

Examiners Report

Exam Name and Code: Financial Management (FM A/2025)

Date of exam: 19th December 2025

Paper Performance Overview

A high level overview of areas in which candidates performed well and areas in which their performance was weaker.

Overall this was a well attempted exam with 85 out of 89 candidates passing making for a pass rate of 95%.

Question 1 Performance

Question 1 was a typical NPV question and was well answered and was the best mark on the paper.

Part a of the NPV saw most candidates perform strongly. The main errors were taking today's prices to mean the price in one year's time and not dealing with the redundancy costs correctly. Only a minority of candidates recognised that although the working capital cashflows were based on contribution, it should have been the NET contribution AFTER taking into account the lost contribution on the SF12 product.

Candidates also need to show where the NPV has come from. This means showing the NPV of the future cashflows and deducting the initial investment. It is not enough to write NPV in one cell and then put a number next to it.

Part b was a sensitivity calculation which is a standard question. Although most candidates recognised that contribution was the relevant cashflow, only a minority used the NET contribution from the loss of the SF12 product. Very few candidates went on to answer the question i.e. comment and what that meant for the year 1 volume.

Part c was a sustainability question and was well answered. Candidates can pick up marks by reading the scenario rather than quoting from the textbook. The environmental and social aspects were well covered but the governance/economic ones were too generic.

Part d on capital rationing was polarising. Those who know what it was scored full marks. Those that didn't scored poorly.

Question 2 Performance

Question 2 was a financing question focusing on dividend policy and WACC.

The question on appropriate growth rate was generally well answered but some candidates blindly used growth rates that couldn't have been correct such as being over 25%. Candidates should do a common sense check or just use their calculators.

The WACC was extremely well answered which was to be expected given its regular outing in exams. The only real issue was the incorrect calculation of the ex in market value of the debenture. With the coupon being 4%, the semi annual coupon was £2, NOT £4. Other errors came down to basic arithmetic and not sense checking answers.

Part c focused on calculating the issue price of a bond using the yield of another. This was very poorly answered despite having been tested on numerous occasions in the past. Very few candidates recognised that a PV calculation was needed and of those who did, even fewer used the yield from part 2 as a discount rate. However many candidates recognised why the yield from the previous bond wasn't suitable.

Part d was about APV. The discussion parts were well answered but the calculation of the base case discount rate was poor. Although most recognised that the starting point was to degear, most degear the business' own beta despite the fact that the takeover target was in a different industry and that a beta for this industry had been provided. Most candidates then went on to regear as if they were doing a risk adjusted WACC calc which wasn't the case.

Part e was on dividend policy and was well answered although a number of answers did not comment on the companies exact policy which appeared to be paying out exactly 50% of the profits as dividend.

The ethics question in part f was reasonably well answered although many failed to go beyond mentioning a self interest threat. Despite the clear instruction in the question, few address any legal implications.

Question 3 Performance

Question 3 was a currency and share hedging question.

Part a was a standard FX hedging question featuring a forward, money market hedge and OTC option. This was extremely well answered and many candidates scored full marks. The only consistent error was the omission of the interest cost on the option premium. The clue in the question to include this was that the company was running an overdraft.

Part b asked for hedging advice and was well answered.

Part c asked for some discussion of translation risk. Only a small minority of attempts knew what this was and of them even fewer recognised the impact on the share price.

Part d was a standard share portfolio hedging question. On the whole it was well answered although some candidates' answers were disjointed and hard to follow.

Part e asked for reasons why the futures hedge in d was imperfect. Although most candidates picked up the rounding of contracts from part d, only a minority also mentioned basis risk as being the other reason.

Summary and Helpful Hints

Overall this was a well attempted paper. To improve chances, candidates should focus on the following:

Sense check numerical answers. A dividend growth rate of 25% is unlikely to be accurate. A company with 1% equity and 99% debt is unlikely to exist.

Answer the question on the paper rather than the one in a previous exam. Although the FM exam has similarities sitting to sitting, no two questions are alike. APV and risk adjusted WACC are not the same process.

Read the scenario. The FM scenarios are relatively short. Consequently, everything is in there for a reason. If you get to the end of a question and haven't mentioned something that was included in the scenario, there are marks being left on the table. This was particularly relevant to the sustainability scenario. For example, why would candidates have been told about using a variable rate loan if it wasn't relevant?