

Examiners Report

Exam Name and Code: Financial Management (FM A/2024)

Date of exam: 8th October 2024

Paper Performance Overview

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

Overall the exam was well attempted with the majority of candidates not just passing, but passing well. Candidates performed strongly on the calculations, particularly the standard ones such as NPV, WACC and hedging. The discursive areas were less well attempted, particularly those areas which required application to the scenarios.

Question 1 Performance

The syllabus areas covered were: Investment Decisions and Valuations (a, b, c, d and h)

Strengths:

- 1.1 The NPV calcs were well done on the whole. The main areas of weakness were ignoring incremental costs of redundancy and just calculating totals, Candidates also ignored the lost contribution on the old product when calculating the working capital requirement. Although virtually all candidates ignored the sunk marketing costs, only a minority explained WHY this was which was necessary for the mark.
- 1.2 The sensitivity was well performed
- 1.3 Despite the fact that sustainability is a key topic area across the entire ACA qualification and that these areas would have been seen in previous exams, this area was very poorly answered. Many candidates did not relate the discussion to the scenario which had several issues highlighted. Candidates who did pick up marks limited themselves by only focusing on environmental areas and neglecting social and economic/governance.
- 1.4 SVA was well answered.
- 1.5 Analytics is a newish are of the syllabus and has been regularly tested but perhaps worryingly there was a significant minority of candidates who had no idea what it was and therefore struggled to trouble the markers.

Question 2 Performance

The syllabus areas covered were: Financing Options (c, g, h and i)

2.1 The WACC calculations were extremely well answered with a significant proportion of the candidates getting full or nearly full marks. The main problem areas were forgetting that the cost of debt needed flexing up to an annual from a 6 monthly rate and forgetting to account for the tax relief

2.2 Risk adjusted WACC is another commonly examined area and the majority of candidates coped well with and were clearly familiar with the degear, regear, CAPM and WACC process. Fewer were able to explain why they were doing the calculation and why the existing WACC wouldn't have been appropriate.

2.3 Candidates who recognised that the change in capital structure would have necessitated an APV approach scored well and were able to pick up several marks from just remembering the text book points. However these were in the minority.

2.4 Explanations of why the companies had different betas was poor. Only a minority of candidates were able to link betas back to either business or finance risk, and of those who did, even fewer were able to talk about WHY the three companies may have had different business or finance risks.

2.5 On the whole the ethics part of the question was reasonably well attempted. Virtually no candidates addressed the legal issues and those who did usually decided that it was highly illegal (which it wasn't!)

Question 3 Performance

The syllabus areas covered were: Managing Financial Risks (a, b, d and e)

3.1 Hedging using forwards, money market hedges and OTC options is an extremely common requirement, and most candidates scored heavily. Only a minority picked up the interest carry cost of the option premium with it being paid up front. The clue here was the scenario which stated that the company was running up an overdraft.

3.2 This was reasonably well attempted, but a number of candidates limited their answers to just running through the strengths and weaknesses of each technique. Stronger candidates used the forward rate as a predictor and explained what this meant for the company. Only a few candidates offered any advice which was disappointing as 1. The question asked for it and 2. It is a skill that an ACA is expected to be able to offer.

3.3 Most candidates knew what translation risk was but other than that no one really appreciated that it would have limited impact on shareholder wealth because of immateriality and the fact it was just an accounting adjustment.

3.4 Index futures were really well dealt with and many candidates scored full marks.

3.5 Most candidates identified rounding contracts as a cause of imperfect hedges but only a minority also identified basis risk or trading out before the contract end as the other reason.

Summary and Helpful Hints

Overall the exam had a pass rate of 91%.

Candidates can improve by doing the following

- Attempting as many past exam questions as possible. Focus on the more recent ones as these are the ones brought in in the newer areas of the syllabus such as data, stats and sustainability
- Learn the theory. The numbers will get you so far but it's important that candidates are able to explain WHY the calculations are being done and WHAT they mean. Financial communication is a key skill of the ACA member.
- Read the scenarios. The scenarios in FM are relatively brief. Ask yourself why something is in there – why have I been told that a speaker plays at an extremely loud volume for example? The really strong candidates work from the scenario to generate ideas and not just what is printed in the text book.