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# Examination Panelist's Report

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Paper I  
PBE Financial Accounting  
(December 2009 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**

The overall performance in this session was not up to expectations even though most of candidates attempted all five questions. There are several reasons for the disappointing performance in this session: disproportionate allocation of time to questions; inappropriate answers given the allocated scores; irrelevant answers; and the practical nature of some questions which a number of candidates found difficult. Candidates generally performed well in the more straightforward computational questions but were less able to answer the essay questions.

## **Specific Comments**

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

#### **Question 1 – 20 marks**

The general level of performance in this compulsory question was disappointing. Many candidates did not read the question carefully.

##### Part (a)

Most of the candidates were unable to explain the reasons and criteria for the disclosure of the disposal of BML. In addition, they could not correctly calculate the loss on the disposal. Most of the candidates forgot to include a final paragraph and sign the memorandum in order to complete the form.

##### Part (b)

Most of the candidates could only calculate the reserves in the balance sheet and were unable to identify the separate disclosure of the assets held for sale and the liabilities associated with the assets held for sale.

#### **Question 2 – 20 marks**

##### Part (a)

This part required candidates to explain what is meant by related parties, related parties transactions, and related disclosure requirements. Many candidates' answers were too brief and provided no examples to further elaborate the requirements and so failed to score full marks.

##### Part (b)

Most of the candidates were able to explain that the CEO's instruction was improper but could not suggest the appropriate actions that should be taken.

## **Section B – Optional Questions**

### **Question 3 – 20 marks**

Approximately 50% of the candidates attempted this question and their performance was disappointing.

#### Part (a)

Many candidates did not fully understand the measurement bases for assets and liabilities.

#### Part (b)

Some candidates correctly calculated the present value of accounts receivable with a payment schedule exceeding 1 year. However, many candidates could not calculate the change in fair value of the derivative financial instruments (i.e. the forward contract).

### **Question 4 – 20 marks**

Over 70% of the candidates attempted this question and the performance on part (b) was disappointing.

#### Part (a)(i) & (ii)

This was a very straightforward question and many candidates were able to provide satisfactory answers.

#### Part (b)

This part was poorly answered. Many candidates could not apply the theory to practical events and so failed to answer the question properly.

Many candidates did not realise that a change in the depreciation method should be considered as a change in accounting estimates in accordance with paragraph 61 of HKAS 16.

Some candidates were able to correctly explain that the liquidity of the investee company was an adjusting event and, therefore, an impairment should be considered.

### **Question 5 – 20 marks**

Around 95% of the candidates attempted this question and the performance on part (b) was disappointing.

#### Part (a)(i)

This was a very straightforward question and many candidates were able to provide satisfactory answers.

#### Part (a)(ii)

Many candidates did not know that the photocopying machine should be considered as a finance lease.

Part (b)

This part was poorly answered. Most of the candidates did not explain that the provision for a one-month special payment should only be made for manufacturing staff who had completed three years of service at the date of the announcement of the layoff plan. Many candidates were unable to answer whether or not XYZ needs to accrue for trading staff.

Question 6 – 20 marks

Around 70% of the candidates attempted this question and the overall performance on parts (b) and (c) was disappointing.

Part (a)

Generally, the candidates could compute most of the computational figures satisfactorily.

Part (b)

This part was not answered satisfactorily. Many candidates wrongly adopted the exchange rate to convert RMB to HK\$.

Part (c)

Many candidates incorrectly classified the exchange difference arising on the translation of foreign operations in retained profits. Also, they did not separately disclose the share capital, exchange reserve and retained profits in the consolidated statement of change in equity.

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