

Comments on Candidate Performance on the December 2018 Finance Elective Examination

Most candidates did a good job of understanding the scenarios presented. The requirements were clearly laid out in both cases.

For Case 1, it was a lengthy case (120 min) with many calculations but candidates seemed to put in appropriate time to address and attempt them. The main difficulty in this case was the synergies requirement, which was not a usual one seen in prior finance exams. However, we saw stronger candidates do this adequately so there were no issues noted with the case overall.

Candidates who had a good technical understanding of the finance concepts were able to perform generally well. These included the DCF and NPV calculations. Some candidates seemed to struggle on the WACC calculation in Case 1. The typical errors observed were incorrectly calculating the weighting or not tax-effecting the cost of debt. This is typical of what we've seen in prior exams that ask candidates to calculate WACC.

Better candidates managed their time well and utilized efficiencies where possible, such as using the free cash flow from their calculations to prepare their DCF valuation. They were also able to respond to the requirements by integrating the case facts provided with their finance knowledge and provided balanced quantitative and qualitative analyses.

For Case 2, most candidate seemed to understand the case overall, but many of them seemed to be time constrained given the length of the first case. Furthermore, time was spent transferring the full financial statements to excel to calculate the ratios. This may have prevented them from having a balanced response between all the assessment opportunities (AO's).

Candidates may also not have realized that AO#1 and AO#2 were two different requirements (calculating the ratio analysis, explaining the reasons for the differences), which prevented them from obtaining depth in both the calculation analysis and the causal explanation. After doing the calculations and realizing wages were the main contributing factor, many did not go further to explain why wages were higher on a per child basis.

Finally, it is clear that the candidates did not spent enough time on the intangibles valuation, likely due to time constraints. This AO was fairly straightforward, but we often saw incomplete answers which prevented them from attaining C. A lot of times, the candidates were only doing a basic calculation with minimal or no discussion, which may further indicate that they did not spend enough time of the AO.

Comments on Skills

Identification: Generally, well done by most candidates given the requirements were clearly laid out. However, given possible time constraints some requirements were not addressed sufficiently, especially in Case 2.



Analysis: Many candidates that attempted the AOs provided sufficient analysis. Some, however, provided generic or unsupported responses, especially for qualitative discussions, failing to integrate specific case facts to demonstrate their knowledge. Others did not address the requirement adequately most likely because they didn't understand how to prepare the analysis (i.e. WACC calculation, capitalized cash flow valuation)

Integration: This was adequately performed for the most part as most candidates integrated their calculations to other analyses and their overall conclusions. This was clearly seen in Case 1 where candidates used their calculated cash flows and discount rate to value the business.

Conclusion: Most candidates presented reasonable, convincing, supported conclusions and/or recommendations.

Communication: Nearly all candidates adequately communicated within their response. Language used was appropriate and quantitative information was well presented.

CPA Mindset: Nearly all candidates understood their role and what was required to adequately address the user's needs.