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# Examination Panelist's Report

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Paper II  
PBE Management  
Accounting and Finance

(June 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 and Recommendation**

Candidates in general performed satisfactorily particularly in optional Questions 4 and 5. These two questions involving typical management accounting and finance topics. Candidates did not perform so well in finance-related topics and are recommended to pay equal attention to both areas of the paper.

In addition, candidates performed particularly well in those computational questions, but weak in those questions involving critical thinking to make decision or evaluation based on calculations in previous parts.

## **Specific Comments**

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

#### **Question 1 – 20 marks**

This was a compulsory question to evaluate the decision as to whether to accept a special order or not. Many candidates failed to read the question carefully to calculate the average profit/loss for “both” flights for part (a); and did not prepare the “incremental analysis” as requested for part (b). There were marks allocated for making a recommendation based on the comparison between profit making for normal flights in part (a) and those generated if accepting the special order in part (b) to give rise to the decision analysis. Candidates are thus strongly advised to read questions carefully.

#### **Question 2 – 20 marks**

This question continued with the above case regarding pricing decision and approaches. Candidates generally performed well in both conceptual and computational applications. A few candidates did not read the question in part (b) carefully and only stated the name without the required “description” of the two pricing approaches.

### **Section B – Optional Questions**

#### **Question 3 – 20 marks**

This question required candidates to demonstrate an understanding of the impact of the capital structure on a firm's valuation. This question was answered by the smallest number of candidates, but most of these candidates got good results especially for the parts requesting the MM's capital structure postulation explanation by graph sketching. Part (g) was handled very well and involved the associated application of financial ratio analysis as well as MM's capital structure postulation.

#### Question 4 – 20 marks

This question required candidates to allocate the overheads using Activity Based Costing (“ABC”) method, and to evaluate its benefit as compared to adopting the traditional costing method. Most of the candidates attempted this question and the performance was satisfactory.

#### Question 5 – 20 marks

This question tested candidates’ knowledge about the sources of finance and evaluation of investment return for well-established business and startup. Most candidates did get a good result in the quantitative parts regarding the return on investment, with good evaluation analyses making sense of the two investment options.

#### Question 6 – 20 marks

This question required candidates to integrate their knowledge of financial analysis by making use of ratio analysis and responsibility centres to evaluate and compare two target companies for a business acquisition. Most candidates approached this question well with good results on the ratio analysis of the popular profitability ratios, such as net profit margin and return on assets, but this was not the case for the definition and interpretation of the “equity multiplier” in part (a)(iii). Candidates in general were weak in analysing or making decisions from the financial analysis of the earlier parts.

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