failed to account for the interest cost and/or failed to adjust for the expected annual synergies of $4.8m when calculating the profit after tax. Candidates also often treated the one-off increase in cash flows of

$42.3m incorrectly. These were sometimes treated as annual synergies or were left out completely. Most candidates who had successfully calculated a pre- and post-acquisition value for Skal Co were then able to calculate the additional equity value generated from the acquisition.

Requirement (ii) – 4 marks

(ii) An estimate of the percentage gain in shareholder wealth for Kampai Co's and Skal Co's shareholders under the cash offer.

(4 marks)

This part of the question was worth just 4 marks and required candidates to estimate the percentage gain in shareholder wealth for both the Kampai Co and Skal Co shareholders given the proposed cash offer. The gain for the Skal Co shareholders was generally very well done. However, candidates often struggled to estimate the gain remaining for the Kampai Co shareholders and hence their percentage gain from the cash offer. There are many ways candidates could have calculated what was required and candidates should try to develop a suite of skills such that they have the flexibility to deal with all sorts of different questions. Candidates who try to impose one systematic approach to merger & acquisition questions often struggle to deal with the specifics of a particular question. For instance, in this question an alternative approach to calculating the percentage gain from the cash offer for Kampai Co would have been:

Gain to Skal Co = ($8 x 40m) – $263.8m = $56.2m

Gain remaining for Kampai Co = $174.5m – $56.2m = $118.3m

% gain to Kampai shareholders = $118.3m/$900m = 13.1%

Requirement (iii) – 7 marks

(iii) An estimate of the number of Kampai Co shares allocated to Skal Co shareholders and the percentage gain in shareholder wealth for Kampai Co's and Skal Co's shareholders under the share-for-share offer.

(7 marks)

This question part was worth 7 marks. Candidates were expected to estimate the percentage gain in shareholder wealth for both the Kampai Co and Skal Co shareholders given the proposed share-for-share offer and to estimate the number of Kampai Co shares that would need to be allocated to the Skal Co shareholders given this proposed offer. This was the calculative part of the question that candidates struggled with the most. Too many candidates failed to split the gain evenly and too many candidates were unable to correctly estimate the number of Kampai shares that would need to be issued. Candidates in the best position to perform well here were those that had laid out their previous calculations well with appropriate headings. Candidates who do this are best able to pull forward the figures they need for later calculative parts such as this. Candidates must remember not to give up and should be prepared to make assumptions

where necessary to make sure they complete the requirement. Candidates who did this could still earn marks for their percentage gains even if much of what they had done previously was incorrect or assumed.

In both parts ii) and iii) a significant minority of candidates did calculations assuming they had to create gains of 25% in the cash offer and 33% in the share-for-share offer instead of using these desired percentage premiums to appraise the results of their own calculations. Candidates must remember to read the requirement carefully before starting their calculations.

Requirement (iv) – 7 marks

(iv) A discussion of the acceptability of the cash and share-for-share offers to Kampai Co's and Skal Co's shareholders, including the assumptions made in estimating the additional value generated from the acquisition.

(7 marks)

This question part was also worth 7 marks and asked candidates to discuss the acceptability of the two offers proposed and the assumptions made when estimating the additional value generated from the acquisition. Most candidates were able to make a reasonable attempt at this question part although most candidates could also have earned more marks if they had applied better exam technique. For example, prior to discussing the acceptability of the two offers some candidates spent considerable time and effort describing how they had calculated their results for which no marks were available. Equally too many candidates failed to compare their results with the desired premiums given in the scenario for which they could have earned marks. Candidates also often neglected to use the generic knowledge they should have learned about cash and share-for-share offers. For instance, regarding a cash offer, the fact that cash has a known value and gives certainty and the fact that it could create capital gains tax issues for the shareholders of Skal Co would have been relevant points to make here. As far as assumptions were concerned, candidates often failed to develop their assumptions well enough. For instance, rather than just stating 'it is assumed the 4% annual cash flow growth rate is accurate' candidates should go on to say that 'growth is in reality unlikely to progress so smoothly due to, for example, changes in economic conditions over time.' Candidates who do this are likely to earn more technical marks and to pick up some scepticism marks.

Requirement (v) – 7 marks

(v) A discussion of the financial issues faced by Kampai Co when acquiring Skal Co by cash, and briefly conclude whether a mixed offer would be the better choice (note: no additional calculations are expected here).

(7 marks)

This question part was also worth 7 marks and asked candidates to discuss the financial issues Kampai Co would face if they were to acquire Skal Co using cash. Candidates were

also asked to briefly conclude whether a mixed offer would be a better choice. Once again candidates could easily have earned better marks if they had gone into a bit more depth. Whilst most candidates acknowledged the company currently had minimal spare cash resources and that raising new debt finance would be difficult, fewer candidates really discussed the implications of trying to raise new debt finance such as the increased financial distress costs. Even fewer candidates discussed other potential ways to raise the finance needed such as raising new equity finance or selling non-key assets. Most candidates did briefly consider a mixed offer, and most candidates did follow the instructions given and did not provide any additional calculations. A significant minority of candidates failed to conclude as instructed. Candidates should avoid 'sitting on the fence' and must recognise that, in any question where a conclusion or recommendation is asked for, there will be marks awarded for making a clear conclusion or recommendation even if the conclusion or recommendation they make is not necessarily that which was expected.

Requirement (vi) – 7 marks

(vi) A discussion of how Kampai Co's BoD might address the negative comments made about the factory closure.

(7 marks)

This final question part was also worth 7 marks. Candidates were asked how Kampai Co could address negative comments arising from the proposed closure of a factory recently established by Skal Co. This question part was quite separate to the rest of the question and even candidates who had struggled with the rest of the question were able to make a reasonable attempt at this question part. The biggest failing when answering this question part was that candidates would often discuss issues that would arise due to the negative comments that had been made, rather than describing actions that could be done to address the issue. Better candidates were able to use their knowledge to come up with good potential actions that could be taken and hence earn good technical marks as well as commercial acumen marks. For instance, candidates who suggested that the factory could be sold to a third party or sold through a management-buy-out or a management-buy-in earned much credit. Equally candidates who considered whether the factory could be made financially viable and/or could be made to better align with the strategy of Kampai Co were also given good credit. Due to the negative comments that had been made a couple of the directors had suggested that Kampai Co should either not close the factory or not proceed with the acquisition. Too few candidates commented on these suggestions.

Professional skills marks

The communication marks are largely earned by the format and style of the report and for using a style and language which creates a clear well-presented report with a suitable tone. Whilst candidates' performance seems to be improving and most reports presented have an opening rubric and an introduction, many candidates could earn extra

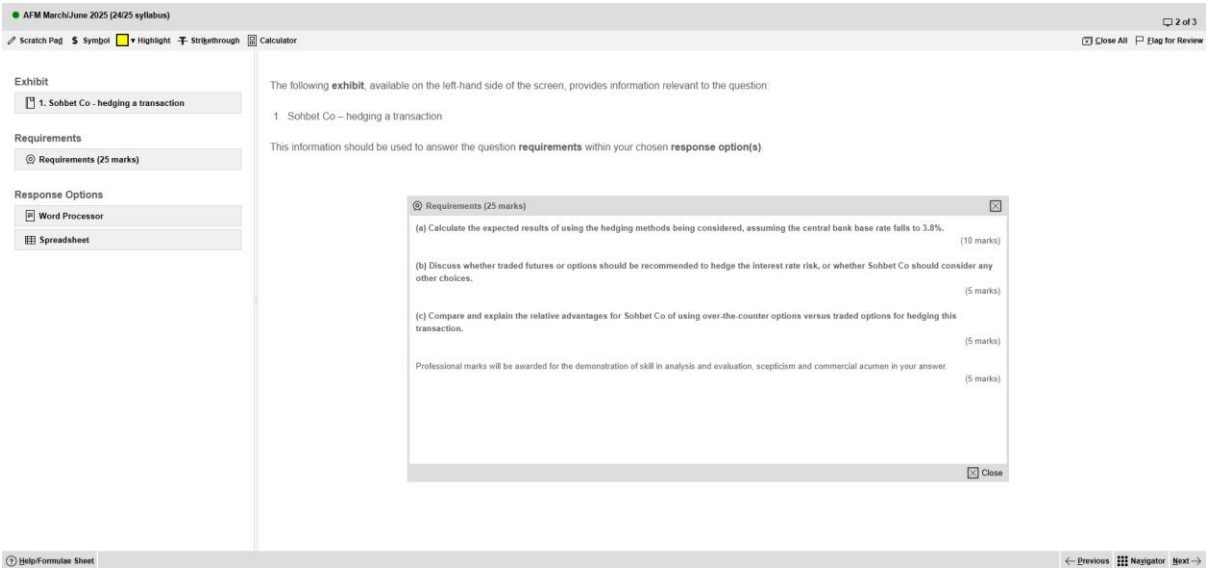
marks by making sure that they structure their report with suitable sub-headings and finish their report with a brief conclusion. Far too many candidates miss out on a mark they have nearly earned by failing to finish their report with a conclusion.

Generally, candidates who are technically proficient are better able to earn the analysis and evaluation marks, which involves using the data provided to determine suitable calculations to support the discussion. Candidates are generally less good at earning the scepticism and commercial acumen marks available and this is especially true where a candidate's answer is rather thin and underdeveloped. This report has already identified how more of these marks could be earned in the discussion on each of the question parts. Future candidates would do well to reflect on the points raised and try to act on them when taking their examination.

What has been described above is common to many AFM Section A questions and although candidates are earning a good number of these marks there is still room for improvement in the areas described.

Section B

Question 2 – Sohbet Co



Format of the question

Sohbet Co is a 25-mark section B question drawn from Section E of the Advanced Financial Management (AFM) syllabus, focusing on advanced risk management techniques, and specifically interest risk management. The requirements are similar to previous exam questions that have covered this syllabus area and should have been in line with candidates' expectations. Candidates were required to calculate the results of two interest rate hedging techniques, to discuss their results and advise whether the company should consider other choices. The final requirement was to compare the relative advantages of over-the-counter options with exchange traded options.

Exam technique and time management

Sohbet Co is worth 25 marks which translates into 45 minutes for candidates to spend on this question. To maximise their chances of scoring high marks, candidates should read the question thoroughly to ensure they are familiar with the scenario and then plan their time carefully to allow them to address the specific issues in the question.

The key to success is for candidates to spend the limited amount of time available addressing the specific requirements of the question and to avoid unnecessary detail. For example, marks are not awarded for information which is repeated from the scenario without any analysis or evaluation.

Scenario and requirements

The details of the question are provided in a single exhibit, exhibit 1. Sohbet Co, is planning to sell one of its office buildings and invest the money from the sale in new warehouse facilities. As there is a four month time lag between the sale of the office buildings and the purchase of the warehouse, the directors of Sohbet Co want to invest the funds to earn an annual return of at least 4%.

They are anticipating a fall in the central bank base rate by the time they receive the funds, and this would impact the return they would get on their investment. The directors want to investigate whether it would be advisable to hedge the investment using either three month futures or options on three month futures. Details of a range of futures and options prices are given in the exhibit. Candidates are told that the terms offered on the derivatives are based on the central bank base rate and to assume that basis can be assumed to diminish to zero at a constant rate. It is also assumed that there is no basis risk and there are no margin requirements. The final part of the exhibit gives information about a Sohbet Co director who questioned whether over the counter options should be considered instead of traded options.

In addition to the technical marks that are available for this question, candidates are also expected to demonstrate professional skills throughout. The professional skills examined in Sohbet Co are analysis and evaluation, scepticism and commercial acumen.

General comments

The requirements of this question are technically demanding, but they are very similar to many previous interest rate hedging questions. Candidates who were well prepared were able to gain good marks. Overall, many candidates coped very well with the calculations based on the expected results from the two hedging methods. Candidates' responses to the first part of the discussion element in requirement (b) were generally good, but a little disappointing in requirement (c), where they were required to discuss the advantages of using over the counter options with traded options.

In terms of professional skills, analysis and evaluation marks were gained quite easily. However commercial acumen and scepticism were both more difficult to award and were gained by few candidates. The following review focuses on each part of the question in more detail and identifies key problems and issues that should help future candidates with their exam preparation.

Requirement (a) – 10 marks

(a) Calculate the expected results of using the hedging methods being considered, assuming the central bank base rate falls to 3.8%.

(10 marks)

Details were provided in the exhibit for both interest rate futures and options on interest rate futures. Candidates were required to calculate the expected results from applying both derivative products to a $54m investment deposit, when there is an expectation that the central bank base rate will fall to 3.8% from its current rate of 4.5%. This requirement was generally well done and most candidates were able to achieve average to good marks with several candidates being awarded the maximum marks available. There were, however, a few common errors as outlined below, and in some cases, these would have been resolved if candidates had thoroughly reviewed the information given in the scenario.

- It was equally acceptable to calculate the net return from using the identified hedging methods as a monetary amount or as an expected annual interest rate. However, it states in the scenario that the directors required a 4% return on their investment. It is therefore advisable to calculate the net return as a percentage as this allows candidates the opportunity to make a comparison of their results with the required 4% in part (b), where a discussion of the methods is required.

- Most candidates recognised that this was an investment deposit and were able to determine that futures and call options should be bought. Candidates do however need to state this in their answer and although most candidates correctly stated they were buying call options there were a significant number of candidates who failed to state whether they were buying or selling futures. It is also important that candidates calculate and state the number of contracts they are buying or selling even if it is not required in their calculation.

- The timing on the investment was often calculated incorrectly as a three month deposit rather than as a deposit for four months. The derivative chosen would be closed out in 4 months due to the funds being available on 1 August and required on 1 December. Using three months as the deposit period gave an incorrect foundation to the calculations in terms of the number of contracts that needed to be bought. Other candidates got the timing wrong because they worked on the basis that the deposit was to be made at today's date which was given as 1 April and as a result chose the wrong options and futures to buy.

- There were quite a few candidates who did not consider the effect of the fall in the base rate to 3.8% and how this would impact the expected futures price and the expected gain on the futures and options transaction.

- Quite a few candidates assumed that the expected gain calculated on the futures transaction would be the same as the expected gain for the options' transaction.

- Basis was quite often calculated incorrectly

Most of the above issues have been commented on in previous examiner's reports relating to futures and options questions and can easily be rectified thorough exam preparation.

Requirement (b) – 5 marks

(b) Discuss whether traded futures or options should be recommended to hedge the interest rate risk, or whether Sohbet Co should consider any other choices.

(5 marks)

Responses to this part of the question were generally good and most candidates were able to achieve average to good marks, but there was frequently a lack of application of a candidates' discussion to the scenario. By relating their discussion to the scenario, it gives candidates the opportunity to gain very good marks as well as more opportunity to earn professional skills marks. In this scenario candidates are told that the directors want a method that has a "limited range of possible outcomes" and candidates who framed their discussion around the scenario were able to earn very good marks.

Few candidates recognised that the board of directors wanted to achieve a 4% return and therefore did not compare their results to this target. Few candidates also failed to recognise or discuss the fact that the central bank base rate had recently been volatile indicating that an option may be a good choice because it does not need to be exercised and can allow Sohbet Co to take advantage of favourable interest rate movements.

Candidates were asked to suggest alternative hedging products that might be considered and most candidates did this and gained marks by discussing the benefits of alternatives like a forward rate agreement, a collar or other relevant hedging instruments. They do however need to state why their suggestion should be considered as an alternative rather than just a one/two word suggestion. Candidates also need to be advised to make a recommendation based on their figures. They should bring forward the results of their calculations and use them to justify their recommendation, rather than just stating what their results are.

Requirement (c) – 5 marks

(c) Compare and explain the relative advantages for Sohbet Co of using over-the-counter options versus traded options for hedging this transaction.

(5 marks)

Responses to this requirement varied considerably. There was quite a bit of confusion about how the over-the-counter market works and the products that are traded on it. For example, it was not uncommon to read an answer that stated that there were no premiums on over-the counter options. Some candidates did not specifically relate their

answer to options and discussed futures as an over-the-counter product. Candidates need to make sure they focus their answer on what is being asked for in the requirement. It was not uncommon for a candidate to list advantages and disadvantages of both markets, but they need to be advised that disadvantages of the over-the-counter option market do not automatically translate into advantages of the traded option market and that bullet point lists should be fully explained.

Professional skills – 5 marks

Analysis and evaluation

Many candidates demonstrated excellent analysis and evaluation skills in their numerical analysis, presenting well-structured calculations in their responses to requirement (a). Candidates who then addressed the question in requirement (b) and recommended a hedging method after suggesting and discussing alternative products were rewarded well for demonstrating further analysis and evaluation skills.

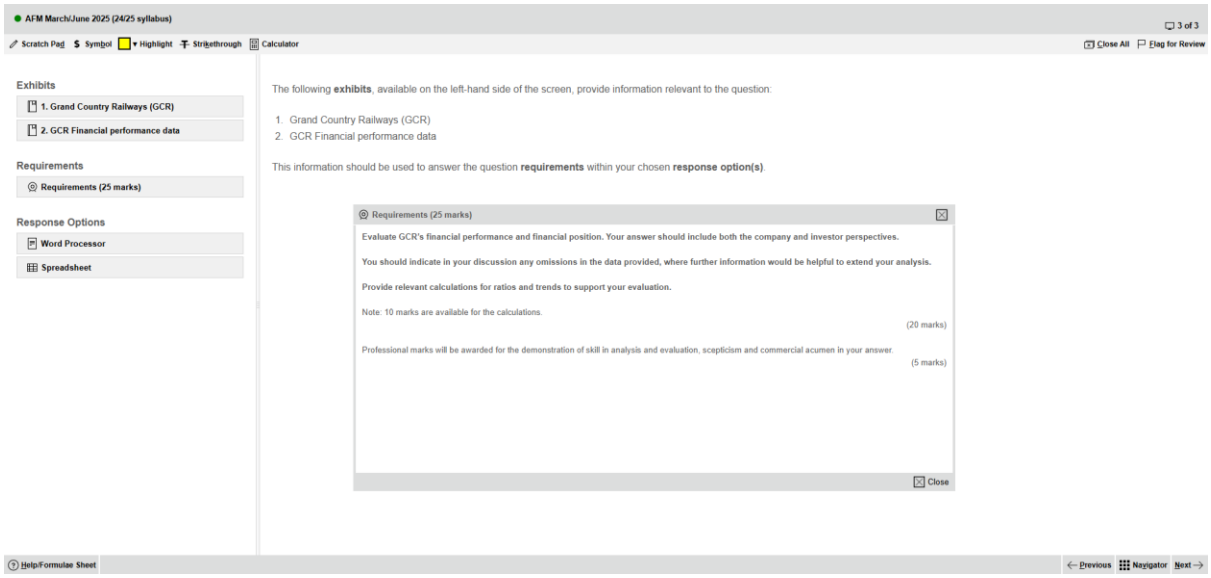
Scepticism

To demonstrate the skill of scepticism, candidates were expected to adopt a questioning approach in a way that would lead to effective challenges of the information provided in the scenario. In requirement (b) candidates could question some of the assumptions on which their calculations were based and consider the implications of any changes to these assumptions. For example, there are several assumptions relating to the futures, such as no margin requirements and no basis risk. Candidates could demonstrate scepticism by questioning these assumptions and highlighting the potential impact on Sohbet Co's cash flow. This would have been particularly relevant as it states in the scenario that the directors wanted to make cash flow forecasting more predictable. However, most candidates struggled to demonstrate the requisite level of scepticism and would do well to focus on this aspect of the requirements in their preparation for the exam.

Commercial acumen

Many candidates struggled to demonstrate the skill of commercial acumen effectively. Candidates need to use the information in the scenario or from the real world and relate this to their discussion. In this situation where candidates are asked to suggest alternative hedging methods if a candidate suggests a forward rate agreement, commercial acumen could be demonstrated by referring their suggestion to the boards requirement that the hedging method chosen should have a limited range of probable outcomes to make cash forecasting more predictable.

Question 3 – GCR Co



Format of the question

GCR Co is a 25-mark section B question which focusses on assessing organisational performance using methods such as ratios and trends, from section A of the Advanced Financial Management (AFM) syllabus. The requirements are similar to those in previous exam questions that have covered this syllabus area and should have been in line with candidates' expectations. Candidates were required to calculate suitable ratios and trends that would enable them to evaluate the company's financial performance and financial position, and to indicate any omissions in the data provided where further information would have been helpful to extend their analysis.

Exam technique and time management

GCR Co is worth 25 marks which translates into approximately 45 minutes for candidates to spend on this question. To maximise their chances of scoring high marks, candidates should read the question thoroughly to become familiar with the scenario and then plan their time carefully in order to address the specific issues in the question.

The key to success is to spend the limited amount of time available addressing the specific requirements. It is important to answer the requirements in the time allotted, and to avoid unnecessary detail. For example, marks are not awarded for information which is repeated from the scenario without any analysis or evaluation.

Scenario and requirement

Exhibit one presents information about a large railway services operating company, Grand Country Railways Co (GCR), that is one of the two largest railway companies in Northashia (along with its biggest competitor, City and Town Railways Co (CTR)). There is lots of detail in this exhibit about the way the rail network is organised in Northashia, and some operational performance information about GCR that suggests that GCR is not performing well and may be on the brink of the government cancelling its franchises rather than renewing them.

Exhibit two then presents lots of detailed financial information for GCR over the last three years, and a small amount of operational information. It also presents some financial and operational information for CTR, with some useful performance measures for CTR showing trends in profit margins and gearing.

The question has a single, 20-mark technical requirement and then 5 marks for professional skills. There is clear guidance in the single technical requirement that "10 marks are available for the calculations" so by implication there are 10 marks for the discussion too. This equal split between calculations and discussion is very common in AFM questions of this type.

The requirement is to evaluate the financial performance and financial position of GCR, from both the company and investor perspectives. Candidates were also asked to identify any omissions in the data provided, where further information would be useful. The calculations required are relevant ratios and trends that will support the performance evaluation.

In addition to the technical marks that are available in this question, candidates are also expected to demonstrate professional skills throughout. The professional skills examined in GCR Co are analysis and evaluation, scepticism and commercial acumen.

General comments

The requirement in this question is quite open ended, in that candidates are not asked to present any specific ratios or trends. Instead, candidates were expected to make their own judgement about which ratios/trends will be useful in analysing the financial performance and financial position of GCR. Similarly, no guidance is given on how to structure the discussion. This is exactly the same as in previous AFM questions drawn from the same part of the syllabus.

Most candidates sensibly chose to use their spreadsheet response area to present a range of ratios and trends and then their word processor response area to present comments on the ratios/trends and an evaluation of performance.

However, there were many candidates who presented far too few calculations for the 10 marks available, and / or presented comments that were too brief and superficial. A significant number of candidates simply repeated information from the question, with little attempt to develop their points further to add value, so they did not score highly.

Regarding professional skills, candidates generally scored well on analysis and evaluation, especially for comparing the performance of GCR with CTR. However, many did not demonstrate the skills of scepticism and commercial acumen. Although analysis and evaluation are important in AFM, the skills of scepticism and commercial acumen are also highly important and need to be developed to ensure increased chances of exam success.

The review below focuses on the key strengths and weaknesses that were identified in candidates' responses.

Requirement - 20 marks

Evaluate GCR's financial performance and financial position. Your answer should include both the company and investor perspectives. You should indicate in your discussion any omissions in the data provided, where further information would be helpful to extend your analysis.

Provide relevant calculations for ratios and trends to support your evaluation.

Note: 10 marks are available for the calculations.

(20 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation, scepticism and commercial acumen in your answer.

(5 marks)

Calculations element – 10 marks

The calculations in this question were generally well done. The majority of candidates were able to calculate several ratios in the spreadsheet response area, covering a range of different areas of performance (ie some or all of profitability, liquidity, solvency, investor ratios, operational performance measures). However, there were a number of common weaknesses demonstrated by some candidates as detailed below:

- Presenting figures in the word processing response area instead of the spreadsheet. Candidates will be awarded full credit for correct figures wherever they are presented, but if candidates present no workings and the figures are incorrect, no marks can be awarded. Presenting workings in the spreadsheet cells enables the markers to see the method used and can lead to partial credit being awarded even if the final figures are incorrect.

- Presenting too few ratios / trends. The requirement specified that 10 marks were available for calculations. As a broad guide, candidates were expected to provide approximately ten rows of ratios or trends here, comparing performance over three years and split into several different areas of performance. Some candidates presented far fewer calculations than this.

- Incorrect calculations. Some candidates did not know how to calculate basic performance measures but still presented their calculations anyway. A common error in particular was with the interest cover ratio. This should be calculated as operating profit divided by finance costs, but we saw many alternative and incorrect calculations (such as profit before tax divided by finance costs, profit after tax divided by finance costs, or even finance costs divided by profit). No credit is awarded for calculations using incorrect definitions / formulae.

Lack of awareness of which ratios / trends should be calculated. The question presented some ratios for CTR that had been calculated already (such as operating profit margin and gearing). To facilitate an insightful evaluation of the performance of GCR, it would have been sensible to calculate those same ratios for GCR too, but some candidates did not follow those clues and calculated other ratios / trends instead.

Discussion element – 10 marks

The first part of the discussion requirement was answered well by many candidates. Well prepared candidates commented on their ratios / trends calculations looking at a broad range of different aspects of performance (i.e. some or all of profitability, liquidity, solvency, investor ratios, operational performance measures). In particular, better candidates briefly mentioned the calculations but then developed their answers to explain the implications of the figures they were commenting on. It is vitally important at this level of the qualification that candidates present answers that explain and challenge the figures calculated, rather than simply stating what the figures show.

The second part of the discussion requirement, asking candidates to identify omissions in the data provided, was answered less well and was missed out by many candidates. It is important to always read the requirements carefully and to answer all parts.

Common weaknesses demonstrated in this part of the requirement were:

- Presenting discussion and analysis in the spreadsheet response area (alongside and in amongst the calculations) instead of presenting it separately in the word processor. To demonstrate the employability and technology skills required of a professional ACCA accountant, candidates need to use the spreadsheet for detailed calculations and the word processor when presenting large amounts of text, just like they would in the workplace.

- Superficial comments and analysis. It is acceptable to state what a ratio / trend shows as a starting point to an answer but candidates need to go further than that and assess the implications of the trends and consider how different performance measure trends might interact with each other.

- Invalid comparison of the gearing of GCR and CTR. Figures were presented in exhibit 2 showing CTR's gearing, measured "on a market value basis as (non-current liabilities / (non-current liabilities + equity))". Many candidates calculated the gearing of GCR on a different basis (for example using book values instead of market values, or measured as (non-current liabilities / equity)). Credit was awarded for any sensible calculations but there was no credit in the discussion section for those candidates who attempted to compare performance of the two companies using incomparable gearing figures.

Professional skills – 5 marks

Analysis and evaluation

Many candidates demonstrated excellent analysis and evaluation skills in their numerical analysis, presenting comprehensive and well-structured calculations comparing ratios / trends over three years, looking at a broad range of performance measures, and covering both GCR and CTC. Those candidates who then discussed the figures and compared the figures for GCR to those for CTR were rewarded well for demonstrating further analysis and evaluation skills.

Scepticism

To demonstrate the skill of scepticism, candidates were expected to adopt a questioning approach in a way that would lead to effective challenges of the information provided in the scenario. In particular, candidates who questioned the given information and highlighted omissions in the data that would have helped to extend the analysis were rewarded well for showing scepticism skills.

However, most candidates struggled to demonstrate the requisite level of scepticism and would do well to focus on this aspect of the requirements in their preparation for the exam.

Commercial acumen

To demonstrate the skill of commercial acumen effectively, candidates should use the information in the scenario to draw evidence that relates to the organisational context or any other practical commercial considerations that could be taken into account. An example of commercial acumen in this question would have involved a candidate showing some consideration of the railway industry as described in the scenario. Few candidates picked up on this, and indeed many discussed the performance of GCR in generic terms just focussing on the numbers, without considering the implications of things like a reducing profit margin, increasing customer complaints and a lack of capital

investment in the context of a railway services operating company. It is vitally important that candidates practise bringing in commercial acumen points when attempting questions and preparing for the exam.