

Candidates' Performance

There were 11 507 candidates for the Business, Accounting and Financial Studies examination this year: 8317 candidates chose the Accounting Module and 3190 chose the Business Management Module. Approximately 54% of candidates sat the English papers.

Paper 1

Section A

There were 30 multiple-choice questions in this section. The mean score was 38 out of 60 marks for this section.

The percentage correct was lowest overall in the following questions:

1. Which of the following statements about Asia-Pacific Economic Cooperation is/are correct?
 - (1) It settles trade disputes in the Asia-Pacific region.
 - (2) It promotes sustainable economic growth in the Asia-Pacific region.
 - (3) It encourages cooperation on trade and investment in the Asia-Pacific region through high-level government-to-government dialogues.
 - A. (1) only (4%)
 - B. (1) and (2) only (23%)
 - *C. (2) and (3) only (42%)
 - D. (1), (2) and (3) (31%)

Many candidates were not familiar with the role and functions of Asia-Pacific Economic Cooperation.

2. Assume that no account balance is missing from a trial balance. If the total of the debit balances and the total of the credit balances of the trial balance are not equal, it means that _____.
 - (1) one or more ledger balance(s) in the trial balance is/are wrong
 - (2) the statement of financial position will not balance
 - (3) the net profit in the income statement will be wrong
 - *A. (1) and (2) only (38%)
 - B. (1) and (3) only (15%)
 - C. (2) and (3) only (4%)
 - D. (1), (2) and (3) (43%)

Many candidates ignored the fact that some account balances in a trial balance are shown in the statement of financial position only but not the income statement, so errors in these balances would not affect the net profit figure.

7. Anna is 62 years old and works as a part-time consultant in a firm, with a monthly salary of \$40 000. Under the Mandatory Provident Fund System, what will be the amount Anna contributes each month?

- | | | |
|-----|--------|-------|
| A. | \$4000 | (8%) |
| B. | \$2000 | (43%) |
| *C. | \$1500 | (35%) |
| D. | \$0 | (14%) |

Many candidates failed to take the ceiling for contributions to the Mandatory Provident Fund into account.

15. Which of the following is not a use of financial statements?

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|-----|---|-------|
| A. | assist different users in making decisions | (6%) |
| B. | provide information about the financial position of a business | (4%) |
| C. | provide information to employees for assessing their job security | (50%) |
| *D. | provide qualitative information regarding the performance of a business | (40%) |

Many candidates failed to recognise that employees are also users of financial statements and how financial statements are useful to employees.

Section B

Part 1

Question Number	Performance in General
1 (a)	Poor. Candidates were unable to give a full explanation of what a joint venture is. Most of them missed the meanings of 'separate entity' and/or 'joint project(s)'.
	Satisfactory. Most candidates were able to state the advantages of running a business in the form of a joint venture.
2 (a)	Fair. Many candidates were able to list Mary's financial needs. However, many failed to offer appropriate explanations and/or examples. Some candidates stated the needs of an investor instead of someone who has retired.
	Fair. Many candidates were able to list Mary's responsibilities as an investor. However, some candidates wrongly listed her rights as an investor instead. Some gave the responsibilities of the financial planner as answers.
3 (a)	Good. Most candidates were able to state the form of departmentalisation of the two companies.
	Very good. Most candidates were able to identify the General Manager, who has a wider span of control.
	Fair. Many candidates were able to name the 'risk management department' but some failed to explain its main role.
	Good. Many candidates were able to identify the accrual concept and show that the electricity expense should be recorded in 2016. However, some candidates failed to explain the accrual concept accurately.

Part 2

Question Number	Popularity	Performance in General
4 (a)	47%	Very good. Most candidates were able to compile a correct trial balance. However, some of them did not show the format properly. The column headers of Dr and Cr and/or the dollar signs were missing.
		(b) Poor. Most candidates failed to explain the meaning of business ethics. Some of them mistakenly gave the meaning of social responsibilities instead.
		(c)(i) Poor. Candidates were unable to give an appropriate example. Many of them mistakenly quoted measures required by the law, e.g. minimum wage
		(ii) Poor. Many candidates failed to refer to the case scenario and gave examples related to a production plant instead of a grocery store. Some candidates quoted examples of marketing strategies instead of social responsibilities.
5 (a)	53%	Very good. Most candidates produced a correct income statement with correct net loss figure. However, in the calculation of cost of goods sold, some of them mistakenly took the opening capital as opening inventory while some missed out the closing inventory.
		(b) Satisfactory. Most candidates stated the management function of 'Planning', but some gave 'Management by Objective' and 'Unity of Direction' as answers.
		(c) Poor. The reasons for setting goals for John's firm were not well explained. Quite a number of candidates mentioned the advantages of Management by Objective as answers.

General comments and suggestions

Candidates were weak in questions requiring the application of knowledge and analysis of information, and they were unable to give appropriate elaboration on their answers. Many candidates did not seem to have studied carefully the information in, and the requirements of, the questions. Answers just presented textbook materials which were irrelevant to the questions. Some gave answers for similar questions set in previous papers.

Candidates are encouraged to pay attention to issues in the business world and take part in case discussions in class so that they use their business knowledge and skills to tackle real business problems.

Section A

Question Number	Performance in General
1 (a)	Very good. Most candidates were able to identify the accounting principle or convention that had been applied in each of the situations.
(b)	Poor. Many candidates were able to identify correctly the accounting principle that had been applied. However, some of the explanations were not appropriate. Quite a number of candidates failed to indicate that the value of the calculator was insignificant and would not influence the decisions of users of financial information.
2 (a)	Satisfactory. Most candidates were able to find out the correct number of units remaining in the inventory, though some were unable to compute the weighted average cost per unit of inventory.
(b)	Very good. Most candidates demonstrated an adequate understanding of the various items to be shown in an income statement.
(c)	Fair. Most candidates were able to arrive at the correct amount and also mentioned that there was a reduction in gross profit. However, many did not state the application of the lower of cost and net realisable value rule in their explanation.
3 (a)	Satisfactory. Most candidates were able to compute the depreciation expense for year 2015. Some failed to realise that the machine had reached its expected total production hours in year 2016 and they wrongly used 2500 actual production hours to compute the depreciation expense for year 2016.
(b)	Very good. Candidates were generally able to compute the amounts of overheads for items (i) to (iii).
(c)	Good. Most candidates were able to identify the type of cost for R. Some overlooked the requirement of using cost behaviour as the basis for identifying the cost type.
(d)	Good. Most candidates were able to identify the type of manufacturing overhead which was irrelevant for deciding whether to accept the special order. However, some candidates were not able to give appropriate explanations with reference to its cost behaviour.

Section B

Question Number	Performance in General
4 (a)	Satisfactory. Most candidates demonstrated a good understanding of the cash at bank account. However, many lost marks for not giving proper account names for the postings in the account. Candidates were not able to give correct descriptions for wrongly recorded rent and rates, dishonoured cheque or stale cheque. In addition, some candidates did not make the correct entries for the term deposit and its interest income.
	(b) Satisfactory. Most candidates were able to commence with the updated balance of the cash at bank account and show the adjustments for unpresented cheques and uncredited deposits in the bank reconciliation statement. However, some did not recognise the incorrect debit made by the bank and ignored it completely in the bank reconciliation statement.
5 (a)	Satisfactory. Many candidates had problems in adjusting the cash sale, which was wrongly treated as a credit sale and recorded in the sales journal accordingly. Many included 'profit and loss' or 'retained profits' before the expenses and revenue accounts in the journal entries without considering when the errors were identified. In addition, some candidates failed to provide proper account names in the journal entries.
	(b) Fair. Many candidates were able to show all necessary adjustments for computing the adjusted net profit for the year 2016. Some candidates did not provide clear descriptions for the adjustments in the statement, however, while others included the retained profits brought forward as an adjustment of current year profit.
	(c) Fair. Many candidates were not familiar with the calculation of the gearing ratio. Some failed to include preference share capital in the numerator, others were not able to find out the correct components for shareholders' fund in the denominator. Some candidates did not express the ratio as a percentage.
	(d) Poor. Many candidates gave answers without referring to the differences in terms of rights to dividends for ordinary shareholders and preference shareholders. Candidates tended to state the differences in characteristics between the two types of shares. Some candidates had the misconception that the dividend entitlement of preference shareholders was guaranteed.
6 (a)	Satisfactory. Many candidates were able to work out the correct contribution margin per unit for the single product. Some candidates mistakenly used the sales volume to calculate the variable cost of goods sold per unit and thus got wrong the per unit amounts of direct materials and direct labour.
	(b) Fair. Most candidates managed to work out the breakeven sales amount for 2016. However, some either omitted the under-absorbed fixed production overheads when computing the total fixed overheads or treated the breakeven units as the final answer.
	(c) Poor. Many candidates were not able to calculate the predetermined fixed production overhead absorption rates in terms of per direct labour hour and per machine hour for the company as a whole. Some candidates had the misconception that the absorption rates for each unit of M1 and Super-M were to be calculated in a completely independent and separate manner.
	(d) Fair. Most candidates were able to recommend machine hours as the cost absorption basis to the company, though they did not state the justification of their choice, e.g. the machine intensive nature of the company's production.

Section C

Question Number	Popularity	Performance in General
7 (a)(i)	35%	Poor. Most candidates were able to list the basic items of an income statement. However, some of them ignored the payments of part-time staff salaries and Mark's drawings when calculating the amount banked and thus failed to work out the correct sales amount. Similarly, some candidates got wrong answers when calculating the purchases amount since they ignored the unpresented cheque issued for purchase of goods. Many candidates did not consider the outdated goods which were sold at cost and were thus not able to ascertain the correct amounts of gross profit and inventory loss. Most candidates were able to work out staff salaries and rent and rates correctly, though many of them were not able to show the correct amounts for sundry expenses and depreciation of the motor van.
		Poor. Many candidates wrongly treated the 2% term deposit either as a current asset or as a non-current liability. Some candidates did not adopt the account names as provided in the question.
		Poor. Although most candidates were able to identify the type of inventory loss caused by the fire, many of them were not able to explain the meanings of normal loss and abnormal loss of inventory.
8 (a)	65%	Satisfactory. Most candidates were able to make correct entries for the admission and retirement of partners in the partners' capital accounts. However, many candidates were not able to work out the gain on revaluation of equipment accurately. Some candidates lost marks for not giving proper account names for the postings in the capital accounts.
(b)(i)		Poor. Most candidates were not able to differentiate the accounting treatments for the adjustments to net loss and partners' salary in the appropriation account. Some candidates were not able to compute the correct amount for the depreciation expense under-provided.
		Poor. Most candidates were able to record the appropriate items in the current accounts, though many did not state the account names as the descriptions of the postings.
(c)		Very good. Most candidates were able to state two items that would be recorded in a partner's current account.
(d)		Satisfactory. Most candidates were able to record the transactions correctly in the realisation account, though some went wrong in the descriptions of the postings.
(e)		Fair. Most candidates were able to show the balances brought forward and the share of the realisation loss correctly. Some candidates made mistakes in transferring the current account balances to the wrong side of the capital accounts.

General comments and suggestions

Candidates are reminded to read the questions carefully and present their answers in a tidy manner with a good layout and legible writing. Abbreviations are not accepted in accounting entries, especially in financial statements. Candidates should show workings in their answers, so that they can gain some step marks even if the final answer is wrong.

Section A

Question Number	Performance in General
1 (a)	Satisfactory. Most candidates were able to define pure risk and speculative risk.
(b)	Poor. Many candidates were able to state and explain the areas in which liabilities could arise but some were not able to name the liability insurance precisely.
2	Fair. Many candidates were able to state three components of the '5C', but they were not able to give a clear explanation of each component.
3	Satisfactory. Most candidates were able to state and explain three objectives of providing training to the drivers of a transportation company though some explanations could be clearer.
4	Good. Most candidates were able to suggest accurately one way in which any three elements of the marketing mix can be used to market a product in the 'decline' stage of the product life cycle.

Section B

Question Number	Performance in General
5 (a)	Poor. Many candidates failed to list the appropriate types of financing methods for a sole proprietorship, e.g. some suggested an issuance of ordinary share.
(b)	Good. Most candidates were able to state the correct levels of needs. However, some candidates mixed up 'esteem needs' and 'self-actualization needs' in their explanation.
(c)	Satisfactory. Most candidates were familiar with the concepts of customer relationship management. However, some candidates only stated the advantages without explaining how customer relationship management helps increase sales to existing customers.
(d)	Satisfactory. Most candidates were able to outline the limitations of internal promotions.
6 (a)	Fair. Many candidates were able to give the characteristics of service with relevant solutions to the problems. Some candidates mixed up the solutions for the issues of heterogeneity and inseparability.
(b)	Fair. Some candidates only focused on the limitations of questionnaire design but neglected the issues associated with the process of using questionnaire to research customers' attitude as described in the question.
(c)	Satisfactory. Most candidates were able to calculate the payback period and the net present value of the project.
(d)	Very good. Most candidates were able to give a correct judgement according to their answer in (c)(ii) above.
(e)	Poor. Only a few candidates were able to give and explain another capital investment appraisal method.

Section C

Question Number	Popularity	Performance in General
7 (a)	48%	Satisfactory. Most candidates were able to describe the four aspects of accounting ratios can be used to evaluate the airline company's performance. They showed a good understanding of the ratios and explained clearly each aspect with relevant illustration. Some candidates failed to mention all four aspects of accounting ratios or wrongly interpreted solvency/gearing ratios.
		Fair. Many candidates were able to illustrate, with appropriate examples, the purposes of providing fringe benefits to the employees of an airline company. However, some candidates failed to provide sufficient examples and gave irrelevant explanations.
8 (a)	52%	Poor. Some candidates were able to describe the steps in formulating a marketing plan for the fashion chain. They provided a detailed explanation in the required context. However, some candidates were unable to demonstrate a good understanding of the steps. Quite a number of candidates mixed up the steps with those in formulating a market research plan and management process.
		Fair. Many candidates were able to explain the socio-cultural factors and psychological factors affecting the buying decisions of the fashion chain's customers. They provided enough explanation and gave relevant examples to illustrate various factors. However, some candidates failed to indicate clearly the types of factors and some wrongly classified the factors. Also a few candidates misinterpreted the question as asking about the buying decision making process.

General comments and suggestions

Candidates need to be able to understand and interpret correctly the meaning and requirements of the questions. They tended to write down all the material they had memorised related to the 'key words' they encountered in instead of tailoring their answers to the expectations and contexts specified in the questions. Candidates' flexibility and sensitivity should be enhanced.

Relevant examples are important, especially when elaborations are required in questions. Candidates are encouraged to follow the business news and analysis in order to improve their understanding of real business environments.