ACCA

Advanced Financial Management (AFM) September/ December 2025 Examiner's report

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for those sitting the exam in the future.

Contents

General comments

This examiner's report should be used in conjunction with the published Sep/Dec 2025 sample exam which can be found on the [ACCA Practice Platform].

In this report, the examining team provide constructive guidance on how to answer the questions whilst sharing their observations from the marking process, highlighting the strengths and weaknesses of candidates who attempted these questions. Future candidates can use this examiner's report as part of their exam preparation, attempting question practice on the [ACCA Practice Platform] and reviewing the published answers alongside this report.

Format of the exam

The examination comprised two sections, A and B. Section A consisted of one compulsory question for 50 marks in total. Section B consisted of two compulsory questions for 25 marks each. 10 professional skills marks were available within Section A for communication, analysis and evaluation (A&E), scepticism and commercial acumen. In Section B there are 5 professional skills (P) marks in each question from at least two of analysis and evaluation, scepticism and commercial acumen.

Section A

Question 1 – Drimpton Co

(a) Explain the advantages for Drimpton Co of establishing a manufacturing subsidiary within the Central Trade Area (CTA).

(5 marks)

(b) Prepare a report to the board of Drimpton Co which:

(i) Estimates the net present value of Drimpton Co's investment in Edricer;

(20 marks)

(ii) Recommends whether on financial grounds the investment should be undertaken and discusses the assumptions made; and

(6 marks)

(iii) Discusses the issues which Drimpton Co faces concerning its performance in relation to the environmental, social and governance (ESG) criteria and recommends actions Drimpton Co can take to overcome these issues.

(9 marks)

Professional skills marks will be awarded for the demonstration of skill in communication, analysis and evaluation, scepticism and commercial acumen in your answer.

(10 marks)

Format of the question

Drimpton Co was drawn from sections A and B of the syllabus, mainly covering investment appraisal and environmental, social and governance (ESG) related issues. This scenario is broadly similar in complexity to previous questions from the same syllabus areas that have been examined in the past. The four requirements of this question tested the ability of candidates to undertake several detailed calculations and to discuss associated issues relevant to the scenario of the question.

Exam technique and time management

Drimpton Co is worth 50 marks which translates into 90 minutes for candidates to spend on this question. Candidates should read the question thoroughly to become familiar with the scenario and then plan their time carefully in order to address the specific issues in the question and gain maximum marks for each requirement. Candidates must then plan their answer to enable them to have the opportunity to gain maximum marks for each section. Candidates should ensure they address the requirement in the time allotted and avoid unnecessary detail such as copying the facts from the scenario. Marks are not allocated for information which is repeated from the scenario without any analysis or evaluation.

Scenario and requirements

This 50-mark question was about a large, listed company (Drimpton Co) involved in the manufacture of air conditioning units, in the country of Comptia, for homes and commercial buildings. The company had been expanding its sales to foreign countries over time and was now proposing to establish a subsidiary in the foreign country of Edricer. Edricer was located in a recently established single market known as the Central Trade Area (CTA).

The requirement of this question came in two parts. In part (a) candidates were required to explain the advantages for Drimpton Co of establishing a manufacturing subsidiary within the CTA. In part (b) candidates were required to prepare a report. Within the report there were three requirements. The first of these requirements was calculative and expected candidates to estimate the net present value (NPV) of Drimpton Co's proposed investment in Edricer. In the next requirement candidates were asked to recommend whether on financial grounds the investment should be undertaken and to discuss assumptions made. The final requirement asked candidates to discuss the issues which Drimpton Co faced concerning its performance in relation to the environmental, social and governance (ESG) criteria and to recommend actions Drimpton Co could take to overcome these issues. Up to 10 professional marks were available in this question.

General comments

Performance in this question was generally very good. Most candidates were able to make a balanced attempt at the requirements and very few candidates struggled to generate a reasonable response to this question. This question started with part (a) which was a separate but connected requirement that was relatively straight forward and allowed candidates to make a quick start, earn a few marks and build their confidence prior to tackling the report itself. This format also means the report itself becomes more manageable. Candidates should remember that this will not always be the case and should be prepared for a question where all 50 marks will be allocated to the overriding requirement, which is normally to write a report. The key requirement in the report was to estimate an NPV. This is a topic candidates seem to like and are generally very well practiced in and hence very many candidates produced a good NPV calculation. Candidates often scored well on the broad communication and analysis and evaluation marks which naturally accompany a good attempt to earn the technical marks in a question. However, candidates did not generally earn so many of the scepticism and commercial acumen marks that were available.

The detailed review below focuses on each of the requirements, highlighting the approach taken by candidates and any issues that need to be addressed when using this question as a study aid. Candidates were expected to incorporate the following requirements into their report:

Requirement (a) – 5 marks

A discussion of the advantages for Drimpton Co of establishing a manufacturing subsidiary within the Central Trade Area (CTA).

This question part required candidates to explain advantages for Drimpton Co of establishing a subsidiary within the CTA. This was generally done well. However, the standard of answers could still have been improved if candidates had avoided some common problems.

Firstly, some candidates listed advantages rather than really explain them. Equally other candidates over explained one or two advantages rather than provide an answer with suitable breadth.

Secondly, some candidates failed to focus clearly on the requirement and drifted away from the question actually posed. Indeed, it was not uncommon for candidates to give advantages to Edricer of being a member of the CTA and other candidates provided advantages that were too general. For instance, some candidates simply stated that this would enable Drimpton Co to make sales in the CTA which of course the company was already doing by way of exporting.

Finally, some candidates restricted themselves solely to points that they were signposted to in the scenario provided. Better answers went beyond this and showed good practical thinking. For example, by having a manufacturing subsidiary within the CTA there would be reduced logistical problems when serving the CTA market. Thinking in this way can help candidates to earn marks for commercial acumen.

Requirement (b)(i) – 20 marks

An estimate of the net present value of Drimpton Co's investment in Edricer.

This part of the question required candidates to estimate an NPV. This major question part was generally done very well with most candidates providing a good logically presented response. Indeed, a good number of candidates scored full marks. Having said that there are still areas of the calculations where candidates could improve. The areas which caused the most problems are as follows:

- Inflating cash flows is still a problem for some candidates. Typically, candidates forget the cumulative nature of inflation.
- Whilst the calculation of tax allowable depreciation often started well many candidates struggled to deal with the year of disposal and because of this ended up with an incorrect residual value or simply omitted any residual value.
- Despite the instructions in the question many candidates carried the loss forward rather than calculate a tax credit in the first year when a loss arose.
- Regarding working capital, it was not uncommon for candidates to fail to realise that the initial cash outflow should take place immediately. Equally some candidates still forget that it is the change in the working capital need that becomes the cash flow.

- The extra tax payable in Comptia was often calculated on an inappropriate figure. Candidates should recognise that the figure that suffers the extra tax in the home country is the same as the figure which suffers the initial overseas tax.
- The calculation of the contribution on the components to be sent to the new subsidiary, and the calculation of the lost contribution on the lost sales proved problematic to many students. However, it was good to see that most candidates recognised that these cash flows also had tax consequences.

Overall, though detailed mistakes were made by many candidates, most candidates did well on this question part and deserve to be congratulated. It was good to see so many well laid out answers that clearly discriminated between the peso part of the computation and the dollar part of the computation. Equally it was good to see that the vast majority of students recognised the need to forecast exchange rates and were able to do this accurately.

The best answers were those that only included cash flows in the table used to calculate the NPV. Candidates who have workings within their cash flow table often end up adding cash flows to items which are not cash flows thereby causing themselves problems. Candidates would be well advised to keep the workings they require quite separate to the cash flow table.

Requirement (b)(ii) – 6 marks

A recommendation on whether on financial grounds the investment should be undertaken and a discussion of the assumptions made.

In this question part, candidates were asked to recommend whether the investment should be undertaken on financial grounds and to discuss the assumptions made. Candidates generally also performed well on this question part, but it was disappointing that few candidates could be credited with full marks here. It is important that candidates make a clear recommendation when asked a question of this nature. Whilst most candidates did this, a surprising number of candidates seemed to 'sit on the fence' and fail to ever make a clear recommendation.

The requirement to discuss assumptions that have been made in a previous calculative part of a question is very common in the AFM exam and should not come as a surprise to any candidate. A common failing was to simply state assumptions rather than discuss them. Candidates who did this could only be awarded limited credit. The best candidates discussed why their assumptions may prove to be incorrect and the impact that this could have on their calculations. In this way they could earn both technical marks and marks for scepticism. When asked for assumptions candidates have a habit of suggesting that sensitivity analysis should be used without any further explanation. To earn credit candidates need to discuss how, or why sensitivity analysis could be useful.

Requirement (b)(iii) – 9 marks

A discussion of the issues which Drimpton Co faces concerning its performance in relation to the environmental, social and governance (ESG) criteria and a recommendation of actions Drimpton Co can take to overcome these issues.

This final question part required candidates to discuss ESG issues that Drimpton Co could face and recommend actions that could be taken to overcome these issues. This was probably the least well attempted part of this question, and some candidates wrote very little or nothing, perhaps as they were starting to run out of time. However, most candidates were able to make a reasonable attempt.

Some candidates spent too long describing ESG issues in general and not answering the specific question posed. The better candidates clearly identified and raised an issue and then recommended a suitable action that the company could take to overcome the issue. Weaker candidates often presented a general discussion where it was hard to distinguish between what was an issue and what was a recommended action.

The scenario of the question raised several potential issues that candidates could explore. Candidates should be assured that in a question of this nature, all reasonable issues that they raise will be given credit. Raising an issue that is relevant given the scenario, but which is not mentioned in the question shows good business thinking and will be rewarded, potentially with commercial acumen marks as well as technical marks.

Candidates need to make sure that the actions they suggest are both sensible and feasible. In this question one of the issues frequently raised by candidates was that the labour in Edricer was to be paid only the average wage for their job whilst the employees in Comptia were paid relatively high wages. Quite a few candidates suggested that to resolve this Drimpton Co should pay all their workers in all locations the same amount. The problem with this suggestion is that different countries have different costs of living and a policy like this could make workers in low-cost countries very well off whilst at the same time impoverishing workers in high-cost countries.

Professional skills - 10 marks

The communication marks are largely earned by the format and style of the report and for using a style and language which creates a clear well-presented report with a suitable tone. Whilst candidates' performance seems to be improving and most reports presented have an opening rubric and an introduction, very many candidates could earn extra marks by making sure that they structure their report with suitable sub-headings and finish their report with a brief conclusion. Far too many candidates miss out on a mark they have nearly earned by failing to finish their report with a conclusion.

Generally, candidates who are technically proficient are better able to earn the analysis and evaluation marks, which involves using the data provided to determine suitable calculations to support the discussion. Candidates are generally less good at earning the scepticism and commercial acumen marks available and this is especially true where a candidate's answer is rather thin and underdeveloped. This report has already identified how more of these marks could be earned in the discussion on each of the question parts. Future candidates would do well to reflect on the points raised and try to act on them when taking their examination.

What has been described above is common to many AFM Section A questions and although candidates are earning a good number of these marks there is still room for improvement in the areas described.

Section B

Question 2 – Halstock Co

(a) Calculate the percentage gain in the value of Halstock Co's shares with and without the expected revenue and cost synergies. (9 marks)
(b) Discuss the concerns which may be raised by the non-executive directors about the calculations in (a). (5 marks)
(c) Recommend actions which may overcome the barriers to synergy identified by Halstock Co's chair. (6 marks)
Professional skills marks will be awarded for the demonstration of skill in analysis and evaluation, scepticism and commercial acumen in your answer. (5 marks)

Format of the question

Halstock Co is a 25-mark section B question which focuses on shareholder gains in an acquisition scenario and relates to section C of the Advanced Financial Management (AFM) syllabus. The requirements are similar to previous exam questions that have covered this syllabus area and should have been in line with candidates' expectations. Candidates were required to calculate the gain from an acquisition as well as discussing concerns with the calculations and recommend actions to overcome barriers to synergy.

Exam technique and time management

Halstock Co is worth 25 marks which translates into 45 minutes for candidates to spend on this question. To maximise their chances of scoring high marks, candidates should read the question thoroughly to ensure they are familiar with the scenario and then plan their time carefully to allow them to address the specific issues in the question.

The key to success is for candidates to spend the limited amount of time available addressing the specific requirements of the question and to avoid unnecessary detail. For example, marks are not awarded for information which is repeated from the scenario without any analysis or evaluation.

Scenario and requirements

The question scenario is based around Halstock, a listed company, operating in the fitness club sector but at the high price, high quality end of the sector. The company wishes to expand its operations by switching to an acquisition strategy and has a target company (Marnhall) in mind which operates at the low-price end of the sector. The owner of Marnhall, Gerd Marnhall, has indicated a price he is willing to accept for his company, but Halstock Co's non-executive directors are concerned about whether Halstock will be paying a fair price if they accept this offer and what the potential gains would be to Halstock Co's shareholders.

The requirements for this question were split into 3 parts. Part (a) was worth 9 marks and required candidates to calculate the percentage gain to Halstock Co's shares both with and without the expected synergies given in the scenario. Part (b) was worth 5 marks and required a discussion of the concerns raised by the non-executive directors about the calculations in part(a), and part (c) was worth 6 marks and required candidates to recommend actions that might be taken to overcome the barriers to synergy identified by Halstock Co's chair.

In addition to the technical marks that are available for this question, candidates are also expected to demonstrate professional skills throughout. The professional skills examined in Halstock Co are analysis and evaluation, scepticism and commercial acumen.

General comments

Overall candidates' performance varied significantly in this question which was as expected with an acquisitions question. There were some excellent responses from well-prepared candidates earning marks close to the maximum. However, there were also a significant number of candidates who did not fully address all requirements and as a result did not perform very well. A question of this type requires a logical step by step approach to the calculations, particularly in terms of the additional value created and the expected shareholder gains. With this topic, it is difficult to adopt the same approach for all questions, and it is therefore essential that question practice is part of a candidate's preparation and that candidates ensure they are totally familiar with all the details given in the scenario before they start to prepare their answer.

There was a very mixed response to the calculation requirements with some candidates getting full marks and quite a few not going any further than the initial present value of cash flow calculations. Performance in the discussion parts of the question was also wide ranging with some excellent responses earning excellent marks but also with a significant number of candidates performing at the lower end with poor or very poor marks. In particular, a significant minority of candidates simply copied information from the question in their response to requirements (b)and (c), with little or no attempt to develop their points further to gain marks.

Regarding professional skills, candidates generally scored well on analysis and evaluation, particularly in their numerical analysis, and many gained good commercial acumen marks by referring to the scenario outlined in the question. It was pleasing to see that a significant number of candidates were challenging and questioning the information provided and as a result were awarded the scepticism marks.

Requirement (a) – 9 marks

Calculate the percentage gain in the value of Halstock Co's shares with and without the expected revenue and cost synergies.

This part of the question required candidates to calculate the gains to Halstock Co if the acquisition goes ahead, both with and without the expected synergies which were given in the question as $18.6m. Many candidates were able to start the calculation off quite well as it was a discounted cash flow with a perpetual cash flow from year 5 onwards. A good number of candidates gained full marks for the present value of the cash flows from years 1 to 4 but there were many errors in the calculation of the present value of the year 5 onwards cash flow. Some common errors where candidates made mistakes in this part of the requirement are detailed below:

- Incorrect calculation of the incremental capital investment in the first 4 years of the cash flow;
- Adding the revenue as additional income to the post tax operating cash flow or treating the revenue as the post tax operating cash flow. (which led to huge percentage gains to Halstock);

- Incorrectly valuing the cash flows from year 5 onwards by using the incorrect perpetuity model and including growth of the cash flows from year 5 onwards. It clearly states in the question that all variables after year 4 will remain the same as year 4;
- Not discounting the year 5 onwards perpetuity calculation to present value by using the year 4 present value factor.

Having calculated the combined free cash flow value using the present value method already discussed, candidates then had to add in the forecast synergies of $18.6m and make an adjustment for the debt/equity ratio of 15:85 to arrive at an equity valuation of the combined company. Some candidates adjusted the combined cash flow figure by the debt/equity ratio first and then added the $18.6m synergies and this approach was treated as an equally acceptable method. Following on from this, the expected gain to Halstock (with synergies) can be calculated by deducting the value of the offer to Marnhall ($160m) and the original value of Halstock ($210m) from the combined company equity valuation. This results in the additional value that should accrue to Halstock Co's shareholders. The final part in the calculation is to convert the additional value to Halstock Co's shareholders as a percentage gain by dividing by Halstock Co's initial valuation of $210m. A second valuation without the expected synergies of $18.6m was also required.

Common errors in this part of the calculation were:

- Not adjusting the total combined value by the 15:85 debt/equity ratio to get the combined equity value.
- Ignoring the $18.6m synergy throughout their calculations by assuming the present value of the cash flow calculation already includes synergies.
- Failing to recognise that the synergies were stated as the present value of after-tax synergies and as a result recalculating the whole present value cash flow calculation by including the $18.6m in each year.
- Not deducting the correct value of Marnhall - the owner of Marnhall stated in the scenario he would accept $160m but this was a premium on the estimated market value of $145.8 and many candidates used this figure.
- Calculating the gain as an absolute figure only and not converting this to a percentage gain figure as asked for in the question
- Only calculating one gain which was often the gain without adding any synergies.

Candidates are advised to read the scenario carefully, as mentioned in previous examiners reports, because several of the errors noted above were due to candidates not acknowledging details provided in the question when performing their calculations eg including growth in the perpetuity calculation.

Requirement (b) – 5 marks

Discuss the concerns which may be raised by the non-executive directors about the calculations in (a).

This part of the question was worth 5 marks and required candidates to discuss concerns made by the non-executive directors regarding whether Halstock Co would be paying a fair price for Marnhall by referring to the calculations in part (a).

Many candidates were able to earn good marks on this part by challenging the basis and assumptions on which the calculations were based. There were many figures provided in the scenario that could be questioned such as the projected increase in revenue of the combined company. Concerns relating to this assumption need to be expanded upon to gain full credit. In this case, the increased revenue forecast could be related to the fact that the target company is a low-priced organisation and may be sensitive to any price increases needed to increase revenue. Candidates that successfully related concerns regarding paying a fair price to facts from the scenario were well rewarded but there were still a significant number of candidates who did not do well on this part, mainly only a few concerns were addressed.

Requirement (c) – 6 marks

Recommend actions which may overcome the barriers to synergy identified by Halstock Co's chair.

The final requirement asked for actions to be recommended which may overcome the barriers to synergy identified by Halstock Co's chair.

There are a number of barriers noted in the question scenario eg organisational culture, staff quality, the influence of the owner Gerd Marnhall and the different markets the clubs operate in. Candidates that recognised the barriers referred to in the scenario and who concentrated on specific recommendations which addressed the barriers were able to earn very good marks. However, there was a tendency for some candidates to spend too much time discussing the barrier itself and as a result failed to make any or few recommendations.

There were again a significant number of candidates who limited their marks by repeating information from the question without discussing its relevance to the requirement.

Professional skills – 5 marks

The scenario in this question gave candidates a good opportunity to demonstrate all 3 skills: analysis and evaluation, scepticism and commercial acumen. As a result, candidates' performance at demonstrating skills was quite good although performance did tend to mirror a candidate's performance on the technical requirements. Many candidates are demonstrating good analysis and evaluation marks by using the spreadsheet and presenting their calculations clearly. However, candidates that did not follow a logical approach to arrive at a percentage gain would often get a bit lost with their calculations and as a result did not do so well.

Scepticism marks were also quite well earned in this question when candidates challenged the basis of their calculations and discussions in parts (b) and (c). This question lent itself to good commercial acumen marks as there was quite a lot of detail provided in the scenario about the way the two companies operated which could be brought into their discussions. It was pleasing to see the improvement in candidates' performance in this area, with the majority of candidates gaining marks for this skill.

Question 3 – Passmore Co

(a) Recommend an appropriate hedging strategy for the R202m which Passmore Co is due to receive, discussing the factors that will determine the decision. You should show all relevant calculations to support the advice given.

Note: Up to 4 marks are available for relevant discussion.

(12 marks)

(b) Advise on ways in which the treasury department can make a positive financial contribution to Passmore Co.

(8 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation, scepticism and commercial acumen in your answer.

(5 marks)

Format of the question

Passmore Co is a 25-mark section B question drawn from Section E of the Advanced Financial Management (AFM) syllabus, focusing on advanced risk management techniques, and specifically foreign exchange risk management.

The requirements are similar to those in previous exam questions that have covered this syllabus area and should have been in line with candidates' expectations. Candidates were required to recommend an appropriate hedging strategy for a foreign currency receipt, as well as advising on ways a treasury department can make a positive financial contribution to the company.

Exam technique and time management

Passmore Co is worth 25 marks which translates into approximately 45 minutes for candidates to spend on this question. To maximise their chances of scoring high marks, candidates should read the question thoroughly to become familiar with the scenario and then plan their time carefully in order to address the specific issues in the question.
The key to success is to spend the limited amount of time available addressing the specific requirements. It is important to answer the requirements in the time allotted, and to avoid unnecessary detail. For example, marks are not awarded for information which is repeated from the scenario without any analysis or evaluation.

Scenario and requirements

The question scenario is based around Passmore Co, a listed company based in the USA, supplying semi-conductors mainly to the home market. The company has started to expand internationally, particularly across Asia, and has recently made significant sales to India. Passmore Co intends to expand its operations by setting up a number of subsidiaries both in India and in other Asian countries. As a result of one of Passmore's sales to India it is expecting a rupee (R) receipt of 202 million on August 31. Currently all treasury activities are carried out by the finance department of Passmore Co but the finance director wants to set up a separate treasury department. Passmore Co's chief executive wants to ensure that if this goes ahead the treasury department will make a positive contribution to the company in terms of maximising income or saving costs.

The requirements for this question were split into 2 parts. Part (a) was worth 12 marks and required candidates to recommend an appropriate hedging strategy for the expected receipt of R202 million by calculating the results of three foreign exchange hedging techniques and discussing the factors that would determine the decision. Part (b) was worth 8 marks and required candidates to advise on ways that a separate treasury department can make a positive contribution to Passmore Co. There were 5 professional skills marks available to candidates who demonstrated skills in analysis and evaluation, scepticism and commercial acumen.

General comments

The requirements of this question are technically demanding but they are very similar to previous foreign exchange hedging questions. Overall candidates performed well. Candidates who were well prepared were able to gain very good marks on the calculations based on the expected results from the three hedging methods with a significant number of candidates being awarded full marks. Candidates' responses to the discussion element in part (a) were generally good although many candidates failed to make a recommendation. Responses to part (b) were wide ranging with a significant number of candidates performing at the lower end of the marks available.

In terms of professional skills marks, candidates generally scored well on analysis and evaluation, particularly in their numerical analysis and many gained good commercial acumen marks by referring to the scenario outlined in the question. Candidates did not demonstrate the skill of scepticism as well as the other two professional skills.

The review below focuses on the key strengths and weaknesses that were identified in candidates' responses.

Requirement (a) - 12 marks

Recommend an appropriate hedging strategy for the R202m which Passmore Co is due to receive, discussing the factors that will determine the decision. You should show all relevant calculations to support the advice given.

Details were given in Exhibit 2 for R/$1 spot and forward rates, currency futures and option contracts. The exhibit states that the current date is February 1st. Candidates were required to recommend an appropriate hedging strategy by applying three hedging methods to the R202m receipt which is expected on August 31. Although the hedging methods were not specified in the requirement the information given could only be applied to a forward, futures and an option hedge. There were up to 4 marks available for relevant discussion including a reasoned recommendation.

This requirement was generally well done, and most candidates were able to achieve average to good marks with several candidates being awarded the maximum marks available. There were, however, a few common errors as outlined below, and in some cases, these would have been resolved if candidates had thoroughly reviewed the information given in the scenario.

It was clearly stated in the exhibit and the requirement that the R202m was a receipt, and most candidates recognised that Passmore Co would need to sell rupees on August 31. There were some candidates who did not recognise this and as a result used the incorrect rate for the forward contract. In many cases this was followed through with incorrect futures and option contract calculations but if candidates were consistent with their approach throughout their calculations, they were awarded marks where appropriate.

For the futures hedge, candidates must state in their answer how many contracts would be needed, whether the company should buy or sell the contracts and the relevant month of the contract; in this question the company should sell 40 September futures contracts. There were quite a few responses where the number of contracts was not stated, and it was unclear whether the company should buy or sell them. Candidates can progress to an expected outcome of the futures hedge without using all of this information but a recommendation to a company should be specific and it would not be helpful if it did not recommend whether they should buy or sell futures contracts, the relevant month and how many contracts they would need. Valuable marks will be lost if this information is not stated in a candidates answer.

There were also a significant number of candidates who based their calculations on a proportionate number of contracts. Companies can only buy or sell whole contracts so candidates therefore need to calculate the number of contracts to the nearest whole number and so in this scenario candidates should use 40 contracts and not 40.4 contracts. When the amount cannot be hedged using an exact number of futures contracts, the balance should be considered immaterial unless the candidates are instructed otherwise. Therefore, the balance does not normally need to be hedged on the forward market.

The majority of candidates were able to base their futures calculation using the lock-in rate method. They calculated the lock-in rate correctly by using the spot price and deducting the September futures price to calculate basis and then using the assumption that basis declines linearly to zero by the futures expiry date to adjust for unexpired basis on the receipt date. Those candidates that did not do this correctly had mainly used the wrong period to adjust their basis calculation to arrive at the unexpired basis. Candidates that had chosen different futures prices to calculate basis were given credit if they followed through with the correct period for unexpired basis.

In general terms the futures hedge was handled better than the options hedge. A significant number of candidates chose the wrong option but were rewarded marks for their follow-on calculations where appropriate. As with the futures calculation some candidates did not state which option they are buying or selling, the month and the number of contracts that are required to hedge the R202 million.

There were a significant number of candidates that did not use a whole number of contracts as noted in the futures comments and as a result were not able to calculate the premium correctly. In addition to this a number of candidates when calculating the option premium did not notice that the option premium was given in dollars, the currency they were working with, and they attempted a further currency conversion that was not required. There was also no need to calculate a gain or loss from using the option as it is stated in the exhibit that it is assumed the options are exercised.

Discussion was generally good or very good and often awarded the maximum marks. It mainly centred on the assumptions of using forwards, futures and options and the better responses were also rewarded with the relevant skills marks when the implication of the assumptions were discussed. The requirement does ask for a recommendation, and it was disappointing to note that quite a few candidates failed to do this. Candidates should base their recommendation on their own workings and bring in their calculations to justify their decision for maximum marks.

Requirement (b) - 8 marks

Advise on ways in which the treasury department can make a positive financial contribution to Passmore Co.

Responses to this requirement varied considerably. Many candidates ignored the requirement set, instead focusing their discussion on the advantages and disadvantages of a centralised treasury department or the advantages of setting up regional treasury functions across Asia. Candidates that took either of these approaches would be rewarded for any points they discussed that could also be relevant to the requirement as stated in the question.

Candidates need to make sure they focus their answer on what is being asked for in the question as this gives them the opportunity to earn maximum marks. There were 8 marks available for this requirement but only a minority of responses covered enough points to gain the full marks available. The majority of answers were very brief or covered areas not relevant to the requirement. The scenario in Exhibit 1 does offer further explanation as to what should be discussed as it states that the chief executive of Passmore Co wants to be sure that the treasury department will make a positive financial contribution by maximising income or saving costs. Candidates who included a discussion of additional costs and procedures in their responses would not be given credit as these points are not relevant in this scenario. Treasury departments can maximise income or save costs in many ways, including better cash management, tax planning and advising on financial implications of strategic decisions. Candidates that took this approach and fully discussed ways that a treasury department can make a positive financial contribution gained very good marks.

Professional skills – 5 marks

Candidates' performance at demonstrating professional skills was quite good and in general is improving, although performance in skills demonstration does tend to mirror a candidate's performance on the technical requirements.

Many candidates are demonstrating good analysis and evaluation marks by using the spreadsheet, presenting their calculations clearly and making an appropriate recommendation based on their calculations. There are quite a few candidates who do not use the spreadsheet for their calculations and although they can still be awarded the skills marks according to the analysis and evaluation criteria, using the spreadsheet often gives a clearer answer and better opportunity to earn the full analysis and evaluation marks. In addition, candidates can lose technical marks if the spreadsheet tool is not used as the full workings to their answers cannot always be seen.

The part (b) requirement gave candidates the opportunity to demonstrate good commercial acumen. However, as part (b) was not very well answered by many candidates, the opportunity to gain acumen marks was limited in this area.

To demonstrate the skill of scepticism, candidates were expected to adopt a questioning approach in a way that would lead to effective challenges of the information provided in the scenario. In part (a) candidates could question some of the assumptions on which their calculations were based and consider the implications of any changes to these assumptions. Candidates could demonstrate scepticism by questioning the information provided and highlighting its potential impact on their recommendation for Passmore Co's hedging strategy.