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# Examination Panelist's Report

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Paper II  
PBE Management  
Accounting and Finance  
(December 2018 Session)

*(The main purpose of the following report is to summarise candidates' common weaknesses and make recommendations to help future candidates improve their performance in the examination.)*

## **General Comments**

This subject aims to test candidates' ability to apply relevant management accounting and financial management principles and techniques in the analysis of business information and management for decision-making.

Candidates in general did satisfactory in elective Questions 4, 5 and 6. These three questions involved typical management accounting and finance topics. However, candidates performed very poorly in finance-related topics, and are recommended to pay equal attention to both areas of the paper.

Specifically, all candidates demonstrated weak knowledge in the most basic computation requirements for cost of equities and cost of debt, and as a consequence, failed to arrive the correct weighted average cost of capital ("WACC") in the compulsory Question 1.

## **Specific Comments**

### **Section A – Compulsory Questions**

#### **Question 1 – 14 marks**

This compulsory question required candidates to determine the WACC of a company and evaluate when WACC could be employed. It is a critical examination topic in Finance that tests knowledge of estimating cost of equities (including ordinary stocks and preferred stocks) and cost of debt, weighted by their respective capital structures composition. However, most candidates were not familiar with the basic calculations of all the components of the WACC requested, and as a result, candidates performed the most poorly with this question.

#### **Question 2 – 26 marks**

This question continued with the above case, which required candidates to estimate net present value ("NPV") of those operating cash flows generated from an online investment advisory platform, and advise whether a company should undertake new project. Most candidates failed to identify those relevant cash flows for the NPV computation and could not make appropriate recommendation accordingly.

## **Section B – Optional Questions**

### **Question 3 – 20 marks**

This question required candidates to assess benefit and limitations of decentralisation to a sizable corporate, as well as, to determine whether or not to engage into the internal transfer between divisions based on estimated transfer price ranges. Candidates answered this the least, and performed only fairly.

### **Question 4 – 20 marks**

This question required candidates to start with computing the expected return and standard deviation of stocks, followed with making corresponding appropriate investment choice in part (a), followed with market-based accounting ratio calculation in part (b). It is a popular question that generally results in good performance.

### **Question 5 – 20 marks**

This question tested knowledge of Economic Order Quantity in relation to assumptions, computations, graphical illustration and evaluation of its importance in inventory management, followed with estimating the amount of annual cost savings. Most candidates attempted this question with satisfactory performance.

### **Question 6 – 20 marks**

This question required candidates to advise management whether to drop a product line by preparing and analysing incremental analysis based on the relevant cost concept, as well as, to appraise any potential problems or considerations in allocating common fixed costs for business decisions. All candidates selected this question and received good results among all elective questions.

\* \* \* END OF EXAMINATION PANELIST'S REPORT \* \* \*