

# Examiner's Report

SC Licensing Examinations  
Module 7: Financial Statement Analysis & Asset Valuation  
August 2012



## Examination Structure

---

The Module 7 examination consists of **60 multiple choice questions** and the passing mark is **60%**. Candidates are given **90 minutes** to complete the examination where on average 1.5 minutes should be allocated to answer each question.

Each question is followed by 4 options (i.e. A, B, C and D) and candidates need to choose **1 option as the answer**. The marks allocated for each **correct answer is 1**. The examination set consists of questions from **3 sections** and the maximum number of questions from each section is as follows:

- Section 1 - 36 (60%)
- Section 2 - 18 (30%)
- Section 3 - 18 (30%)

**Section 1** focuses on a wide aspect of financial statement analysis (FSA). Its coverage include introduction to financial statements, prerequisites for drawing up financial statements, financial reporting framework, role of FSA in decision-making, accounting issues in FSA and consideration when looking at company performance through FSA.

Statement of financial position (balance sheet), income statement, statement of changes in equity and statement of cash flow will also be covered in detail as well as a working example of ratio analysis.

**Section 2** focuses on fixed income and money markets and this includes an overview on the Malaysian Fixed Income Securities, bond features, credit rating, theories of interest rate determination, time value of money, pricing fixed income securities, calculating bond yield and valuing money market securities.

**Section 3** covers the Malaysia equity markets including exchange-traded fund and equity hybrids. Besides covering the basic features of these instruments, this section also includes valuation of equities using discounted cashflow and comparative methods and factors affecting the valuation of these securities.

# Examiner's Report

SC Licensing Examinations  
Module 7: Financial Statement Analysis & Asset Valuation  
August 2012



Candidates are advised to refer to the Module 7 Study Outline on the SIDC website at [www.sidc.com.my](http://www.sidc.com.my) for a more detailed description of the topics covered in the three sections. Candidates must note that the examination seeks to examine and assess candidates on **all the areas** listed in the syllabus. It is, therefore, imperative that **all topics are studied in sufficient detail**.

As for the levels of cognitive skills assessed, the Module 7 examination is classified as a Level 1 examination which means that the examination set has been developed to place **greater emphasis on the candidates' knowledge and comprehension skills**. However, it also comprises several questions that assess the candidates' application and analysis skills. In short, in terms of cognitive levels assessed, this examination set comprises **knowledge, comprehension up to application and analysis** type questions.

Therefore, to pass this examination, it is essential that candidates not only **demonstrate their knowledge but also their comprehension of the subject matter as well as their ability to apply and analyse** in a given context.

## General Performance

---

This Examiner's Report is based on one examination set for a specific duration. As seen from the table below, candidates performed better in Section 3 (51%) followed by Section 2 (50%) and Section 1 (42%). On the whole, candidates should improve their preparation effort in all 3 sections, especially Section 1 as a **MAXIMUM** of 60% questions in the examination set may come from this section alone.

Section	% candidates answered 60% or more of questions correctly
1	42%
2	50%
3	51%

# Examiner's Report

SC Licensing Examinations  
Module 7: Financial Statement Analysis & Asset Valuation  
August 2012



Candidates also performed better in answering knowledge questions (68%) as compared to comprehension questions (43%) and application and analysis questions (21%). This indicates that candidates were able to recall memorised information type of questions but lacked the ability to comprehend or analyse and apply the information and concept learnt for this examination.

Cognitive skills	% candidates answered 60% or more of questions correctly
Knowledge	68%
Comprehension	43%
Application & Analysis	21%

We will now proceed to the detailed report on the performance of the candidates according to the three sections of the Module 7 syllabus.

## Detailed Performance of Candidates According to their Groups

---

For this Examiner's Report, strictly for the purpose of analysing the detailed performance of candidates in accordance with the three sections, we have divided the candidates into the following three groups based on their Module 7 examination score:

- High Group - candidates who scored 60% and above (i.e. those who passed this module)
- Medium Group - candidates who scored 40% to 59%
- Low Group - candidates who scored below 40%

# Examiner's Report

SC Licensing Examinations  
Module 7: Financial Statement Analysis & Asset Valuation  
August 2012



## Section 1:

### Knowledge questions

The candidates' overall performance for knowledge questions was the best compared to comprehension or application and analysis questions. However, there is still room for improvement, including for the High Group, on the data in the financial statement and the impact of the company's business activities on their financial statement.

In addition, candidates in the Low to Medium Groups also need to further improve their knowledge on areas such as basic concept of accounting principles, cashflow statements and the uses of the various financial ratios.

### Comprehension questions

The candidates' overall performance for comprehension questions was better compared to application questions. Candidates in the High Group did well but those in the Low and Medium Groups need to improve their knowledge and understanding on the different categories and uses of financial ratios and to be able to interpret these ratios. Candidates must also understand the relationships between these ratios and the impact of the company's activities on its financial position. In addition, they should also master basic concepts on revenues, expenses, assets, liabilities and equities.

### Application and Analysis questions

As expected, the candidate's performance was poorer for application and analysis questions compared to knowledge and comprehension questions. Candidates in all three groups still need to improve their grasp of financial ratios formulas and based on given scenarios compute and interpret relevant ratios to assess the financial position of a company or compare the strengths and weaknesses of various companies.

Over and above, candidates in the Low Group would need to improve on the application of their knowledge on subtopics relating to market performance ratios including price earnings ratio.

# Examiner's Report

SC Licensing Examinations  
Module 7: Financial Statement Analysis & Asset Valuation  
August 2012



## Section 2:

### Knowledge questions

Candidates' performance in Section 2 is similar to that of Section 1 where overall, candidates performed well in answering knowledge questions, followed by comprehension and application and analysis questions. Candidates in the High to Medium Groups did quite well in most of knowledge questions in this section. However, candidates in the Low Group performed poorly in most of the subtopics in this section.

Section 2 focuses on fixed income and money market securities and from the analysis, candidates in the Low Group should focus more on subtopics covering areas such as types and characteristics of fixed income securities and risks involved in fixed income and money market investments.

### Comprehension questions

As mentioned earlier, candidates performed slightly better for comprehension questions compared to application and analysis questions.

On the overall, candidates need to improve their understanding on the features of the fixed income securities, the term structure of interest rates and yield curve as well as the effects of economics factors on the price of fixed income securities and money market. Candidates in the Low Group also need to improve their knowledge on compounding and discounting techniques.

### Application and Analysis questions

In this section, the performance of candidates in the High Group was better for application and analysis questions compared to comprehension questions. Candidates in the Low to Medium Groups need to improve their application of knowledge on subtopics such as bond pricing and time value of money.

# Examiner's Report

SC Licensing Examinations  
Module 7: Financial Statement Analysis & Asset Valuation  
August 2012



## Section 3:

### Knowledge questions

Candidates in the High and Medium Groups did well in answering knowledge questions in this section, whilst those in the Low Group need to further improve their knowledge on the basic features and classification of the different types of securities available including exchange-traded fund and equity hybrids.

### Comprehension questions

Although candidates in the High Group performed well in comprehension questions, there is still room for improvement, especially on subtopics relating to equity valuation. Candidates need to understand the various techniques used in valuation and its implications.

In addition, candidates in the Low and Medium Groups also need to improve on their knowledge and ability to distinguish the features and rights of different types of securities and the impact of the corporate actions on these instruments.

### Application and Analysis questions

The overall performance of the candidates in application and analysis questions is the poorest among the cognitive skills. Candidates need to further improve their application of knowledge to compute the various valuations of equities.

# Examiner's Report

SC Licensing Examinations  
Module 7: Financial Statement Analysis & Asset Valuation  
August 2012



## Conclusion

---

It is imperative that all topics in the syllabus must be covered and mastered in order to pass this examination.

Candidates in the Low to Medium Group need to increase their preparations for the examinations as the analysis has shown their poor performance in all three sections especially in Section 1 in all three cognitive skills.

Among the subtopics that they must improve on regardless of cognitive level are topics related to analysis on financial and stock market ratios, theory and the effects of interest rates on fixed income and money market securities and features and valuation of equity securities. Candidates must step up from just memorising data, formula or information and aim instead for the ability to interpret and apply concepts and principles learnt.

Depending on the background, candidates should allocate sufficient time to prepare for the examination.