ACCA

Advanced Financial Management (AFM) March / June 2026 Examiner's report

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for those sitting the exam in the future.

Contents

General comments

This examiner's report should be used in conjunction with the published March/June 2026 sample exam which can be found on the [ACCA Practice Platform](#).

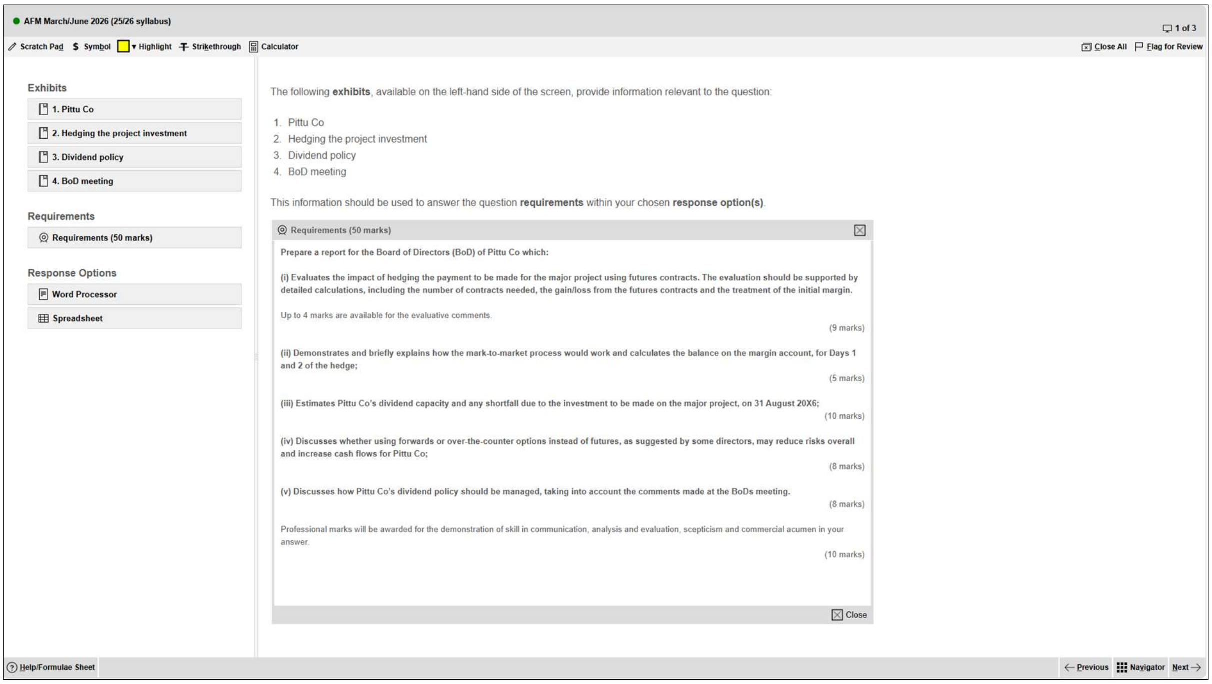
In this report, the examining team provide constructive guidance on how to answer the questions whilst sharing their observations from the marking process, highlighting the strengths and weaknesses of candidates who attempted these questions. Future candidates can use this examiner's report as part of their exam preparation, attempting question practice on the [ACCA Practice Platform](#) and reviewing the published answers alongside this report.

Format of the exam

The examination comprised two sections, A and B. Section A consisted of one compulsory question for 50 marks in total. Section B consisted of two compulsory questions for 25 marks each. 10 professional skills marks were available within Section A for communication, analysis and evaluation (A&E), scepticism and commercial acumen. In Section B there are 5 professional skills (P) marks in each question from at least two of analysis and evaluation, scepticism and commercial acumen.

Section A

Question 1 – Pittu Co



Format of the question

Pittu Co was drawn from sections A and E of the syllabus, mainly covering hedging and dividend capacity as well as dividend policy. The scenario is broadly similar in complexity to previous questions from the same syllabus areas. The five requirements of this question tested the ability of candidates to undertake several detailed calculations and to discuss associated issues relevant to the scenario of the question.

Exam technique and time management

Pittu Co is worth 50 marks which translates into 90 minutes for candidates to spend on this question. Candidates should read the question thoroughly to become familiar with the scenario and then plan their time carefully in order to address the specific issues in the question and gain maximum marks for each requirement. Candidates must then plan their answer to enable them to have the opportunity to gain maximum marks for each section. Candidates should ensure they address the requirement in the time allotted and avoid unnecessary detail such as copying the facts from the scenario. Marks are not allocated for information which is repeated from the scenario without any analysis or evaluation.

Scenario and requirements

This 50-mark question was about an established, listed company (Pittu Co) involved in the manufacture of baby products. Pittu Co currently has one overseas subsidiary company but has recently agreed to invest in a major project overseas in the country of Wambatu. Pittu Co has a stable shareholder base and its share price has performed in line with its main rival companies in recent years.

In this question candidates were required to prepare a report. Within the report there were five requirements. The first two of these requirements had calculative and discursive elements. In the first requirement candidates were required to evaluate a futures hedge and the treatment of the initial margin that would be required on setting up such a hedge. In the second requirement candidates had to demonstrate and briefly explain how the mark-to-market process would work, given information on the first two days of the hedge.

The next requirement was wholly calculative and required candidates to estimate Pittu Co's dividend capacity and identify any shortfall due to the need to invest in the major project. The final two requirements were wholly discursive. The first of these asked candidates to discuss whether using forwards or over-the-counter options instead of futures may reduce risks and increase cash flows. The final requirement was to discuss how Pittu Co's dividend policy should be managed, considering comments made at a BoDs meeting. Up to 10 professional marks were available in this question.

General comments

Performance in this question was generally a little disappointing. This was because many candidates struggled with the earlier requirements concerning the futures hedge. Whilst hedging is a topic which candidates have always found difficult, candidates must invest sufficient time to master this topic as it will always be examined and, as here, can easily form a significant proportion of the 50-mark question in an exam. Performance on the requirement regarding dividend capacity was better and candidates seemed more comfortable with this topic. The discursive parts of the question were also better answered and some scripts contained very creditable answers.

Candidates often scored well on the Communication and Analysis and Evaluation marks which naturally accompany a reasonable attempt to earn the technical marks in a question. However, candidates did not generally earn many of the Scepticism and Commercial Acumen marks that were available.

Some candidates who obviously struggled with the early parts of this question seemed to become discouraged and provided limited responses to the remaining question parts. Candidates are advised to develop the confidence to keep going, maintaining a positive attitude throughout the exam. Candidates who did this were often able to achieve a good pass mark despite experiencing difficulties in the early question parts.

The detailed review below focuses on each of the requirements and highlights the approach taken by candidates and any issues that need to be addressed when using this question as a study aid. Candidates were expected to incorporate the following requirements into their report:

Requirement (i) – 9 marks

An evaluation of the impact of hedging the payment to be made for a major project using futures contracts

This question part was worth 9 marks and required candidates to provide detailed calculations to evaluate a futures hedge as well as accounting for the initial margin. Up to 4 marks were available for evaluative comments. Overall candidates seemed to struggle with this question part. The basic elements such as identifying the need to sell futures, calculating the number of contracts and the receipt from the actual transaction were the areas where candidates were generally able to pick up some marks. However, the more technical aspects such as calculating the gain from the futures hedge and the net payment were often poorly done. The margin payment was often ignored and relatively few candidates recognised that due to exchange rate changes a $ gain would be made on the margin deposited in W£. Other problems which commonly arose were as follows:

- Failing to round the number of contracts to a whole number.
- Trying to use basis to calculate a lock in rate when the forecast September spot rate and futures rate on 31 August 20X6 were provided in the question. As explained in the "Foreign currency futures – step by step" technical article, the lock in rate method should only be used where there is no forecast given of the future spot rate and closing futures price. In this question estimates for both were given.

- Wasting time trying to deal with the under or over hedged amount when this was not necessary. Any amount under or over hedged should be considered immaterial, as mentioned in the same technical article.
- Failing to convert the initial margin into $.

Candidates who had read the recently updated technical article on foreign currency futures were at a significant advantage and candidates should always aim to read technical articles prior to their examination.

The quality of written explanations was often relatively stronger. As always, some candidates failed to remember that marks were available for comments as well as the calculations. Equally candidates must remember that, even if they believe their calculations have gone badly, they can often still earn marks for their comments.

Requirement (ii) – 5 marks

A demonstration and explanation of how the mark-to-market process works, including calculations of the balance on the margin accounts for Days 1 and 2 of the hedge

This part of the question was worth 5 marks and required candidates to demonstrate, through calculation, and explain how the mark-to-market process would work. To do this, candidates were provided with information for the first two days of the hedge. Up to 2 marks were available for the explanation. Few candidates were able to gain full credit for their calculations. A significant number of candidates failed to attempt the calculations and others presented calculations which made it clear that they had spent very little time on this topic. The candidates who had mastered this area often earned good marks quickly. Quite a few candidates presented their calculations in terms of $ when the calculations should be presented in terms of the currency that the margins are expressed in, which in this question was the W£.

The explanations presented were much more creditable than the calculations and many candidates earned both marks available even where they had failed to earn any of the calculative marks.

Requirement (iii) – 10 marks

An estimate of Pittu Co's dividend capacity and any shortfall due to the investment to be made on the major project

This wholly calculative question part was worth 10 marks. Candidates were asked to estimate Pittu Co's dividend capacity and any shortfall given the requirement to pay a dividend and fund the proposed new project in Wambatu. The basic calculation of the dividend capacity was often done well which was encouraging. Calculative errors which still arose were as follows:

- Failing to recognise that the interest cost reduces the taxable profit.

- Failing to recognise that the depreciation and replacement asset investment were equal and hence cancelled each other out.
- Failing to calculate the extra tax due on the profits in the overseas subsidiary or calculating it based on the dividend remitted instead of on the full profits.

Having calculated the basic dividend capacity, a number of candidates failed to calculate the shortfall that might arise. Dividend capacity is essentially how much the company could pay as a dividend; this needs to be compared to how much they are planning to pay to see whether they will be able to pay this amount. Candidates sometimes failed to consider the amount of dividend required given the companies past dividend growth and a significant minority of candidates could not calculate the past dividend growth rate correctly.

Requirement (iv) – 8 marks

A discussion of whether using forwards or over-the-counter options instead of futures may reduce risks overall and increase cash flows for Pittu Co

This part of the question was worth 8 marks and required candidates to discuss whether using forwards or over-the-counter options instead of futures may reduce risks and increase cash flows for Pittu Co. This question part was generally well answered although many candidates could have earned higher marks if their discussion had been less general, and more specifically focused on the requirement as to whether each hedge could either reduce risks or increase cash flows for Pittu Co. Candidates who were more specific in their answer were able to earn more technical marks and were also likely to pick up more commercial acumen marks. Many candidates mentioned basis risk as a risk of hedging with futures, but fewer candidates explained why the risk arises and how it could make the result from a futures hedge less certain than the result from a forward market hedge. Candidates who did this were able to earn more technical marks as well as demonstrate scepticism.

Requirement (v) – 8 marks

A discussion of how Pittu Co's dividend policy should be managed, taking into account the comments made at a Board of Directors (BoDs) meeting

This final question part was also worth 8 marks and asked candidates to discuss how policy should be managed, given the comments from the BoDs. Once again, this question part was generally well answered. Most candidates did refer to the comments made by the directors although some answers were more general and lost credit as a result.

Candidates who developed their discussion points well could earn more technical points and more professional skills marks. For example, many candidates pointed out that the finance director's suggestion of asking the subsidiary to pay a higher level of dividends may not be welcomed and could cause the subsidiary problems. However not so many candidates pointed out that this alone would not provide sufficient extra dividend capacity for Pittu Co. Those candidates who did this earned higher technical marks and demonstrated commercial acumen. Furthermore, many candidates did say that the marketing director was right to say that a positive NPV project should be accepted but not so many then went on to discuss the issue that any NPV calculated is based on a myriad of assumptions that could easily prove to be wrong. Candidates who did this were showing more technical skill as well as demonstrating sound scepticism.

Professional skills - 10 marks

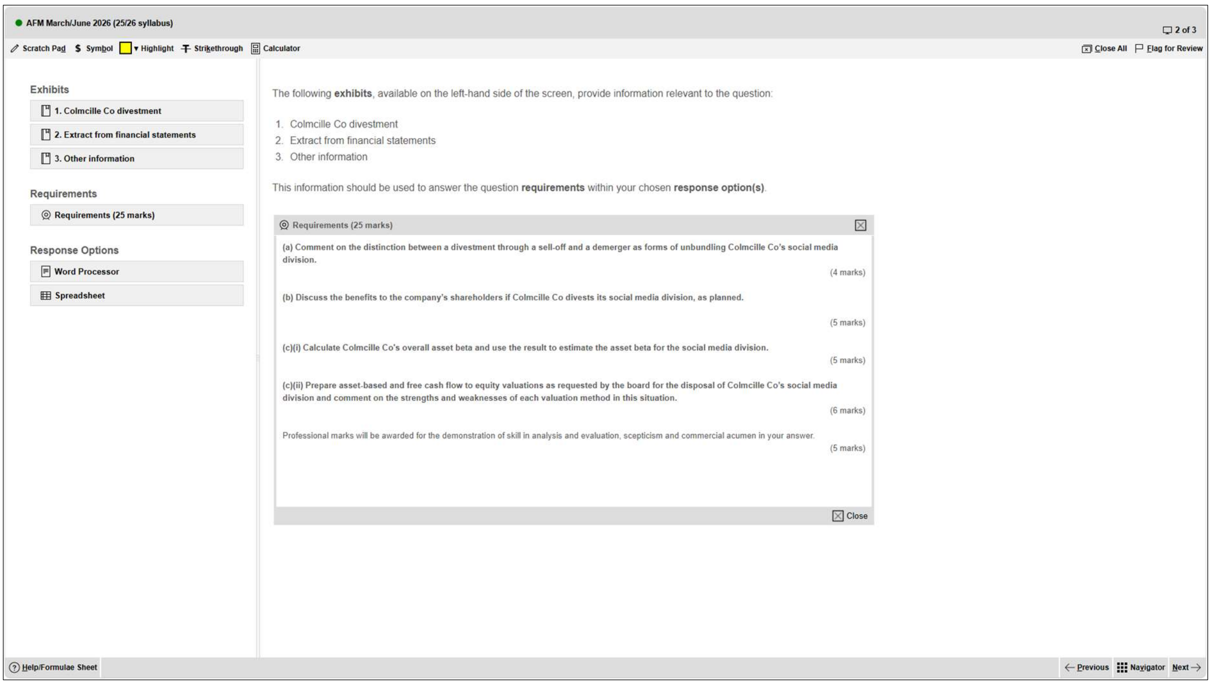
Performance around communication skills continues to improve, however candidates should recognise that only a brief introduction should suffice as the examiner would prefer you to devote your valuable time to answering the requirements posed. Many candidates could earn extra marks by making sure that they structure their report with suitable sub-headings and finish their report with a brief conclusion.

Analysis and Evaluation marks are awarded for appropriate use of the data to determine suitable calculations, support discussions and make recommendations. Generally, candidates who are technically proficient are better able to earn these marks.

Candidates are generally less good at earning the Scepticism and Commercial Acumen marks available and this is especially true where a candidate's answer is underdeveloped. This report has already identified how more of these marks could be earned in the discussion on each of the question parts. Future candidates are advised to reflect on the points raised and try to act on them when taking their examination.

Section B

Question 2 – Colmcille Co



Format of the question

Colmcille Co is a section B question drawn from Section C of the Advanced Financial Management (AFM) syllabus, focusing on valuations in the context of a divestment of a division. The requirements are similar to previous exam questions that have covered this syllabus area and should have been in line with candidates' expectations. The requirements of this question tested the ability of candidates to undertake several calculations and to discuss associated issues relevant to the scenario of the question.

Exam technique and time management

Colmcille Co is worth 25 marks which translates into 45 minutes for candidates to spend on this question. To maximise their chances of scoring high marks, candidates should read the question thoroughly to ensure they are familiar with the scenario and then plan their time carefully to allow them to address the specific issues in the question.

The key to success is for candidates to spend the limited amount of time available addressing the specific requirements of the question and to avoid unnecessary detail.

Scenario and requirements

Colmcille Co is a 25-mark section B question which focusses on valuations in a divestment scenario. Colmcille Co is a listed company operating in the mobile telecommunications sector which, six years ago, created a social media platform. The board of Colmcille Co have experienced several problems with the social media division, and these have distracted the board from its mobile phone division operations. As a result, the board has decided to divest the social media division and use the proceeds to expand the mobile phone division.

The requirements for this question were split into 3 parts. Part (a) was worth 4 marks and required candidates to comment on the distinction between a sell off and a demerger as ways of unbundling Colmcille Co's social media division. Part (b) was worth 5 marks and required a discussion of the benefits to the shareholders if Colmcille Co went ahead with the decision to divest that part of the business. Part (c) was split into 2 sub-parts: part (i) was worth 5 marks and required the calculation of Colmcille Co's asset beta and an estimated asset beta for the social media division and part (ii) was worth 6 marks and required an asset based valuation and a free cash flow to equity valuation of the social media division together with comments on the strengths and weaknesses of each valuation method. There were 5 professional skills marks available to candidates who demonstrated skills in analysis and evaluation, scepticism and commercial acumen.

General comments

Overall, candidates found this question challenging with many candidates struggling with the valuation calculations. The requirements of the question were well signposted both for the numerical parts and the discussion elements - candidates who do not logically approach the requirements naturally score lower marks. There were some excellent responses, but many candidates did not fully address all requirements and as a result limited their final score. It is not always possible in a valuations question to follow a standard approach, and it is therefore essential to understand the topic and do plenty of question practice as part of exam preparation.

Candidates need to ensure that they are familiar with all the information provided in the scenario before they start to prepare their answer. A significant number of candidates copied information directly from the question scenario as their answer to the discursive parts of the question on the presumption that by doing this they are answering the question. However, candidates should recognise that while the issues relating to the discursive requirements can often be found in the scenario, they need to expand on this if they are to gain credit. Professional skills were not always clearly evident, and this was mainly where there was limited discussion for parts a, b and c (ii).

Requirement (a) – 4 marks

Comment on the distinction between a divestment through a sell-off and a demerger as forms of unbundling Colmcille Co's social media division

This part of the question was worth 4 marks and required candidates to comment on the distinction between a sell off and a demerger as part of a divestment strategy. Overall, there was mixed performance from candidates as some were able to gain full marks while a significant number of candidate's responses were very brief making it difficult for them to gain good marks. The comments on the demerger were not done as well as the sell off and it was often described as an internal restructuring of Colmcille

Co with the social media division remaining under control of Colmcille Co whilst others described it as similar to a sell off and that it also required some form of monetary exchange. In a demerger, the demerged division becomes a separate legal entity no longer under the control of the parent, and a demerger does not generate funds.

Requirement (b) – 5 marks

Discuss the benefits to the company's shareholders if Colmcille Co divests its social media division

This part of the question was worth 5 marks and required a discussion of the benefits to Colmcille Co's shareholders if they were to go ahead with the plan to divest the social media division. This requirement tested a candidate's ability to think operationally and strategically about a divestment, by applying and discussing their own knowledge together with the specific circumstances of the question scenario.

While many candidates were able to make a reasonable attempt at this requirement, a significant number of candidates performed less well due to the lack of detail. There were several benefits to the company's shareholders which could be drawn from the question scenario and discussed. Few candidates discussed one of the primary motives for the sell off which was the lack of strategic fit and that by divesting the social media division Colmcille Co would receive additional funds which could be used to benefit shareholders by growing the mobile phone business through expansion into neighbouring countries.

It was not uncommon for candidates to simply repeat information exactly as stated in the scenario without adding any discussion concerning its relevance to the requirement. For example, it states in the scenario that the board has found it difficult to resource the social media division with a skilled management team however this as a stand-alone point is not a benefit of the divestment to shareholders and would not be given credit. However, those candidates who developed this statement further, and discussed the point that if the social media division was divested, Colmcille Co's board could devote more time to managing the mobile phone's division financial position which has recently deteriorated, were given credit.

Requirement (c)(i) – 5 marks

Calculate Comcille Co's overall asset beta and use the result to estimate the asset beta for the social media division

The overall aim of the calculation requirements in this section was to estimate a value for the social media division considering the plan to sell it off. The first part (c)(i) was worth 5 marks and required the calculation of an asset beta for the social media division which would then be used in the FCF valuation in part (c)(ii).

Performance on this part of the question was lower than expected although it was pleasing to see that some well-prepared candidates were able to gain full marks by following a logical step by step approach to arrive at an estimated asset beta for the social media division.

Many candidates struggled to find the correct approach and made a significant number of errors. It is worth noting that there were a significant number of errors that could have been avoided with a more thorough reading of the exhibits: for example, it clearly states that the FCF to equity is $21.5m in year 1 so there should not have been any growth applied to this figure for the FCF valuation.

The first step in the calculation was to calculate the market value of the loan notes which was required for the capital structure variables in the calculation of Colmcille Co's asset beta, but many candidates did not do this and used the book value of debt instead. The market value of debt should be found using a discounted cash flow approach. The period is 4 years which is when the debt would be redeemed, the cash inflow is the loan note's annual gross interest and the redemption value in year 4 and the discount rate is the pre-tax cost of debt.

It was reassuring to see some candidates do this correctly and then go on to get full marks for this requirement, but this was the minority. There were several basic errors made by other candidates, as follows:

- Discounting the cash flow stream at the wrong rate, for example the post-tax cost of debt or the coupon rate.
- Deducting tax from the interest payments in the cash flow.
- Not including the 2% premium to the redemption value.
- Valuing one loan note but then using this as the value of the whole $675m of loan notes.

Many candidates used their own results for the capital structure and successfully progressed to ungear Colmcille Co's equity beta of 1.63 to arrive at an estimate of Colmcille Co's asset beta.

The next step of the calculation was to use Colmcille Co's asset beta to estimate an asset beta for the social media division. Unfortunately, very few candidates did this correctly. An estimate of the mobile phone division's asset beta was given in the question as 0.9 and it was also stated that the social media division was estimated to make up 20% of Colmcille Co's asset beta. Many candidates misread this as the asset beta of the social media division being 20% of the mobile phone division's beta and as a result ended up with a very low estimate for the asset beta for the social media division.

Other candidates deducted 0.9 from their calculation of Colmcille Co's overall asset beta and used this as an estimate of the asset beta of the social media division. In both cases, candidates ended up with an estimated beta for the social media division of less than 1 which would indicate that the social media division is not very risky.

When working through calculations, it is worth sense checking to see if results look reasonable and if not, consider where an error could have been made. Such an approach can also facilitate reasonable assumptions being made when a candidate is stuck on something and needs to use a figure to move ahead with the calculation.

Requirement (c)(ii) – 6 marks

Prepare asset-based and free cash flow to equity valuations for the disposal of Colmcille Co's social media division and comment on the strengths and weaknesses of each valuation method in this situation.

This part was worth 6 marks and it required two valuations of the social media division: one using the FCF method and the other using an asset-based valuation. It also required comments on both methods. Many candidates omitted significant elements of the requirement.

The fact that part (c)(i) ended with an estimated asset beta for the social media division should have been a sign that this was needed in a follow-on calculation, but few candidates seemed to recognise this. Calculations are always done for a purpose so if a question asks for a calculation, candidates should consider in what context this is needed for. The beta from (c)(i) was required to calculate an estimated cost of equity for the social media division which would then be used in the FCF valuation. Very few candidates used their beta estimate to calculate the cost of equity and instead used Colmcille Co's original equity beta of 1.63 in their cost of equity calculation.

The FCF for year 1 is given so the FCF method should be a perpetuity valuation using the cost of equity previously estimated and the growth rate that was given. Many candidates missed a mark here as they applied growth to year 1 or estimated the cash flows over a fixed period rather than to perpetuity.

A significant number of candidates did not perform the asset-based valuations, missing out on relatively easy marks. A table was given in the question showing how the assets should be split between the divisions, but few candidates followed this with many incorrectly apportioning the liabilities. This is an example of where candidates need to ensure they are familiar with all the question information as the question clearly states that the division would be divested without current or non-current liabilities and to reinforce this point there is no information given in the table on the apportionment of liabilities.

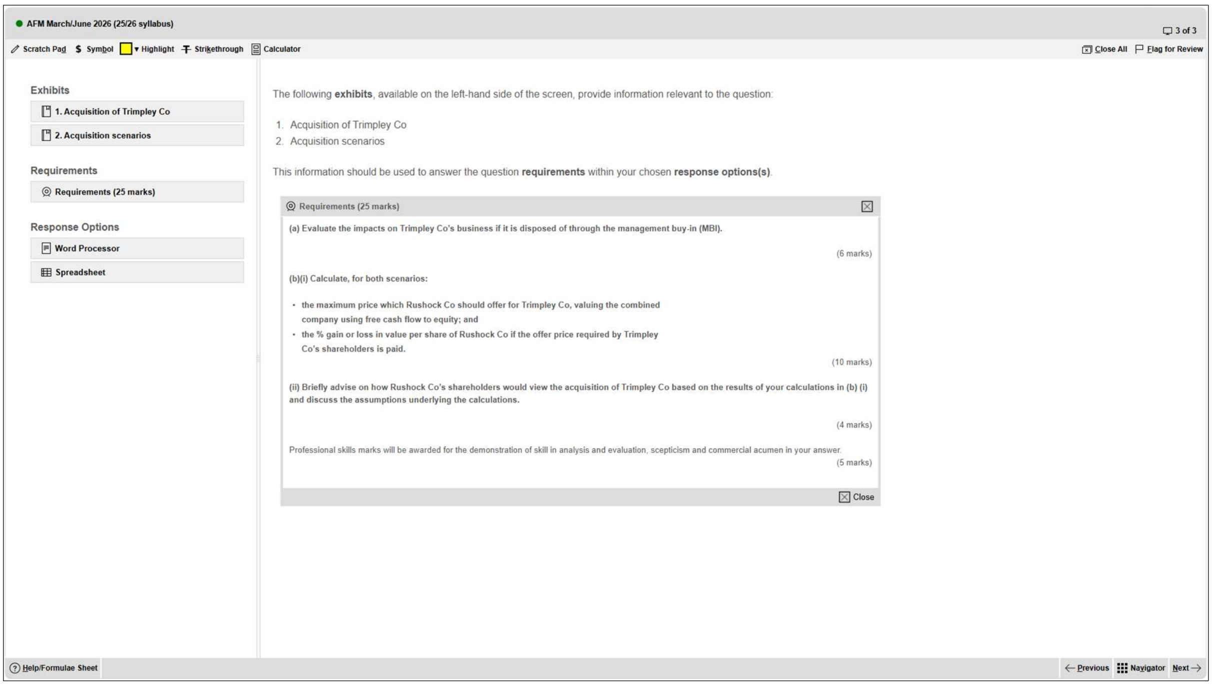
Those candidates that went on to comment on the strengths and weaknesses of the two valuation methods found they gained valuable marks boosting their overall performance. However, some candidates failed to attempt this requirement which limited their marks significantly.

Professional skills – 5 marks

The scenario in this question provided candidates with a good opportunity to demonstrate all 3 professional skills tested in this question: analysis and evaluation, scepticism and commercial acumen. Most candidates were able to gain marks for analysis and evaluation, however very few candidates used any of their valuation calculations in their discussion in part (c) which limited their marks in this area.

Candidates could have challenged the calculations in part (c) more than they did to demonstrate scepticism. However, most candidates were able to demonstrate commercial acumen, particularly when they used the background information provided about why Colmcille Co was considering divestment.

Question 3 – Trimpley Co



Format of the question

Trimpley Co is a 25-mark section B question which focusses on a potential acquisition of Trimpley Co by either a management buy-in team, or a larger company.

The question covers topics from several sections of the AFM syllabus: Section B ("Advise on the value of an organisation"), Section C ("Discuss, assess and advise on the value created from an acquisition"), and Section D ("Advise on the financial issues relating to a management buy-out and buy-in").

Candidates were required to assess the likely impact on Trimpley Co of a management buy-in, and to calculate (and discuss) a valuation and the expected gains to shareholders if Trimpley Co were acquired by a different company. The requirements are similar to those in previous exam questions that have covered these syllabus areas and should have been in line with candidates' expectations.

Exam technique and time management

Trimpley Co is worth 25 marks which translates into approximately 45 minutes for candidates to spend on this question. To maximise their chances of scoring high marks, candidates should read the question thoroughly to become familiar with the scenario and then plan their time carefully in order to address the specific issues in the question.

The key to success is to spend the time available addressing the specific requirements. It is important to answer the requirements in the time allotted, and to avoid unnecessary detail. For example, marks are not awarded for information which is repeated from the scenario without any analysis or evaluation.

Question scenario

Exhibit 1 presents information about Trimpley Co, an unlisted retailer of sports clothing and equipment, whose directors are seeking a buyer for the business. They have just rejected a takeover offer from a management buy-in team, but a large, listed company, Rushock Co, is now considering making a bid.

Exhibit 2 then presents financial information about both Trimpley Co and Rushock Co, and explains that the chief executive of Rushock Co has identified two scenarios (best-case and worst-case) that should be considered in the valuation calculations.

The question has several requirement parts, all presented with the number of marks clearly displayed, asking candidates to calculate business valuations and gains to shareholders, and to discuss issues surrounding the possible management buy-in or takeover by the large, listed company.

In addition to the technical marks that are available in this question, candidates are also expected to demonstrate professional skills throughout. The professional skills examined in Trimpley Co are analysis and evaluation, scepticism and commercial acumen.

General comments

Overall, candidates found this question challenging. A significant number of candidates did not seem to be able to value a company's equity using a multiple of free cash flow to equity and did not present clear calculations covering both scenarios (best-case and worst-case). Having said that, well-prepared candidates who understood how to prepare the calculations often scored well by also commenting sensibly and professionally on them. Therefore, there was a healthy minority of excellent answers in amongst the other scripts.

The technical requirements in this question are equally split between calculations (in part (b)(i) and discussion (parts (a) and (b)(ii)). This is very similar to previous 25-mark AFM Section B questions covering these syllabus areas.

Most candidates used their spreadsheet response area to present their calculations (in part (b)(i) and then used their word processor response area to present their discussion points (parts (a) and (b)(ii)).

However, as already highlighted above, there were many candidates who presented incomplete calculations, and/or presented discussion points that were too brief and superficial. The review below focuses on the key strengths and weaknesses that were identified in each requirement.

Requirement (a) – 6 marks

Evaluate the impacts on Trimpley Co's business if it is disposed of through the management buy-in (MBI).

This part of the question was generally well done. The majority of candidates were able to present some sensible points covering the likely impact of a management buy-in on Trimpley Co's business. However, there were two common weaknesses demonstrated by some candidates and noted by the examining team.

First, many candidates presented too few points for the 6 marks available. As a broad guide, markers were looking for approximately six points, given that 6 marks were on offer.

Second, a significant minority of candidates mixed up the definition of a management buy-in (where the company is acquired by a group of external managers) with the definition of a management buy-out (where the company is acquired by the existing managers). This meant that these candidates failed to score many (if any) marks in part (a) because they were considering the impact from the completely opposite point of view from what was required. The examining team would like to remind candidates how important it is to learn definitions accurately, and to read question requirements carefully.

Requirement (b)(i) – 10 marks

Calculate, for both scenarios:
- **the maximum price which Rushock Co should offer for Trimpley Co, valuing the combined company using free cash flow to equity; and**
- **the % gain or loss in value per share of Rushock Co if the offer price required by Trimpley Co's shareholders is paid.**

The valuation calculations seemed to be challenging for a significant number of candidates. The examining team's expectation was that candidates would present two sets of calculations – one for the best-case scenario and one for the worst-case. In each case, the additional value should have been the post-acquisition value of the combined company (valued using a multiple of free cash flow to equity), minus the current values of each of Rushock Co and Trimpley Co. This basic approach is one that has been tested in many previous AFM exam questions. The maximum price which Rushock Co should offer could then have been calculated using this additional value and adding the current value of Trimpley Co.

The question clearly presented the current free cash flows to equity of each company and the expected annual synergies that the combination would create. It also provided the current multiple (ratio of market capitalisation to free cash flow to equity), and the likely increase in that multiple in each of the two scenarios.

Most candidates did not perform the simple valuation calculations well, perhaps in the mistaken belief that a free cash flow to equity valuation is always a calculation involving the cost of equity, growth rates and a perpetuity factor, when in fact it can also be done using a multiple.

The examining team notes that this is often an acceptable way of using free cash flows to equity to arrive at an equity valuation, but only in the circumstances where cost of equity and growth rates are presented in the scenario. In this case, a slightly different approach was being tested, but it is one that candidates should have been aware of from previous AFM exam questions, and from their knowledge of other similar valuation methods such as the earnings-based approach where a Price Earnings multiple is applied to an earnings figure.

Essentially, it is important to follow the guidance in the question. The scenario clearly states that Rushock Co's current market capitalisation is a multiple of its free cash flow to equity. Market capitalisation is another term for market value of equity, and as valuations involve market value of equity calculations then this statement is a clear indication to take the free cash flow to equity figures provided in the question and apply the relevant multiple, with the relevant adjustments.

The second part of the requirement, asking candidates to calculate gains to shareholders, was attempted by the majority of candidates, even many of those who had made little headway with the first part. This was pleasing, because candidates were able to be awarded credit for the correct method and sensible calculations here, even if based on incorrect calculations in the first part.

Other common weaknesses demonstrated in part (b)(i) were:

- Adding the synergy figures into the valuations as one-off figures, rather than as an annual recurring amount (that should have therefore been subject to the same multiple as the other free cash flows to equity)
- Presenting unclear calculations and/or different calculations for the best-case and the worst-case.
- Wasting time by calculating gains to the Trimpley Co shareholders. The requirement clearly only asked for the "gain or loss in value per share of Rushock Co".

Requirement (b)(ii) – 4 marks

Briefly advise on how Rushock Co's shareholders would view the acquisition of Trimpley Co based on the results of your calculations in (b) (i) and discuss the assumptions underlying the calculations.

This part of the question was quite well answered by those candidates who attempted it and had not become disheartened after struggling with the calculations. Even many candidates who had not scored well on the calculations were able to pick up marks in the second part of this requirement.

This shows how important it is to read all requirements in full – understandably a student with few calculations would find it difficult to address the first part of this requirement, but several marks were available in the second part to any candidate who chose to challenge the assumptions presented in the question as part of the best-case and worst-case scenarios.

The only common weakness in this part was that a significant minority of candidates seemed to think that the Rushock Co shareholders would be able to choose between the best-case and worst-case scenarios. Stronger candidates realised that these were just examples of what the finance director thought might happen in the future, but there was no way of telling in advance which way things would go.

Professional skills – 5 marks

Regarding professional skills, candidates who attempted the calculations generally scored well on analysis and evaluation. However, many candidates did not show much evidence of the skills of scepticism and commercial acumen. Although analysis and evaluation is important in AFM, the skills of scepticism and commercial acumen are also highly important and need to be developed to give increased chances of exam success.

Analysis and evaluation

Those candidates who attempted the calculations often demonstrated excellent analysis and evaluation skills in their numerical analysis, presenting comprehensive and well-structured calculations looking at both scenarios.

If candidates then used their figures to support their discussion on the likely views of Rushock Co's shareholders, they were rewarded for demonstrating further analysis and evaluation skills.

Scepticism

To demonstrate the skill of scepticism, candidates were expected to adopt a questioning approach in a way that would lead to effective challenges of the information provided in the scenario. In particular, candidates who challenged the best-case and worst-case assumptions presented by the finance director were rewarded for showing scepticism skills.

However, many candidates struggled to demonstrate the requisite level of scepticism and would do well to focus on this aspect of the requirements in their preparation for the exam.

Commercial acumen

To demonstrate the skill of commercial acumen effectively, candidates should use the information in the scenario to draw evidence that relates to the organisational context or any other practical commercial considerations that could be taken into account. An example of commercial acumen in this question would have involved a candidate relating the likely impact of a management buy-in of Trimpley Co to some of the company-specific information presented in Exhibit 1. Few candidates picked up on this, and indeed many discussed the management buy-in in generic terms, without considering the implications of issues like the MBI team's previous work with Pensax Co, or the fact that the current directors are actively seeking an exit route. It is vitally important that candidates practice bringing in commercial acumen points when attempting questions and preparing for the exam.