Introduction

The attached report has been written by the Principal Examiner with the aim of helping candidates, both those who are sitting the examination for the first time and using past papers as a revision aid and also those who have previously failed the subject.

The specimen solutions are based on one possible approach to modelling the scenario set but the examiners gave credit for any alternative approach which they considered to be reasonable.

Luke Hatter
Chair of the Board of Examiners

July 2018
General comments on Module 5

Module 5 aims to ensure that successful candidates can model data and develop an audit trail to document the work done.

Part I of this examination tests the ability to produce a complete and accurate model using sound and simple techniques, and the ability to perform reasonableness checks and automated checks throughout. Candidates are therefore expected to have a working knowledge of spreadsheets.

Part II of this examination tests the ability to produce an audit trail that documents all the work done, including the methods, the parameters, the data used, the checks performed and the results of those checks. This can be done in a separate sheet within the spreadsheet model or in a separate Word document.

It should be noted that there will generally be more marks available for Part II than for Part I to reflect the importance of good communication and documentation when producing models. Candidates should bear this in mind when considering how much time to allocating to each of these elements of the assessment.

General comments on Examination May 2018

This examination involved determining the expected return of an investment bond whose interest payments were determined by a random process. Candidates were provided with a large number of random simulated numbers which could be used to simulate the cash flows on 200 bonds over a 20 year period. Candidates were required to check (but not amend) this data before using it to determine annualised returns for the bonds over the 20 year period. Further calculations investigating the impact of the level of an annual management charge on the bond returns and some analysis of the distribution of the bond values was then required, based on these numbers.

This exam primarily required the ability to perform data validation and analysis.

The model produced should be robust and adaptable with as much automation as possible such that, for example, if an alternative set of simulations were used, the changes would feed through without further intervention. Candidates lost marks for copying and pasting the data between worksheets (as opposed to linking all future calculations to the raw data). The use of named data ranges can be helpful for understanding and adapting the model, particularly for key parameter values.

The most common reason for failure in this sitting (as in previous sittings) was due to an inadequate audit trail. When describing methodology, students should note that they need to state their methods and logic for each stage of the calculation clearly (in words rather than using formulae or Excel functions). Furthermore, a simple statement that a calculation has been done, with no explanation as to how, will not be sufficient.

Candidates are strongly encouraged to look at the sample solutions provided to better understand the level of detail they should be aiming to produce in their audit trails.
END OF EXAMINERS’ REPORT