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# **Examiner's Report**

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**Paper III**  
**Financial Management**

*(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 not satisfactory as quite a number of candidates did not master the fundamental concepts of financial management such as different types of risk, bond and economic terminology and the difference between cash flow and accounting profit. Most questions were straightforward, but students failed to demonstrate how to apply their knowledge to solve the problems. In particular, they did not read the questions carefully. It was also observed that students did not have good answering techniques. For example, they attempted different parts of a question but not in order and split a question on different scattered pages. This could be a dangerous practice because marks may be lost by them.

## **Specific Comments**

### *Section A – Compulsory Questions*

#### Question 1

Some candidates were confused between systematic risk and unsystematic risk. They also failed to give concrete examples. Students were also not aware that standard deviation is a measurement for total risk while beta is a measurement for systematic risk.

#### Question 2

This was a difficult question. In most questions, candidates were asked to find the OCF from price and quantity. This question asked for the reverse. Candidates did not show the knowledge of converting profit from income statement into cash flow and solve the breakeven price by setting NPV equal to zero.

### *Section B – Optional Questions*

#### Question 3

This question tested candidates' knowledge on stagflation: a period of high inflation, high unemployment and slow economic growth. Most of them gave terms like financial tsunami or recession. They failed to address the dilemma on solving inflation and stimulating economic growth. In part (e), only a few of them realized that the accounting equation illustrates investing decision and financing decision.

#### Question 4

This question was answered poorly. In part (a), candidates did not have the knowledge of change of equity in an organization and investment financing. Goals of good dividend policy were not addressed properly. Candidates also failed to show the argument of MM dividend irrelevance theory.

#### Question 5

Only a few candidates knew that this question was concerning confidence interval for proportion rather than a number and the measurements for spread. In part (b), the requirement of equity issuance was not noted and some candidates even gave answers such as bond issuance.

#### Question 6

This question was comparatively well answered among the others particularly in the numerical part. Only a few of them knew that bond without distributing interest is called zero coupon bond. In part (e), the graph was not correctly represented even though it was about a fundamental concept of bond yield.

\* \* END OF EXAMINER'S REPORT \* \*