ACCA F9 Financial Management

Study Text: FOR EXAMS FROM 1 SEPTEMBER 2016 TO 31 AUGUST 2017

Errata sheet: Feb 2016 edition

Paragraph / question	Page	Details of error and changes to be made
5.6	85	In the Sales / Net working capital ratio, 'current assets' should say 'current assets excluding cash'.
Q5c	90	First line should say 'The ratio of current assets (excluding inventory) to current liabilities'
Q3c	176	The final sentence in the answer to part (c) should end 'the previous time period', not 'the time period'.
4.8	306	Part (a) – the market price of the bond should be at 1 January 20X3, not 28 December 20X2.
4.8	307	Solution to part (b) – the first interest payment (31.12.X2) should be deleted, so the market value is \$90.40
Q5a Velm	470	Revised solution (a) Receivables are currently taking on average (\$550,000/\$4,000,000) × 365 = 50 days to pay. This is in excess of Velm's stated terms. The discount, to be taken up by 2/3 of customers, will cost the company \$4,000,000 × 1% × 2/3 = \$26,667. It is stated that this will bring the receivables' payment period down to 26 days, which is represented by a new receivables level of \$4,000,000 × 26/365 = \$284,932. This is a reduction in receivables of \$265,068. At current overdraft costs of 9%, this would be a saving of \$265,068 × 0.09 = \$23,856. Bad debts would decrease from 3% to 2.4% of revenue, which saves a total of \$4,000,000 × 0.006 = \$24,000. There would also be a salary saving from early retirement of \$12,000.

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		So the net effect on Velm's profitability is as follows: $ Saving on overdraft costs 23,856 Decreased bad debts 24,000 Salary saving 12,000 Less: cost of discount (26,667) Net saving 33,189