



# *Tutor Conference 2018*

FINANCIAL MANAGEMENT

# *Items for discussion today*

- Finance questions – debt v equity
- CBE
- Q&As

# *Debt v equity*

- As we have said at the last 3 conferences, if we want M&M 58, 63 etc the requirement will state 'making reference to relevant theories' (also applies to dividend policy)
- Otherwise we require a practical answer
- Students are generally dreadful at this (paper based exams and CBE)

# *Debt v equity – example from D17 paper*

- An analyst has calculated the gearing ratios (measured as debt/equity by market values) and interest cover for companies that operate in Peel's market sector as follows:

	<b>Maximum</b>	<b>Minimum</b>	<b>Average</b>
Gearing ratio	135%	80%	100%
Interest cover	3	2	2.4

□

- 2.3 Determine whether the £200 million finance required should be raised from either debt or equity sources. You should discuss the likely reaction of both shareholders and the financial markets, and make reference to the gearing and interest cover data provided and give advice to Debbie on which source of finance should be used. **(12 marks)**

□

# *Debt v equity – example from D17 paper cont'd*

- Gearing is defined – MV not BV; D/E not D/D+E
- So if you change either (or both!) you will be making totally nonsensical comparisons with the market gearing ratio data
- Interest cover is PBIT/I, anything else produces nonsense
- Requirement explicitly asks for reference to market sector data
- Requirement does not say 'making reference to relevant theories'
- 12 marks requires some detail not a couple of paragraphs (see CBE later – strategically avoiding these application requirements?)

# *2018 study manual*

- Chapter 8 is now solely on valuations
- Finance material moved back into chapter 6
- New section in chapter 6: 'The examining team's guide to answering financing questions'
- FAT PRICE

# ***FAT PRICE***

- **F**inancial risk
- **A**nalysis and discussion
- **T**heory
- **P**ractical gearing
- **R**atios
- **I**ndustry averages
- **C**onclusion
- **E**asy marks

# ***CBE***

- Tutor and student experience so far (eg teaching students to use CBE v teaching actual FM content, slower with typing out formulae etc?, how much practice?, mocks on CBE?)
- Avoid application? (Sept and Dec 17 exams showed major weaknesses in written application answers – see D17 part 2.3 debt v equity earlier – do students make a conscious decision to avoid these parts or do them last if time is an issue?)
- Presentation of answers (see separate pack for examples to discuss)
- Data hidden in cells can't be marked and no workings = no marks



# *Q&As*

- Do you have any questions for the examining team?

