





Professor Bob Ryan, Examiner for P4 Advanced Financial Management

Advanced Financial Management

M level option paper

M level refers to 'masters' level on the normal taxonomy of educational attainment where a student has an underpinning knowledge of the subject equivalent to undergraduate level.



REVIEW OF PAST EXAMS

This covers the three sittings December 07, June 08 and December 08.

General Comments

Significant improvement in pass rate and average score
(December 07 – December 08).

Wide distribution of standard

Problem of learning silos

Lack of professional grounding and awareness

There was a significant improvement from December 07 to December 08.

A significant number of candidates performed to an exceptional standard with marks in excess of 70%. There was also considerable bimodality with a substantial minority of candidates performing very badly with scores of less than 20% - demonstrating poor preparation for an examination at this level.

Clusters of students from specific centres make similar technical or conceptual errors in dealing with questions.

In P4 we assume level 3 expertise across the bulk of the syllabus and this means that candidates should be aware of professional/market practice. It is also assumed that candidates are thoroughly familiar with the F9 and other relevant underpinning syllabuses.

Reasons for poor performance?

Students from some centres are not prepared

Poor technical competence

Very poor performance on written sections and Q4

Misguided by question spotters

Not working with the mark ramp

Poor performance was clustered with some centres showing excellent results and others where only a small proportion passed.

Technically many candidates could not effectively handle the basics of the subject or undertake routine calculations accurately.

The standard of written answers was very low. Candidates must appreciate that a significant proportion of the marks (and the professional marks) come from the quality of what they write.

Question spotting is not a useful activity. The topics chosen by the examiner picks up on themes from across the syllabus (Q1 and Q2) and then a random element is introduced in the selection of topics for Q3 – Q5 to break trends.

Easy parts of the questions for P4 carry a high mark load, the more difficult discriminating elements carry a relatively smaller proportion of the available mark.

**WHAT WAS
DONE WELL?**

The Positives

- One student wrote just 6 sides and earned 65%!
- Very high technical proficiency
- Good standards of English
- Good attention to professional presentation
- Understanding of options and their role
- Understanding of structure of problems

Generally questions on hedging and the use of options were handled well by students. Passing candidates demonstrated a good level of expertise in structuring problems drawn across the syllabus (see Q1 and Q2 from Dec 07 and June 08). Passing candidates also did well in organising their answers, and although some of the written commentary was not strong on content, the standard of English and presentation was good.

**WHAT WASN'T
DONE WELL?**

The Negatives

Weak carry forward from F9 (early days)

Weak integration with other elements of professional syllabus

Lack of attention to discursive element

Lack of contextual understanding

Ability to exploit different syllabus areas in solving problems

There was a consistent lack of accuracy in the analytical answers with simple miscalculation being the most common problem. The average candidate appears to know what to do but makes simple errors in calculation.

In a number of questions, different elements of the syllabus are brought together in a single question and there is a requirement to demonstrate straightforward aspects from other syllabuses. Common problems are:

- Inability to handle routine NPV and similar calculations
- Lack of understanding of the impact of tax upon forecast cash flows
- Inability to rapidly extract cash flow information from accounts
- Lack of intuitive understanding of the significance of accounting ratios
- Lack of balance in questions by not recognising the importance of good discursive content



LESSONS LEARNED

What I have got from this...

- The paper strategy is essentially correct
- Focus on cases and contemporary themes
- Process of adjustment is still under way

An optional paper at the final level of the ACCA educational programme will be tough. AFM, by its nature calls upon a wide array of skills and understanding of professional practice. There is also a huge amount of theoretical and conceptual underpinning to the subject. However, our focus on cases and contemporary themes will be a continuing issue in this paper. Two years ago proposing a question on the risk of default and how banks set their rates (and hence the cost of borrowed finance) may have been regarded as too challenging or indeed relevant. One article in Student Accountant, one exam question in the December 08 paper and one credit crunch later – the relevance of this topic is only too clear. I believe the forward looking, practice grounded emphasis of this paper is right.



**WHAT TO
FOCUS ON?**

Key concerns:

What is the role and responsibility of the senior financial manager?

How can a business maximise its value?

What are the most significant risks?

How to keep ahead of the game – current and emerging issues.

AFM is a rapidly developing and changing subject. Over the last two years the importance of understanding debt, how the cost of debt capital changes and the problems of refinancing have emerged. It is no longer the case that having a good investment project means that capital will be available. Understanding the ways of handling capital rationing, for example, could become a hot topic. As the debt market dries up firms will turn again to their equity investors for funds and obtaining cost of equity measures taking into account firm size and the role of default could return to centre stage.

Risk is an ever present problem and, the risk of miscalculation and errors in spreadsheets are a source of loss to industry which in the US, for example, costs in excess of \$10bn per annum. Our concern as before will be to examine more and more the responsibilities and duties of the senior financial manager.

This examiner along with other contributors write extensively for Student Accountant – the articles are not a sure tip but are strongly indicative of the way the examiner views developments in the subject.

The 'go fors':

Upgrading general knowledge of finance

Securing the basics – standard good practice and understanding of techniques and their appropriate use

Contemporary issues – student accountant

Emphasis on significant corporate decisions - refinancing, acquisition, reconstruction, unbundling



**HOW TO
IMPROVE?**

How to improve

Ignore the tipsters (they are misleading)

Encourage wider reading – this is M level

Look at current topics – Student Accountant

Note the themes in papers – debt markets, securitization, default risk, recursion

Focus on my style of examining (high discrimination, steep mark ramp)

There is no easy way around this subject. The candidate who is thoroughly familiar with the subject, has reflected on their own and wider practice, and is well practiced in the techniques will pass. But, this level of skill takes time to develop – it cannot be mastered in a few weeks before the examination but relies upon a lengthy period of intensive study.

Students working with tutors have an invaluable resource, those working on their own should recognise that the manuals on their own, whilst providing an excellent basic source, cannot provide a complete solution. Additional reading is highly recommended, good texts are available which can fill out the detail, there is also a wide range of printed and on-line resources. Good exam practice is also necessary using past papers and those from F9 as well.



**FOCUS ON
FUTURE
EXAMS**



The trajectory.....

A shift of focus to the 'M' in AFM

Corporate survival

- credit risk and default risk management
- unbundling poor performing businesses
- restructuring and financial reorganisation
- focus on value and value management

New topics in risk management – e.g.: spreadsheet risk

More financial analysis – looking for corporate value



**WILL THINGS
CHANGE?**

**YES - AFM is rapidly
evolving as a professional topic**



