

# Subject CB1

## 2021 Study Guide

### Introduction

This Study Guide has been created to help you navigate your way through Subject CB1. It contains all the information you will need before starting to study Subject CB1 for the 2021 exams and you may also find it useful to refer to throughout your Subject CB1 journey.

The guide is split into two parts:

- Part 1 contains specific information about Subject CB1
- Part 2 contains general information about the Core Principles subjects.

**Please read this Study Guide carefully before reading the Course Notes**, even if you have studied for some actuarial exams before. While you may have already read (the majority of) the Part 2 material in previous subjects, the information in Part 1 is unique to this course.

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## 1.1 Subject CB1 – background and contents

### History

The Business subjects (Subjects CB1, CB2 and CB3) were introduced in the Institute and Faculty of Actuaries 2019 Curriculum. ActEd is not involved in the delivery of Subject CB3.

Subject CB1 is *Business Finance*.

### Predecessors

The topics in the Business subjects (Subjects CB1 and CB2) cover content previously in Subjects CT2 and CT7:

- Subject CB1 replaces Subject CT2.
- Subject CB2 replaces Subject CT7.

### Exemptions

In order to be eligible for a pass in Subject CB1, you will need:

- to have passed or been granted an exemption from Subject CT2 during the transfer process
- to have met the profession's requirements based on the current curriculum.

See the profession's website for further details:

[www.actuaries.org.uk/studying/exam-exemptions](http://www.actuaries.org.uk/studying/exam-exemptions)

### Links to other subjects

- Subjects CB2 and CB3 – Business Economics and Business Management are the other subjects in the *Business* module.
- Subject CM1 – Actuarial Mathematics 1
- Subject CP1 – Actuarial Practice
- Subject SP5 – Investment and Finance Principles
- Subject P0 – Generic UK Practice Module

### Contents

There are three parts to the Subject CB1 course. The parts cover related topics and are broken down into chapters. At the end of each part there is an assignment testing the material from that part.

The following table shows how the parts and chapters relate to each other. The final column shows how the chapters relate to the days of the regular tutorials. This table should help you plan your progress across the study session.

<b>Part</b>	<b>Chapter</b>	<b>Title</b>	<b>No of pages</b>	<b>Syllabus objectives</b>	<b>X Ass</b>	<b>3 full days</b>
<b>1</b>	1	Key principles of finance and corporate governance	31	1	X1	1
	2	Business ownership	20	2.1		
	3	Taxation	20	2.2		
	4	Long-term finance	34	2.1, 2.3		
	5	Issue of shares	28	2.3		
	6	Short- and medium-term finance	19	2.1		
	7	Alternative sources of finance	15	2.1		
	8	Use of derivatives	21	2.3		
<b>2</b>	9	Introduction to accounts	32	4.1	X2	2
	10	The main accounts	36	4.1		
	11	Depreciation and reserves	19	4.1		
	12	Constructing accounts	32	4.1		
	13	Group accounts and insurance company accounts	23	4.1		
	14	Interpretation of accounts	53	4.2		
	15	Limitations of accounts and alternative reporting	21	4.1, 4.2		
<b>3</b>	16	Evaluation of working capital	19	5.1	X3	3
	17	Constructing management information	21	5.2		
	18	Growth and restructuring of companies	22	2.5, 2.6		
	19	Weighted average cost of capital	36	3.1		
	20	Capital structure and dividend policy	36	2.4		
	21	Capital project appraisal (1)	31	3.1		
	22	Capital project appraisal (2)	39	3.1		

## 1.2 Subject CB1 – Syllabus and Core Reading

### Syllabus

The Syllabus for Subject CB1 is given here. To the right of each objective are the chapter numbers in which the objective is covered in the ActEd course.

#### **Aim**

The aim of the Business Finance subject is to:

- provide a basic understanding of corporate finance including a knowledge of the instruments used by companies to raise finance and manage financial risk
- provide the ability to interpret the accounts and financial statements of companies and financial institutions.

#### **Competences**

On successful completion of this subject, a student will be able to:

1. understand how companies are governed and structured
2. suggest appropriate ways to finance a company
3. analyse published accounts
4. produce management information.

#### **Syllabus topics**

- |    |  |       |
|----|--|-------|
| 1. | Corporate governance and organisation                              | (10%) |
| 2. | How corporates are financed  | (20%) |
| 3. | Evaluating projects  | (20%) |
| 4. | Constructing and interpreting company accounts                     | (40%) |
| 5. | Constructing management information and evaluating working capital | (10%) |

The weightings are indicative of the approximate balance of the assessment of this subject between the main syllabus topics, averaged over a number of examination sessions.

The weightings also have a correspondence with the amount of learning material underlying each syllabus topic. However, this will also reflect aspects such as:

- the relative complexity of each topic, and hence the amount of explanation and support required for it
- the need to provide thorough foundation understanding on which to build the other objectives
- the extent of prior knowledge which is expected
- the degree to which each topic area is more knowledge- or application-based.

## Detailed syllabus objectives

- |       |  |             |
|-------|--|-------------|
| 1     | Corporate governance and organisation  | (10%)       |
| 1.1   | Explain the purpose and process of regulating the financial reporting information of incorporated entities.  | (Chapter 1) |
| 1.2   | Describe the key principles of corporate governance and the regulation of companies.   | (Chapter 1) |
| 1.3   | Demonstrate an awareness of the key principles of finance.   | (Chapter 1) |
| 1.3.1 | Outline the relationship between finance and the real resources and objectives of an organisation.   |             |
| 1.3.2 | Outline the relationship between the stakeholders in an organisation (including lenders and investors).  |             |
| 1.3.3 | Outline the role and effects of the capital markets.   |             |
| 1.3.4 | Outline the maximisation of shareholder wealth as the main goal of financial management in a company.  |             |
| 1.3.5 | Outline problems relating to the maximisation of shareholder wealth in practice: social responsibility concerns, agency problems and divergent objectives. |             |
| 1.3.6 | Outline the strategies employed by managers to maximise shareholder wealth.  |             |
| 1.3.7 | Outline the determinants of value and the actions managers can take to influence value.  |             |
| 1.4   | Discuss the ethical responsibilities of the owners and managers of businesses.   | (Chapter 1) |
| 2     | How corporates are financed  | (20%)       |
| 2.1   | Describe the structure of a company and the different methods by which it may be financed.   |             |
| 2.1.1 | Outline the distinctive characteristics of sole traders, partnerships and limited companies as business entities.  | (Chapter 2) |
| 2.1.2 | Describe the different types of loan and share capital.  | (Chapter 4) |
| 2.1.3 | Contrast authorised and issued share capital.  | (Chapter 4) |
| 2.1.4 | Discuss the economic advantages and disadvantages of a limited company as a business entity.   | (Chapter 2) |
| 2.1.5 | Outline the main differences between a private and public company.   | (Chapter 2) |

- 2.1.6 Outline the following different types of medium term company finance: (Chapter 6)
- credit sale
  - leasing
  - bank loans.
- 2.1.7 Describe the following different types of short term company finance: (Chapter 6)
- bank overdrafts
  - trade credit
  - factoring
  - bills of exchange
  - commercial paper.
- 2.1.8 Describe alternative methods of raising finance outside the regular banking system, including 'shadow banking', direct project financing, crowd-funding and micro-finance. (Chapter 7)
- 2.2 Describe the basic principles of personal and corporate taxation. (Chapter 3)
- 2.2.1 Describe the basic principles of personal taxation of income and capital gains.
- 2.2.2 Describe the basic principles of company taxation.
- 2.2.3 Explain the different systems of company taxation from the points of view of an individual shareholder and the company.
- 2.2.4 Outline the basic principles of double taxation relief.
- 2.3 Demonstrate a knowledge and understanding of the characteristics of the principal forms of financial instrument issued or used by companies and the ways in which they may be issued.
- 2.3.1 Outline for a private company: (Chapter 5)
- the reasons they may have for seeking a quotation on the stock exchange
  - how shares are issued and traded
  - the advantages and disadvantages for their remaining as a private company compared with becoming a publicly quoted company.

- 2.3.2 Describe the characteristics of the following: (Chapter 4)
- debenture stocks
  - unsecured loan stocks
  - Eurobonds
  - preference shares
  - ordinary shares
  - convertible unsecured loan stocks
  - convertible preference shares
  - contingent convertibles
  - floating rate notes
  - subordinated debt
  - options issued by companies.
- 2.3.3 Describe the characteristics and possible uses by a non-financial company of: (Chapter 8)
- financial futures
  - options
  - interest rate and currency swaps.
- 2.3.4 Outline the following methods of obtaining a quotation for securities: (Chapter 5)
- offer for sale
  - offer for sale by tender
  - offer for subscription
  - placing
  - introduction.
- 2.3.5 Describe a rights issue to existing shareholders. (Chapter 5)
- 2.3.6 Describe the role of underwriting in the issue of securities. (Chapter 5)
- 2.4 Discuss the factors to be considered by a company when deciding on its capital structure and dividend policy. (Chapter 20)
- 2.4.1 Describe the effect that the capital structure used by a company will have on the market valuation of the company.
- 2.4.2 Describe the effect of taxation on the capital structure used by a company.
- 2.4.3 Discuss the principal factors that a company should consider in setting dividend policy.
- 2.4.4 Discuss alternative ways of distributing profits, such as buybacks.
- 2.4.5 Discuss the effect that the dividend policy will have on the market valuation of a company.

- 2.5 Discuss how companies grow and the different ways of company restructuring. (Chapter 18)
- 2.5.1 Describe why businesses want to grow larger, how companies achieve internal growth and explain the relationship between growth and profitability.
- 2.5.2 Describe the constraints on a firm's growth.
- 2.6 Outline the motives for mergers and acquisitions. (Chapter 18)
- 2.6.1 Describe the characteristics of a merger.
- 2.6.2 Discuss methods of evaluating a target company.
- 2.6.3 Discuss the steps that a buyer will usually take in a leveraged buyout.
- 3 Evaluating projects (20%)
- 3.1 Discuss how a company's cost of capital interacts with the nature of the investment projects it undertakes. (Chapters 19, 21 and 22)
- 3.1.1 Define what is meant by a company's cost of capital.
- 3.1.2 Describe how to calculate a company's weighted average cost of capital.
- 3.1.3 Discuss the principal methods that may be used to determine the viability of a capital project.
- 3.1.4 Carry out cashflow projections and techniques to estimate cashflows.
- 3.1.5 Describe methods commonly used to evaluate risky investments including simulation and certainty equivalents.
- 3.1.6 Discuss the issues in establishing the required rate of return for a capital project.
- 3.1.7 Discuss the factors underlying the choice of discount rate within project assessment, including:
- the assumptions and limitations in the use of the weighted average cost of capital.
  - the allowance for leverage.
  - the allowance for risk.
- 3.1.8 Discuss the methods that may be used for identifying the risks that may be present for different types of project.
- 3.1.9 Discuss suitable techniques for ascertaining the probability of occurrence of different risks over varying timescales and the financial impact of occurrence.
- 3.1.10 Discuss suitable techniques for ascertaining the distribution of the possible financial outcomes of a capital project.
- 4 Constructing and interpreting company accounts (40%)

- 4.1 Describe the basic construction of accounts of different types and the role and principal features of the accounts of a company. (Chapters 9 to 13 and 15)
- 4.1.1 Explain why companies are required to produce annual reports and accounts.
- 4.1.2 Explain the value of financial reporting on environmental, social and economic sustainability.
- 4.1.3 Describe alternatives to traditional financial reporting.
- 4.1.4 Explain the fundamental accounting concepts that should be adopted in the drawing up of company accounts.
- 4.1.5 Explain the purpose of:
- a statement of financial position.
  - a statement of comprehensive income.
  - a cashflow statement.
  - the notes to the accounts.
- 4.1.6 Construct simple statements of financial position and statements of profit or loss.
- 4.1.7 Explain cashflow statements.
- 4.1.8 Describe the structure and content of insurance company accounts.
- 4.1.9 Explain what is meant by the terms subsidiary company and associated company.
- 4.1.10 Explain the purpose of consolidated accounts.
- 4.1.11 Explain how goodwill may arise on the consolidation of group accounts.
- 4.1.12 Explain how depreciation is treated in company accounts.
- 4.1.13 Explain the function of the following accounts – share capital, other reserves and retained earnings.
- 4.2 Assess the accounts of a company or a group of companies, including the limitations of such assessment. (Chapters 14 and 15)
- 4.2.1 Calculate and explain priority percentages and gearing.
- 4.2.2 Calculate and explain interest cover and asset cover for loan capital.
- 4.2.3 Describe the possible effects of interest rate movements on a highly geared company.
- 4.2.4 Calculate and explain price earnings ratio, dividend yield, dividend cover and EBITDA.
- 4.2.5 Explain net earnings per share.

- 4.2.6 Calculate and explain accounting ratios that indicate:
- profitability
  - liquidity
  - efficiency.
- 4.2.7 Discuss the shortcomings of historical cost accounting.
- 4.2.8 Discuss the limitations in the interpretation of company accounts.
- 4.2.9 Discuss the ways that reported figures can be manipulated to create a false impression of a company's financial position.
- 5 Constructing management information and evaluating working capital (10%)
- 5.1 Discuss the working capital position of a company. (Chapter 16)
- 5.1.1 Analyse accounts receivables, accounts payables and inventory ratios
- 5.1.2 Describe policies for working capital management, including its individual elements.
- 5.1.3 Discuss methods for financing working capital.
- 5.1.4 Analyse the short term cash position of a company.
- 5.1.5 Discuss measures to manage the short term cash position of a company.
- 5.2 Describe the function of forecasts and budgets as sources of management information. (Chapter 17)
- 5.2.1 Explain the purpose of forecasts and budgets.
- 5.2.2 Prepare basic examples of forecasts and budgets.

## Core Reading

The Subject CB1 Course Notes include the Core Reading in full, integrated throughout the course.

At the time of writing of the Core Reading (Winter 2020), the enduring effect of the coronavirus pandemic on both the global economy and financial markets will not be known for some time. This version of the Core Reading does not attempt to address these areas.

### **Accreditation**

Material from the Audit and Assurance Council (formerly Auditing Practices Board) in this Core Reading is reproduced by kind permission of the Audit and Assurance Council. For further information please visit [www.frc.org.uk](http://www.frc.org.uk).

### **Further reading**

The exam will be based on the relevant Syllabus and Core Reading and the ActEd course material will be the main source of tuition for students.

### **Background references**

These background references, provided at the end of the Core Reading, are for further reading, if desired, and are not examinable:

- **Brealey, SC and Myers, RA, 2000, Principles of Corporate Finance, 6th ed, Irwin/McGraw-Hill**
- **Atrill, P and McLaney, E, 2015, Management Accounting for decision makers, 8th ed, Pearson**
- **Berry, A and Jarvis, R, 2011, Accounting in a business context, 5th ed, Cengage**
- **Leiwiy, D and Perks, R, 2013, Accounting Understanding and Practice, 4th ed, McGraw-Hill**
- **Sloman, J, Garratt, D, Guest, J and Jones, E, 2016, Economics for Business, 7th ed, Pearson**
- **FRC: The UK Corporate Governance Code, January 2019**
- **Crowd funding regulation. Available at: <https://www.fca.org.uk>**
- **[www.thetakeoverpanel.org.uk/download-links/the-takeover-code](http://www.thetakeoverpanel.org.uk/download-links/the-takeover-code)**
- **Global Reporting Initiative (GRI), GRI Sustainability Reporting Standards. Available at: <https://www.globalreporting.org>**
- **The Association of Chartered Certified Accountants, London, 2010, 'Sustainability reporting matters. What are national governments doing about it?'. Available at: <https://www.accaglobal.com/uk/en/technical-activities/technical-resources-search/2010/december/sustainability-reporting-matters-what-are-national-governments-doing-about-it.html>**
- **Companies Act, 2006, Contents of the strategic report. Available at: <http://www.legislation.gov.uk/ukpga/2006/46/contents>**
- **The International Integrated Reporting Council, How to prepare an integrated report. Available at: <http://integratedreporting.org/>.**

## 1.3 Subject CB1 – summary of ActEd products

The following products are available for Subject CB1:

- Course Notes
- X Assignments – three assignments:
  - X1-X3: 100-mark tests (you are allowed 3¼ hours to complete these)
- Series X Marking
- Online Classroom – around 60 tutorial units
- Flashcards
- Revision Notes – six A5 booklets
- ASET (2014-17 papers) – four years of exam papers, *ie* eight sittings, covering the period April 2014 to September 2017
- ASET (2019-20 papers) – two years of exam papers, *ie* four sittings, covering the period April 2019 to September 2020
- Mock Exam – one 100-mark test
- Additional Mock Pack (AMP) – two additional 100-mark tests
- Mock Exam Marking
- Marking Vouchers.

Products are generally available in both paper and eBook format. Visit [www.ActEd.co.uk](http://www.ActEd.co.uk) for full details about available eBooks, software requirements and restrictions.

The following tutorials are typically available for Subject CB1:

- Regular Tutorials (three days)
- Block Tutorials (three days).

Full details are set out in our *Tuition Bulletin*, which is available on our website at [www.ActEd.co.uk](http://www.ActEd.co.uk).

## 1.4 Subject CB1 – skills and assessment

### Technical skills

Subjects CB1 and CB2 are more ‘wordy’ (and less mathematical) than the other Core Principles subjects.

Subject CB1 is assessed using objective test (multiple choice) questions and ‘free form’ answer questions. Don’t panic if you haven’t written an essay in a while – it is more important to come up with a set of clear, concise points than to answer with flowing prose.

### Exam skills

#### *Exam question skill levels*

In Subject CB1, the approximate split of assessment across the three skill types is:

- Knowledge – 25%
- Application – 55%
- Higher Order skills – 20%.

### Assessment

Assessment consists of a 3¼-hour examination involving objective test questions and ‘free form’ answer questions.

## 1.5 Subject CB1 – frequently asked questions

**Q:** *What knowledge of earlier subjects should I have?*

**A:** No knowledge of earlier subjects is required.

**Q:** *What are the key question answering skills?*

**A:** Part 2 of the course cover the construction and interpretation of accounts. This work can be quite complex and it helps to have accurate numerical skills. A lot of question practice in this area will help.

More generally, questions often ask you to recommend action for a particular firm or individual in a particular situation. You need to know and understand the course content and then be able to think practically to apply the principles to the given situation.

**Q:** *What should I do if I discover an error in the course?*

**A:** If you find an error in the course, please check our website at:

**[www.ActEd.co.uk/paper\\_corrections.html](http://www.ActEd.co.uk/paper_corrections.html)**

to see if the correction has already been dealt with. Otherwise please send details via email to **CB1@bpp.com**.

**Q:** *Who should I send feedback to?*

**A:** We are always happy to receive feedback from students, particularly details concerning any errors, contradictions or unclear statements in the courses.

If you have any comments on this course in general, please email to **CB1@bpp.com**.

If you have any comments or concerns about the Syllabus or Core Reading, these can be passed on to the profession via ActEd. Alternatively, you can send them directly to the Institute and Faculty of Actuaries' Examination Team by email to **education.services@actuaries.org.uk**.

## 2.1 Before you start

When studying for the Institute and Faculty of Actuaries' exams, you will need:

- a copy of the **Formulae and Tables for Examinations of the Faculty of Actuaries and the Institute of Actuaries, 2nd Edition (2002)** – these are referred to simply as the *Tables*
- an 'authorised' **scientific calculator** – you will find the list of permitted calculators on the profession's website. Please check the list carefully, since it is reviewed each year.

These are both available from the Institute and Faculty of Actuaries' eShop. Please visit [www.actuaries.org.uk](http://www.actuaries.org.uk).

## 2.2 Core study material

This section explains the role of the Syllabus, Core Reading and supplementary ActEd text. It also gives guidance on how to use these materials most effectively in order to pass the exam.

Some of the information below is also contained in the introduction to the Core Reading produced by the Institute and Faculty of Actuaries.

### Syllabus

The Syllabus for Subject CB1 has been produced by the Institute and Faculty of Actuaries. The relevant individual syllabus objectives are included at the start of each course chapter and a complete copy of the Syllabus is included in Section 1.2 of this Study Guide. We recommend that you use the Syllabus as an important part of your study.

### Core Reading

The Core Reading has been produced by the Institute and Faculty of Actuaries. The purpose of the Core Reading is to assist in ensuring that tutors, students and examiners have clear shared appreciation of the requirements of the Syllabus for the qualification examinations for Fellowship of the Institute and Faculty of Actuaries.

The Core Reading supports coverage of the Syllabus in helping to ensure that both depth and breadth are re-enforced. It is therefore important that students have a good understanding of the concepts covered by the Core Reading.

The examinations require students to demonstrate their understanding of the concepts given in the Syllabus and described in the Core Reading; this will be based on the legislation, professional guidance *etc* that are in force when the Core Reading is published, *ie* on 31 May in the year preceding the examinations.

Therefore the exams in April and September 2021 will be based on the Syllabus and Core Reading as at 31 May 2020. We recommend that you always use the up-to-date Core Reading to prepare for the exams.

Examiners will have this Core Reading when setting the papers. In preparing for examinations, students are advised to work through past examination questions and will find additional tuition helpful. The Core Reading will be updated each year to reflect changes in the Syllabus, to reflect current practice, and in the interest of clarity.

### Accreditation

The Institute and Faculty of Actuaries would like to thank the numerous people who have helped in the development of the material contained in this Core Reading.

## ActEd text

Core Reading deals with each syllabus objective and covers what is needed to pass the exam. However, the tuition material that has been written by ActEd enhances it by giving examples and further explanation of key points. Here is an excerpt from some ActEd Course Notes to show you how to identify Core Reading and the ActEd material. **Core Reading is shown in this bold font.**

In the example given above, the index *will* fall if the actual share price goes below the theoretical ex-rights share price. Again, this is consistent with what would happen to an underlying portfolio.

After allowing for chain-linking, **the formula for the investment index then becomes:**

$$I(t) = \frac{\sum_i N_{i,t} P_{i,t}}{B(t)}$$

where  $N_{i,t}$  is the number of shares issued for the  $i$ th constituent at time  $t$ ;

$B(t)$  is the base value, or divisor, at time  $t$ .

The diagram shows two text boxes on the right side of the excerpt. The top box, labeled 'This is ActEd text', has an arrow pointing to the bolded sentence 'the formula for the investment index then becomes:'. The bottom box, labeled 'This is Core Reading', has two arrows: one pointing to the definition of  $N_{i,t}$  and another pointing to the definition of  $B(t)$ .

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*Legal action will be taken if these terms are infringed. In addition, we may seek to take disciplinary action through the Institute and Faculty of Actuaries or through your employer.*

These conditions remain in force after you have finished using the course.

## 2.3 ActEd study support

This section gives a description of the products offered by ActEd.

Successful students tend to undertake three main study activities:

1. *Learning* – initial study and understanding of subject material
2. *Revision* – learning subject material and preparing to tackle exam-style questions
3. *Rehearsal* – answering exam-style questions, culminating in answering questions at exam speed without notes.

Different approaches suit different people. For example, you may like to revise material gradually over the months running up to the exams or you may do your revision in a shorter period just before the exams. Also, these three activities will almost certainly overlap.

We offer a flexible range of products to suit you and let you control your own learning and exam preparation. The following table shows the products that we produce. Not all products are available for all subjects.

LEARNING	LEARNING & REVISION	REVISION	REVISION & REHEARSAL	REHEARSAL
Course Notes	X Assignments  Combined Materials Pack (CMP)  X Assignment Marking  Tutorials  Online Classroom	Flashcards	Revision Notes  ASET	Mock Exam  Additional Mock Pack (AMP)  Mock Marking

The products and services are described in more detail below.

## **‘Learning’ products**

### ***Course Notes***

The Course Notes will help you develop the basic knowledge and understanding of principles needed to pass the exam. They incorporate the complete Core Reading and include full explanation of all the syllabus objectives, with worked examples and questions (including some past exam questions) to test your understanding.

Each chapter includes:

- the relevant syllabus objectives
- a chapter summary
- a page of important formulae or definitions (where appropriate)
- practice questions with full solutions.

## **‘Learning & revision’ products**

### ***X Assignments***

The Series X Assignments are written assessments that cover the material in each part of the course in turn. They can be used to develop and test your understanding of the material.

### ***Combined Materials Pack (CMP)***

The Combined Materials Pack (CMP) comprises the Course Notes and the Series X Assignments.

### ***CMP Upgrade***

The purpose of the CMP Upgrade is to enable you to amend last year’s study material to make it suitable for study for this year.

Wherever possible, it lists the changes to the syllabus objectives, Core Reading and the ActEd material since last year that might realistically affect your chance of success in the exam. It is produced so that you can manually amend your notes. The upgrade includes replacement pages and additional pages where appropriate.

However, if a large number of changes have been made to the Course Notes and X Assignments, it is not practical to produce a full upgrade, and the upgrade will only *outline* the most significant changes. In this case, we recommend that you purchase a replacement CMP (printed copy or eBook) or Course Notes at a significantly reduced price.

The CMP Upgrade can be downloaded free of charge on our website at **[www.ActEd.co.uk](http://www.ActEd.co.uk)**.

A separate upgrade for eBooks is not produced but a significant discount is available for retakers wishing to re-purchase the latest eBook.

### ***X Assignment Marking***

We are happy to mark your attempts at the X assignments. Marking is not included with the Assignments or the CMP and you need to order it separately. You should submit your script as an attachment to an email, in the format detailed in your assignment instructions. You will be able to download your marker's feedback via a secure link.

Don't underestimate the benefits of doing and submitting assignments:

- Question practice during this phase of your study gives an early focus on the end goal of answering exam-style questions.
- You're incentivised to keep up with your study plan and get a regular, realistic assessment of your progress.
- Objective, personalised feedback from a high quality marker will highlight areas on which to work and help with exam technique.

In a recent study, we found that students who attempt more than half the assignments have significantly higher pass rates.

There are two different types of marking product: Series Marking and Marking Vouchers.

#### *Series Marking*

Series Marking applies to a specified subject, session and student. If you purchase Series Marking, you will **not** be able to defer the marking to a future exam sitting or transfer it to a different subject or student.

We typically provide full solutions with the Series X Assignments. However, if you order Series Marking at the same time as you order the Series X Assignments, you can choose whether or not to receive a copy of the solutions in advance. If you choose not to receive them with the study material, you will be able to download the solutions via a secure link when your marked script is returned (or following the final deadline date if you do not submit a script).

If you are having your attempts at the assignments marked by ActEd, you should submit your scripts regularly throughout the session, in accordance with the schedule of recommended dates set out on our website at [www.ActEd.co.uk](http://www.ActEd.co.uk). This will help you to pace your study throughout the session and leave an adequate amount of time for revision and question practice.

The recommended submission dates are realistic targets for the majority of students. Your scripts will be returned more quickly if you submit them well before the final deadline dates.

Any script submitted *after* the relevant final deadline date will not be marked. It is your responsibility to ensure that we receive scripts in good time.

#### *Marking Vouchers*

Marking Vouchers give the holder the right to submit a script for marking at any time, irrespective of the individual assignment deadlines, study session, subject or person.

Marking Vouchers can be used for any assignment. They are valid for four years from the date of purchase and can be refunded at any time up to the expiry date.

Although you may submit your script with a Marking Voucher at any time, you will need to adhere to the explicit Marking Voucher deadline dates to ensure that your script is returned before the date of the exam. The deadline dates are provided on our website at **www.ActEd.co.uk**.

### ***Tutorials***

Our tutorials are specifically designed to develop the knowledge that you will acquire from the course material into the higher-level understanding that is needed to pass the exam.

We run a range of different tutorials including face-to-face tutorials at various locations, and Live Online tutorials. Full details are set out in our *Tuition Bulletin*, which is available on our website at **www.ActEd.co.uk**.

#### ***Regular and Block Tutorials***

In preparation for these tutorials, we expect you to have read the relevant part(s) of the Course Notes before attending the tutorial so that the group can spend time on exam questions and discussion to develop understanding rather than basic bookwork.

You can choose **one** of the following types of tutorial:

- **Regular Tutorials** spread over the session
- a **Block Tutorial** held two to eight weeks before the exam.

#### ***Online Classroom***

The Online Classroom acts as either a valuable add-on or a great alternative to a face-to-face or Live Online tutorial.

At the heart of the Online Classroom in each subject is a comprehensive, easily-searched collection of tutorial units. These are a mix of:

- teaching units, helping you to really get to grips with the course material, and
- guided questions, enabling you to learn the most efficient ways to answer questions and avoid common exam pitfalls.

The best way to discover the Online Classroom is to see it in action. You can watch a sample of the Online Classroom tutorial units on our website at **www.ActEd.co.uk**.

### **‘Revision’ products**

#### ***Flashcards***

For most subjects, there is **a lot of material** to revise. Finding a way to fit revision into your routine as painlessly as possible has got to be a good strategy. Flashcards are an inexpensive option that can provide a massive boost. They can also provide a variation in activities during a study day, and so help you to maintain concentration and effectiveness.

Flashcards are a set of A6-sized cards that cover the key points of the subject that most students want to commit to memory. Each flashcard has questions on one side and the answers on the reverse. We recommend that you use the cards actively and test yourself as you go.

The following questions and comments might help you to decide if flashcards are suitable for you:

- Do you have a regular train or bus journey?  
*Flashcards are ideal for regular bursts of revision on the move.*
- Do you want to fit more study into your routine?  
*Flashcards are a good option for 'dead time', eg using flashcards on your phone or sticking them on the wall in your study.*
- Do you find yourself cramming for exams (even if that's not your original plan)?  
*Flashcards are an extremely efficient way to do your pre-exam memorising.*

If you are retaking a subject, then you might consider using flashcards if you didn't use them on a previous attempt.

## **'Revision & rehearsal' products**

### ***Revision Notes***

Our Revision Notes have been designed with input from students to help you revise efficiently. They are suitable for first-time sitters who have worked through the ActEd Course Notes or for retakers (who should find them much more useful and challenging than simply reading through the course again).

The Revision Notes are a set of A5 booklets – perfect for revising on the train or tube to work. Each booklet covers one main theme or a set of related topics from the course and includes:

- Core Reading with a set of integrated short questions to develop your bookwork knowledge
- relevant past exam questions with concise solutions from the last ten years
- other useful revision aids.

### ***ActEd Solutions with Exam Technique (ASET)***

The ActEd Solutions with Exam Technique (ASET) contains our solutions to a number of past exam papers, plus comment and explanation. In particular, it highlights how questions might have been analysed and interpreted so as to produce a good solution with a wide range of relevant points. This will be valuable in approaching questions in subsequent examinations.

## **'Rehearsal' products**

### ***Mock Exam***

The Mock Exam is a 100-mark mock exam paper that provides a realistic test of your exam readiness.

It is based on the Mock Exam from last year but it has been updated to reflect any changes to the Syllabus and Core Reading.

### ***Additional Mock Pack (AMP)***

The Additional Mock Pack (AMP) consists of two further 100-mark mock exam papers – Mock Exam 2 and Mock Exam 3. This is ideal if you are retaking and have already sat the Mock Exam, or if you just want some extra question practice.

### ***Mock Marking***

We are happy to mark your attempts at the mock exams. The same general principles apply as for the X Assignment Marking. In particular:

- Mock Exam Marking applies to a specified subject, session and student
- Marking Vouchers can be used for each mock exam paper. Marking vouchers have to be used for marking the AMP mocks and can be used for marking the Mock Exam.

Recall that:

- marking is not included with the products themselves and you need to order it separately
- you should submit your script via email in the format detailed in the mock exam instructions
- you will be able to download the feedback on your marked script via a secure link.

## 2.4 Study skills and assessment

### Technical skills

The Core Reading and exam papers for these subjects tend to be very technical. The exams themselves typically have a range of questions, including calculations, along with more 'wordy' questions. The emphasis in the exam will therefore be on *knowing* and *understanding* the main concepts, and being able to *apply* them to various, frequently unfamiliar, situations. Where there are calculations involved, it is important to have a feel for what the numerical answer should be by having a deep understanding of the material and by doing reasonableness checks.

The aim of the exams is to test your ability to apply your knowledge and understanding of the key principles described in the Core Reading to specific situations presented to you in the form of exam questions. Therefore your aim should be to identify and understand the key principles, and then to practise applying them. You will also need a good knowledge of the Core Reading to score well and quickly on any bookwork questions.

### Study skills

#### *Overall study plan*

We suggest that you develop a realistic study plan, building in time for relaxation and allowing some time for contingencies. Be aware of busy times at work, when you may not be able to take as much study leave as you would like. Once you have set your plan, be determined to stick to it. You don't have to be too prescriptive at this stage about what precisely you do on each study day. The main thing is to be clear that you will cover all the important activities in an appropriate manner and leave plenty of time for revision and question practice.

Aim to manage your study so as to allow plenty of time for the concepts you meet in these courses to 'bed down' in your mind. Most successful students will probably aim to complete the courses at least a month before the exam, thereby leaving a sufficient amount of time for revision. By finishing the courses as quickly as possible, you will have a much clearer view of the big picture. It will also allow you to structure your revision so that you can concentrate on the important and difficult areas.

You can also try looking at our discussion forum, which can be accessed at [www.ActEd.co.uk/forums](http://www.ActEd.co.uk/forums) (or use the link from our home page at [www.ActEd.co.uk](http://www.ActEd.co.uk)). There are some good suggestions from students on how to study.

#### *Study sessions*

Only do activities that will increase your chance of passing. Try to avoid including activities for the sake of it and don't spend time reviewing material that you already understand. You will only improve your chances of passing the exam by getting on top of the material that you currently find difficult.

Ideally, each study session should have a specific purpose and be based on a specific task, eg 'Finish reading Chapter 3 and attempt Practice Questions 3.4, 3.7 and 3.12', as opposed to a specific amount of time, eg 'Three hours studying the material in Chapter 3'.

Try to study somewhere quiet and free from distractions (*eg* a library or a desk at home dedicated to study). Find out when you operate at your peak, and endeavour to study at those times of the day. This might be between 8am and 10am or could be in the evening. Take short breaks during your study to remain focused – it's definitely time for a short break if you find that your brain is tired and that your concentration has started to drift from the information in front of you.

### **Order of study**

We suggest that you work through each of the chapters in turn. To get the maximum benefit from each chapter you should proceed in the following order:

1. Read the syllabus objectives. These are set out in the box at the start of each chapter.
2. Read the Chapter Summary at the end of each chapter. This will give you a useful overview of the material that you are about to study and help you to appreciate the context of the ideas that you meet.
3. Study the Course Notes in detail, annotating them and possibly making your own notes. Try the self-assessment questions as you come to them. As you study, pay particular attention to the listing of the syllabus objectives and to the Core Reading.
4. Read the Chapter Summary again carefully. If there are any ideas that you can't remember covering in the Course Notes, read the relevant section of the notes again to refresh your memory.
5. Attempt (at least some of) the Practice Questions that appear at the end of the chapter.

It's a fact that people are more likely to remember something if they review it several times. So, do look over the chapters you have studied so far from time to time. It is useful to re-read the Chapter Summaries or to try the Practice Questions again a few days after reading the chapter itself. It's a good idea to annotate the questions with details of when you attempted each one. This makes it easier to ensure that you try all of the questions as part of your revision without repeating any that you got right first time.

Once you've read the relevant part of the notes and tried a selection of questions from the Practice Questions (and attended a tutorial, if appropriate) you should attempt the corresponding assignment. If you submit your assignment for marking, spend some time looking through it carefully when it is returned. It can seem a bit depressing to analyse the errors you made, but you will increase your chances of passing the exam by learning from your mistakes. The markers will try their best to provide practical comments to help you to improve.

To be really prepared for the exam, you should not only know and understand the Core Reading but also be aware of what the examiners will expect. Your revision programme should include plenty of question practice so that you are aware of the typical style, content and marking structure of exam questions. You should attempt as many past exam questions as you can.

### **Active study**

Here are some techniques that may help you to study actively.

1. Don't believe everything you read. Good students tend to question everything that they read. They will ask 'why, how, what for, when?' when confronted with a new concept, and they will apply their own judgement. This contrasts with those who unquestioningly believe what they are told, learn it thoroughly, and reproduce it (unquestioningly?) in response to exam questions.
2. Another useful technique as you read the Course Notes is to think of possible questions that the examiners could ask. This will help you to understand the examiners' point of view and should mean that there are fewer nasty surprises in the exam room. Use the Syllabus to help you make up questions.
3. Annotate your notes with your own ideas and questions. This will make you study more actively and will help when you come to review and revise the material. Do not simply copy out the notes without thinking about the issues.
4. Attempt the questions in the notes as you work through the course. Write down your answer before you refer to the solution.
5. Attempt other questions and assignments on a similar basis, *ie* write down your answer before looking at the solution provided. Attempting the assignments under exam conditions has some particular benefits:
  - It forces you to think and act in a way that is similar to how you will behave in the exam.
  - When you have your assignments marked it is *much* more useful if the marker's comments can show you how to improve your performance under exam conditions than your performance when you have access to the notes and are under no time pressure.
  - The knowledge that you are going to do an assignment under exam conditions and then submit it (however good or bad) for marking can act as a powerful incentive to make you study each part as well as possible.
  - It is also quicker than trying to write perfect answers.
6. Sit a mock exam four to six weeks before the real exam to identify your weaknesses and work to improve them. You could use a mock exam written by ActEd or a past exam paper.

You can find further information on how to study in the profession's Student Handbook, which you can download from their website at:

**[www.actuaries.org.uk/studying](http://www.actuaries.org.uk/studying)**

## Revision and exam skills

### *Revision skills*

You will have sat many exams before and will have mastered the exam and revision techniques that suit you. However it is important to note that due to the high volume of work involved in the Core Principles subjects it is not possible to leave all your revision to the last minute. Students who prepare well in advance have a better chance of passing their exams on the first sitting.

Unprepared students find that they are under time pressure in the exam. Therefore it is important to find ways of maximising your score in the shortest possible time. Part of your preparation should be to practise a large number of exam-style questions under timed exam conditions as soon as possible. This will:

- help you to develop the necessary understanding of the techniques required
- highlight the key topics, which crop up regularly in many different contexts and questions
- help you to practise the specific skills that you will need to pass the exam.

There are many sources of exam-style questions. You can use past exam papers, the Practice Questions at the end of each chapter (which include many past exam questions), assignments, mock exams, the Revision Notes and ASET.

### *Exam question skill levels*

Exam questions are not designed to be of similar difficulty. The Institute and Faculty of Actuaries specifies different skill levels at which questions may be set.

Questions may be set at any skill level:

- Knowledge – demonstration of a detailed knowledge and understanding of the topic
- Application – demonstration of an ability to apply the principles underlying the topic within a given context
- Higher Order – demonstration of an ability to perform deeper analysis and assessment of situations, including forming judgements, taking into account different points of view, comparing and contrasting situations, suggesting possible solutions and actions, and making recommendations.

### *Command verbs*

The Institute and Faculty of Actuaries use command verbs (such as 'Define', 'Discuss' and 'Explain') to help students to identify what the question requires. The profession has produced a document, 'Command verbs used in the Associate and Fellowship examinations', to help students to understand what each command verb is asking them to do.

It also gives the following advice:

- The use of a specific command verb within a syllabus objective does not indicate that this is the only form of question which can be asked on the topic covered by that objective.
- The examiners may ask a question on any syllabus topic using any of the agreed command verbs, as are defined in the document.

You can find the relevant document on the profession's website at:

**[www.actuaries.org.uk/studying/prepare-your-exams](http://www.actuaries.org.uk/studying/prepare-your-exams)**

## Past exam papers

You can download some past exam papers and Examiners' Reports from the profession's website at **[www.actuaries.org.uk](http://www.actuaries.org.uk)**. However, please be aware that the majority of these exam papers are for the pre-2019 syllabus and so not all questions will be relevant.

## The examination

**IMPORTANT NOTE: The following information was correct at the time of printing, however it is important to keep up-to-date with any changes. See the profession's website for the latest guidance.**

For the written exams the examination room will be equipped with:

- the question paper
- an answer booklet
- rough paper
- a copy of the *Tables*.

Remember to take with you:

- black pens
- an authorised scientific calculator – please refer to **[www.actuaries.org.uk](http://www.actuaries.org.uk)** for the latest advice.

## 2.5 Queries and feedback

### Questions and queries

From time to time you may come across something in the study material that is unclear to you. The easiest way to solve such problems is often through discussion with friends, colleagues and peers – they will probably have had similar experiences whilst studying. If there's no-one at work to talk to then use our discussion forum at [www.ActEd.co.uk/forums](http://www.ActEd.co.uk/forums) (or use the link from our home page at [www.ActEd.co.uk](http://www.ActEd.co.uk)).

Our online forum is dedicated to actuarial students so that you can get help from fellow students on any aspect of your studies from technical issues to study advice. You could also use it to get ideas for revision or for further reading around the subject that you are studying. ActEd tutors will visit the site from time to time to ensure that you are not being led astray and we also post other frequently asked questions from students on the forum as they arise.

If you are still stuck, then you can send queries by email to the relevant subject email address (see Section 1.5), but we recommend that you try the forum first. We will endeavour to contact you as soon as possible after receiving your query but you should be aware that it may take some time to reply to queries, particularly when tutors are away from the office running tutorials. At the busiest teaching times of year, it may take us more than a week to get back to you.

If you have many queries on the course material, you should raise them at a tutorial or book a personal tuition session with an ActEd tutor. Information about personal tuition is set out in our current brochure. Please email [ActEd@bpp.com](mailto:ActEd@bpp.com) for more details.

### Feedback

If you find an error in the course, please check the corrections page of our website ([www.ActEd.co.uk/paper\\_corrections.html](http://www.ActEd.co.uk/paper_corrections.html)) to see if the correction has already been dealt with. Otherwise please send details via email to the relevant subject email address (see Section 1.5).

Each year our tutors work hard to improve the quality of the study material and to ensure that the courses are as clear as possible and free from errors. We are always happy to receive feedback from students, particularly details concerning any errors, contradictions or unclear statements in the courses. If you have any comments on this course please email them to the relevant subject email address (see Section 1.5).

Our tutors also work with the profession to suggest developments and improvements to the Syllabus and Core Reading. If you have any comments or concerns about the Syllabus or Core Reading, these can be passed on via ActEd. Alternatively, you can send them directly to the Institute and Faculty of Actuaries' Examination Team by email to [education.services@actuaries.org.uk](mailto:education.services@actuaries.org.uk).

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