Candidates' Performance

9 986 candidates sat the Business, Accounting and Financial Studies examination this year: 7 283 candidates chose the Accounting Module and the remaining 2 703 chose the Business Management Module. Approximately 56% of candidates sat the English papers.

Paper 1

Section A

There were 30 multiple-choice questions in this section. The mean mark was 36 out of 60 marks.

The percentage correct was lower in the following questions:

6. Which of the following descriptions of a SMART goal are correct?

   (1) It should be quantified.
   (2) There should be an expected completion time.
   (3) The methods of achieving the goal should be stated clearly.

   A. (1) and (2) only*   (32%)
   B. (1) and (3) only   (2%)
   C. (2) and (3) only   (9%)
   D. (1), (2) and (3)   (57%)

Many candidates thought that a SMART goal should state clearly the methods of achieving it.

7. There are different departments in a company. One of the goals of the company is to improve the service quality of its salespersons. For this reason, the human resources manager of the company assigned her subordinate, Tim, to design training programmes for the salespersons. Tim reports to the human resources manager only. Which of the following principles of effective management are illustrated in this scenario?

   (1) Unity of direction
   (2) Unity of command
   (3) Division of work

   A. (1) and (2) only   (38%)
   B. (1) and (3) only   (7%)
   C. (2) and (3) only   (30%)
   D. (1), (2) and (3)*   (25%)

Many candidates failed to study the case thoroughly and missed some important information related to the principles of 'unity of direction' (the human resources manager works towards the company goal of improving the service quality of its salespersons) and 'division of work' (there are different departments / there is a human resources department).

23. The following balances as at 31 December 2019 were extracted from the accounts of a firm:

	$
Inventory	17 500
Bank	27 000
Trade payables	30 800
Trade receivables	16 400
Short term loan to employees	8 000

What is the liquid ratio of the firm?

A.	1.12:1	(42%)
B.	1.57:1	(19%)
C.	1.67:1*	(34%)
D.	2.24:1	(5%)

Many candidates treated 'short term loan to employees' as a current liability instead of a current asset and therefore gave answer A.

28. Which of the following descriptions of the Main Board and GEM (previously known as Growth Enterprise Market) are correct?

(1) More companies are listed on the Main Board than on GEM.
(2) 'Management continuity for at least the three preceding financial years' is one of the basic listing requirements for applicants to list on the Main Board.
(3) The Main Board was set up for large and established companies.

A.	(1) and (2) only	(8%)
B.	(1) and (3) only	(18%)
C.	(2) and (3) only	(55%)
D.	(1), (2) and (3)*	(19%)

Many candidates did not know that the Main Board has more companies listed on it.

Section B

Part 1

Question Number		Performance in General
1	(a)	Satisfactory. Many candidates cited the contributions of small and medium enterprises to the Hong Kong economy. However, some just gave the contributions of business entities in general, such as increasing tax revenue and enhancing Gross Domestic Product.
	(b) (i)	Good. Many candidates identified the principle of 'Management by Objectives'. However, some mentioned 'unity of direction', and some mixed up principles of effective management with management functions such as 'planning'.
	(ii)	Fair. Many candidates stated the advantages of adopting Management by Objectives, but most of them failed to give appropriate explanations. Some candidates mentioned advantages which were irrelevant to the case scenario.
2	(a)	Satisfactory. Most candidates were able to explain how the bank can use the financial statements of Chan's firm to decide whether to approve the loan. However, some gave factors to be considered when approving loans, such as repayment history, which are not shown in the financial statement.
	(b)	Satisfactory. Many candidates stated the 'consistency' principal and explained whether Chan's firm should change the valuation method of its non-current assets. However, some explanations were incomplete and some gave wrong accounting principle, e.g. 'historical cost'.
3	(a)	Poor. The nature and meaning of bank overdraft were not clearly explained. Some candidates wrongly answered that a bank overdraft means the bank account has a credit balance.
	(b)	Fair. Many candidates stated the advantages of using a credit card but failed to make comparisons with personal loans, as mentioned in the case.
	(c)	Poor. Some candidates listed David's financial needs, such as saving for marriage and training. However, many stated financial needs related to other stages of the life cycle, which were irrelevant to the case scenario, e.g. saving for retirement.

Part 2

Question Number	Popularity	Performance in General
4 (A) (a)	26%	Fair. Many candidates identified the social and physical factors. However, most failed to explain how the factors might affect Warmer's business.
(B) (b) (i)		Satisfactory. Many candidates were able to prepare the capital account properly. However, wrong presentations in the date and/or details columns were found in many answers.
(ii)		Good. Many candidates prepared the trial balance correctly. However, some used improper headings, such as 'A trial balance <u>for the year ended</u> 31 <u>Mar</u> 2020'.
5 (A) (a)	74%	Very good. Most candidates identified 'Joint venture' as the form of ownership of the new business.
(b)		Fair. Though many candidates explained an advantage, many others gave wrong or irrelevant answers, such as creating new products or easier entry into new markets.
(c)		Poor. Many candidates failed to indicate the difference between a partnership and a joint venture, while others mistakenly wrote that a partnership is smaller in scale or has a different tax rate.
(B) (d)		Very good. Most candidates prepared the income statement correctly. However, some failed to give the subheadings 'Less: Cost of goods sold' and 'Less: Expenses'. Some even used '+' and '-' signs instead of 'Add' and 'Less'.

General comments and suggestions

Candidates were able to recall basic business knowledge and concepts but were weak in applying these to the case scenarios. Some candidates gave answers which seemed to mirror the content of textbooks or the marking schemes for similar questions in past papers without paying attention to the requirements of the current question and case. Candidates are advised to read case scenarios and questions carefully and make sure their answers relate to the given cases. They should also pay attention to news and current issues related to the business world.

Paper 2A (Accounting Module)

Section A

<table>
<tr><th>Question Number</th><th>Performance in General</th></tr>
<tr><td>1</td><td>Satisfactory. Most candidates indicated the accounts to be debited and credited for transactions (i) to (iii), though many treated the issue of a debit note in transaction (iv) as returns inwards. Some candidates overlooked transaction (v) as being personal in nature and wrongly recorded it as a rental expense of the firm. Some candidates failed to identify the books of original entry for transactions (ii), (iv) and (v).</td></tr>
<tr><td>2 (a)</td><td>Good. Most candidates used a statement form to calculate the cost of the equipment. However, many wrongly included repair cost for accidental damage during installation and/or training fee in the computation.</td></tr>
<tr><td>(b)</td><td>Fair. Many candidates correctly calculated the depreciation expense for 2019. However, they were generally weak in using the appropriate account names, such as depreciation expense and insurance compensation receivable, as descriptions for the entries in the accounts.</td></tr>
<tr><td>3 (a)</td><td>Fair. Many candidates failed to calculate the weighted average cost of the closing inventory though they were able to work out the units in the inventory. Some of them wrongly used opening inventory average cost or purchase cost as the basis for the closing inventory valuation. Most candidates failed to correctly adjust the value of the closing inventory for the obsolete units.</td></tr>
<tr><td>(b)</td><td>Good. Most candidates correctly calculated the sales, opening inventory and purchases figures. However, some wrongly valued sales at the weighted average cost, while others wrongly treated the obsolete products as abnormal inventory loss.</td></tr>
<tr><td>(c)</td><td>Poor. Most candidates failed to state that inventories should be valued at the lower of cost and net realisable value, which is the usual practice in inventory valuation. Some mistakenly believed that inventory adjustment is not required if the financial impact is insignificant. However, the inventory valuation practice holds, irrespective of materiality.</td></tr>
<tr><td>4 (a)</td><td>Fair. Many candidates were able to apply the high-low method to determine the variable component and fixed component of electricity expenses, though some candidates used cost level instead of activity level to identify the high and low pairs of figures for estimation purposes.</td></tr>
<tr><td>(b)</td><td>Satisfactory. Many candidates included all relevant variable costs in the calculation of contribution margin. However, some wrongly treated rental expenses as a variable cost. Some candidates ignored the requirement to calculate the contribution margin per unit of product and gave total contribution margin or contribution margin ratio as the answer.</td></tr>
<tr><td>(c)</td><td>Fair. Many candidates showed the formula for calculating the breakeven quantity for Quarter 1, though some candidates failed to distinguish variable costs from fixed costs (e.g. rental expenses) or identify the variable component of electricity expenses, and included the entire amount as fixed costs in the computation.</td></tr>
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Question Number	Performance in General
5 (a)	Fair. Most candidates presented their calculation of the ... though the presentation was often at a lot of ... wrongly, leading to confusion and ambiguity. Many candidates failed to present the ... the retained profits as at 31 December 2019.
(b)	Fair. Some candidates failed to present the ratios with the proper units, while others ... the workings of the ratios correctly. When calculating the earnings per share and ... for ordinary shares, some candidates wrongly deducted ... the ordinary share ... preference share dividend from net profit after tax.
(c)	Poor. Some candidates suggested issuing ordinary shares as a form of financing but they failed to provide reasons related to leverage. Some candidates mistakenly suggested other forms of financing which would reduce the company's solvency, such as an issue of ... preference shares.
6 (a)	Satisfactory. Most candidates demonstrated a basic understanding of the realisation account. However, many failed to use correct account names as descriptions for the accounting entries in the realisation account. Some candidates mistakenly treated the ... charge for office equipment as income.
(b)	Fair. As in part (a), many candidates used incorrect account names as descriptions for the accounting entries in the capital accounts. For Yip's capital deficiency that would be borne by the remaining partners, some wrongly used the profits and losses sharing ratio in the computation instead of the ratio stated in item (vii) of the question.
7 (a)	Poor. Many candidates were not able to work out the correct amount for predetermined fixed manufacturing overheads absorbed per unit. They only calculated the predetermined fixed manufacturing overheads absorbed per direct labour hour and thus failed to arrive at the correct selling price per unit and selling expenses per unit.
(b)	Poor. Many candidates failed to use the absorption costing system to prepare the income statement. They generally failed to include the closing inventory as well as the adjustment of the under-absorbed fixed manufacturing overheads in the cost of goods sold.
(c)	Poor. Many candidates did not correctly calculate the effect on net profit for the first quarter of 2020 if the company used the marginal costing system. They knew the treatment of fixed manufacturing overheads under both the absorption costing system and the marginal costing system. However, few candidates were able to give a proper explanation.
(d)	Poor. Most candidates did not state the definition of the matching concept, nor did they provide an explanation for the application of the concept in the absorption costing system.

Section C

Question Number	Popularity	Performance in General
8 (A) (a)	65%	Poor. Many candidates failed to find out the amount of credit sales from the trade receivables account, and did not calculate the correct cash sales amount from the cash account, which resulted in wrong inventory losses being given. Some candidates were not able to calculate either the loss on disposal of equipment or the depreciation expenses for the year.
(b)		Fair. Some candidates failed to prepare the statement of financial position in a proper format. Many candidates gave incorrect amounts for accumulated depreciation, insurance compensation receivable and beginning capital balance.
(B)		Poor. Some candidates failed to state transactions that would increase the cash or bank balances of a business without affecting its net profit, while some incorrectly gave transactions that would reduce cash or bank balances, e.g. repayment of bank loan.
9 (A) (a)	35%	Poor. Many candidates failed to follow the requirement of the question to prepare a statement to calculate the bank account balance. Some mistakenly treated the credit balance on the bank statement as a bank overdraft. Others failed to distinguish between unpresented cheque, stale cheque and post-dated cheque.
(b)		Fair. Most candidates failed to calculate the closing balance of the allowance for doubtful accounts account correctly as they ignored the errors that would affect the trade receivables account balance. As the company had not prepared the closing entries, the correcting entries should not be made to the profit and loss account.
(B) (c)		Poor. Many candidates failed to calculate the total cost of purchase of material M accurately since they ignored the 10% discount for the quantity purchased in excess of 400 kg.
(d)		Poor. Many candidates failed to calculate the total relevant cost and total material cost of Material M for the special order accurately since they did not consider the scrap value or the average cost of the idle inventory of material M in their calculations.

General comments and suggestions

Candidates are reminded to read the questions carefully and present their answers legibly, neatly and clearly. Appropriate account names should be used to describe entries in the accounts and answers should be presented in accordance with the requirements of the questions. Abbreviations are not accepted in accounting entries. Candidates should show workings in their answers so that they can get some step marks even if the final answer is wrong.

Question Number		Performance in General
1		Fair. Most candidates suggested three bases of market segmentation. However, some gave only the definition of the bases without applying the market segmentation bases to the newly-established cake shop.
2	(a)	Poor. Many candidates were able to state that a gearing ratio measures the ability of a business to meet its long-term liabilities, but most failed to further explain that the ratio means the proportion of long-term borrowed funds to the total equity of a business.
	(b)	Poor. Most candidates failed to explain two advantages of using equity financing over debt financing. They wrongly gave 'lower cost' as their answer.
3		Poor. Most candidates were not able to describe clearly the steps in the performance appraisal process with suitable examples, and omitted the step of conducting appraisal interviews. Some only explained the factors affecting the promotion decision.
4	(a)(i)	Satisfactory. Most candidates were able to calculate the payback period.
	(ii)	Fair. Most candidates gave the name of the capital investment appraisal method that also uses net cash flows for the evaluation of projects. However, many did not explain the methods accurately.
	(b)	Poor. Some candidates pointed out that the business has to show the competitive advantages of its products. However, most mixed up the concept of market positioning and competitive position.

Question Number	
5 (a)	Fair. Many candidates gave two risk management strategies, with relevant examples. However, some candidates wrongly gave risk transfer as the strategy to deal with the risk of operating losses.
(b)	Poor. Some candidates gave learning and motivation as the psychological factors affecting the buying decisions of the customers of Happy Café. However, some mixed up the social-cultural factors and psychological factors.
(c)	Fair. Many candidates suggested setting up a database and membership scheme as ways to enhance customer loyalty. However, some failed to explain how the suggested ways could enhance customer loyalty.
(d)	Poor. Most candidates did not have a good understanding of the factors affecting the re-order level. Some candidates mentioned 'safety stock' as the factor but did not explain its relationship with the re-order level.
(e)	Poor. Many candidates gave 'orientation' as the internal communication programme which would help the new waiters to adapt to the working environment. However, others mentioned programmes which are not specific to new staff, such as staff meetings,
6 (a)	Satisfactory. Many candidates calculated the trade payables turnover correctly, although some did not correct it to two decimal places.
(b)	Poor. Many candidates stated ways of improving the cash position of Sum Kee without mentioning the relevant components of working capital as required in the question. Some wrongly answered from the perspective of cash management principles.
(c)	Fair. Many candidates stated the correct data collection methods. However, some did not clearly state what information should be gathered from retailers to help Sum Kee to formulate an appropriate marketing strategy.
(d) (i)	Poor. Many candidates did not explain the reasons for Sum Kee to adopt off-the-job training as compared with on-the-job training. Some wrongly answered from the perspectives of 'cost' and 'effectiveness'.
(ii)	Satisfactory. Many candidates were able to suggest an off-the-job training method. However, some failed to explain the skill or knowledge that the salespersons could learn from the method to improve their performance.

Question Number	Popularity	Performance in General
7 (a)	25%	Fair. Many candidates had a good knowledge of marketing mix strategies and proposed appropriate strategies for the maturity stage of the product life cycle. Explanation was generally clear and relevant to selling toys. However, some candidates failed to cover all the elements of the marketing mix and did not suggest appropriate strategies for the toy company.
(b)		Poor. Some candidates suggested feasible ways to deal with the unfavourable material variance and labour variance. However, many failed to provide a detailed explanation or appropriate suggestions. In addition, some candidates misinterpreted the meaning of budget variance and wrongly answered the question by explaining the ways to maintain consistency in production and quality.
8 (a)	75%	Satisfactory. Most candidates demonstrated their knowledge of Maslow's Hierarchy of Needs Theory. They suggested and clearly explained ways to reduce the staff turnover rate of the hair salon. However, some candidates were not able to explain ways which were relevant to the situation of a hair salon, or failed to explain all five levels of need.
(b)		Poor. Some candidates demonstrated a good knowledge of service characteristics and proposed ways to improve the service quality of the hair salon. However, many candidates confused the different service characteristics, e.g. perishability and inseparability. Some suggested inappropriate ways to improve the service quality, e.g. setting up a better waiting area, while others did not make reference to the service characteristics.

General comments and suggestions

Candidates tended to rely on memorisation and repeated general points provided by textbooks and past papers in their answers. They should read the questions carefully and try to understand the intended meaning and requirements of the questions and apply the knowledge and concepts to the specific contexts.