



# Financial Management

## September/December 2020 exam (20/21 Syllabus)

### Get to know your exam

*These graphical representations are intended to give an indication of past exam requirements and associated question content.*

*Please note that you will not be able to complete answers within these documents and in isolation they will not sufficiently prepare you for your exam.*

*We encourage you to visit the ACCA Practice Platform in order to attempt up to date practice exams within the computer-based exam environment.*

## Introduction screen

FM September/December 2020 exam (20/21 Syllabus)

### Introduction

These sample questions show the likely style and range of **constructed response questions** that could be asked in the live exam.

You should use these questions to become familiar with the question types and the features and functionality contained within the live exam.

The practice exam is reflective of the constructed response section of the live exam but has some differences:

- The live exam will be timed however there is no time limit in this exam.
- Once you have started this exam you are able to leave at any time by closing the browser window. When you return, anything you have entered into the response options will be saved and you can continue sitting the exam.
- In the live exam your answers to the constructed response questions will be expert-marked. At the end of this exam you should use the solution material provided to assess your performance in the constructed response questions.
- You will be able to access solution material at the end of this exam when using the Self-Marking resources which include a Marking Guide and/or Sample Answer for each question. If you wish to access these without completing the questions, click on [End Exam](#) on the Item Review Screen and navigate to the Marking tab on the Dashboard to Self-Mark.

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## Instruction screens

FM September/December 2020 exam (20/21 Syllabus)


### Instructions (1 of 4)

The instructions displayed below are representative of those displayed in the live exam. Where there are differences between this exam and the live exam these are explained.


#### General Instructions

- In this exam, the instruction screens are not timed however in the live exam they will be available for a maximum of 10 minutes prior to the exam starting.
- In the live exam, the stated exam time will automatically start once the 10 minute period has passed (or earlier if you choose to start the exam within the 10 minute period).
- A copy of the instruction screens can be accessed at any time during the exam by selecting the Help button provided.

#### Answering and Navigating

- Please read each question carefully.
- The question number you are viewing is displayed in the top display bar. You can hide or restore this display by selecting .
- You can navigate between screens by selecting **Next→** or **← Previous**, or by clicking on a question number from the Navigator or Item Review screens.
- A warning message will display to remind you that you cannot navigate away from a question if you have not viewed all of the question content. Ensure that you use all scrollbars and/or open any on-screen exhibits before navigating from each question.
- Some questions have the scenario and answer area divided by either a horizontal or vertical splitter bar. You can move this splitter bar to see more or less of the scenario or answer area.
- Please ensure you provide an answer for all elements of each question.
- You can revisit questions and change your answers at any time during the exam.

#### Flag for Review

- If you wish to revisit/review a question later in the exam, click  **Flag for Review**
- Click the button again if you no longer wish to revisit/review the question later in the exam.




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## Instruction screens (continued)


FM September/December 2020 exam (20/21 Syllabus)

## Instructions (2 of 4)



## Help

- Click the **Help** button provided to access:  
A copy of these exam instructions.
- Help and guidance on constructed response questions.
- Formulae sheets/tax tables if your exam requires these. Note that the name of the Help button will indicate if formulae sheets/tax tables are available i.e.  **Help**  **Help/Formulae Sheet** or  **Help/Tax Tables**


## Calculator

- You have the option to use the on-screen standard or scientific calculators by selecting  **Calculator**
- Note that in the live exam you are also permitted to use your own calculator providing it does not have the facility to store or display text.

## Highlight and Strikethrough

- You can highlight key phrases or figures in the question scenario by selecting  **Highlight**
- You can strikethrough text in the question scenario by selecting  **Strikethrough**
- Highlighted and strikethrough text will be displayed on all questions relating to the scenario.

## Workings/Scratch Pad

- You may use an on-screen Scratch Pad to make notes/workings by selecting  **Scratch Pad**
- The Scratch Pad retains all notes/workings entered for all questions and these are available for the duration of the exam. They will not be submitted for marking after your live exam.
- You will also be provided with paper for notes/workings for your live exam, should you prefer to use it. This will not be submitted for marking. It will be collected at the end of the exam and must not be removed from the exam room.
- **Important:**
  - The notes/workings entered onto the Scratch Pad or your workings paper during the live exam will not be marked.
  - If you want the marker to see any notes/workings for questions in the constructed response section of the live exam you must show them within the answer areas.

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## Instruction screens (continued)

FM September/December 2020 exam (20/21 Syllabus)

### Instructions (3 of 4)

**Copy and Paste**

- You can copy and paste from the Scratch Pad or question scenario into your answers in the constructed response section of the exam by using the Ctrl-C (Copy) and Ctrl-V (Paste) shortcuts. **Note:** When pasting into a spreadsheet in the live exam you must double-click the cell or paste directly into the formula bar. In this exam you can also paste into the spreadsheet by selecting the cell.

**Symbol**

- You can add a selection of currency symbols to your answers in the constructed response section of the exam by selecting **\$ Symbol** on the top toolbar.

**Navigator Screen**

- The Navigator screen can be accessed at any time during the exam by selecting **Navigator**
- This screen allows you to jump to any question number in the exam.
- It also allows you to see the status of questions and whether they have been viewed, are complete or incomplete, or have been flagged for review.

**Close All**

- You can close each window (eg. Calculator or Scratch Pad) individually or you can close multiple windows by selecting **Close All** on the top toolbar.

**Reviewing the Exam**

- You can review your exam once you have attempted any, or all, of the questions.
- To do this:
  - Navigate to the **last question** in the exam.
  - Click **Next →**
- This takes you to the Item Review screen.

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## Instruction screens (continued)

FM September/December 2020 exam (20/21 Syllabus)

**Instructions (4 of 4)**

**Item Review Screen**

- This screen gives you an opportunity to see the flag and completion status of all questions before you exit the exam.
- You can select individual questions you wish to revisit, or quickly access groups of questions from the Item Review screen.
- During the item review period Navigator is not available however you can navigate to questions by selecting **Next** → , ← **Previous** or → **Review Screen**
- When reviewing questions you can change your answer and click → **Review Screen** to view any updated status on the Item Review screen.

**Ending the Exam**

- Once you have completed your item review and wish to finally end the exam click → **End Exam**
- Once you end the exam, you cannot revisit any questions.

Select **Next** to move to the Exam Summary screen.

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## Exam summary screen

FM September/December 2020 exam (20/21 Syllabus)

### Exam Summary

**Time allowed:** This sample exam is not timed.

- You will be presented with **two constructed response questions**, each containing a scenario which relates to one or more requirement(s). The requirements may be split over multiple question screens.
- Each constructed response question is worth **20 marks** in total.
- **40 marks** in total.
- All questions are compulsory.

**Important:** In your live exam you must:

1. Enter your answer for each question in the response area provided for that question. Any answers entered into a response area provided for a different question will not be marked.
2. Show all notes/workings that you want the marker to see within the response area provided for the question. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.


Select **Next** to start your exam.

← Previous **Next** →

## Sample exam questions

### Scenario 1

FM September/December 2020 exam (20/21 Syllabus)

\$ Symbol  ▼ Highlight  Strikethrough  Calculator  Scratch Pad

**This scenario relates to three requirements.**

Spine Co is looking to spend \$15m to expand its existing business. This expansion is expected to increase profit before interest and tax by 20%. Recent financial information relating to Spine Co can be summarised as follows:

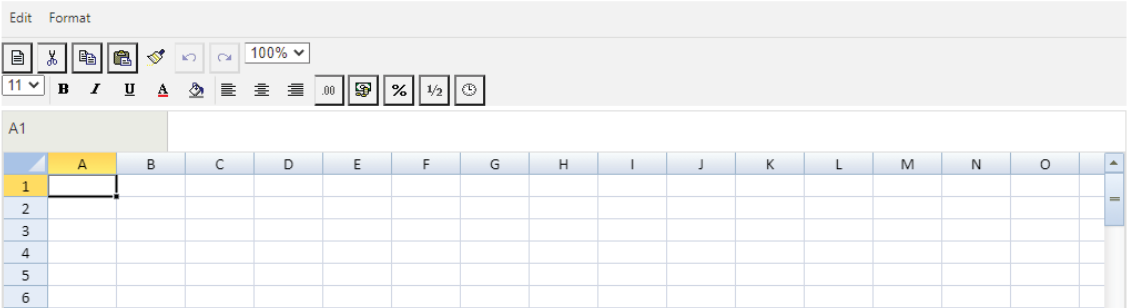
	<b>\$'000</b>
Profit before interest and taxation	13,040
Finance charges (interest)	240
Profit before taxation	<b>12,800</b>
Taxation	3,840
Profit for the year (earnings)	<b>8,960</b>

Spine Co is not sure whether to finance the expansion with debt or with equity. If debt is chosen, the company will issue \$15m of 8% loan notes at their nominal value of \$100 per loan note. If equity is chosen, the company will have a 1 for 4 rights issue at a 20% discount to the current market price of \$6.25 per share. Spine Co has 12 million shares in issue. The company pays corporation tax at 30%.



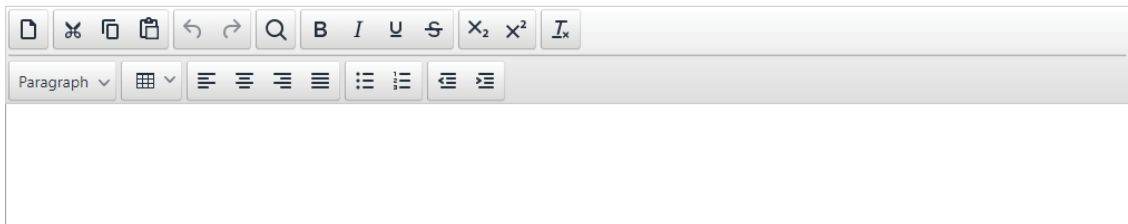
### Scenario 1: requirements

**(a) Evaluate whether, on financial grounds, Spine Co should finance the expansion with debt or equity.** (10 marks)



The screenshot shows a spreadsheet application window. At the top, there is a menu bar with 'Edit' and 'Format'. Below the menu bar is a toolbar containing various icons for editing and formatting, such as undo, redo, search, bold, italic, underline, strikethrough, subscript, superscript, and text color. The main area of the spreadsheet is a grid with columns labeled A through O and rows labeled 1 through 6. The cell A1 is currently selected and highlighted in yellow.

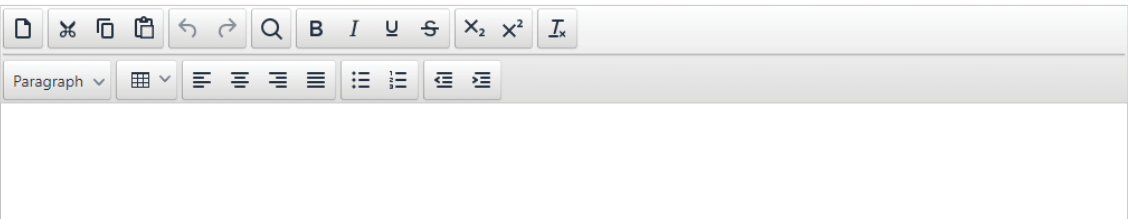
**(b) Explain and discuss the relationship between systematic risk and unsystematic risk.** (5 marks)



The screenshot shows a text editor interface. At the top, there is a toolbar with various icons for editing and formatting, such as undo, redo, search, bold, italic, underline, strikethrough, subscript, and superscript. Below the toolbar is a paragraph of text.

**(c) Discuss the assumptions made by the capital asset pricing model.** (5 marks)

(20 marks)



The screenshot shows a text editor interface. At the top, there is a toolbar with various icons for editing and formatting, such as undo, redo, search, bold, italic, underline, strikethrough, subscript, and superscript. Below the toolbar is a paragraph of text.

Scenario 2

FM September/December 2020 exam (20/21 Syllabus)

Symbol Highlight Strikethrough Calculator Scratch Pad

**This scenario relates to four requirements**

Crocket Co is a manufacturing company that has three investment decisions for the coming year.

**Investment decision 1**

Six investment projects are being considered with the following details:

Project	Initial Outlay	Net Present Value
	\$'000	\$'000
A	1,000	390
B	1,500	Not yet known
C	750	325
D	1,125	590
E	1,850	840
F	1,300	635

Project B is expected to generate the following annual cash flows:

Year	1	2	3	4
	\$'000	\$'000	\$'000	\$'000
Sales income	725	765	885	612
Costs	145	168	202	94

Project B cash flows are before allowing for inflation of 4% per year for sales income and 5% per year for costs. Crocket Co has a nominal cost of capital of 10%.

Due to management reluctance to raise new finance, capital for investment in the above projects is currently restricted to \$5m. Projects A, B, D and F are all independent, but projects C and E are mutually exclusive. All of the above projects are divisible and none can be delayed or repeated.

**Investment decision 2**

A number of Crocket Co's employees have a company car. The entire company car fleet is now due for renewal and in the past, it has been replaced every four years. Management are not sure if this is the optimum length of time and feel that other fleet replacement cycles, such as every three or five years, should also be considered.

**Investment decision 3**

The management of Crocket Co are considering the financial viability of another project but as yet, no detailed financial information is available to perform an NPV appraisal. One of the reasons for this is that the various cash flows will be subject to a number of different rates of inflation that are very uncertain at present. For example, the selling price inflation may be no more than 2% per year whereas material cost inflation could be anything from 4% to 6% per year. The general rate of inflation is expected to differ from both of these. Management are not sure whether the appraisal could be performed by simply ignoring the inflation altogether.

Note: The \$5m capital constraint outlined with investment decision 1 applies to that investment decision only and not to investment decisions 2 and 3.

## Requirements for Scenario 2

(a) For investment decision 1:

(i) Calculate the net present value of project B; and

(4 marks)

(ii) Given the capital constraint, calculate the optimum investment combination and the resulting net present value.

(6 marks)

The screenshot shows a spreadsheet application window with a menu bar containing 'Edit' and 'Format'. Below the menu bar is a toolbar with various icons for editing and formatting, including a font size dropdown set to 11, bold (B), italic (I), underline (U), text color, background color, bullet points, numbered list, indent, decimal places (.00), percentage (%), fraction (1/2), and a clock icon. The spreadsheet grid is visible with columns labeled A through O and rows 1, 2, and 3. Cell A1 is currently selected.

(b) For investment decision 2, explain the approach Crocket Co should use to determine the optimum replacement cycle for the company car fleet.

(4 marks)

The screenshot shows a rich text editor interface with a toolbar containing icons for undo, redo, search, bold (B), italic (I), underline (U), strikethrough (ABC), subscript (x<sub>2</sub>), superscript (x<sup>2</sup>), and link (Ix). Below the toolbar is a paragraph style dropdown menu and a grid icon. The main area is a large empty text box for writing the explanation.

(c) In relation to investment decision 3, describe the two approaches for dealing with inflation AND provide a reasoned recommendation as to which approach Crocket Co's management should follow.

(6 marks)

(20 marks)

The screenshot shows a rich text editor interface with a toolbar containing icons for undo, redo, search, bold (B), italic (I), underline (U), strikethrough (ABC), subscript (x<sub>2</sub>), superscript (x<sup>2</sup>), and link (Ix). Below the toolbar is a paragraph style dropdown menu and a grid icon. The main area is a large empty text box for writing the explanation.

Example view of full CBE constructed response workspace

FM September/December 2020 exam (20/21 Syllabus) 1 of 6

Symbol Highlight Strikethrough Calculator Scratch Pad
Close All Flag for Review

**This scenario relates to three requirements.**

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	<b>\$'000</b>
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**(a) Evaluate whether, on financial grounds, Spine Co should finance the expansion with debt or equity.** (10 marks)

Edit Format

11 B I U A 0.00 % 1/2 ☺

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Sheet1

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