

SECTION C

QUESTION 9

Marks

- (a) – liquidity ratios: measures the chain's ability to repay short-term debts, e.g. current ratio, quick ratio
- debt management ratios/ solvency ratios: measures the chain's use of financial leverage, e.g. debt ratio, debt to equity ratio
- activity ratios/ management efficiency ratios: measure how efficiently the chain utilises its assets, e.g. inventory turnover, average collection period
- profitability ratios: measure the earning power of the chain, e.g. gross profit ratio, net profit margin

12

(3 marks for each relevant point, max. 12 marks)

- (b) Possible causes:
  - sales: e.g. keen competition, inappropriate merchandising
  - inventories: e.g. wastage, change in prices, change in foreign exchange rates
  - labour: e.g. change in wage rate and labour efficiency
  - rental: e.g. change in rent level

8

(3 marks for each relevant cause, max. 8 marks)

Total: 20 marks

QUESTION 10

- (a) Characteristics:
  - high growth in sales
  - begin to earn substantial profit
  - drop in average cost
  - competition becomes keener
  - customers are early adopters

12

(3 marks for each relevant characteristic, max. 12 marks)

- (b) Advantages:
  - promotion-from-within policy is well-accepted by employees
  - the company and the employees are familiar with each other
  - lower recruitment cost and orientation cost
  - higher motivation to existing employees

8

(3 marks for each relevant advantage, max. 8 marks)

Total: 20 marks

END OF PAPER 2B

A total of 16 918 candidates took the BAFS examination this year. 12 226 of them chose the Accounting Module and 4692 chose the Business Management Module.

The examination aims to assess candidates' ability to demonstrate knowledge and understanding of different areas of business; apply such knowledge and understanding to familiar and novel situations; analyse, synthesise and evaluate information to solve business problems; and communicate facts, opinions, and suggestions in an effective manner.

Paper 1

Section A (Multiple-choice questions)

This section consisted of 30 multiple-choice questions. The mean score was 37. Six questions produced a facility value of 80% or above, and eleven questions had a facility value of between 60% and 80%. Candidates' performance in general was satisfactory. They showed that they understood the basic concepts and principles in the compulsory part. However, some candidates were weak in answering questions where higher order thinking skills, such as application of knowledge and analysis of information, were tested. Some of the candidates' misconceptions are revealed by their performance in the following items:

- Q9 29% of the candidates chose the key (option D), while 34% of them chose option C. Many candidates failed to grasp the relationship between cost of goods sold, sales and gross profit margin.
- Q10 18% of the candidates chose the key (option A), while 42% of them chose option C. Most candidates were aware that only 11 months of rent should be accrued but quite a number of them had overlooked the deposit which was included in the amount paid.
- Q11 37% of the candidates chose the key (option B), while 52% of them chose option A. As in the case of Q4 last year, many candidates overlooked the fact that small businesses can also be limited companies and mistakenly concluded that they enjoyed a lower tax rate.
- Q14 39% of the candidates chose the key (option A), while 41% of them chose option D. Candidates mixed up trade discounts, which were not recorded in the books of a business, with cash discounts.
- Q24 42% of the candidates chose the key (option B), while 36% of them chose option D. Many candidates overlooked the period of the loan plan, and hence failed to divide the rate by 4.

Part B (Short questions)

This part consisted of seven questions. All questions were compulsory. The candidates' performance is summarised below:

Question Number	Performance in General
(a)	Good. Most candidates were able to list the benefits of using credit cards in the purchase of goods and services but some of them failed to provide appropriate elaborations.
(b)	Fair. Many candidates failed to explain the answers from the perspective of default risk / bad debt risk and assumed that applicants with good credit records would repay the debts on time.
2	Satisfactory. Most candidates listed the types of external factors that would affect Ken's decision. However, many candidates misunderstood the case and gave answers on setting up a fast food business on the Mainland, and hence they gave irrelevant explanations of the factors.

Question Number	Performance in General
3 (a)	Very good. However, some candidates failed to state clearly that personal transactions of the owner should not be entered in the books of the business.
(b)	Good. The majority of candidates were able to give the correct valuation of the notebook computer, but some failed to point out that the asset valuation should be based on the historical cost concept.
4	Fair. Only a few candidates listed the ways in which information management supported the human resources department. Many candidates outlined the functions of human resources management as answers. Some candidates regarded computer applications as information management.
5	Very good. Many candidates scored high marks in this part. However, some candidates could not correctly state the corresponding accounts of the double entries in the particulars column.
6	Good. Many candidates were able to explain how division of work could enhance the efficiency of a manufacturing company. However, some candidates misread the question and gave answers on enhancing effectiveness.
7 (a)	Fair. Many candidates failed to name the principle of effective management applied in the sales department.
(b)	Fair. Many candidates failed to explain the advantages of applying MBO. Weaker candidates just copied the case descriptions verbatim from the question as answers.

**Paper 2A (Accounting Module)**

There were three short questions in Section A and three application problems in Section B. All questions were compulsory. There were two case questions in Section C, where candidates were required to answer one out of the two questions. The candidates' performance is summarised below:

**Section A (30 marks)**

Question Number	Performance in General
1 (a)	Fair. Some candidates did not read the question carefully enough and as a result the required correction journal entries were not prepared.
(b)	Fair. The cash at bank account was often not properly drawn up. Many inappropriate ledger account names were found in the answers. A minority of candidates gave wrong figures even though they were directly taken from the question.
2 (a)	Good. Some candidates were not able to work out the correct cost of the new equipment. Although candidates were asked to prepare the accounts for 2012, some provided answers for 2011 and 2013 as well.
(b)	Fair. It was quite common for candidates to enter the debit and credit entries on the opposite sides of the accumulated depreciation account. Workings for depreciation expenses were missing for most candidates.

Question Number	Performance in General
(c)	Good. Most candidates arrived at the correct conclusion that the consistency principle was violated. However, many were not able to explain why using different depreciation methods to show stable operating results continuously would violate the principle.
3 (a)	Very good. Many candidates scored full marks in the part. However, there were candidates who wrongly included direct costs and administrative overheads in the calculation.
(b)	Fair. Many candidates were not able to state the reason why the direct labour hours should be used as the absorption base.
(c)	Good. Most candidates were able to work out the selling price of the job, showing separately the prime cost, production cost and total cost. However, some candidates made a wrong classification of costs and did not correctly apply the net profit margin of 50% to set the price.

**Section B (50 marks)**

Question Number	Performance in General
4 (a)	Good. Many candidates did very well in the preparation of the goodwill adjustment and calculation of the profit on revaluation. However, some candidates did not include the increase in allowance for doubtful debts when calculating the revaluation profit.
(b)	Good. Some candidates were not familiar with the classification and presentation of the items in the statement of financial position. Other candidates were not able to distinguish between trade receivables and accounts receivables.
(c)	Fair. Some candidates failed to record the salary and interest on capital in the current account. Another common mistake was that candidates failed to deduct partner's salary and interest on capital from the net profit before calculating the amount of profit to be shared.
(d)	Poor. Many candidates failed to distinguish between market value and fair value. Some focused only on the revaluation gains and overlooked the impact of revaluation losses on partners.
5 (a)	Fair. When calculating the cost of goods sold, some candidates ignored the amounts of trade payables at the beginning and at the end of the year and just showed the amount of payments to suppliers. Because of that, they could not arrive at the correct amounts of sales and gross profit. While many candidates were not aware that cash loss was an expense in the income statement, others were not able to compute the amount of cash loss. Many candidates ignored the adjustments relating to administrative and selling expenses.
(b)	Fair. Many candidates omitted insurance claim receivable in the current assets.
6 (a)(i)	Very good. Only a small number of candidates failed to identify the correct amount of total variable costs and failed to compute the correct contribution margin ratio.
(ii)	Good. Candidates in general did well in breakeven analysis although a minority of them wrongly used total fixed costs as breakeven sales.
(iii)	Poor. Many candidates overlooked the requirement of presenting the margin of safety in percentage form. Some candidates wrongly used the budgeted net profit as budgeted sales to compute the margin of safety.

Question Number	Performance in General
(b)(i)	Fair. Many candidates got confused when determining the new contribution margin. Some wrongly classified the 5% sales commission as part of the sales, instead of a variable cost item.
(ii)	Fair. Very often, candidates ignored the part where they were required to state the effect of sales commission on breakeven sales.
(iii)	Poor. Most candidates had problems working out the additional profits brought about by offering sales commission. They did not realise that additional sales would bring in additional variable costs, including those from direct materials, direct labour and variable production overheads. Because of this, they failed to compute the correct profit and make the correct decision.
(c)	Good. Most candidates were able to identify or explain the impact brought on by the decline of margin of safety.

**Section C** (20 marks)

Question Number	Popularity	Performance in General
7 (a)	59%	Satisfactory. Many candidates calculated the accounting ratios for 2011 correctly. However, most candidates were not aware of the fact that the omission of a sales invoice in 2012 would affect the total sales and net profit for 2012, as well as the year-end balance of the accounts receivable. Thus some wrongly calculated the associated accounting ratios for 2012.
(b)(i)		Fair. A few candidates correctly commented on the profitability of Able Company.
(ii)		Poor. A few candidates suggested ways of improving the liquidity of Able Company.
(a)	36%	Very good. Only a few candidates failed to work out the correct amounts of cost of goods sold and sales commission.
(b)		Good. Most candidates were able to give the correct cost of goods sold, rental expenses and office expenses figures. Candidates failed to arrive at a correct budgeted net profit figure when they were not able to calculate the figures of sales commission, salaries and the compensation after closing shop C.
(c)		Satisfactory. Some candidates were not able to justify the closing of shop C. Many of them tried to emphasise the budgeted loss made by the shop, rather than comparing the budgeted net profit made before and after closing of Shop C.
(d)		Fair. Most candidates failed to identify the non-financial factors related to not closing Shop C.

**Paper 2B** (Business Management Module)

There were six short questions in Section A and two case studies in Section B. All questions were compulsory. There were two case questions in Section C, where candidates were required to answer one out of the two questions. The candidates' performance is summarised below:

**Section A** (30 marks)

Question Number	Performance in General
1	Satisfactory. About half of the candidates were able to explain the various uses of appraisal. However, some candidates failed to read the question carefully and gave irrelevant answers, such as methods of appraisal or definition of appraisal.
2	Satisfactory. Most candidates were able to identify the factors. However, some candidates did not use the factors to evaluate the risk of granting credit.
3	Fair. Most candidates were able to give the reasons for retaining existing customers. However, some candidates were unable to make proper justification between retaining existing customers as compared to attracting new customers.
4	Very good. Most candidates were able to list three progressive disciplinary actions in sequence. However, some candidates failed to elaborate.
5	Fair. Many candidates were able to suggest the advantages of adopting divisional departmentalisation. However, some candidates mistakenly answered from the viewpoint of a regional branch instead of the viewpoint of a multi-national corporation.
6	Satisfactory. Many candidates were able to explain why contracts are important in the business sector. However, some candidates just named the three essential elements of a contract.

**Section B** (50 marks)

Question Number	Performance in General
7 (a)	Very good. Most candidates were able to suggest appropriate risk management strategies and give relevant examples.
(b)	Fair. Many candidates only gave examples but did not state the types of data collection method.
(c)	Poor. Most candidates only gave a general explanation of the criteria for evaluating a market segment, but did not apply the case to the middle class segment.
(d)	Satisfactory. The majority of candidates were able to list relevant sources of capital.
(e)	Fair. Some candidates failed to provide the ways of promotion but only gave examples. Minority of them even mistook the ways of promotion as the marketing mix strategies.
8 (a)	Good. Many candidates were able to state Theory X assumptions and illustrate them with correct examples. Some of them mixed up the assumptions and examples however.

Question Number	Performance in General
(b)	Very good. Most candidates provided the correct types of monetary compensation methods to motivate its employees to perform better.
(c)	Satisfactory. Most candidates were able to state two characteristics of service but failed to explain clearly why training can help to meet today's service standard.
(d)(i)	Satisfactory. Most candidates correctly calculated the payback period.
(ii)	Good. Many candidates were able to state the reasons clearly.
(e)(i)	Satisfactory. Many candidates calculated the net present value but most of them did not correct the answer to the nearest dollar.
(ii)	Very good. Most candidates explained whether the project should be adopted using the answer from part (e) (i).

**Section C (20 marks)**

Question Number	Popularity	Performance in General
9 (a)	15%	Fair. Most candidates were able to illustrate with relevant examples the accounting ratios that could be used to evaluate different aspects of performance in a retail chain. However, some candidates provided irrelevant examples and gave wrong meaning of accounting ratios in evaluating the retail chain's performance.
(b)		Poor. Most candidates were not familiar with the causes of budget variance in the retail chain. They tended to mention the types of budget variance only without explaining the possible causes.
10 (a)	78%	Poor. Many candidates mixed up the characteristics and the marketing mix in the growth stage of the product life cycle. They tended to elaborate the marketing strategies instead of the characteristics in the growth stage.
(b)		Fair. Many candidates properly elaborated on the advantages of recruiting managers via internal recruitment. However, some candidates only explained its advantages to the employees instead of explaining why it is beneficial to the company.