

Candidates' Performance

There were 12 565 candidates for the Business, Accounting and Financial Studies examination this year: 8983 candidates chose the Accounting Module and 3582 chose the Business Management Module. Approximately 55% of candidates sat the English papers.

Paper 1

Section A

There were 30 multiple-choice questions in this section. The mean score was 40 out of 60 marks for this section.

The percentage correct was lowest overall in the following questions:

1. Which of the following is/are the characteristic(s) of multinational corporations located in Hong Kong?

- (1) Their operations also take place outside Hong Kong.
- (2) They are listed on the stock exchange of Hong Kong.
- (3) They have more than 100 employees.

*A.	(1) only	(42%)
B.	(1) and (2) only	(18%)
C.	(2) and (3) only	(6%)
D.	(1), (2) and (3)	(34%)

Many candidates mixed up the characteristics of a multinational corporation with those of a large corporation and of a listed company.

17. Which of the following is a benefit brought about by the "Closer Economic Partnership Arrangement" (CEPA) for the businesses in Hong Kong?

- A. Companies owned by Hong Kong residents are not taxed on the Mainland. (4%)
- B. There is free flow of capital between Hong Kong and the Mainland. (49%)
- *C. Tariffs are not levied on goods originating in Hong Kong exported to the Mainland. (41%)
- D. Hong Kong is allowed to enter the World Trade Organisation as an independent economy. (6%)

Many candidates were not familiar with the basic content of the "Closer Economic Partnership Arrangement".

23. On 1 January 2015, Mr Lee set up a firm with cash of \$100 000. On the same day, the firm took out a loan of \$200 000 from a bank. At the end of that year, total assets and total liabilities of the firm were \$980 000 and \$560 000 respectively. During the year, Mr Lee made regular cash drawings of \$5000 per month.

What is the net profit of the firm for the year 2015?

- A. \$180 000 (15%)
- B. \$260 000 (32%)
- C. \$325 000 (20%)
- *D. \$380 000 (33%)

This question tested the calculation of net profit by comparing the closing and opening capital. Many candidates mistakenly regarded the monthly drawings of \$5000 as the total annual drawings and gave answer (C). Some deducted drawings of \$60 000 and gave answer (B). Some deducted the opening liabilities of \$200 000 from the calculations and gave answer (A).

26. Which of the following is not the main use of a company's financial statements for the respective users?

<u>User</u>	<u>Main use</u>	
A. managers	to formulate company's development strategies	(8%)
B. employees	to assess their remuneration level and job security	(52%)
*C. government	to assess company's ability to repay tax	(28%)
D. trade creditors	to decide whether to sell goods to the company on credit	(12%)

Many candidates mixed up the meanings of 'amount to be paid' and 'ability to pay'. They also did not understand clearly the use of financial statements by the employees of a company.

Section B

Part 1

Question Number	Performance in General
1** (a)	Fair. Though many candidates were able to make a debit entry in the Drawings account, the credit entry was not made in the Purchases account correctly. Some candidates failed to record the transaction at the correct amount.
(b)	Satisfactory. Most candidates were able to identify the business entity concept and give a brief explanation.
2 (a)	Fair. Most candidates were able to state the change in the share price of a property development company in Hong Kong, though some of them failed to explain their answers clearly.
(b)	Fair. Many candidates were able to state the meaning and/or functions of Hang Seng Index, but they failed to explain how investors use it to make investment decisions.
3 (a)	Fair. Many candidates were able to explain why Carlo should establish branches in Hong Kong in the form of franchising. However, some candidates regarded Carlo as a franchisee and hence gave wrong answers.
(b)	Fair. Candidates were able to list the legal and cultural factors but they failed to offer explanations and/or examples relevant to the case scenario.

**The revised BAES curriculum was first implemented in the 2016 HKDSE. Since there might have been different interpretations of the requirements regarding 'journal entry' in the compulsory part of the revised curriculum, the marks of all Business Management module candidates in Question 1 were scrutinised and adjusted upwards if necessary to ensure that the marks awarded appropriately reflect their actual performance in the paper as a whole, regardless of any possible discrepancy in the interpretation of the related curriculum requirements. Candidates taking the Accounting module were taught 'journal entry' in the elective part and so this mark adjustment was not applicable to them.

Question Number	Popularity	Performance in General
4 (a)	66%	Good. Most candidates were able to work out the gross profit ratio and net profit ratio. However, some candidates failed to use the average capital to calculate the return on capital employed. Some of the answers were not rounded to two decimal places.
		Fair. Many candidates were able to compare the profitability of the two supermarkets and point out John's poor expenses control. However, some candidates only superficially compared the amount of expenses of the two supermarkets in their answers.
		Good. While the joint decision process of MBO was mentioned by many candidates, some stated the characteristics of a good objective as answers.
		Fair. Most candidates were able to state the advantage and disadvantage of adopting MBO. However, many of them failed to provide appropriate elaborations.
5 (a)	34%	Good. Most candidates were able to calculate working capital, current ratio and liquid ratio, but some of the answers were not rounded to two decimal places.
		Fair. Though candidates were able to point out the liquidity problem of John's supermarket, some of them failed to give justifications for their answers.
		Fair. While many candidates were able to state the purpose of controlling, some gave the function of planning as answers. Some stated the process instead of the purpose or function of controlling.
		Good. Most candidates were able to list the steps in the controlling process in proper sequence.

General comments and suggestions

As in previous years, candidates performed well in questions requiring recall of knowledge but were weaker in applying knowledge and theories. Many candidates simply recited what they could recall from textbooks, without relating the answers to the question or the case context, resulting in poor performance.

Candidates should do more case studies, pay more attention to business issues and news, have more discussions with their schoolmates and tackle problems from different perspectives. They are also reminded to read the questions very carefully and respond to the specific requirements of the questions.

Section A

Question Number	Performance in General
1 (a)	Very good. Most candidates prepared the trial balance correctly, though some candidates did not have a good understanding of the normal balance for certain ledger accounts, such as retained profits and unearned revenue.
(b)	Good. Most candidates were able to state one limitation of a trial balance.
2	Good. Candidates were able to indicate the accounts to be debited and credited correctly for transactions (a) to (d), though many of them treated transaction (e) as a cash receipt of interest instead of an accrual for interest income. Quite a number of candidates were weak in identifying the ledgers to be recorded for transactions (b), (d) and (e).
3 (a)	Fair. While some candidates did not realise that the predetermined manufacturing overhead absorption rate includes both fixed and variable manufacturing overheads, others overlooked the requirement of the question and failed to use machine hours as the basis for overhead absorption.
(b)	Fair. Most candidates were able to use the actual manufacturing overhead to work out the over-absorption or under-absorption of manufacturing overheads. However, quite a number of candidates wrongly used the predetermined fixed manufacturing overheads for comparison. Some mistakenly used the number of estimated machine hours for determining the applied manufacturing overheads.
(c)	Poor. Many candidates were not able to state the accounting treatment and the impact on net profit for the over-absorbed or under-absorbed manufacturing overheads.
(d)	Fair. Some candidates were able to state a variable manufacturing overhead cost which increases with the usage of machine hours.
4 (a)	Fair. Most candidates were able to explain the going concern assumption, though only a few gave precise explanations.
(b)	Poor. Most candidates failed to state net realisable value/liquidation value as the value for non-current assets.
(c)	Good. Most candidates correctly identified the accounting principle or concept that had been violated in the scenario and provided relevant explanations.
(d)	Fair. Many candidates correctly calculated the balance of the allowance for doubtful debts account, though some did not know how to handle properly the debt owed by customers who had declared bankruptcy.

Section B

Question Number	Performance in General
5 (a)	Good. Many candidates were able to prepare the revaluation account and capital accounts properly. However, some candidates lost marks for not giving proper descriptions of the postings in the revaluation account and partners' capital accounts. Some did not adopt the account names as given in the question. Some candidates wrongly allocated the realisation gain to all three partners instead of the two old partners, Chu and Yam.
(b)	Satisfactory. Most candidates provided at least one factor that affects the value of goodwill of a company. However, some candidates provided different examples of the same factor as the answer.
6 (a)	Good. Some candidates failed to work out the cost of the motor vehicle disposed in April, however.
(b)	Fair. Quite a number of candidates did not credit the depreciation expense of year 2015 for the two disposed motor vehicles to the accumulated depreciation account.
(c)	Fair. For the motor vehicle disposed in March, some candidates wrongly credited the disposal gain to the disposal account; for the one disposed in April, many candidates were not able to provide a correct figure and an appropriate description for the insurance compensation receivable.
(d)	Fair. Many candidates treated the testing and inspection fees as revenue expenditure instead of capital expenditure. Some candidates just copied the descriptions of the payments as account names in the journal entry.
7 (a)	Good. Many candidates were able to prepare the correct income statement using the marginal costing system. However, some candidates either omitted the calculation of closing inventory or wrongly treated the incentive payment as a fixed cost, resulting in incorrect amounts for contribution margin as well as net profit.
(b)	Good. Most candidates worked out correctly the amounts of closing inventory under both the marginal and absorption costing systems. However, only a few candidates gave the correct explanation for the difference in the amounts. Some only stated that the treatment of fixed manufacturing overheads under the two costing systems was different, without further elaboration.
(c)	Satisfactory. Many candidates were able to compute the amount of the difference in the net profits under the marginal and absorption costing systems. They also identified the costing system which resulted in higher profit.
(d)	Fair. Most candidates made the right decision to buy the component instead of manufacturing it by showing the calculations of reduced cost or higher contribution/profit. It would have been better if candidates had adopted the incremental approach to work out the answers.

Section C

Question Number	Popularity	Performance in General
8 (a)	54%	Poor. Many candidates failed to identify the corrections required for the various situations, such as the loan interest for 2016 in item (i), the reduction to net realisable value for closing inventory in item (ii), the credit sales recorded for unsold goods in item (iii), and the deposit from customers and the allowance for doubtful debts in item (iv). Some candidates were not aware that the revenues and expenses accounts had been closed and thus lost some marks for journal entries.
(b)		Fair. Most candidates presented the statement of financial position in the proper format, though some of the figures were not correct. Most candidates did not give the correct amounts of inventory, trade receivables and retained profits, while others wrongly classified deposits from customers as a current asset in the statement of financial position.
(c)		Poor. While some candidates did not attempt this part, others mistakenly thought that the long-term bank loan had been repaid and gave irrelevant answers.
9 (a)	46%	Fair. Most candidates failed to work out the figures correctly for the income statement in part (a)(i). Many candidates ignored the unpresented cheques and uncredited deposits in the calculation of purchases and sales respectively. Some candidates did not deduct the cost of destroyed inventory from closing inventory, while others did not include the correct amount of loss on destroyed inventory in the income statement. Many candidates did not know how to work out the amount of working capital in part (a)(ii) and some were weak in computing the various items for current assets and current liabilities.
(b)		Poor. Most candidates failed to give appropriate comments on the working capital situation of the company.
(c)		Unsatisfactory. Many candidates were not able to work out the correct total assets turnover. While some candidates had no idea of the formula for computing the total asset turnover, others used a wrong figure for total assets.

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 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	Fair. Some candidates were able to outline the limitations of using accounting ratios properly with relevant elaboration. However, some others did not respond to the question and stated that 'being unable to forecast the future performance' is a limitation of using accounting ratios to assess the performance of a company.
2	Fair. Some candidates provided correct motivators with relevant examples. However, some others provided hygiene factors instead.
3	Fair. Some candidates were able to suggest the advantages of a direct distribution channel with relevant explanation. However, some candidates mistook direct distribution as online shopping.
4	Unsatisfactory. Some candidates were able to describe the objectives of appraising employees. However, they failed to give appropriate explanations with reference to the performance of salespeople.
5 (a)	Fair. Some candidates were able to state two purposes of budgeting, but they failed to give clear elaboration.
5 (b)	Unsatisfactory. Some candidates were able to list two causes of favourable sales variance. However, some of them mixed up the meaning of 'sales', 'profit' and 'sales volume'.

Section B

Question Number	Performance in General
6 (a) (i)	Good. Most candidates were able to calculate the optimal order quantity, though some used the wrong figure for sales volume.
6 (a) (ii)	Fair. Many candidates were able to state 'ordering cost', but quite a number were not able to explain how it contributed to the reduction in total inventory cost.
6 (b)	Fair. Many candidates suggested two ways to cope with the liquidity problem. However, some of them overlooked the requirement and answered the question from the perspective of accounts receivable management instead.
6 (c)	Good. Most candidates clearly stated the two reasons for using the Net Present Value method instead of the Payback method to evaluate the online shopping project.
6 (d)	Good. Most candidates were able to suggest three non-financial problems with launching the online shopping project.
7 (a) (i)	Fair. Some candidates only gave examples of secondary data instead of its general meaning.
7 (a) (ii)	Satisfactory. Many candidates were able to list the limitations of using secondary data.
7 (b)	Satisfactory. Most candidates were able to find the relevant evidence from the case, though some described the current situation of the company instead.

Question Number	Performance in General
7 (c)	Fair. Most candidates were able to state the off-the-job training methods. However, quite a number failed to explain how the methods could increase the success rate of personal selling specifically. Some listed answers for both on-the-job and off-the-job training methods.
(d) (i)	Good. Most candidates were able to give the basic reason for the risk being non-insurable.
(ii)	Good. Most candidates were able to suggest appropriate risk management strategies. However, some candidates failed to give relevant elaborations with reference to the case context.

Section C

Question Number	Popularity	Performance in General
8 (a)	24%	Fair. Many candidates were able to describe the advantages of hiring a shop supervisor through internal recruitment, with sufficient explanations. However, some candidates just repeated the same point in their answers.
		Unsatisfactory. Many candidates were able to suggest support measures that the fast food chain could provide for employees with mild mental and physical disabilities. However, most of them failed to explain the supporting measures from the perspective of human resources management functions in the context of a fast food shop. A few candidates wrongly gave the advantages of employing people with mild mental and physical disabilities instead of suggestion of support measure provided to them, such as improving company image and fulfilling social responsibility.
9 (a)	76%	Satisfactory. Most candidates were able to describe the factors to be considered when setting the price.
		Good. Most candidates were able to state the steps in the customer decision-making process. However, some failed to describe the steps in full using the purchase of a new mobile phone as an example. Some others confused the sequence of the steps.

General comments and suggestions

Candidates need to understand the requirements of the questions before attempting, especially when qualifying conditions or contexts are specified. Most candidates seemed to rely heavily on textbook key words instead of paying attention to the hints given in the questions or cases and tailoring their answers to meet these specific requirements.