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# Examination Panelist's Report

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Paper II  
PBE Management  
Accounting and Finance  
(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**

In general, the performance was unsatisfactory as quite a number of candidates did not master the fundamental concepts of management accounting and finance such as the composition of discount rate, analysis of transfer price, difference between Money Market and Capital Market, Conflicts between bondholders and shareholders, difference between cum-div and ex-div and different types of risk. Most questions were straightforward but students failed to demonstrate their understanding of fundamental concepts. In particular, they did not read the questions carefully. Though it was mentioned in previous reports, it was still observed that some students did not have a good examination technique. For example, they answered different parts of a question out of sequence and their answers were scattered across different pages. This gave rise to a risk with regard to miscalculating marks calculation and should be discouraged.

## **Specific Comments**

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

#### **Question 1 – 20 marks**

Some candidates failed to give the correct meaning of IRR and the implication of having negative NPV when the discount rate is higher than IRR. In that last part, it was very disappointing that candidates failed to present how the discount rate was determined by getting the cost of equity, cost of debt and capital structure. Candidates also forgot that, in reality, different scenarios were constructed by using different discount rates. Quite a lot of candidates just answered that positive NPV implies acceptance of the project and negative NPV implies rejection.

#### **Question 2 – 20 marks**

This was a straightforward question on transfer price. Many candidates got the correct answer in calculating the range of transfer price. In part (b), most candidates failed when using the case with figures to support their answers in analyzing from the perspectives of both departments and the company. As this part carried 8 marks, candidates were expected to give thorough analyses. In part (c), quite a lot of candidates failed to give the correct answers for the four support activities of the value chain.

## **Section B – Optional Questions**

### **Question 3 – 20 marks**

This question tested candidates' knowledge of the Money Market, Capital Market and the structure of financial markets in Hong Kong. Students had a limited knowledge of such basic concepts. In part (c), quite a lot of candidates answered that having a low dividend pay-out from property developers was due to cash flow limitations and maintenance of cash for further investment. They did not notice that the information in the question was to focus on the mark-to-market accounting requirements.

### **Question 4 – 20 marks**

This question was answered satisfactorily. In part (a), candidates did not have much problem giving correct answer. In part (b), candidates were expected to think outside of the box to give answers such as different views, market competition, and different matches would give rise to different prices. Part (c) and (d) were typical questions about agency problems. Some candidates did not understand the difference between accounting profit and dividend payout.

### **Question 5 – 20 marks**

This was a difficult question in terms of deriving the correct dividend. Candidates were expected to demonstrate their understanding of the dividend growth model and the use of the correct discount rate. Only a few candidates succeeded in doing this. In part (b), it was very disappointing that candidates failed to distinguish between cum-div and ex-div. These are fundamental concepts in finance. In part (c), the use of the dividend growth model was essential.

### **Question 6 – 20 marks**

This question tested candidates' fundamental concepts such as different types of risk and different forms of market efficiency. Surprisingly, many candidates mixed up systematic and unsystematic risks. The parts on hedging and arbitrage were answered satisfactorily. Candidates did well in pointing out the different forms of market efficiency.

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