



Tutor Conference 2024

FINANCIAL MANAGEMENT

Agenda

- FM team introductions
- Spreadsheet functionality and pre-populated spreadsheets
- Issues and errors
- ESG and normal distributions
- Setting and marking procedures
- Q&As

Use of functionality in spreadsheets

- From March 2022 students have been using some of the spreadsheet area's functionality and this is reflected in the study material. This includes:
 - Use of the NPV function for constant discount rates (but **not** for changing discount rates)
 - Use of the IRR function for investment appraisal or as an aspect of sensitivity analysis
 - Use of the RATE function to calculate the pre-tax cost of redeemable debt
 - Use of the PV function to get redeemable debt issue price
 - Use of correlation, mean and standard deviation functions
- **Students will still have to make clear what they are doing to gain marks**
- Some data may be pre-populated (to varying degrees) in the answer spreadsheet (with a back up copy just in case)

NPV workings – what we expect

	£	
(N)PV t_1-t_3 @ 10%	2,999,579	using ss function
t0	-1,551,040	
NPV	1,448,539	

IRR D23

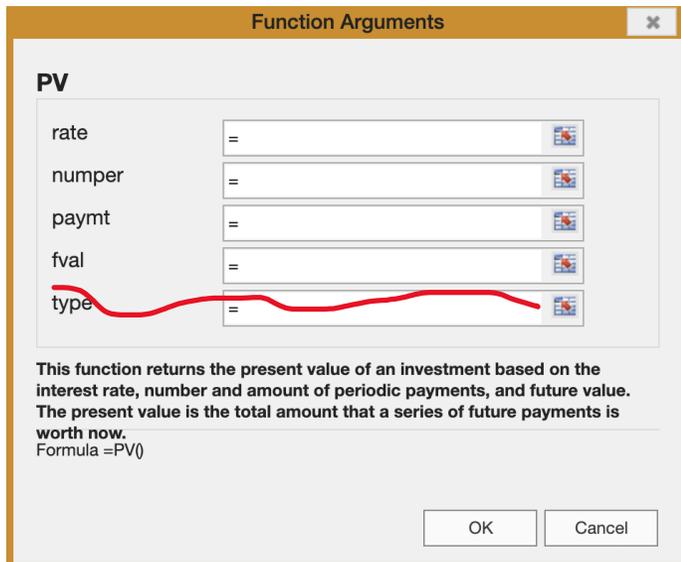
Ignoring the effects on working capital, calculate and comment on the sensitivity of the NPV of the RO project to:

- Changes in total revenue.
- A change in the money cost of capital.

MV of debt D23

- Five million 8% (semi-annual coupon) debentures each with a nominal value of £100 and a market value of £108% (cum-interest). These debentures are redeemable at par in ten years' time.
- $MV = 5m \times £104 = £520m$
- Deliberately 'five' and not '5' given past issues but a very large proportion of candidates still did this
- $£5m \times 1.04 = £5.2m$ (against equity of £2,000m)

PV workings



Issue price of new debentures 20 years, 3% semi-annual coupon, redemption at par. GRY 4.38% pa			
Rate 4.38%/2 - rate			2.19%
Number of payments (20 x 2) - number			40
Coupon (3/2) - payment			1.5
Redemption - fval			100
Issue price using PV function			(£81.74)

Similar issues to RATE for semi annual debentures and not using drop down box

Issues

- Spreadsheet entries **MUST** be copied into word processing area (the only thing which is marked)
- Data hidden in cells can't be marked and no workings = no marks if wrong (many failing candidates haven't provided adequate workings). This includes workings such as $(D5+C7)*F9$ – we can't see those cell references
- Not following instructions eg give TWO..., don't adjust for non-marketability, ignore, use D/E by MV for gearing...
- Presentation of answers

Issues continued

- Written still relatively worse than calcs
- Lack of understanding of core FM concepts eg
 - Systematic v unsystematic risk
 - Portfolio theory: shareholders v companies/managers
 - Economic risk
 - Dividend policy: theory (M&M) v practical
 - Equity beta: SBR and SFR
 - Asset values: gone concern not going concern

Examinability

- Students should not assume some areas of the syllabus are fringe/marginal eg interest rate hedging, replacement theory, scrip dividends etc just because they are examined less frequently
- Nor should they assume new material won't be examined eg sustainability, ESG, normal distributions

Errors – maths!!

- CAPM (and the difference between r_m and market premium for risk $r_m - r_f$)
- Compounding of dividend growth rate (and the number of years)
- Degearing/regearing (not using the formulae sheet and lack of logic ie beta asset > beta equity)
- Cost of equity in DVM (and lack of logic ie answer in £)
- MMH discounting and compounding (and correct pair of rates)
- Auto sum in ss

Errors – other

- Puts v calls (then exercising rather than abandoning)
- OTC v traded
- Cum div/int v ex div/int
- Real v money, general v specific inflation (double inflating)
- Ignoring tax in sensitivity calcs and/or using revenue instead of contribution
- Book values instead of MVs (gearing, degearing/regearing)
- Rounding inappropriately eg in forex questions not to 4dp

Sustainability and ESG – added 2023 and enhanced for 2024 LMs

- chapter 1: objectives
- chapter 2: investment appraisal
- chapter 3: risk and decision making
- chapter 4: sources of finance

ESG in D23

You are a financial advisor to the board of Hawkins. You have been asked to make a brief presentation to the Hawkins board of directors on sustainability objectives based on ESG (environmental, social, governance) principles.

Requirement

Outline the importance of Hawkins setting sustainability objectives and suggest **two** ways that Hawkins's overall activities (ie not just those related to the RO project) could satisfy objectives set under each ESG heading. **(4 marks)**

Normal distribution D23

Copeland's Monte Carlo simulation analysis resulted in a spread of NPVs that are normally distributed.

Using the extracts from the area under the normal curve shown in the **pre-populated spreadsheet**, determine the probability of the RO project NPV being between one standard deviation above and one standard deviation below the mean NPV.

Question 1.1c					
Table showing extract of the area under the normal curve:					
				Area below	Area above
				the mean	the mean
One standard deviation from the mean				34.10%	34.10%
Two standard deviations from the mean				47.70%	47.70%
Three standard deviations from the mean				49.85%	49.85%

Ethics

The ethics requirement may be worth 3 – 5 marks from March 2024 to allow candidates to develop their answers in greater depth

Tax rate

- Tax is 25% not 17%
- Reflected in some questions in QB
- Reflected in all mocks
- Still some use 17% in their answers when it is 25% in the question

Setting and marking procedures

Stage One - Paper Preparation

- Moderator outlines broad annual coverage over 4 papers at start of year
- The examiner prepares the first draft of the paper
 - Questions can be inspired from real life scenarios
 - Close attention to the ICAEW materials
- Three WT's - 35,35,30 marks
- Investment appraisal and finance could be separate or combined questions, risk on its own

Stage One - Paper Preparation cont'd

At the same time the paper is prepared also prepare:

- Mark Plan

Answers, mark allocation (often more than the maximum on discursive answers) – a ‘work in progress’ right until the end of the marking process

- Specification/Syllabus Grid

- Mapping marks across three syllabus areas (Financing Options; Managing Financial Risk; Investment Decisions and Valuation)
- Identification of higher skills requirements and differentiation

Stage Two – Moderation

- A. Moderator works paper and suggests amendments
- B. Senior Moderator has an initial look
- C. Student and technical moderators work paper and feedback

- Considerations:
Balance, Time Pressure, Learning Materials, Ambiguities, Relevance, Expectations

Stage Three - Examination Review Board

- In depth review by two Senior Moderators, moderator, examiner, other examiners, ICAEW staff
- Structure, content, accuracy
 - wording of questions, phrasing of requirements
 - style and conventions
- Time considerations
- Perspective of overseas candidates
- Further moderations?

Marking sample scripts

- Marking team – two examiners, moderator and max. six others
- Moderator sends same two sample scripts to every marker for marking against mark plan provided
- Concurrently, moderator marks c50 scripts to enable early feedback at meeting re: candidate performance by question and amendments to marking guide if necessary
- Meeting on Saturday morning

Marking

- Mark by question not paper
- Global marking of discursive parts
- E-mail team re: any issues/agreed changes to marking plan
- Monitor markers using standardisation and seeding scripts plus vast amounts of stats from ICAEW

After marking completed

- Examiner and moderator look for discrepancies by marker and centre using broad range of statistics
- 53s to 55s will be remarked, there will be 54s!
- Band widened if necessary
- Examiner reports

Q&As

- We'll now answer any questions you have!



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