

Global Learning Providers' Conference February 2015

P4 Advanced Financial Management

This document summarises the Question and Answer discussion which took place in the examiner's workshop at the Global Learning Providers' Conference on 11-12 February 2015.

- **In the Examiner's Presentation, it was mentioned that students should try to avoid making basic maths errors. However, would the own figure rule not address this?**

Agreed. However, the presentation was not referring to arithmetical errors but rather to fundamental errors which can also affect the relevance of a student's associated evaluation.

- **In how much detail could students expect to be examined on Islamic Finance in Paper P4?**

Not in a huge amount of depth. If you refer to the recent P4 exam question on Salam contracts, the definition was actually given in the question. The requirement was testing whether candidates understood how Salam contracts differed from futures contracts. Often signposts are added to a question to help candidates.

The P4 technical article on Islamic Finance is also a useful guide as to the depth of knowledge required on this area of the syllabus.

- **In your opinion, is it advisable for a student with an exemption from Paper F9 to sit Paper P4?**

If a student has an exemption then they should have the equivalent knowledge that they would have had from passing Paper F9. However, it should be stressed that such students do have a responsibility to look at the F9 syllabus and ensure that they have sufficient breadth of knowledge and, if not, address this as part of their preparation for Paper P4.

This equally applies to students who may have passed F9 some time ago – they may also find that they need to update and refresh their underpinning knowledge.

ACCA have published a very useful article on the underpinning knowledge relevant to the Options papers which should assist candidates here.

It should also be noted that ACCA are beginning to perform some analysis around the relationship between students claiming exemptions and success rates at the later papers.

- **If part of a question asks candidates for (for example) the calculation of a NPV and they then have to give recommendations based on their calculations, what happens if a student gets their NPV calculation wrong and consequently gives the wrong evaluation based on these calculations. Are they effectively penalised twice?**

The aim of the own figure rule is to ensure that candidates can still get most of the calculation marks even if they make an error in one part of the calculation process. If a candidate went on to make valid comments on their incorrect NPV figure, they would be awarded appropriate credit. However, this gets more difficult if the figure is so inaccurate that they consequently miss the fundamental points in their evaluation. It then becomes harder for the marking team to award credit.

- **Corporate reconstruction and reorganisation is seen as quite a volatile area of the syllabus in that exam questions can focus on some many different aspects. With this in mind, do you have any advice for candidates preparing for this area of the exam?**

This is a very important area of the syllabus as many scenarios link into company reorganisation – for example, Mergers & Acquisitions, a company looking to operate overseas, a company looking to do a swap between debt and equity, etc. This is definitely an area of the syllabus where students would benefit from reading the financial press.

- **Risk management is sometimes felt by students to be an area where the approach taken in exam questions is very different to that outlined in the Approved Content Providers' study texts. With this in mind, do you have any advice for candidates preparing for this area of the exam?**

It should be recognised that the aim of a study text is to give a student a good grounding in the relevant syllabus area and the Approved Content Provider study texts cover the topic of risk management well. However, a study text can only give a student the foundation knowledge required. Students then need to build on this knowledge through question practice. If students review the past exam questions focussing on risk management, they should see that these tend to be fairly standard.

- **In some markets like the Caribbean, tuition providers can struggle to find tutors to teach P4 who are both well-qualified but also have the relevant commercial experience in the field which can be so useful in helping prepare students for the exam. Is there anything that ACCA can do to help?**

There are lots of relevant (and free) resources available on the ACCA website including Examiner Reports, Past Exam Papers and Technical Articles, all of which should be accessed and used by students.

- **This is a specific question on the December 2014 exam. I was a bit surprised at the syllabus mix examined in the December 2014 P4 exam. Do you have any comments here?**

The topics examined should not really have come as a surprise to students. For example, hedging is regularly examined (risk management should be expected to appear every sitting).

EVA™ may have been more unexpected as it has not been examined that recently. However, it is clearly within the P4 syllabus and students should not expect the P4 exams to follow a pattern in terms of what will be examined when. Although EVA™ is also within the P5 syllabus, this does not preclude it from being examined at P4 – as was seen in December 2014.

- **In terms of the syllabus area of risk management, questions in the past have appeared to focus either on interest rate risk or foreign exchange risk. Is this trend expected to continue – ie that either one or the other will be examined in a paper and never both?**

No, this should not be seen as a trend. In fact, the June 2014 exam examined both. Students are advised that there are no real trends or patterns in terms of what can and will be examined in the Paper P4 exam.

- **Mergers & Acquisitions (M&As) seem to have been examined fairly frequently recently. What key areas have the examining team been thinking about as possible topics for the upcoming P4 exams?**

M&As have been examined fairly frequently as, despite the recession, they are still a popular way for companies to venture into new areas, so they are still considered fairly topical.

Paper P4 is very much an exam which reflects the real-world. However, the examining team do not have any particular issues in mind. Rather, the creative process of compiling a new exam is begun with a blank sheet of paper and a copy of the syllabus.

- **Dividend policy is a topical issue in the real world as it is an important strategy used by companies to appease shareholders. However, it has not been examined much at Paper P4. Why is this?**

Agreed this is a topical area and within the scope of the P4 syllabus. There is no particular reason that it has not been examined very recently.

- **Integrated reporting appears to be a topic which has relevance across a number of papers within the ACCA qualification. What emphasis is placed on this topic within Paper P4?**

Integrated reporting is within the scope of Paper P4 although it does not form a significant part of the syllabus.

- **With the change in the Paper F9 exam format from December 2014, the longest question is now 15 marks. Are the examining team of Paper P4 concerned that this makes it an even larger “jump” from Paper F9 to Paper P4?**

It is agreed that the change in exam format at Paper F9 poses some new challenges in terms of Paper P4 (where the exam format is not changing). However, the new format of Paper F9 should also offer some advantages in terms of strengthening the base of underpinning knowledge.

- **In the Caribbean market, the ACCA qualification has competition from several MBA programmes. A perceived advantage of these MBA programmes is that their students are required to do a Research and Analysis project as part of the qualification. Are there any plans to move Paper P4 this way in the future?**

The future of the Professional Papers is being considered on an ongoing basis. However, there are no immediate plans of this nature.

- **Sometimes even well-prepared students struggle with time pressure in the P4 exam. One tactic employed by tutors is to advise candidates to ignore a subpart of a requirement which they consider difficult and focus on those that they can answer. Is such an approach recommended by the examining team?**

Not really. Rather, the advice would be for candidates to try to answer all parts of a question and employ good time management between questions. The danger of the tactic outlined is that candidates can often overdo a part of a requirement which they like when they could probably quite easily pick up a few marks on a new requirement, even one they do not particularly like.

- **Some students in certain markets find it difficult to get access to good quality financial press. What websites would you recommend that they access as part of their preparation for Paper P4?**

A subscription to FT.com may be useful. The Harvard Business Review (US financial press) can also be relevant.

There is a database of quality newspapers called Nexis which is a good resource. Another database is Bloomberg. Obviously these subscriptions would involve a charge.

- **Outside of the Approved Content Provider study texts, are there any more generic textbooks which give a good insight into the topic of Financial Management?**

There are a few useful textbooks which can be recommended including:

Corporate Financial Management by Arnold

Corporate Finance, Principles and Practice, D Watson and A Head

Principle of Corporate Finance, Brealey & Myers

Students are also recommended to read the financial press for an awareness of what is happening in the “real world” on top of their textbook knowledge.

- **If, for example, a candidate needs to calculate an NPV but is unable to calculate WACC and so makes (and states) an assumption and follows through the remainder of the process correctly, what happens from a marking perspective?**

The candidate will lose the relevant marks available for the WACC calculation but will get all of the marks available for the rest of the calculation under the own figure rule.

- **Following the above, are candidates recommended to routinely make such assumptions as a time management technique (ie, even when they are able to do the relevant steps omitted)?**

Given that many unsuccessful candidates achieve marks around the 40-45% mark, this would be a very risky strategy as they would be sacrificing some of the potentially most easily achievable marks.

- **A relevant P4 technical article was published a few years ago on interest rate forward contracts. Is this a key topic students should focus on when preparing for the Paper P4 exam?**

It is within the Paper P4 syllabus, so it could potentially be examined. However, the examining team cannot comment on whether this is a “key area” for future exams or not.