KAPLAN PROFESSIONAL AWARDS

Examiners Report

Exam Name and Code: Financial Management FM A/2022

Date of exam - 21 July 2022

Paper performance overview **what worked well with candidates and areas that they were weak on, how they responded.**
Overall performance was good with all candidates passing.There were several marginal candidates whose performance was hampered by quoting from the theory and not applying that theory to the specific scenarios in the questions.
Question 1 performance (include each syllabus area covered)
Syllabus areas covered 3 a,b,c,e 1a & 1b covered a straightforward NPV calculation. Most candidates scored a pass mark on this question. Common errors included applying a real rather than money cost of capital and failing to explain why certain cashflows were ignored or irrelevant. 1c This question covered sensitivity and was poorly answered. The majority of candidates covered the sensitivity needed to make the project break even as opposed to the question which asked how much the fee would need to change before the client was indifferent between the two options. 1d asked candidates to advise on the pros and cons of sensitivity and simulation as a method of managing risk and was very well answered 1e asked candidates about the existence of real options in the project. The majority were able to identify a follow on option available as the contract may have been renewed. 1f Asked candidates about SVA. ALthough candidates were able to write at length about what the concept was, only a minority were able to recognise that as it was still an NPV technique it was unlikely to have much of an impact on the outcome.
Question 2 performance (include each syllabus area covered)

Syllabus areas covered 1 c,g,h,i

This was the poorest answered question on the paper and polarised candidates' responses.

2a was a standard WACC calculation. Many candidates scored full marks. There were a significant number of calculation and arithmetical errors when using excel. Candidates should apply a sense check to their answers . It is unlikely a company will have a cost of equity of 64%.

2b asked candidates to calculate gearing and asset betas for two businesses and comment on the impact on the equity betas. Although follow on marks were given, very few candidates were able to identify that the debt was cum-int. Of those who did, even fewer recognised that interest was paid half yearly. Most candidates were able to identify the impact of gearing on the systematic risk of a business but fewer were able to appreciate the impact of the underlying business risk or asset beta on it.

2c Involved regearing an asset beta to produce a risk adjusted cost of equity. Candidates who knew the technique scored full marks. Candidates who didn't get zero.

2d Asked candidates to explain the APV concept and on the whole was well answered with candidates able to explain why the technique was necessary although fewer were able to explain how it worked.

2e Covered portfolio theory with most candidates able to explain the concept. Relatively few were able to explain its application to the scenario as having little impact with the shareholders likely well diversified in the first place and the expansion not really moving into new markets.

2f Covered ethics and was reasonably well answered although most candidates did not consider any further and self interest threat to objectivity.

Question 3 performance (include each syllabus area covered)

Syllabus areas covered 2 b,d,f

3a was a standard scenario covering 3 hedging techniques in respect of a foreign currency transaction. It was well answered on the whole with many candidates getting full marks. Errors were not concentrated in any particular areas with many mistakes being careless choices of wrong FX or interest rates. The OTC options were not particularly well answered with a number of candidates unable to score more than a couple of marks.

3b This took the output from part a and asked for advice. Candidates were very strong when it came to the relative merits of each technique but were poor when considering whether to hedge in the first place. Very few answered the question should they hedge or not. There are no marks for sitting on the fence.

3c Asked candidates about economic risk. Only about half the candidates knew what it was in the first place and of those who did many suggested techniques relevant to transaction risk to deal with it

3d asked candidates to explain the time value of an option. Candidates who had learned this

scored well. Candidates who hadn't struggled to trouble the markers.
Summary and helpful hints
• practice on as many past exam questions as possible. • Don't just regurgitate information from the workbooks. Consider how it applies to the scenario. The scenarios in FM are very short and every point in them is made for a reason. If you aren't mentioning these points in your answer, you're leaving marks in the table. • Financing is still the most poorly answered question. Recent past exams are a good indicator of question style.