

Revising F9

General exam support from BPP Learning Media

BPP Learning Media is committed to giving you the best possible support in your quest for exam success. With this in mind, we have produced **guidance** on how to revise and techniques you can apply to **improve your chances of passing** the exam. This guidance can be found on the BPP Learning Media web site at the following link:

www.bpp.com/acca/examtips/Revising-for-ACCA-exams.doc

A paper copy of this guidance is available by emailing learningmedia@bpp.com

As well as written guidance, an excellent presentation entitled '**Exam technique – advice from the experts at BPP Learning Media**' is available at the following link:

www.bpp.com/learningmedia/acca/accaexamskills/player.html

Topics to revise

The exam consists of four questions, all of which are compulsory. No one section in the syllabus is more important than another so there are no short-cuts. You will have to be able to answer questions on the **entire syllabus**.

Question practice

You need to practise exam standard and exam style questions on a regular basis.

As you get closer to the exam, try to do complete questions in 45 minutes so that you are able to work at an appropriate speed.

Make sure you practise written sections as well as the calculations.

Passing the F9 exam

Displaying the right qualities

The aim of Paper F9 is to develop the knowledge and skills expected of a finance manager in relation to investment, financing and dividend decisions.

You need to be able to communicate your understanding clearly in an exam context. Calculations and discussions are equally important so do not concentrate on the numbers and ignore the written parts.

You need to be able to:

- Discuss the role and purpose of the financial management function
- Assess and discuss the impact of the economic environment on financial management
- Discuss and apply working capital management techniques
- Carry out effective investment appraisal
- Identify and evaluate alternative sources of business finance
- Explain and calculate cost of capital and the factors that affect it
- Explain and apply risk management techniques in business

Avoiding weaknesses

Do not avoid any syllabus areas, they are all equally examinable. Make sure you can discuss techniques as well as apply them, you will not pass this exam with calculations alone.

Plan your answers to ensure you do not run out of time and miss out on easy marks.

Using the reading time

You will have 15 minutes reading time for Paper F9. Here are some helpful tips on how best to utilise this time.

- Speed read through the question paper, jotting down any ideas that come to you about any of the questions.
- Decide the order which you're likely to tackle the questions (probably easiest questions first, most difficult questions last).
- Spend the remainder of the reading time reading the question(s) you will do first in detail, jotting down proformas and plans (any proformas or plans written on the question paper should be reproduced in the answer booklet).
- When you can start writing, get straight on with the question(s) you have planned in detail. If you have looked at all the questions during the reading time, this should hopefully mean that you will find it easier to answer the more difficult questions when you come to them, as you will have been generating ideas and remembering facts while answering the easier questions.

Choosing which questions to answer first

You can use the planning time in the exam to choose the order in which to attempt the questions. You may prefer to attempt the questions that you are more confident about first. However, make sure you watch the time carefully and do not spend too long on any one question.

Alternatively, you could answer the questions in strict order. This will force you to spend an equal time on each question but make sure you leave plenty of space if you decide to move on and finish a question later.

Tackling questions

Write a short plan for each question containing bullet points per mark and **use** it to write your answer when the writing time begins.

If you get stuck, make an assumption, write it down and **move on**.

Make sure your answers are **focused** and **specific** to the organisation in the question. Show clear workings for your calculations and write full sentences in your explanations.

Never overrun on any question and once the 45 minutes is up, move on to the next.

Gaining the easy marks

Easy marks in this paper tend to fall into two categories.

Calculations

The calculations within a question will get progressively harder and easy marks will be available in the easy stages. Set out your calculations clearly and show all your workings in a clear format. Use a proforma, for example in complex NPV questions and slot the simpler figures into the proforma straight away before you concentrate on the figures that need a lot of adjustment.

Discussions

Discussions that are focused on the specific organisation in the question will gain more marks than regurgitation of knowledge. Read the question carefully and more than once, to ensure you are actually answering the specific requirements.

Pick out key words such as 'describe', 'evaluate' and 'discuss'. These all mean something specific: 'Describe' means to communicate the key features of; 'Evaluate' means to assess the value of; 'Discuss' means to examine in detail by argument.

Clearly label the points you make in discussions so that the marker can identify them all rather than getting lost in the detail. Provide answers in the form requested, particularly using report format if asked for and giving recommendations if required.

Exam formulae

Set out below are the formulae which you will be given in the exam, and formulae which you should learn. If you are not sure what the symbols mean, or how the formulae are used, you should refer to the appropriate chapter in this Study Text

Exam formulae	Chapter in Study Text
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Economic Order Quantity	5
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$$= \sqrt{\frac{2C_0D}{C_H}}$$

Miller-Orr Model	6
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Return point = Lower limit + (1/3 × spread)

$$\text{Spread} = 3 \left[\frac{\frac{3}{4} \times \text{transaction cost} \times \text{variance of cash flows}}{\text{interest rate}} \right]^{\frac{1}{3}}$$

The Capital Asset Pricing Model	15
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$$E(r_i) = R_f + \beta_i (E(r_m) - R_f)$$

The Asset Beta Formula	16
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$$\beta_a = \left[\frac{V_e}{(V_e + V_d(1-T))} \beta_e \right] + \left[\frac{V_d(1-T)}{(V_e + V_d(1-T))} \beta_d \right]$$

The Growth Model	17
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$$P_0 = \frac{D_0(1+g)}{(K_e - g)} \text{ or } P_0 = \frac{D_0(1+g)}{(r_e - g)}$$

Gordon's Growth Approximation	17
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$$g = br_e$$

The weighted average cost of capital	15
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$$\text{WACC} = \left[\frac{V_e}{V_e + V_d} \right] k_e + \left[\frac{V_d}{V_e + V_d} \right] k_d (1-T)$$

The Fisher formula	19
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$$(1 + i) = (1 + r)(1 + h)$$

Purchasing Power Parity and Interest Rate Parity

$S_1 = S_0 \times \frac{(1+h_c)}{(1+h_b)}$	19
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$F_0 = S_0 \times \frac{(1+i_c)}{(1+i_b)}$	19
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Formulae to learn

Profitability ratios include:

$$\text{ROCE} = \frac{\text{Profit from operations}}{\text{Capital employed}} \%$$

$$\text{ROCE} = \frac{\text{Profit from operations}}{\text{Revenue}} \times \frac{\text{Revenue}}{\text{Capital employed}}$$

Profit margin × Asset turnover

Debt ratios include:

$$\text{Gearing} = \frac{\text{Book value of debt}}{\text{Book value of equity}}$$

$$\text{Interest coverage} = \frac{\text{Profit from operations}}{\text{Interest}}$$

Liquidity ratios include:

$$\text{Current ratio} = \text{Current assets} : \text{Current liabilities}$$

$$\text{Acid Test ratio} = \text{Current assets} : \text{Current liabilities (less inventory)}$$

Shareholder investor ratios include:

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Market price per share}} \times 100$$

$$\text{Earnings per share} = \frac{\text{Profits distributable to ordinary shareholders}}{\text{Number of ordinary shares issued}}$$

$$\text{Price-earnings ratio} = \frac{\text{Market price per share}}{\text{EPS}}$$

$$\text{Av. collection period} = \frac{\text{Receivables}}{\text{(credit) sales}} \times 365 \text{ days}$$

Inventory days

$$(a) \text{ Finished goods: } \frac{\text{Finished goods}}{\text{Cost of sales}} \times 365 \text{ days}$$

$$(b) \text{ WIP: } \frac{\text{WIP}}{\text{Cost of production}} \times 365 \text{ days}$$

$$(c) \text{ Raw material: } \frac{\text{Raw material}}{\text{Raw material purchases}} \times 365 \text{ days}$$

$$\text{Av. payables period} = \frac{\text{Payables}}{\text{(credit)purchases}} \times 365 \text{ days}$$

$$\text{IRR} = a + \frac{\text{NPV}_a}{\text{NPV}_a - \text{NPV}_b} (b - a)$$

$$\text{Equivalent annual cost} = \frac{\text{NPV of costs}}{\text{Annuity factor for the life of the project}}$$

$$\text{Cost of equity} = K_e = \frac{D_1}{P_0} + g$$

$$\text{Cost of debt} = K_d = \frac{i(1 - T)}{P_0}$$

$$\text{Cost of preference shares} = K_{\text{pref}} = \frac{\text{Preference Dividend}}{\text{Market Value}_{(\text{ex div})}} = \frac{d}{P_0}$$

$$\text{Profitability index} = \frac{\text{NPV of cash inflows}}{\text{Cash outflow}}$$

Exam information

The exam is a three-hour paper containing **four** compulsory 25 mark questions. There will be a mixture of calculations and discussion and the examiner's aim is to cover as much of the syllabus as possible.

Additional information

The Study Guide provides more detailed guidance on the syllabus.

December 2009

- 1 Lease or buy; NPV; investment decisions
- 2 Cost of debt; CAPM; WACC; dividend growth model; dividend policy
- 3 Ex rights price; EPS; transaction and translation risk; exchange rate hedging
- 4 Role financial intermediaries; forecast financial statements; working capital policy and management

This paper is Mock Exam 3 this Kit

June 2009

	<i>Questions in this Kit</i>
1 Weighted average cost of capital; business valuation; capital structure and the WACC	56
2 Capital investment decision making process: investment appraisal	27
3 Working capital financing strategy; forecast cash flow; foreign receivables management	16
4 Financial performance analysis; rights issue; sources of finance	41

Examiner's comments. This examination paper covered many syllabus areas and candidates who had omitted some parts of the syllabus from their study may have found it difficult as a consequence.

December 2008

	<i>Questions in this Kit</i>
1 Rights issues; business valuation; agency problem	55
2 Interest rate risk; overtrading; factoring	64
3 WACC; investment appraisal; CAPM	26
4 Debt finance; debt valuation; exchange rate risk	61

Examiner's comments. The examination paper was seen to have a good balance between calculation and discussion, as well as a good coverage of the syllabus. Unsuccessful candidates may have prepared poorly for the examination. This examination paper covered many areas of the syllabus and tended to be difficult for candidates who had omitted some sections of the syllabus from their study. Most answers were reasonably well presented, with very few scripts being drawn to the examiner's attention as difficult to read or difficult to follow.

June 2008

Questions in this Kit

1	Weighted average cost of capital: Calculation; discussion; comparison of CAPM with divided growth model	50
2	Business valuation: Dividend growth model calculation; rights issue pricing; P/E ratio method; EMH; debt v equity finance	54
3	Working capital: Discussion of level of investment; accounts receivable management; calculation using ratios; EOQ	15
4	Investment appraisal: Calculations of NPV and IRR; discussion of acceptability and limitations; shareholder wealth maximisation	25

Examiner's comments. Where candidates did not reach a pass standard, the main reason was a lack of preparation or a lack of understanding. Students should remember that all parts of the syllabus are examinable and producing answers with very little discussion is unwise. It is good exam practice to present answers clearly as this helps the marker.

December 2007

Questions in this Kit

1	Business valuation; convertible bond valuation; efficient market hypothesis	53
2	Investment appraisal: Calculations of NPV and IRR; risk and uncertainty	24
3	Sources of finance: Dividend policy; debt finance; rights issue; operating lease	40
4	Working capital management: Objectives; EOQ; accounts receivable; hedging payables	14

Examiner's comments. There was little evidence of any time pressure and some candidates scored very high marks. Failure to pass the exam appeared generally to be associated with a lack of preparation and revision, with some candidates producing very short answers, or answers with some calculations but with very little discussion. It was good to see many candidates providing clearly labelled workings and well laid-out calculations in their answers.

Pilot paper

Questions in this Kit

1	Weighted average cost of capital: Calculation; discussion; ratio analysis	49
2	Foreign currency: Risk; forecasts; forward market; money market hedge; futures contract	60
3	Working capital: Evaluation of credit policy; Miller-Orr; accounts receivable management; funding policy	13
4	Investment appraisal: Calculations of NPV and ROCE; strengths and weaknesses of IRR	21

Analysis of past papers

The table below provides details of when each element of the syllabus has been examined and the question number and section in which each element appeared

Covered in Text chapter		Dec 2009	June 2009	Dec 2008	June 2008	Dec 2007	Pilot Paper
	FINANCIAL MANAGEMENT FUNCTION						
1	Nature & purpose						
1	Objectives	3a,b	4a				
1	Stakeholders			1e			
	FINANCIAL MANAGEMENT ENVIRONMENT						
2	Economic environment						
3	Financial markets and institutions	4a					
	WORKING CAPITAL MANAGEMENT						
4, 5	Management	4b,d	3c	2b,c	3a,b,c,d	4a,b,c	3a,b,c
6	Funding strategies	4c	3a,b				3d
	INVESTMENT APPRAISAL						
7	Non-discounted cash flow techniques		2a,b				4b
8, 9	Discounted cash flow techniques	1a, b	2b,c	3b	1b, 4a,b,c, d	2a,b	4a,c
10	Risk and uncertainty					2c	
11	Specific investment decisions	1d,2b					
	BUSINESS FINANCE						
12	Sources of short-term finance	4a				3d	
12	Sources of long term-finance		4b,c	1a,4a	2b,e	3b,c	
13	Dividend policy	2d				3a	
14	Finance for SMEs						
	COST OF CAPITAL						
15	Calculation	2a,b,c	1a	3a	1a,c		1a
16	Gearing (capital structure)		1c	3c			1b,c
	BUSINESS VALUATIONS						
17	Valuation of shares		1b	1b,c,d	2a,c	1a	
17	Valuation of debt			4b		1b	
18	Efficient market hypothesis / practical considerations				2d	1c	
	RISK MANAGEMENT						
19	Causes of interest rate / exchange rate fluctuations	3c					
19	Hedging foreign currency risk	3d		4c,d			2b
20	Hedging interest rate risk			2a		4d	2a,c,d

Useful websites

The websites below provide additional sources of information of relevance to your studies for *Financial Management*.

- www.accaglobal.com
ACCA's website. Includes student section.
- www.bpp.com
Our website provides information about BPP products and services, with a link to the ACCA website.
- www.ft.com
This website provides information about current international business. You can search for information and articles on specific industry groups as well as individual companies.
- www.economist.com
Here you can search for business information on a week-by-week basis, search articles by business subject and use the resources of the Economist Intelligence Unit to research sectors, companies or countries.
- www.invweek.co.uk
This site carries business news and articles on markets from Investment Week and International Investment.
- www.pwglobal.com/uk
The PricewaterhouseCoopers website includes UK Economic Outlook
- www.bbc.co.uk
The website of the BBC carries general business information as well as programme-related content.