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ACCA

Financial Management (FM)

Study Text

International Skill Development Corporation
Skills for Tomorrow

KAPLAN PUBLISHING

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Applied Skills

Financial Management (FM)

Study Text

KAPLAN PUBLISHING'S STATEMENT OF PRINCIPLES

LINGUISTIC DIVERSITY, EQUALITY AND INCLUSION

We are committed to diversity, equality and inclusion and strive to deliver content that all users can relate to.

We are here to make a difference to the success of every learner.

Clarity, accessibility and ease of use for our learners are key to our approach.

We will use contemporary examples that are rich, engaging and representative of a diverse workplace.

We will include a representative mix of race and gender at the various levels of seniority within the businesses in our examples to support all our learners in aspiring to achieve their potential within their chosen careers.

Roles played by characters in our examples will demonstrate richness and diversity by the use of different names, backgrounds, ethnicity and gender, with a mix of sexuality, relationships and beliefs where these are relevant to the syllabus.

It must always be obvious who is being referred to in each stage of any example so that we do not detract from clarity and ease of use for each of our learners.

We will actively seek feedback from our learners on our approach and keep our policy under continuous review. If you would like to provide any feedback on our linguistic approach, please use this form (you will need to enter the link below into your browser).

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We will seek to devise simple measures that can be used by independent assessors to randomly check our success in the implementation of our Linguistic Equality, Diversity and Inclusion Policy.

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Contents

Introduction

How to use the Materials

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chances of success in your examinations.

The product range contains a number of features to help you in the study process. They include:

(1) Detailed study guide and syllabus objectives

(2) Description of the examination

(3) Study skills and revision guidance

(4) Study text

(5) Question practice

The sections on the study guide, the syllabus objectives, the examination and study skills should all be read before you commence your studies. They are designed to familiarise you with the nature and content of the examination and give you tips on how to best approach your learning.

The **Study text** comprises the main learning materials and gives guidance as to the importance of topics and where other related resources can be found. Each chapter includes

- The **learning objectives**, which have been carefully mapped to the examining body's own syllabus learning objectives or outcomes. You should use these to check you have a clear understanding of all the topics on which you might be assessed in the examination.
- The **chapter diagram** provides a visual reference for the content in the chapter, giving an overview of the topics and how they link together.
- The **content** for each topic area commences with a brief explanation or definition to put the topic into context before covering the topic in detail. You should follow your studying of the content with a review of the illustration/s. These are worked examples, which will help you to understand better how to apply the content for the topic.
- **Test your understanding** sections provide an opportunity to assess your understanding of the key topics by applying what you have learned to short questions. Answers can be found at the back of each chapter.
- **Summary diagrams** complete each chapter to show the important links between topics and the overall content of the examination. These diagrams should be used to check that you have covered and understood the core topics before moving on.
- **Question practice** is provided at the back of each text.

Quality and accuracy are of the utmost importance to us so if you spot an error in any of our products, please send an email to mykaplanreporting@kaplan.com with full details, or follow the link to give feedback in MyKaplan.

Our Quality Coordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

Icon Explanations

Definition – Key definitions that you will need to learn from the core content.

Key point – Identifies topics that are key to success and are often examined.

Test your understanding – Exercises for you to complete to ensure that you have understood the topics just learned.

Illustration – Worked examples help you understand the core content better.

Tricky topic – When reviewing these areas care should be taken and all illustrations and Test your understanding exercises should be completed to ensure that the topic is understood.

Supplementary reading – These sections will help to provide a deeper understanding of core areas. The supplementary reading is NOT optional reading. It is vital to provide you with the breadth of knowledge you will need to address the wide range of topics within your syllabus that could feature in an exam question. **Reference to this text is vital when self-studying**.

On-line subscribers

Our on-line resources are designed to increase the flexibility of your learning materials and provide you with immediate feedback on how your studies are progressing.

If you are subscribed to our on-line resources you will find:

(1) On-line reference ware: reproduces your Study Text on-line, giving you anytime, anywhere access.

(2) On-line testing: provides you with additional on-line objective testing so you can practice what you have learned further.

(3) On-line performance management: immediate access to your on-line testing results. Review your performance by key topics and chart your achievement through the course relative to your peer group.

Ask your local customer services staff if you are not already a subscriber and wish to join.

Syllabus Introduction

Syllabus background

The aim of ACCA FM, Financial management, is to develop the knowledge and skills expected of a financial manager, in relation to investment, financing, and dividend policy decisions.

Main capabilities

- A – Discuss the role and purpose of the financial management function.
- B – Assess and discuss the impact of the economic environment on financial management.
- C – Discuss and apply working capital management techniques.
- D – Carry out effective investment appraisal.
- E – Identify and evaluate alternative sources of business finance.
- F – Discuss and apply principles of business and asset valuations.
- G – Explain and apply risk management techniques in business.
- H – Apply employability and technology skills.

Core areas of the syllabus

- Financial management function (A).
- Financial management environment (B).
- Working capital management (C).
- Investment appraisal (D).
- Business finance (E).
- Business valuations (F).
- Risk management (G).
- Employability and technology skills (H).

ACCA performance objectives

All ACCA students are required to complete their exams, take the Ethics and Professional Skills module and complete the PER (Practical Experience Requirement) before they can become an ACCA member.

Performance objectives are benchmarks of effective performance that describe the types of work activities students and affiliates will be involved in as trainee accountants.

Trainees are required to achieve nine performance objectives in total – all five Essentials performance objectives and any four Technical performance objectives.

The financial management syllabus relates to four of the technical performance objectives:

P09 – Evaluate investment and financing decisions

P10 – Manage and control working capital

P11 – Identify and manage financial risk

P22 – Data analysis and decision support

You can find more information on PER on the ACCA website:

https://www.accaglobal.com/uk/en/student/practical-experience-per.html

Progression

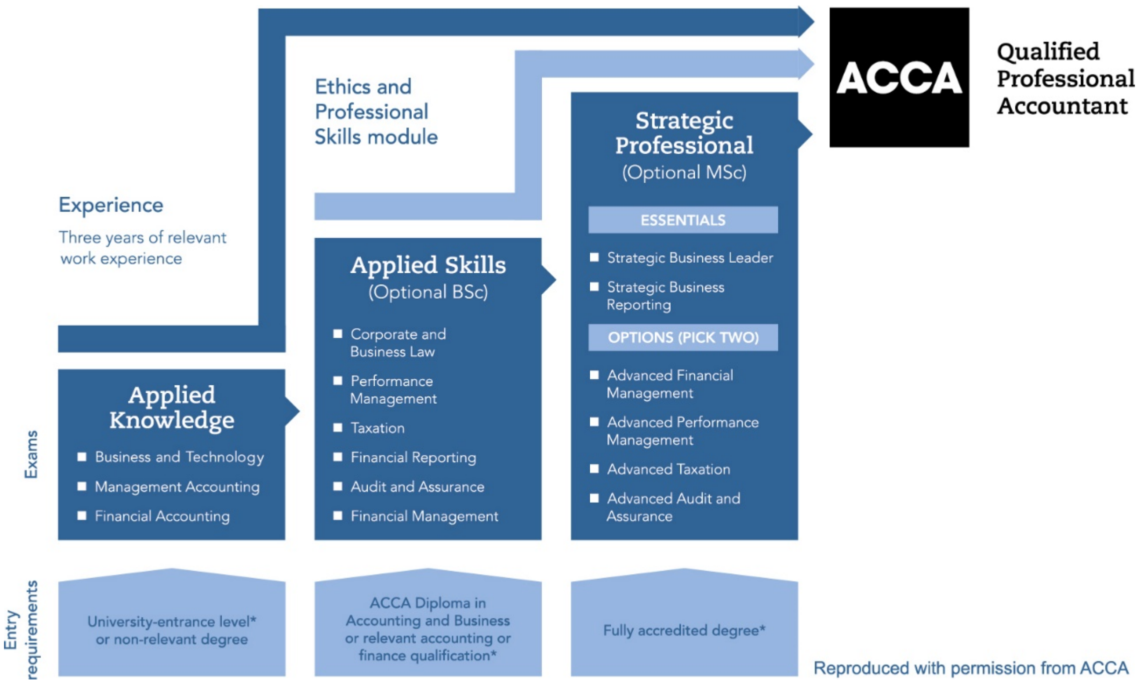
There are two elements of progression that we can measure: first how quickly students move through individual topics within a subject; and second how quickly they move from one course to the next. We know that there is an optimum for both, but it can vary from subject to subject and from student to student. However, using data and our experience of student performance over many years, we can make some generalisations.

A fixed period of study set out at the start of a course with key milestones is important. This can be within a subject, for example 'I will finish this topic by 30 June', or for overall achievement, such as 'I want to be qualified by the end of next year'.

Your qualification is cumulative, as earlier papers provide a foundation for your subsequent studies, so do not allow there to be too big a gap between one subject and another. We know that exams encourage techniques that lead to some degree of short-term retention, the result being that you will simply forget much of what you have already learned unless it is refreshed (look up Ebbinghaus Forgetting Curve for more details on this). This makes it more difficult as you move from one subject to another: not only will you have to learn the new subject, you will also have to relearn all the underpinning knowledge as well. This is very inefficient and slows down your overall progression, which makes it more likely you may not succeed at all.

In addition, delaying your studies slows your path to qualification, which can have negative impacts on your career, postponing the opportunity to apply for higher level positions and therefore higher pay.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress.



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Syllabus objectives

We have reproduced the ACCA's study guide below, showing where the objectives are explored within this book.

Within the chapters, we have broken down the extensive information found in the study guide into easily digestible and relevant sections, called Content Objectives. These correspond to the objectives at the beginning of each chapter.

Syllabus learning objective	Chapter reference
A FINANCIAL MANAGEMENT FUNCTION	
1 The nature and purpose of financial management	
(a) Explain the nature and purpose of financial management.[1]	1
(b) Explain the relationship between financial management and financial and management accounting.[1]	1
2 Financial objectives and the relationship with corporate strategy	
(a) Discuss the relationship between financial objectives, corporate objectives and corporate strategy.[2]	1
(b) Identify and describe a variety of financial objectives, including: [2]	1
(i) shareholder wealth maximisation	
(ii) profit maximisation	
(iii) earnings per share growth.	
3 Stakeholders and impact on corporate objectives	
(a) Identify the range of stakeholders and their objectives.[2]	1
(b) Discuss the possible conflict between stakeholder objectives.[2]	1
(c) Discuss the role of management in meeting stakeholder objectives, including the application of agency theory.[2]	1
(d) Describe and apply ways of measuring achievement of corporate objectives including:[2]	19
(i) ratio analysis using appropriate ratios such as return on capital employed, return on equity, earnings per share and dividend per share	
(ii) changes in dividends and share prices as part of total shareholder return.	

Syllabus learning objective			Chapter reference
	(e)	Explain ways to encourage the achievement of stakeholder objectives, including: [2]	
		(i) managerial reward schemes such as share options and performance-related pay	1
		(ii) regulatory requirements such as corporate governance codes of best practice and stock exchange listing regulations	
4	**Financial and other objectives in not-for-profit organisations**		
	(a)	Discuss the impact of not-for-profit status on financial and other objectives.[2]	1
	(b)	Discuss the nature and importance of Value for Money as an objective in not-for-profit organisations.[2]	1
	(c)	Discuss ways of measuring the achievement of objectives in not-for-profit organisations.[2]	1
B	**FINANCIAL MANAGEMENT ENVIRONMENT**		
1	**The economic environment for business**		
	(a)	Identify and explain the main macroeconomic policy targets.[1]	11
	(b)	Define and discuss the role of fiscal, monetary, interest rate and exchange rate policies in achieving macroeconomic policy targets.[1]	11
	(c)	Explain how government economic policy interacts with planning and decision-making in business.[2]	11
	(d)	Explain the need for, and the interaction with, planning and decision-making in business of:	11
		(i) competition policy [1]	
		(ii) government assistance for business [1]	
		(iii) green policies and sustainability issues [1]	
		(iv) corporate governance regulation.[2]	

Syllabus learning objective	Chapter reference
2 The nature and role of financial markets and institutions	
(a) Identify the nature and role of money and capital markets, both nationally and internationally.[2]	12
(b) Explain the role of financial intermediaries.[1]	12
(c) Explain the functions of a stock market and a corporate bond market.[2]	12
(d) Explain the nature and features of different securities in relation to the risk/return trade-off.[2]	15
(e) Explain the impact of Fintech in changing the nature and role of financial markets and institutions.[1]	12
3 The nature and role of money markets	
(a) Describe the role of the money markets in: [1]	12, 13, 14
(i) Providing short-term liquidity to the private sector and the public sector	
(ii) Providing short-term trade finance	
(iii) Allowing an organisation to manage its exposure to foreign currency risk and interest rate risk	
(b) Explain the role of banks and other financial institutions in the operation of the money markets.[2]	12
(c) Explain and apply the characteristics and role of the principal money market instruments: [2]	12
(i) Interest-bearing instruments	
(ii) Discount instruments	
(iii) Derivative products.	
C WORKING CAPITAL MANAGEMENT	
1 The nature, elements and importance of working capital	
(a) Describe the nature of working capital and identify its elements.[1]	7
(b) Identify the objectives of working capital management in terms of liquidity and profitability, and discuss the conflict between them.[2]	7
(c) Discuss the central role of working capital management in financial management.[2]	7

Syllabus learning objective	Chapter reference
2 Management of inventories, accounts receivable, accounts payable and cash	
(a) Explain the cash operating cycle and the role of accounts payable and accounts receivable.[2]	7
(b) Explain and apply relevant accounting ratios, including: [2]	7
(i) current ratio and quick ratio	
(ii) inventory turnover ratio, average collection period and average payable period	
(iii) sales revenue/net working capital ratio.	
(c) Discuss, apply and evaluate the use of relevant techniques in managing inventory, including the Economic Order Quantity model and Just-in-Time techniques.[2]	8
(d) Discuss, apply and evaluate the use of relevant techniques in managing accounts receivable, including:	9
(i) assessing creditworthiness[1]	
(ii) managing accounts receivable[1]	
(iii) collecting amounts owing[1]	
(iv) offering early settlement discounts[2]	
(v) using factoring and invoice discounting[2]	
(vi) managing foreign accounts receivable.[2]	
(e) Discuss and apply the use of relevant techniques in managing accounts payable, including:	9
(i) using trade credit effectively[1]	
(ii) evaluating the benefits of early settlement and bulk purchase discounts[2]	
(iii) managing foreign accounts payable.[1]	
(f) Explain the various reasons for holding cash, and discuss and apply the use of relevant techniques in managing cash, including: [2]	10
(i) preparing cash flow forecasts to determine future cash flows and cash balances	
(ii) assessing the benefits of centralised treasury management and cash control	
(iii) cash management models, such as the Baumol model and the Miller-Orr model	
(iv) investing short-term	

Syllabus learning objective				Chapter reference
3	**Determining working capital needs and funding strategies**			
	(a)	Calculate the level of working capital investment in current assets and discuss the key factors determining this level, including: [2]		7
		(i)	the length of the working capital cycle and terms of trade	
		(ii)	an organisation's policy on the level of investment in current assets	
		(iii)	the industry in which the organisation operates.	
	(b)	Evaluate and discuss the key factors in determining working capital funding strategies, including:		10
		(i)	the distinction between permanent and fluctuating current assets.[2]	
		(ii)	the relative cost and risk of short-term and long-term finance.[2]	
		(iii)	the matching principle.[2]	
		(iv)	the relative costs and benefits of aggressive, conservative and matching funding policies.[2]	
		(v)	management attitudes to risk, previous funding decisions and organisation size: [1]	
D	**INVESTMENT APPRAISAL**			
1	**Investment appraisal techniques**			
	(a)	Identify and calculate relevant cash flows for investment projects.[2]		2
	(b)	Calculate payback period and discuss its usefulness as an investment appraisal method.[2]		2
	(c)	Calculate discounted payback and discuss its usefulness as an investment appraisal method.[2]		6
	(d)	Calculate return on capital employed (accounting rate of return) and discuss its usefulness as an investment appraisal method.[2]		2
	(e)	Calculate net present value and discuss its usefulness as an investment appraisal method.[2]		3
	(f)	Calculate internal rate of return and discuss its usefulness as an investment appraisal method.[2]		3
	(g)	Discuss the superiority of discounted cash flow (DCF) methods over non-DCF methods.[2]		3
	(h)	Discuss the relative merits of NPV and IRR.[2]		3

Syllabus learning objective	Chapter reference
2 Allowing for inflation and taxation in DCF	
(a) Apply and discuss the real-terms and nominal-terms approaches to investment appraisal.[2]	4
(b) Calculate the taxation effects of relevant cash flows, including the tax benefits of tax-allowable depreciation and the tax liabilities of taxable profit.[2]	4
(c) Calculate and apply before- and after-tax discount rates.[2]	17
3 Adjusting for risk and uncertainty in investment appraisal	
(a) Describe and discuss the difference between risk and uncertainty in relation to probabilities and increasing project life.[2]	6
(b) Apply sensitivity analysis to investment projects and discuss the usefulness of sensitivity analysis in assisting investment decisions.[2]	6
(c) Apply probability analysis to investment projects and discuss the usefulness of probability analysis in assisting investment decisions.[2]	6
(d) Apply and discuss other techniques of adjusting for risk and uncertainty in investment appraisal, including	6
(i) simulation [1]	
(ii) adjusted payback [1]	
(iii) risk-adjusted discount rates.[2]	
4 Specific investment decisions (Lease or buy, asset replacement, capital rationing)	
(a) Evaluate leasing and borrowing to buy using the before- and after-tax costs of debt.[2]	5
(b) Evaluate asset replacement decisions using equivalent annual cost and equivalent annual benefit.[2]	5
(c) Evaluate investment decisions under single-period capital rationing, including: [2]	5
(i) the calculation of profitability indexes for divisible investment projects	
(ii) the calculation of the NPV of combinations of non-divisible investment projects	
(iii) a discussion of the reasons for capital rationing.	

Syllabus learning objective	Chapter reference
E BUSINESS FINANCE	
1 Sources of, and raising, business finance	
(a) Identify and discuss the range of short-term sources of finance available to businesses, including: [2]	15
(i) overdraft	
(ii) short-term loan	
(iii) trade credit	
(iv) lease finance.	
(b) Identify and discuss the range of long-term sources of finance available to businesses, including: [2]	15
(i) equity finance	
(ii) debt finance	
(iii) lease finance	
(iv) venture capital.	
(c) Identify and discuss methods of raising equity finance, including: [2]	15
(i) rights issue	
(ii) placing	
(iii) public offer	
(iv) stock exchange listing.	
(d) Identify and discuss methods of raising short- and long-term Islamic finance including: [1]	15
(i) major difference between Islamic finance and other forms of business finance	
(ii) The concept of riba (interest) and how returns are made by Islamic financial securities	
(iii) Islamic financial instruments available to businesses including:	
(i) murabaha (trade credit)	
(ii) Ijara (lease finance)	
(iii) mudaraba (equity finance)	
(iv) sukuk (debt finance)	
(v) musharaka (venture capital)	
(note calculations are not required)	

Syllabus learning objective			Chapter reference
	(e)	Identify and discuss internal sources of finance, including: [2]	15
		(i) retained earnings	15
		(ii) increasing working capital management efficiency.	15
		(iii) the relationship between dividend policy and the financing decision	16
		(iv) the theoretical approaches to, and the practical influences on, the dividend decision, including legal constraints, liquidity, shareholder expectations and alternatives to cash dividends	16
2	**Estimating the cost of capital**		
	(a)	Estimate the cost of equity, including: [2]	17
		(i) Application of the dividend growth model, its assumptions, advantages and disadvantages	
		(ii) Explanation and discussion of systematic and unsystematic risk	
		(iii) Relationship between portfolio theory and the capital asset pricing model (CAPM)	
		(iv) Application of the CAPM, its assumptions, advantages and disadvantages.	
	(b)	Estimating the cost of debt: [2]	17
		(i) irredeemable debt	
		(ii) redeemable debt	
		(iii) convertible debt	
		(iv) preference shares	
		(v) bank debt.	
	(c)	Estimating the overall cost of capital, including: [2]	17
		(i) Distinguishing between average and marginal cost of capital	
		(ii) Calculating the weighted average cost of capital (WACC) using book value and market value weightings.	

Syllabus learning objective				Chapter reference
3	**Sources of finance and their relative costs**			
	(a)	Describe the relative risk-return relationship and the relative costs of equity and debt.[2]		17
	(b)	Describe the creditor hierarchy and its connection with the relative costs of sources of finance.[2]		17
	(c)	Identify and discuss the problem of high levels of gearing.[2]		18
	(d)	Assess the impact of sources of finance on financial position, financial risk and shareholder wealth using appropriate measures, including: [2]		19
		(i)	ratio analysis using statement of financial position gearing, operational and financial gearing, interest coverage ratio and other relevant ratios	
		(ii)	cash flow forecasting.	
		(iii)	leasing or borrowing to buy.	
	(e)	Impact of cost of capital on investments, including: [2]		17
		(i)	the relationship between company value and cost of capital	
		(ii)	the circumstances under which WACC can be used in investment appraisal	
		(iii)	the advantages of the CAPM over WACC in determining a project-specific cost of capital	
		(iv)	the application of CAPM in calculating a project-specific discount rate.	
4	**Capital structure theories and practical considerations**			
	(a)	Describe the traditional view of capital structure and its assumptions.[2]		18
	(b)	Describe the views of Miller and Modigliani on capital structure, both without and with corporate taxation, and their assumptions.[2]		18
	(c)	Identify a range of capital market imperfections and describe their impact on the views of Miller and Modigliani on capital structure.[2]		18
	(d)	Explain the relevance of pecking order theory to the selection of sources of finance.[1]		

Syllabus learning objective				Chapter reference
5	**Finance for small and medium-sized entities (SMEs)**			
	(a)	Describe the financing needs of small businesses.[2]		15
	(b)	Describe the nature of the financing problem for small businesses in terms of the funding gap, the maturity gap and inadequate security.[2]		15
	(c)	Explain measures that may be taken to ease the financing problems of SMEs, including the responses of government departments and financial institutions.[1]		15
	(d)	Identify and evaluate the financial impact of sources of finance for SMEs, including sources already referred to in syllabus section E1 and also: [2]		15
		(i)	Business angel financing	
		(ii)	Government assistance	
		(iii)	Supply chain financing	
		(iv)	Crowdfunding/peer-to-peer funding	
F	**BUSINESS VALUATIONS**			
1	**Nature and purpose of the valuation of business and financial assets**			
	(a)	Identify and discuss reasons for valuing businesses and financial assets.[2]		20
	(b)	Identify information requirements for valuation and discuss the limitations of different types of information.[2]		20
2	**Models for the valuation of shares**			
	(a)	Discuss and apply asset-based valuation models, including: [2]		20
		(i)	net book value (statement of financial position) basis.	
		(ii)	net realisable value basis.	
		(iii)	net replacement cost basis.	
	(b)	Discuss and apply income-based valuation models, including: [2]		20
		(i)	price/earnings ratio method	
		(ii)	earnings yield method	
	(c)	Discuss and apply cash flow-based valuation models, including: [2]		20
		(i)	dividend valuation model and the dividend growth model	
		(ii)	discounted cash flow basis.	

Syllabus learning objective	Chapter reference
3 The valuation of debt and other financial assets	20
(a) Discuss and apply appropriate valuation methods to: [2]	
(i) irredeemable debt	
(ii) redeemable debt	
(iii) convertible debt	
(iv) preference shares.	
4 Efficient market hypothesis (EMH) and practical considerations in the valuation of shares	
(a) Distinguish between and discuss weak form efficiency, semi-strong form efficiency and strong form efficiency.[2]	20
(b) Discuss practical considerations in the valuation of shares and businesses, including: [2]	20
(i) marketability and liquidity of shares	
(ii) availability and sources of information	
(iii) market imperfections and pricing anomalies	
(iv) market capitalisation.	
(c) Describe the significance of investor speculation and the explanations of investor decisions offered by behavioural finance.[1]	20
G RISK MANAGEMENT	
1 The nature and types of risk and approaches to risk management	
(a) Describe and discuss different types of foreign currency risk: [2]	13
(i) translation risk	
(ii) transaction risk	
(iii) economic risk.	
(b) Describe and discuss different types of interest rate risk: [1]	14
(i) gap exposure	
(ii) basis risk	

Syllabus learning objective	Chapter reference
2 Causes of exchange rate differences and interest rate fluctuations	
(a) Describe the causes of exchange rate fluctuations, including:	13
(i) balance of payments [1]	
(ii) purchasing power parity theory [2]	
(iii) interest rate parity theory [2]	
(iv) four-way equivalence [2]	
(b) Forecast exchange rates using: [2]	13
(i) purchasing power parity	
(ii) interest rate parity.	
(c) Describe the causes of interest rate fluctuations, including: [2]	14
(i) structure of interest rates and yield curves	
(ii) expectations theory	
(iii) liquidity preference theory	
(iv) market segmentation.	
3 Hedging techniques for foreign currency risk	
(a) Discuss and apply traditional and basic methods of foreign currency risk management, including:	13
(i) currency of invoice [1]	
(ii) netting and matching [2]	
(iii) leading and lagging [2]	
(iv) forward exchange contracts [2]	
(v) money market hedging [2]	
(vi) asset and liability management.[1]	
(b) Compare and evaluate traditional methods of foreign currency risk management.[2]	13
(c) Identify the main types of foreign currency derivatives used to hedge foreign currency risk and explain how they are used in hedging.[1] (No numerical questions will be set on this topic)	13

Syllabus learning objective			Chapter reference
4	**Hedging techniques for interest rate risk**		
	(a)	Discuss and apply traditional and basic methods of interest rate risk management, including:	14
		(i) matching and smoothing [1]	
		(ii) asset and liability management [1]	
		(iii) forward rate agreements [2]	
	(b)	Identify the main types of interest rate derivatives used to hedge interest rate risk and explain how they are used in hedging.[1] (No numerical questions will be set on this topic)	14
H	**EMPLOYABILITY AND TECHNOLOGY SKILLS**		
1	**Use computer technology to efficiently access and manipulate relevant information**		
2	**Work on relevant response options, using available functions and technology, as would be required in the workplace**		
3	**Navigate windows and computer screens to create and amend responses to exam requirements, using the appropriate tools**		
4	**Present data and information effectively, using the appropriate tools**		

The superscript numbers in square brackets indicate the intellectual depth at which the subject area could be assessed within the examination. Level 1 (knowledge and comprehension) broadly equates with the Knowledge module, Level 2 (application and analysis) with the Skills module and Level 3 (synthesis and evaluation) to the Professional level. However, lower level skills can continue to be assessed as you progress through each module and level.

The examination

Examination format

The syllabus is assessed by a three-hour computer based examination.

All questions are compulsory. The exam will contain both computational and discursive elements.

Some questions will adopt a scenario/case study approach.

Prior to the start of the exam candidates are given an extra 10 minutes to read the exam instructions.

Candidates are provided with a formulae sheet and tables of discount and annuity factors.

Examination tips

Read the examination questions carefully.

- **Divide the time** you spend on questions in proportion to the marks on offer.
- One suggestion **for this examination** is to allocate 1.8 minutes to each mark available (180 minutes/100 marks), so a 20 mark question should be completed in approximately 36 minutes.

FM is divided into three different sections, requiring the application of different skills to be successful.

Section A

This section comprises 15 objective testing (OT) questions worth 2 marks each.

Stick to the timing principle of 1.8 minutes per mark. This means that the 15 OT questions in section A (30 marks) should take 54 minutes.

Work steadily. Rushing leads to careless mistakes and the OT questions are designed to include answers which result from careless mistakes.

If you don’t know the answer, eliminate those options you know are incorrect and see if the answer becomes more obvious.

Remember that there is no negative marking for an incorrect answer. After you have eliminated the options that you know to be wrong, if you are still unsure, guess.

Practice section A style questions can be found at the end of each chapter.

OT questions in sections A of the CBEs will be of varying styles. These styles include multiple choice, number entry, pull down list, multiple response, hot area, and drag and drop.

The questions in section A can cover any areas of the syllabus.

Section B

This section comprises 3 case study type questions. Each question will contain a scenario and 5 OT questions worth 2 marks each.

You will need to read the scenario information for each case before attempting the questions related to it.

Each OT question is worth two marks. Therefore, you have 18 minutes (1.8 minutes per mark) to answer the five OT questions relating to each case. It is likely that all of the cases will take the same length of time to answer, although some of the OT questions within a case may be quicker than other OT questions within that same case.

Once you have read through the information, you should first answer any of the OT questions that do not require workings and can be quickly answered. You should then attempt the OT questions that require workings utilising the remaining time for that case.

Practice section B style questions can be found in Chapter 21.

All of the tips for section A are equally applicable to each section B question.

OT questions in sections B of the CBEs will be of varying styles. These styles include multiple choice, number entry, pull down list, multiple response, hot area, and drag and drop.

The questions in section B can cover any areas of the syllabus.

Section C

This section comprises 2 constructed response (CR) questions, each worth 20 marks in total and usually made up of a number of different parts.

The CR questions in section C will require a written response made up of a combination of computational elements and discursive elements.

Therefore, different techniques need to be used to score well.

For computational style questions, you will be provided with a spreadsheet answer space. For discursive style questions, you will be provided with a word processing style answer space.

Unless you know exactly how to answer the question, spend some time planning your answer. Stick to the question and tailor your answer to what you are asked. Pay particular attention to the verbs in the question e.g. 'Calculate', 'State', 'Explain'.

If you get **completely stuck** with a question, flag the question and return to it later.

If you do not understand what a question is asking, state your assumptions. Even if you do not answer in precisely the way the examining team hoped, you should be given some credit, provided that your assumptions are reasonable.

You should do everything you can to make things easy for the marker. The marker will find it easier to identify the points you have made if your answers are legible and labelled.

Computations: It is essential to include all your workings in your answers. Many computational questions require the use of a standard format. Be sure you know these formats thoroughly before the examination and use the layouts that you see in the answers given in this book and in model answers.

Adopt a logical approach and cross reference workings to the main computation to keep your answers tidy.

Practice section C style questions can be found in Chapter 21.

The questions in section C will mainly come from the working capital management, investment appraisal and business finance areas of the syllabus (although other areas may be texted here for a few marks).

All sections

Don't skip parts of the syllabus. The FM exam has 32 different questions so the examination can cover a very broad selection of the syllabus each sitting.

Spend time learning the rules and definitions.

There are many formulae that are not provided in the formulae sheets available during the exam. Ensure that you learn all necessary formulae.

Practice plenty of questions to improve your ability to apply the techniques and perform the calculations.

Spend the last five minutes reading through your answers and making any additions or corrections.

Method of Examination

Computer-based examinations (CBEs) are the method of examination for the ACCA Applied Skills Level examinations.

If you would like further information on sitting a CBE FM examination, please contact either Kaplan, or the ACCA.

Computer-based examination (CBE) – Tips

Be sure you understand how to use the software before you start the exam. If in doubt, ask the assessment centre staff to explain it to you.

Questions are **displayed on the screen** and answers are entered using keyboard and mouse.

The CBE exam will not only examine multiple choice questions but could include questions that require data entry or a multiple response.

Do not attempt a CBE until you have **completed all study material** relating to it. **Do not skip any of the material** in the syllabus.

Read each question very carefully.

Double-check your answer before committing yourself to it.

Answer every question – if you do not know an answer, you don't lose anything by guessing. Think carefully before you **guess.**

You will be able to flag questions that you would like to come back to later. This is a useful function for questions where you are unsure of the answer or that you feel will take a long time to answer.

The CBE question types are as follows:

- Multiple choice – where you are required to choose one answer from a list of options provided by clicking on the appropriate ‘radio button’
- Multiple response – where you are required to select more than one response from the options provided by clicking on the appropriate tick boxes (typically choose two or three options from the available list)
- Fill in the blank – where you are required to type an answer into a box (which may be numerical or text)
- Drag and drop – where you are required to drag an answer and drop it into the correct place. There may be more than one answer to drag and potentially more answer choices than response areas
- Drop down list – where you are required to select an answer from a drop down list, of which there may be more than one
- Hot spot – where you are required to select a point on an image as your answer.
- Hot area – where you are required to select one or more areas in an image.

With an objective test question, it may be possible to eliminate first those answers that you know are wrong. Then choose the most appropriate answer(s) as required from those that are left. This could be a single answer (e.g. multiple choice) or more than one response (e.g. multiple response and multiple response – matching).

After you have eliminated the ones that you know to be wrong, if you are still unsure, guess. But only do so after you have double-checked that you have only eliminated answers that are definitely wrong.

Don't panic if you realise you've answered a question incorrectly. Try to remain calm, continue to apply examination technique and answer all questions required within the time available.

ACCA support

For additional support with your studies, please also refer to the ACCA Global website.

Study skills and revision guidance

This section aims to give guidance on how to study for your ACCA exams and to give ideas on how to improve your existing study techniques.