Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Financial Management (FMF)

EXAMINATION DATE: 16 June 2025

Section 1
General comments

The June 2025 sitting of the Financial Management module continues to follow the restricted open-book format via the Cirrus e-exam platform. The paper assessed Candidates' ability to apply Financial Management techniques in realistic business scenarios, requiring both computational accuracy and strong analytical reasoning. The difficulty level of the paper remained broadly consistent with previous sittings.

Overall, Candidate performance was satisfactory, with encouraging results from well-prepared Candidates. Candidates who performed well demonstrated a clear understanding of fundamental concepts such as cost of capital, investment appraisal, valuation, and working capital management. These Candidates were also able to communicate their thought process clearly and systematically, especially in calculations and discursive components.

For future exam success, Candidates are advised to:

- Practice extensively the past FMF exam papers.
- Develop a strong foundation in both theory and application.
- Present clear workings in computational questions to earn method marks.
- Apply financial concepts contextually to the scenario provided.

Section 2
Analysis of individual questions

Question 1

This question tested Candidates' understanding of financial strategy and the calculation of Weighted Average Cost of Capital (WACC), including the impact of changes in capital structure due to new debt issuance.

Part (a) required an explanation of the three components of financial strategy (finance, investment, and dividends) and their interrelation, applied to Wrought Iron Hardware. Many Candidates demonstrated a sound conceptual understanding, but weaker Candidates provided generic explanations with limited linkage to the scenario.

Some common errors include:

(i) Failing to clearly explain the finance decision involved in deciding how to source for funds, internally or externally, and with debt or equity.

(ii) Failing to mention the investment appraisal must meet the objectives of the business and maximise shareholder wealth.
(iii) Failing to mention other investment needs such as working capital.
(iv) Failing to consider whether dividends should be paid or withheld and reinvested and if the latter, what repercussions this could have on investor perception and share price.
(v) Failure to provide inter-relations between the 3 different components of the financial strategy.

Part (b) involved calculating the current WACC.

Common mistakes were:
(i) Failing to use the ex-dividend price in calculating the cost of equity and in determining the market value of equity.
(ii) Failing to use next year's dividend in calculating the cost of equity
(iii) Including bank overdraft in WACC calculation when it should be excluded
(iv) Failing to explain that bank overdraft is excluded from WACC calculation because it is a short-term source of finance.
(v) Incorrectly taking the interest on the debentures as the cost.

Part (c) required Candidates to assess the impact of a credit rating downgrade on existing debt. A handful of Candidates failed to adjust the cost of debt correctly based on the revised yield.

Part (d) required the recalculation of WACC after issuing new redeemable debentures.

Common mistakes were:

(i) Failing to calculate the cost of the new debentures using IRR.
(ii) Failing to include the old debentures in the calculation of the revised WACC.
(iii) Deducting taxes although it was clearly stated in the question to "ignore taxation".
(iv) Erroneously including overdraft in revised WACC calculation although it should be excluded as it is a short-term source of finance.

Some Candidates did not attempt the question as well.

Question 2

This question examined the application of the Value for Money (VfM) framework, working capital strategies, and early settlement discount analysis in a non-profit context. Candidates were asked to evaluate the Value of Money performance of the school in terms of "Economy", "Efficiency" and "Effectiveness". The school wants to free up working capital by offering discounts for early payment by businesses renting the school's facilities. The later questions required Candidates to compare 2 possible payment terms and determine the better one. Candidates were also required to determine how much additional short-term finance would be needed if the school moved from a conservative financing approach to an aggressive one.

Part (a) required an evaluation of the school's economy, efficiency, and effectiveness. Candidates generally performed well, especially those who clearly structured their answers using the VfM headings. However, some answers lacked comparative analysis against national averages.

Some Candidates were unable to make the distinction between "Economy", "Efficiency" and "Effectiveness" and failed to relate their answers to the school in question. Under "Economy", most Candidates did not mention that quality had to be considered. Additionally, many Candidates did not provide a conclusion.

Part (b) required calculation of the cost or benefit of offering early settlement discounts. While most Candidates were able to compute the financial impact using the correct formula, a few misunderstood the time value benefit and failed to make a justified recommendation.

Common mistakes by Candidates were:

(i) Failing to calculate receivables before discount
(ii) Incorrectly calculating receivables after discounts.

Part (c) required Candidates to perform an assessment of additional short-term finance required under an aggressive financing policy. Many Candidates struggled with calculating the working capital requirement and its division into permanent and fluctuating components. Only a handful of Candidates were able to correctly calculate the current short-term finance required and the additional short-term finance required by switching to an aggressive policy.

Question 3

This question assessed Candidates' ability to apply investment appraisal techniques, conduct sensitivity analysis, and evaluate assumptions underlying the use of Weighted Average Cost of Capital (WACC). Overall performance was mixed. While most Candidates demonstrated competence in performing core calculations, many found it difficult to interpret results and apply them effectively, especially in relation to sensitivity and financial decision-making.

Part (a) required Candidates to perform a detailed NPV calculation for the proposed 'pop-up' shop project. Most Candidates showed sound understanding of fundamental financial metrics such as revenue, cost elements, and net cash flows. However, common errors included incorrect time value adjustments, such as discounting cash flows at T4 instead of T3 and omitting key cost components such as staff expenses or parts of perpetuity calculations.

Part (b) required a sensitivity analysis on sales volume. Many Candidates did not leverage the data from part (a) to revise assumptions or assess the project's sensitivity and break-even threshold as intended. Additionally, most Candidates did not apply sensitivity analysis using contribution margin, nor did they perform any adjustments for revenue or cost assumptions.

Part (c) asked Candidates to critically assess the assumptions underlying the use of WACC. Many Candidates were able to identify high-level assumptions. However, most Candidates only provided surface-level understanding without deeper evaluation in analysing how these factors affect the project's risk-adjusted returns.

Question 4

This question examined company valuation using four methods: Net Asset Basis, Discounted Cash Flows (DCF), Price/Earnings (P/E) Ratio, and the Dividend Discount Model (DDM). Overall, most Candidates were able to apply the appropriate valuation techniques, however, many Candidates struggled with applying adjustments within the Net Asset and Dividend Growth models.

Part (a) required Candidates to value MDC using the four specified methods. Many Candidates found the DCF method challenging, particularly in calculating free cash flows.

Common errors noted were as follows:

- Failure to deduct reinvestment needs
- Incorrect application of the perpetuity formula
- Errors in revaluation of non-current assets and incorrect treatment of asset values.
- Errors in calculating the cost of equity (Ke) and growth rate (g) for the Dividend Discount Model.

Part (b) required a discussion of one practical issue for each valuation method. Performance in this part was mixed. Many Candidates were unable to provide further elaboration or link to the case scenario.
Nonetheless, stronger Candidates demonstrated the ability to critically evaluate the limitations of each model and relate these to the specific characteristics of the business in question.