

# ACCA Award in Financial Management (RQF Level 4)

**FFM**

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## Foundations in Financial Management

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**EXAM KIT**

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***Acknowledgements***

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# INTRODUCTION

This new edition of the ACCA Foundation Exam Kit is packed with exam-type questions, to help you to prepare for your exam successfully.

- Questions are grouped by syllabus topics and provide extensive coverage of all syllabus areas.
- All questions are of exam standard and format – this enables you to master the exam techniques.

Past exam questions have been incorporated into the main body of questions within the kit and are grouped by syllabus area.

## PAPER ENHANCEMENTS

We have added the following enhancements to the answers in this exam kit:



### **Key answer tips**

All answers include key answer tips to help your understanding of each question.



### **Tutorial note**

All answers include more tutorial notes to explain some of the technical points in more detail.

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Our Quality Co-ordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

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# THE EXAM

## FORMAT OF THE EXAMINATION

Two-hour exam:	<i>Number of marks</i>
Section A: 15 multiple-choice questions, worth 2 marks each	30
Section B: 7 compulsory longer questions	
Q1 (20 marks)	20
Q2, 3, 4 & 5 (5 marks each)	20
Q6 & 7 (15 marks each)	30
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	100
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### Sitting the examination

Spend the first few minutes of the examination reading the paper, deciding which question to answer first.

Unless you know exactly how to answer the question, spend some time **planning your answer**. Stick to the question and tailor your answer to what you are asked.

**Fully explain all your points** but be concise. Set out all workings clearly and neatly, and state briefly what you are doing. Don't write out the question.

If you do not understand what a question is asking, **state your assumptions**. Even if you do not answer precisely in the way the examiner hoped, you should be given some credit, if your assumptions are reasonable.

**If you get stuck** with a question, leave space in your answer book and return to it later.

### Answering the questions

**Discussion questions:** Make a quick plan in your answer book and under each main point list all the relevant facts you can think of. Then write out your answer developing each point fully. Be concise. It is better to write a little about a lot of different points than a great deal about one or two points.

**Computations:** It is essential to include all your workings in your answers. Many computational questions require the use of a standard format: company profit and loss account, statement of financial position (balance sheet) and cash flow statement for example. Be sure you know these formats thoroughly before the examination and use the layouts that you see in the answers given in this book and in model answers. If you are asked to comment or make recommendations on a computation, you must do so. There are important marks to be gained here. Even if your computation contains mistakes, you may still gain marks if your reasoning is correct.

**Reports, memos and other documents:** Some questions ask you to present your answer in the form of a report or a memo or other document. Read the instructions carefully and use the correct format.

## Section 1

# MULTIPLE-CHOICE QUESTIONS

### A: WORKING CAPITAL MANAGEMENT

- 1 A business has an average inventory holding period of 80 days, receives payment from its customers in 40 days and pays its payables in 45 days.

**What is the cash operating cycle in days for the business?**

- A 5 days
- B 85 days
- C 165 days
- D 75 days

- 2 A business receives payment from its customers in 30 days and pays its payables in 25 days. It has an average inventory holding period of 10 days.

**What is the cash operating cycle in days for the business?**

- A 45 days
- B 15 days
- C 65 days
- D 5 days

- 3 **Which of the following are assumptions used when calculating the economic order quantity (EOQ) for inventory?**

- (i) Lead time is constant
- (ii) Demand is constant
- (iii) Purchase costs are constant

- A All three
- B (i) and (ii) only
- C (i) and (iii) only
- D (ii) and (iii) only

- 4 A company determines its order quantity for a component using the Economic Order Quantity (EOQ) model.

**What would be the effects on the EOQ and the total annual ordering cost of an increase in the annual cost of holding one unit of the component in inventory?**

	<i>EOQ</i>	<i>Total annual ordering cost</i>
A	Lower	Higher
B	Higher	Lower
C	Lower	No effect
D	Higher	No effect

- 5 A company uses the Economic Order Quantity (EOQ) model to establish reorder quantities. The following information relates to the forthcoming period:

Order costs = \$25 per order

Purchase price = \$40 per unit

Holding costs = 10% of purchase price = \$4/unit

Annual demand = 20,000 units

EOQ = 500 units

No safety inventory is held.

**What are the total annual costs of inventory (i.e. the total purchase cost plus total order cost plus total holding cost)?**

- A \$22,000
- B \$33,500
- C \$802,000
- D \$803,000