

## Candidates' Performance

A number of changes were introduced to the examination in 2014. The examination duration was reduced to 3 hours 30 minutes in total – 1 hour 15 minutes for Paper 1 and 2 hours 15 minutes for Paper 2A/2B. The total marks for Paper 1 and Paper 2A/2B were reduced to 90 and 80 respectively.

While there was no change to Section A of Paper 1, the total mark of Section B was reduced to 30 marks, for both parts. All questions in Part 1 were compulsory, and there was a choice of one out of two questions in Part 2. In Paper 2A/2B, the total marks of Sections A and B were reduced to 24 and 36 respectively, with no change to Section C (20 marks).

There were 15 006 candidates for the BAFS examination this year: 10 626 of them chose the Accounting Module and 4380 chose the Business Management Module. Approximately 53% of the candidates sat the English papers.

### Paper 1

#### Section A (60 marks)

There were 30 multiple-choice questions in this section. Candidates' performance in general was good. The mean score was 41 out of a total of 60 marks for this section. They had a good understanding of the basic knowledge and concepts of the core modules. However, some candidates were weak in applying their knowledge to business environments and real life situations. The percentage correct was lower in the following questions:

- Q.4 Which of the following statements about the Mandatory Provident Fund (MPF) system is correct?
- A. Self-employed persons are not required to enrol in an MPF scheme. (18%)
  - B. Employees covered by the MPF system are required to contribute 5% of their income. (32%)
  - \*C. Employees can choose to make extra voluntary contributions in addition to the regular mandatory contributions. (41%)
  - D. MPF scheme members can withdraw their accrued benefits when they reach the age of 60. (9%)

This question assessed candidates' knowledge about the rights and responsibilities of employees and self-employed persons under the MPF system. Many candidates overlooked that the fact that a cap is set on the amount of the MPF contribution.

- Q.6 Which of the following statements about small and medium enterprises (SMEs) in Hong Kong are correct?
- (1) An SME employs fewer than 50 persons.
  - (2) SMEs contribute a majority of employment opportunities in Hong Kong.
  - (3) SMEs often provide products and services that complement large companies.
- A. (1) and (2) only (11%)
  - B. (1) and (3) only (18%)
  - \*C. (2) and (3) only (44%)
  - D. (1), (2) and (3) (27%)

This question assessed candidates' basic knowledge about SMEs. Most candidates were not aware of the distinction between manufacturing and service SMEs with regard to the number of employees.

Q.16 On 30 December 2013, a firm bought a motor van and made a payment of \$150 000 by cheque. The van's list price was \$243 000 and a trade discount of \$15 000 was given. As at 31 December 2013, its market value had fallen to \$200 000. The van should be recorded at \_\_\_\_\_ in the statement of financial position as at 31 December 2013.

- A. \$150 000 (29%)
- B. \$200 000 (8%)
- \*C. \$228 000 (52%)
- D. \$243 000 (11%)

This question tested the application of relevant accounting concepts. Some candidates mistook the amount paid as the full settlement of the asset, while others were not aware that the cost of non-current assets is net of any trade discount received.

Q.28 Maintaining a good personal credit record is important because it will \_\_\_\_\_.

- (1) lower the cost of loans
- (2) increase the chance of getting loans
- (3) increase the upper limit of 70% on mortgage loans from banks

- \*A. (1) and (2) only (52%)
- B. (1) and (3) only (2%)
- C. (2) and (3) only (35%)
- D. (1), (2) and (3) (10%)

This question assessed candidates' knowledge of the importance of maintaining a good personal credit record. Many candidates were not aware that banks may grant mortgage loans for a maximum of 70% of the property value. Surprisingly, some candidates believed that good personal credit will increase the chance of getting a loan but not the possibility of lower borrowing costs.

Commonly-confused ideas are often set as distractors in multiple choice questions to assess candidates' precise understanding of the concepts involved, and candidates are expected to choose the best answer for each question. It is therefore advisable for candidates to spend time reading each question, and the options, carefully. A quick skimming of the questions based on key words or past papers is not a wise strategy for tackling multiple-choice questions. In ascertaining the correct answer, it is important to eliminate wrong answers by identifying the contradictions contained in them.

### Section B

There were four compulsory short questions in Part 1. Part 2 consisted of two optional questions, each covering a combination of topics. Candidates' performance is summarised below:

#### Part 1 (20 marks)

Question Number	Performance in General
1 (a)	Good. Most candidates were able to identify the nominal partner.
(b)	Satisfactory. Most candidates were able to suggest two contributions that a nominal partner could make to a partnership but some of them failed to provide appropriate elaborations. Some gave the role and contributions of a general partner as answers.
2 (a)	Satisfactory. Many candidates were able to name conceptual skill as the answer, but some of them failed to explain why it is most important for the general manager. Some candidates explained why the other two management skills were not important.
(b)	Very good. Most candidates were able to state two functions of a marketing department.

Question Number	Performance in General
3 (a)	Fair. Few candidates were able to name the books of original entry correctly for all parts. Some listed the account names as answers. Quite a number of candidates gave "Return Inwards Journal" as the answer for part (ii).
(b)	Fair. Candidates were generally weak in differentiating real and nominal accounts. Some candidates failed to give examples from the accounts for recording the transactions in part (a). Some merely explained the meaning of real and nominal accounts.
4 (a)	Satisfactory. Most candidates were able to apply the discounting concept to calculate the required amount of deposit. However, some candidates incorrectly used the future value concept when computing the present value of the down payment. Others calculated the present value of the budgeted price of the flat instead of the down payment.
(b)	Good. Most candidates were able to suggest government bonds as an investment choice and give appropriate explanations. They were familiar with the characteristics of government bonds.

#### Part 2 (10 marks)

Question Number	Popularity	Performance in General
5 (a)	38%	Good. Most candidates were able to prepare the statement of financial position and work out the amount of beginning capital. However, some candidates failed to classify "rental deposit" as current asset. Some failed to present the heading of the statement properly.
(b)		Fair. Many candidates explained the possible adverse impacts on Mike's business. However, some candidates mistook Mike for a restaurant owner instead of an importer of tableware. Others stated that Mike had committed a criminal offence.
(c)		Very good. Most candidates identified another stakeholder in Mike's business but a few candidates stated "customers" as the answer, which had been excluded by the question.
6 (a)	62%	Very good. Many candidates scored high marks in this part. However, some candidates failed to include carriage inwards in the cost of goods sold and others failed to present the heading of the income statement properly.
(b)		Good. Many candidates were able to state two relevant problems, but some of them failed to give appropriate elaborations. Very few pointed out the problem of unclear chain-of-command.

#### General comments and suggestions

Candidates' performance was in general satisfactory. However, they were weak in comprehension and the application of knowledge. Many candidates were unable to provide appropriate elaborations of their answers. Despite repeated reminders, some candidates failed to study the questions carefully and hence did not respond to what was being asked.

A number of candidates attempted both questions in Part 2 of Section B, when they were required to answer only one of them. This strategy is to be discouraged because the time spent answering both questions could have been used more effectively, carefully formulating and checking other answers.

**Paper 2A (Accounting Module)**

There were four short questions in Section A and three accounting problems in Section B. All questions were compulsory. In Section C, candidates were required to answer one out of the two optional questions. Candidates' performance is summarised below:

**Section A (24 marks)**

Question Number	Performance in General
1 (a)	Very good. Most candidates prepare the sales ledger control account correctly. However, some wrongly described the collections from credit customers.
(b)	Fair. Many candidates were not familiar with the adjustment required for an increase or a decrease in the allowance for doubtful debts. Some candidates failed to give a narration for the journal entry.
2 (a)	Good. Most candidates computed the depreciation expense for 2011. Some candidates overlooked the remaining number of years for the amount spent on increasing the productivity of the machine. Others wrongly included repair costs as the cost of the machine, thus leading to a wrong calculation of depreciation expenses for 2012 and 2013.
(b)	Good. Most candidates prepared the journal entry for the disposal of the machine correctly. However, some did not show the correct entry for the compensation receivable from the insurance company.
3	Satisfactory. Most candidates were able to provide correct answers to at least two out of the four items in the question. Some candidates did not understand the descriptions relating to sunk cost and opportunity cost.
4 (a)	Fair. Many candidates failed to apply the sales mix ratio in the computation of the breakeven quantities of the two products with a weighted unit contribution. Instead, they calculated the two breakeven points based on the respective unit contribution of each product.
(b)	Fair. Candidates were generally weak in understanding the concept of margin of safety. They were not able to work out the correct breakeven sales required for the calculation of the margin of safety in sales dollars.

**Section B (36 marks)**

Question Number	Performance in General
5 (a)	Poor. Not many candidates calculated the correct adjusted net profit for the year. Some candidates were not aware that only quarterly adjustment was required for interest accrual. Some candidates confused gross profit margin and mark-up. A few overlooked the profit adjustment on the goods sent on a sale-or-return basis. Some candidates wrongly included the appropriation items in the statement of adjusted profit.
(b)	Fair. While some candidates failed to work out the interest on the drawings of the two partners, others were not able to distinguish between accrued partner's salary and partner's annual salary in the appropriation account. The former should be credited to the partner's current account while the latter represented an appropriation of profits.
(c)	Very good. Candidates were generally familiar with the preparation of partners' current accounts in columnar form. Some failed to realise that part of the salary had been paid to Abby and should not be recorded in the current account.

Question Number	Performance in General
6 (a)	Satisfactory. Most candidates were able to apply the correct formulae for accounting ratios to compute the amounts of sales, purchases and gross profit. While many candidates did not know how to compute the amount of inventory loss, others were not aware that this loss should be deducted from the cost of goods sold and shown as an expense in the income statement. Some candidates also failed to use the net book value of office equipment to compute the annual depreciation expense.
(b)	Fair. Many candidates confused the limitations of financial statements with the limitations of accounting ratios. Some were not able to express their answers clearly.
7 (a)	Very good. Most candidates worked out the correct amount of over-absorbed overheads.
(b)	Fair. Many candidates were not able to state the use of the predetermined overhead rate for decision-making before the completion of production (i.e. when the actual amounts of overheads are not known).
(c)	Fair. Many candidates did not differentiate between the plant-wide production overhead absorption rate and the departmental overhead absorption rates. In addition, many failed to arrive at the correct amount of total production overheads as they wrongly included direct materials and direct labour in the computation.
(d)	Satisfactory. Most candidates were able to apply the rate obtained from (c) to calculate the overhead cost of the two job orders.
(e)	Poor. Most candidates were not able to give correct calculations and explanations to justify the use of departmental overhead rates to achieve a fairer overhead assignment.

**Section C (20 marks)**

Question Number	Popularity	Performance in General
8 (a)	62%	Fair. Some candidates mistakenly stated that a relevant accounting principle had been violated and the accounting treatment of including the amount of the rubbish bin in administrative expenses was improper.
(b)		Satisfactory. Many candidates adjusted the cost of goods sold using the amount of closing inventory instead of the reduction in the value of the closing inventory. Some wrongly deducted the cost of the rubbish bin and the related depreciation expenses from administrative expenses. A minority of candidates failed to adjust trade receivables and trade payables with returns inwards and returns outwards respectively.
(c)		Fair. Many candidates did not understand the impact of debenture issues on the solvency of a company.
9 (a)	38%	Good. However, some candidates failed to write the account names of the corresponding entries as descriptions when making entries in the cash at bank account.
(b)		Satisfactory. Some candidates did not realise that the credit transfer of item (iii) was made by the bank in error.
(c)		Fair. Many candidates were not aware that free samples should be treated as selling expenses. Some candidates were not able to work out the correct amount of the prepaid rental expenses. While some candidates failed to

	calculate the correct amount of unearned maintenance revenue, others erroneously treated the maintenance fees as expenses instead of revenue.
(d)	Fair. Most candidates were able to point out the relevant revenue recognition principle. However, they failed to explain that the maintenance fees should be recognised as service revenue on a time basis over the respective service period.
(e)	Satisfactory. Most candidates were able to identify two transactions as required.

#### General comments and suggestions

Candidates are advised to be well-prepared for the examination. They are reminded to read the questions carefully and present their answers in a tidy manner with good layout and legible writing. Abbreviations must not be used in accounting entries, especially the financial statements. Unless otherwise specified, journal narrations should not be omitted from journal entries. Candidates should show workings in their answers, so that they can gain some step marks even when the final answers are wrong.

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

There were five short questions in Section A and two case studies in Section B. All questions were compulsory. In Section C, candidates were required to answer one out of the two questions to demonstrate their in-depth knowledge and application of the topics concerned. Candidates' performance is summarised below:

#### Section A (24 marks)

Question Number	Performance in General
1	Good. Most candidates were able to identify two types of insurance that a restaurant should take out. However, some candidates confused the meanings of different types of insurances, and others did not give explanations with reference to the context of restaurants.
2 (a)	Poor. Most candidates were not able to label the total inventory cost, total carrying cost and total ordering cost correctly in the diagram.
(b)	Good. Most candidates correctly calculated the re-order level of the product.
3	Poor. Many candidates were not familiar with Vroom's Expectancy Theory. Those who had some ideas about the theory failed to identify accurately the three basic elements.
4	Fair. Most candidates stated three sampling techniques but not all provided accurate descriptions of them. Some candidates confused data collection methods with sampling techniques.
5	Good. Most candidates were able to compare the skimming pricing strategy and penetration pricing strategy, although quite a number wrongly thought that the penetration pricing strategy could only be applied to daily necessities.

#### Section B (36 marks)

Question Number	Performance in General
6 (a)	Good. Most candidates were able to suggest two ways to encourage retailers to carry more of the company's products.

Question Number	Performance in General
(b)	Satisfactory. Most candidates were able to state two performance appraisal methods to assess the performance of the merchandisers, but a minority failed to explain the methods accurately.
(c)	Fair. Many candidates correctly described three of the remaining steps in the training process, but they did not apply them to the case, which was about merchandisers.
(d)	Satisfactory. Most candidates were able to suggest two ways to improve cash flows, but a minority failed to provide their suggestions from the perspective of working capital management.
7 (a)	Good. Most candidates were able to explain the differences in buying behaviour between the consumer market and the business market. However, some of the answers were not related to buying behaviour.
(b)	Fair. Many candidates gave explanations of how e-marketing benefits consumers but the question asked for the benefits to the budget airline.
(c)	Fair. Many candidates did not have good ideas about the problems that may arise when financing a long-term investment with short-term loans.
(d)	Fair. Quite a number of candidates provided extensive explanations of why the airline business faces a higher risk than other industries. However, they did not specify which macro-environmental factor they were discussing.

#### Section C (20 marks)

Question Number	Popularity	Performance in General
8 (a)	15%	Satisfactory. Most candidates were able to explain the ways to cope with shortage of manpower from the perspective of human resources management functions such as compensation management, recruitment, training and development, etc. However, some candidates merely explained the functions in a general way without specifically linking their elaboration to the shortage of salespersons in a jewellery retail chain.
(b)		Poor. Most candidates failed to demonstrate their understanding of various capital investment appraisal methods. Many tried to explain some considerations related to investment but did not link them to the capital investment appraisal methods. Among those who were able to list the capital investment appraisal methods, some failed to explain the concepts clearly with appropriate applications.
9 (a)	85%	Satisfactory. Most candidates were able to state the steps in the consumer buying decision process. However, some did not describe the steps in full using the purchase of beauty and skin care services as an example. Others mixed up the sequence of the steps.
(b)		Fair. A majority of candidates had a rough idea of consumer rights but many did not identify each individual right accurately. Also, many candidates merely described the rights with little elaboration on how a beauty centre can satisfy its customers with respect to those rights.

### **General comments and suggestions**

Candidates' overall performance was fair. Some apparently were unprepared for certain topics. It is not advisable for candidates to pick certain topics for study as all topics covered by the syllabus have the same chance of being examined. Candidates were particularly weak in finance and thus more effort should be directed to this area.

Candidates' answers revealed that their understanding of concepts and theories tends to be quite vague, rough and incomplete. Sometimes special terms and their spelling was wrong. When the application and discussion of certain concepts was required, candidates found it difficult to provide precise and accurate answers. More exercises on the application of concepts and theories might help candidates consolidate their comprehension of the knowledge acquired. When dealing with application questions, candidates should be aware of the context specified in the question, and demonstrate in their answers how the theories or concepts apply specifically to the situation.

Lastly, candidates are strongly advised to read questions carefully before attempting them so that the requirements are understood. For example, descriptions of two concepts in separate paragraphs will not be acceptable where questions require comparison.