SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Financial Management (FMF)

EXAMINATION DATE: 1 December 2025

Section 1
General comments

The December 2025 examination paper covered a broad spectrum of the syllabus, including cost of capital and capital structure theories, international project appraisal, cash flow forecasting for start-ups, and capital rationing decisions. 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 the previous sittings.

The overall Candidates' performance was satisfactory, though it highlighted a recurring distinction between Candidates who could mechanically perform calculations and those who could apply financial principles to the specific scenarios provided. While many Candidates demonstrated proficiency in standard calculations such as CAPM and Contribution analysis, significant issues arose in more complex applications in valuing specific debt instruments and handling constraints in international cash flows.

For future exam success, Candidates are advised to:

- Adhere to Scenario Constraints: Carefully identify specific timing restrictions (e.g., credit terms or remittance delays) to avoid systemic calculation errors.
- Master Financial Modeling Fundamentals: Distinguish between cash-based and accrual-based figures (e.g., gross cash flows vs. margins) and ensure all required totals such as aggregate periods or closing balances—are presented.
- Apply Theory to Practice: Avoid generic textbook definitions; instead, link theoretical concepts directly to the specific perspectives and corporate contexts provided in the scenario.
- Provide Detailed Workings: Use clear, step-by-step calculations to ensure method marks can be awarded even if minor arithmetic errors occur.

Section 2
Analysis of individual questions

Question 1

This question examined Oakridge Doors, a manufacturer of interior doors planning an expansion into exterior doors funded by new borrowing. Candidates were required to calculate the current Weighted Average Cost of Capital (WACC) and then explain the theoretical impact of the new borrowing on WACC using both Modigliani & Miller (MM) theories and the Traditional view.

Part (a) required Candidates to compute the current WACC of the company. Performance on this question part was mixed. Some Candidates demonstrated a solid grasp of the WACC components and performed well in this question part.

- Cost of Equity: The majority correctly utilized the Capital Asset Pricing Model (CAPM) as required. A small number of Candidates incorrectly attempted to use

the Dividend Growth Model, which attracted no credit as the question specified CAPM.

- Cost of Debt: This was the primary area of weakness. Candidates frequently confused the irredeemable debentures with the bank loan, treating them as a single debt instrument. Furthermore, many Candidates struggled to calculate the market value of the irredeemable debentures correctly or failed to apply the tax shield to the cost of debt component.
- Equity Valuation: A common error involved the calculation of the market value of equity. Candidates often failed to deduct the dividend about to be paid, neglecting to use the ex-dividend share price as required for an accurate WACC calculation.

Part (b) required Candidates to explain the impact of New Borrowing (MM vs. Traditional View) This question part was poorly answered, with a significant number of Candidates choosing to skip it entirely.

Common mistakes identified were:

- Gearing Calculations: A fundamental step in answering this question was to calculate the gearing levels before and after the $25m borrowing to demonstrate the shift. Many Candidates failed to perform this calculation, leaving their discussion abstract and ungrounded.
- Application: Candidates struggled to relate the theories to Oakridge Doors specifically. Responses were often generic descriptions of MM theory without explaining how the move from a lower to a higher gearing (pushing the company well beyond the industry average) would specifically trigger bankruptcy risk concerns under the Traditional View.

Question 2

This question presented a scenario involving NanoTech Robotics and a proposed factory in Malaysia. It tested International Net Present Value (NPV) techniques, specifically using Purchasing Power Parity (PPP) for exchange rates, and the management of foreign currency exposure.

Part (a) required Candidates to compute the NPV Calculation in Singapore Dollars. This was a challenging question where careful reading was essential. A number of Candidates failed to identify the scenario which stated that "no cash flows are allowed to be remitted back to Singapore until the end of the project." Overall Candidates performance for this question was mixed.

Common mistakes identified were:

- Remittance Errors: The most common and damaging error was converting RM cash flows to SGD every year. Candidates who failed to note the remittance restriction calculated exchange rates and transfers on an annual basis, leading to incorrect NPV figures.
- Inflation and Costs: Candidates frequently forgot to inflate the variable costs by the stated 10% per annum.
- Exchange Rates: While many correctly used the PPP formula, some calculated rates for all three years unnecessarily or applied the inflation differential incorrectly. However, markers noted that consistent application of an incorrect rate was not double-penalized.

Part (b) required Candidates to explain the three types of foreign currency exposure. The performance for this question part was mixed. The majority of Candidates could correctly identify the three types of exposure: Transaction, Translation, and Economic. However, most Candidates were unable to provide relevant examples relating to NanoTech.

- Weak Application: While the definitions were correct, candidates often failed to adequately explain how these risks applied to NanoTech specifically. For example, several Candidates were unable to link "Translation Exposure" to the specific need to consolidate the Malaysian factory's accounts into the Singaporean parent's financial statements.

Question 3

This question focused on Knitted Dreams, a start-up facing "overtrading" issues despite rapid sales growth. It required calculation of contribution and cash balances, followed by an analysis of the divergence between profit and cash flow.

Part (a) required Candidates to determine the contribution for each month and in total for the first six months. This question part was generally well-answered. Most Candidates correctly calculated the contribution margin ($125 per jumper) and scaled it according to the doubling sales volume. However, a minority of Candidates had marks deducted as they did not reflect the aggregate total of the 6-month period.

Part (b) required Candidates to determine the month-end cash balance for each of the first six months.

Common mistakes identified were:

- Revenue Timing: Some Candidates incorrectly associated cash receipts with profit margins, reflecting only 50% of the sales proceeds as cash receipts. A few Candidates wrongly identified the first month with cash receipts (i.e., failing to start inflows at Month 4).
- Cost of Sales vs. Cash: There were instances where Candidates recorded contribution/margin instead of the actual COGS/purchases. While the 50% ratio meant the numerical result was the same in this specific scenario, it suggests a lack of conceptual grasp of cash flow mechanics versus profitability.
- Closing Balances: Marks were deducted for Candidates who only computed the periodic cash movement without providing the cumulative carry-forward component to attribute as the ending cash balance for the respective months.

Part (c) required Candidates to compare and explain the performance of the company in relation to profits and cash flows. Most Candidates fared quite well in this question part. They were able to effectively differentiate the relationship between profitability and cash flow, commenting correctly that healthy profitability does not necessarily lead to a strong cash position in a rapid-growth environment.

Part (d) required Candidates to provide three recommendations to improve Knitted Dream's cashflow. Candidates' performance for this question part was fair.

Common mistakes identified were:

- Some Candidates gave vague answers without sufficient elaboration on either the leading causes/issues or how to materialize the recommendations, despite 3 points being available for each recommendation.
- Some Candidates incorrectly associated the issue with potential customer bad debts and commented on credit recoverability, however, the question was related to the timing gap between cash inflows and outflows.

- A few Candidates interpreted the solution as a need to manage inventories, which was not supported by the information given and considered a broad, irrelevant assumption.

Question 4

This question covered capital rationing (divisible projects), the Efficient Market Hypothesis (EMH), and the Baumol model for cash management.

Part (a) required Candidates to calculate the optimal investment plan and NPV of the total plan. The performance for this question part was poor. Most Candidates generally recognized this as a capital rationing problem, but several Candidates failed to address the complexity of project combinations in their answer.

Common mistakes identified were:

- Synergy Combinations: Many Candidates did not compute the NPV and ranking of the B&E combination.
- Methodology: For Candidates who attempted the computation, errors occurred in treating the synergy as a combined project unit. Additionally, a significant number of Candidates did not attempt this part of the calculation at all.

Part (b) required Candidates to use Efficient Market Hypothesis (EMH) to explain the two different perspectives. This discursive element required discussing the Finance Director's view (Semi-Strong) vs. the Marketing Director's view (Weak). The performance for this question part was poor. While Candidates were able to demonstrate a general knowledge of the three forms of capital markets, they failed to link these definitions to the specific stances of the Finance Director and Marketing Director as presented in the scenario.

Part (c) required Candidates to use the Baumol Model to determine how often and the value of securities to be converted into cash. This question part required a mechanical application of the Baumol Cash Management model, of which many Candidates could not apply correctly.

- Holding Cost: This was the primary area of weakness. Quite a number of Candidates used the incorrect annual interest rate, using either 15% or 2% in isolation. The correct approach required using the differential (15% - 2% = 13%) to represent the opportunity cost of holding cash.