

## Candidates' Performance

10 355 candidates sat the Business, Accounting and Financial Studies examination this year: 7 635 candidates chose the Accounting Module and the remaining 2 720 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.

The percentage correct was lower in the following questions:

8. Paul has taken out a 3-year personal loan of \$100 000 at an annual interest rate of 12%, compounded monthly. Which of the following statements is/are correct?
- (1) The annual nominal interest rate of the loan is 12%.
  - (2) The annual effective interest rate of the loan is higher than 12%.
  - (3) In general, the interest rate for a personal loan is lower than that for a credit card.
- A. (1) only (17%)  
B. (1) and (2) only (23%)  
C. (2) and (3) only (21%)  
D. (1), (2) and (3)\* (39%)

**Many candidates failed to recognise the meaning of nominal interest rate and compare the interest rate of a personal loan with that of a credit card.**

9. Which of the following statements about business ethics is/are correct?
- (1) Business actions that are legally acceptable may be unethical.
  - (2) A 'code of ethics' is compiled by the government for businesses.
  - (3) Business ethics are a set of clearly-defined moral principles and standards that a business should follow.
- A. (1) only\* (49%)  
B. (2) only (5%)  
C. (1) and (3) only (29%)  
D. (2) and (3) only (17%)

**Many candidates failed to recognise that the principles and standards of business ethics are not clearly defined.**

26. Which of the following statements about credit cards are correct?
- (1) They have a pre-approved credit limit.
  - (2) They have a payment due date.
  - (3) There is a monthly minimum payment for the outstanding balance.
- A. (1) and (2) only (10%)  
B. (1) and (3) only (33%)  
C. (2) and (3) only (7%)  
D. (1), (2) and (3)\* (50%)

**Many candidates failed to recognise that there is a payment due date for credit cards.**

**Section B**

**Part 1**

Question Number	Performance in General	
1	(a)	Fair. Many candidates were able to describe the main feature of 'Pizza Deli' as a multinational corporation. However, some candidates gave the features of a large corporation, such as large in scale and complex organisational structure.
	(b)	Fair. Many candidates were able to state the disadvantages of being a franchisee but some candidates were confused about the roles of franchisor and franchisee and explained the disadvantages from the perspectives of franchisor. Some candidates thought that the restaurant chain will be operated under the name of 'Pizza Deli' and the reputation of 'Pizza Deli' would be damaged when other franchisees operate poorly.
2	(a)	Poor. Most candidates only described the factors that affect a personal credit record, but they were unable to explain how the factors would affect it.
	(b)	Satisfactory. Most candidates were able to state the relevant SMART goal characteristics. However, some candidates were not able to explain why the SMART goal characteristics are not demonstrated by the goal given in the case.
3	(a)	Satisfactory. Most candidates were able to prepare T-accounts for the transactions and the cash discounts. However, some of them failed to prepare the accounts with reference to the account names given, which was required in the question. They also failed to show the corresponding account names in the particulars' columns correctly.
	(b)	Satisfactory. Most candidates were able to give a correct example for real account and nominal account. However, some of them failed to follow the requirement of the question and gave some accounts which were not given in the question as examples.

**Part 2**

Question Number	Popularity	Performance in General
4	58%	(a) Good. Most candidates calculated the gross profit ratio and net profit ratio correctly. For return on capital employed, some candidates used opening capital or closing capital, instead of average capital, as the denominator.
		(b) Poor. Most candidates failed to comment on the profitability of the firm based on the return on capital employed. They just stated that the profitability is lower in 2018 without mentioning the efficiency of using owners' capital to generate profits.
		(c) Very good. Most candidates were able to state that 'division of work' was adopted in the production department.
		(d) Satisfactory. Many candidates were able to explain two advantages of adopting 'division of work'. However, some candidates provided irrelevant answers, such as enhancing job satisfaction.

Question Number	Popularity	Performance in General
5 (a)	42%	Very good. Most candidates were able to prepare the statement of financial position correctly. However, some candidates deducted the amount of current liabilities from the total assets. Some candidates did not list the balance date of the opening capital properly.
(b)		Satisfactory. Many candidates were able to calculate the current ratio and comment on the liquidity of the firm correctly. However, some of them did not calculate the current ratio for 2018. They commented on the liquidity of the firm just based on the 2017 ratio.
(c)		Good. Most candidates were able to state that 'unity of command' was violated in the case.
(d)		Poor. Many candidates were able to state that confusions and conflicts could be avoided by adopting 'unity of command', but they failed to provide appropriate explanations related to the case. Some candidates mentioned irrelevant answers, such as boosting morale.

#### General comments and suggestions

Generally, candidates were able to demonstrate an understanding of fundamental concepts and definitions in business, but were weak in applying the knowledge to the scenarios. Candidates should read the questions carefully so as to provide proper elaboration with reference to the scenario.

**Paper 2A (Accounting Module)**

**Section A**

Question Number	Performance in General
1	Satisfactory. Most candidates were able to calculate the inventory turnover and the trade receivables turnover, though some of them failed to use average figures for calculating the denominators. Many candidates did not work out the total assets turnover and some mixed up the numerator and the denominator. For the gearing ratio, many candidates failed to include either the retained profits or the non-current liabilities in the denominator.
2	(a) Fair. Most candidates demonstrated a good understanding of the cash at bank account, though many candidates could not give proper account names as descriptions of the postings in this account. Many candidates were able to handle the unpresented cheque and the uncredited cheque in the bank reconciliation statement. However, some candidates failed to adjust for the incorrect credit transfer made by the bank.  (b) Good. Most candidates were able to give at least one reason for a deposited cheque being returned by the bank, though some of them mixed up 'drawer' and 'drawee'.
3	(a) Good. Most candidates were able to include all relevant variable costs in the calculation of the contribution margin. However, some candidates omitted variable selling and administrative expenses, or included the fixed manufacturing overheads absorbed, in the calculation.  (b) Satisfactory. Many candidates were able to figure out the fixed manufacturing overhead absorption rate, but some of them were unable to work out the machine hours required per unit of product as they failed to identify the relationship between the overhead absorption rate and the fixed manufacturing overheads absorbed.  (c) Poor. Many candidates wrongly used contribution margin or net profit per unit, instead of contribution margin per resource constraint, i.e. machine hour, for resource allocation to achieve maximisation of total contribution at full capacity.

**Section B**

Question Number	Performance in General
4 (a)	<p>Good. Most candidates were able to prepare the income statement in the proper format, though some students ignored the requirement in note (iv) and thus failed to classify depreciation expenses, audit fee and directors' fees as administrative expenses. Whilst some candidates failed to exclude the portion of prepaid insurance premium from administrative expenses, others did not include the 2 months' accrued debenture interest in the calculation of expenses.</p>
	(b)
	<p>Satisfactory. Most candidates were able to compile the statement of financial position. However, some candidates failed to present it in proper format or classify the accounts under appropriate categories. Besides, some candidates wrongly presented 'short-term investments' under shareholders' equity or current liabilities.</p>
5 (a)	<p>Poor. Many candidates did not present their answers in statement form as required in the question. When computing the sales and purchases, many candidates were not able to adjust for the dishonoured cheque or the unrepresented cheque. Many candidates erroneously deducted the residual value from the cost when using the reducing balance method to compute the depreciation expense on equipment. When calculating drawings of inventory, some candidates just copied the invoiced price without calculating the cost of the inventory using the mark-up given in the question.</p>
	(b)
	<p>Poor. Most candidates failed to identify the matching concept and gave improper explanations for the provision of depreciation for equipment.</p>
6 (a)	<p>Satisfactory. Most candidates were able to work out the contribution margin ratio. Many candidates were able to add the targeted profit to the total fixed costs to obtain the targeted sales amount.</p>
	(b)
	<p>Fair. Many candidates failed to include all variable costs in the calculation of the contribution margin. Some candidates failed to incorporate the changes in volume and costs when calculating the net profit.</p>
	(c)
	<p>Poor. Most candidates failed to give an advantage of adopting the marginal costing system in the decision making of a business.</p>

**Section C**

Question Number	Popularity	Performance in General
7	64%	(a) Satisfactory. In part (i), most candidates were able to record the changes in asset values in the revaluation account, though some of them failed to make proper adjustment for bad debt recovery. In part (ii), some candidates misinterpreted the capital account balance of Carol as the total funds brought in by her while others mistakenly recorded the interest on Ron's loan in his capital account. In part (iii), most candidates were able to show the proper asset values. However, many candidates adjusted the bad debt recovery in the cash at bank account, though it would be recovered in the following year. Some mistakenly categorised the half-year loan from Ron as a non-current liability.
		(b) Poor. Many candidates failed to either deduct the loan interest expense when calculating the net profit for the quarter or deduct the partner's salary to arrive at the profit available for appropriation. Besides, some candidates used the profit and loss sharing ratio of the partnership for the appropriation of profits, without considering the guaranteed minimum share of profits to Carol. Some candidates overlooked the details in the question and mistakenly calculated the loan interest and partner's salary for the whole year.
		(c) Poor. Most candidates failed to explain why a goodwill account is not maintained in the books of a partnership.
8	36%	(a) Fair. Most candidates demonstrated a basic understanding of correction of errors. Many candidates failed to deal with the omitted opening balance of accrued salaries in item (iii). Whilst some candidates mistakenly treated the loan to a director as a liability of the company in item (vii), others failed to accrue for interest income related to this loan. Some candidates failed to use the account names used by Alison Limited as given in the question when preparing the journal entries.
		(b) Poor. Some candidates failed to identify the items to be recorded in the suspense account, while others did not provide proper descriptions in their postings.
		(c) Poor. Many candidates failed to identify the type of accounting errors made in items (vii) and (viii).

**General comments and suggestions**

Candidates generally had no difficulties in dealing with common or familiar issues. However, they did not demonstrate the necessary analytical skills to handle more complicated or novel cases. Candidates should read and practise more to strengthen their understanding and ability to apply accounting knowledge.

Paper 2B (Business Management Module)

Section A

Question Number	Performance in General
1	Poor. Most candidates were not able to clearly state the steps in the manpower planning process. Some of them only explained the recruitment and selection details in the manpower planning process.
2 (a)	Satisfactory. Most candidates were able to differentiate between primary data and secondary data.
(b)	Good. Most candidates were able to give two other sampling techniques. However, some of them just gave the definition of the techniques without explaining how the restaurant could use each of them to collect primary data.
3 (a)	Fair. Many candidates failed to give the reasons why operating losses are non-insurable. Some of them just mentioned that there is a possibility of both loss and gain from operations without specifying that the risk is speculative in nature.
(b)	Poor. Some candidates were able to explain one type of insurance that the company should take out to cover the risks faced by its employees. However, some of them mixed up employees' compensation insurance with employers' liability insurance.
4 (a)	Fair. Most candidates were able to calculate the inventory turnover. However, many of them were not able to explain the main objective of inventory management. Most of them just pointed out either 'minimise inventory cost' or 'maintain adequate inventory'.
(b)	Fair. Most candidates suggested one form of performance-based pay that the firm could introduce. Some of them wrongly stated that the firm could introduce 'piece-rate' for increasing the inventory turnover.

## Section B

		Performance in General	
Question Number			
5	(a)	Fair. Many candidates only stated the cost of capital and the internal rate of return separately without justifying whether to adopt the renovation project, based on the decision rule under the internal rate of return method.	
	(b)(i)	Fair. Some candidates just repeated high gearing ratio as their answer.	
	(ii)	Poor. Most candidates failed to give the type of source of financing and answered 'issuing shares'. Many candidates stated 'dilution of control' as one of the disadvantages, but they did not give a correct explanation of it.	
	(c)	Good. Most candidates were able to give reasons why the electronic marketing system could increase sales in the cinemas, for example, personalised promotion and convenience to customers.	
	(d)(i)	Good. Most candidates gave the pricing strategy correctly.	
	(ii)	Poor. Many candidates just gave the definition of skimming pricing strategy instead of explaining why such a pricing strategy should be adopted.	
	6	(a)	Fair. Many candidates confused the elements of the marketing mix (4Ps) with the elements of the promotion mix in explaining how to boost the sales of the company.
		(b)(i)	Fair. Many candidates were able to state that there was a difference between the actual and budgeted sales volume, but some of them failed to point out that the actual sales volume is lower than the budgeted sales volume. In addition, they mixed up sales volume with sales revenue.
(ii)		Fair. Some candidates only stated the remedial actions, for example, improve packaging and provide a discount, without linking them to the elements of the marketing mix. Some candidates did not mention how the remedial actions could cope with the competition.	
(c)(i)		Fair. Some candidates failed to provide a complete description of Herzberg's Dual Factor Theory and incorrectly used other motivational theories to explain why the staff were not motivated.	
(ii)		Fair. Many candidates failed to suggest relevant ways to motivate the staff of Speedy Company, with reference to the information provided in the case. They mentioned other irrelevant ways, such as more social gatherings and increasing compensation and welfare.	
(d)(i)		Satisfactory. Some candidates wrongly answered 'apprenticeship' as the method, which was not applicable to the case.	
(ii)		Satisfactory. Some candidates wrongly explained the advantages of on-the-job training from the perspective of Speedy Company.	



**Section C**

Question Number	Popularity	Performance in General
7 (a)	85%	Fair. Many candidates were able to describe the differences between the business market and the consumer market in the context of selling computers. Explanation was generally clear and adequate. However, some candidates just briefly described the characteristics of each market separately without a corresponding comparison. In addition, some candidates wrongly focused on describing different marketing strategies for these two markets.
(b)		Poor. Some candidates were able to state the external recruitment channels with explanation on their respective advantages. They were also able to relate their answer to recruiting salespersons. However, some candidates failed to provide detailed explanation of the advantages. Some candidates misinterpreted the question and wrongly gave the advantages of external recruitment.
8 (a)	15%	Poor. Some candidates were able to demonstrate their knowledge of factors to be considered when determining which market segment should be targeted. Explanation was generally good and related to the manufacturing and selling of furniture. However, many candidates wrongly answered the question by explaining the segmentation bases or marketing mix.
(b)		Poor. Some candidates were able to explain different capital investment appraisal methods and analyse their respective limitations. However, many candidates just gave vague or incorrect descriptions of the limitations. In particular, candidates did not understand the limitations of the net present value method and internal rate of return method.

**General comments and suggestions**

Candidates tended to rely on recitation or memorisation and repeated general points provided by textbooks. They should strengthen their reading skills so as to understand and interpret correctly the meaning and requirements of the questions and apply knowledge and concepts to different contexts.