



Tutor Conference 2019

FINANCIAL MANAGEMENT

Items for discussion today

- Where students are still going wrong – basic errors
- CBE
- Marking
- Q&As

Sept 2018 exam – Q1 NPV

- Calculating an EV higher than any of the individual outcomes
- Not explaining why costs are excluded (eg sunk, not a cashflow)
- Inflating a money discount rate
- Ethics shopping list
- Not knowing real option definition
- Not applying real options to scenario
- Giving more than 2 real options when only 2 asked for
- Not knowing SVA

Sept 2018 exam – Q2 WACC

- Not knowing $g = br$
- Unrealistically high figures for g , b , r , k_e without question
- Growing pref dividends at equity dividend growth rate
- Cost of irredeemable debt – taking coupon after tax
- Out of range IRR for redeemable
- Can't number crunch simplest figures in CAPM
- Not knowing basics of how CAPM works

Sept 2018 exam – Q3 risk

- Not changing cells to 4 dp for forex rates
- Redoing identical forward and MMH calcs for second spot exchange rate
- Using put instead of call
- Treating option as OTC when traded
- Using 12m rates instead of 3m rates for IRP
- Poor on economic risk

Dec 2018 exam – Q1 NPV

- Not explaining why costs are excluded (eg sunk, not a cashflow)
- Inability to add volume growth and price inflation to initial EV
- Double inflation – specific and general
- Inflating a flow which was explicitly given as constant
- Discounting money flows at real rate
- Adding volume and price increases for wc rather than multiplying
- Sensitivity to volume - taxing and discounting *units*
- Not applying real options to scenario
- Giving more than 2 real options when only 2 asked for
- Not knowing advantages and disadvantages of EV
- In the ethics part of the question few candidates mentioned the legal aspects

Dec 2018 exam – Q2 risk

- Different interest costs for FRA under 2 spot rate scenarios
- Borrow in 5 months' time for a year – 5/12 interest calculations
- Not changing cells to 4 dp for forex rates
- Subtracting forex discount
- MMH – 4 months = 1/3 of annual rate, not 1/4
- Put instead of call
- Choosing call and then using put premium
- Treating OTC as traded
- Poor on economic risk

Dec 2018 exam – Q3 WACC and finance

- Not excluding special dividend when calculating growth
- Not stating why the special dividend should be ignored
- Using total dividends as DPS in k_e
- Unrealistically high figures for g , k_e without question
- Out of range IRR for redeemable
- Can't number crunch simplest figures in CAPM
- Picking another company's beta based on its gearing rather than its industry
- Degearing using MV and regearing using BV
- Using $D/D+E$ when told it's D/E (twice); using BV when told MV (twice)
- Not applying capital structure theories to scenario
- Not addressing all the bullet points in 3.4

CBE

- Tutor and student experience (eg teaching students to use CBE v teaching actual FM content, slower with typing out formulae etc?, how much practice?)
- Avoid application? (exams show major weaknesses in written application answers – do students make a conscious decision to avoid these parts or do them last if time is an issue?)
- Presentation of answers (scrolling across.....)
- Data hidden in cells can't be marked and no workings = no marks

Marking

- Sample script from Dec 2018 exam

Q&As

- Do you have any questions for the examining team?

