

## Candidates' Performance

9 041 candidates sat the Business, Accounting and Financial Studies examination this year: 6 479 candidates chose the Accounting Module and the remaining 2 562 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 32 out of 60 marks.

The percentage correct was lower in the following questions:

1. Which of the following statements about the World Trade Organization is/are correct?

- |     |   |       |
|-----|---|-------|
| (1) | It enforces the rules of international trade among members.         |       |
| (2) | It helps developing countries increase their trading opportunities. |       |
| (3) | It eliminates trade barriers among members.                         |       |
| A.  | (1) only  | (11%) |
| B.  | (1) and (2) only*   | (17%) |
| C.  | (2) and (3) only  | (23%) |
| D.  | (1), (2) and (3)  | (49%) |

The World Trade Organization lowers, instead of eliminating trade barriers among members.

6. On 1 February 2021, Mr Lee set up a retail firm selling computers. On the same day, the firm purchased ten sets of computers on credit from a supplier at a cost of \$4 500 each. During February, two sets of damaged computers were returned to the supplier and three sets of computers were sold at a selling price of \$7 000 each.

What is the balance of the purchases account of the firm as at 28 February 2021?

- |    |           |       |
|----|-----------|-------|
| A. | \$22 500  | (16%) |
| B. | \$31 500  | (5%)  |
| C. | \$36 000  | (46%) |
| D. | \$45 000* | (33%) |

The purchases account only records the cost of goods purchased. Returns outwards and sales are separately recorded in other accounts.

13. Which of the following statements about a trial balance is/are correct?

- (1) If the trial balance agrees, there are no errors in the account balances.
  - (2) The trial balance shows all the account balances of a firm.
  - (3) If the total of the debit side of an account is smaller than the credit side, the account balance is shown in the credit column of a trial balance.
- A. (1) only  
B. (2) only  
C. (1) and (3) only  
D. (2) and (3) only\*

(14%)  
(43%)  
(7%)  
(36%)

Even if the trial balance agrees, there may still be errors in the account balances, e.g. an error on one side may be compensated by an error of the same amount on the other side. If the total of the debit side of an account is smaller than the credit side, the account has a credit balance, which is shown in the credit column of the trial balance.

15. Which of the following about the statement of financial position is/are correct?

- (1) It reveals the liquidity of a firm.
  - (2) Non-current assets are listed according to their total amounts in descending order.
  - (3) It reveals the financial status of a firm for a period of time.
- A. (1) only\*  
B. (2) only  
C. (1) and (3) only  
D. (2) and (3) only

(22%)  
(3%)  
(66%)  
(9%)

The statement of financial position shows the balances of assets, capital and liabilities of a firm at a certain time.

28. A Mainland frozen food company plans to establish a branch in Hong Kong. Which of the following is/are the support provided by the company's information manager to the marketing manager?

- (1) process data about the frozen food market in Hong Kong
  - (2) collect information about suppliers of freezing systems
  - (3) set up a salary scheme for the salespersons
- A. (1) only\*  
B. (1) and (2) only  
C. (2) and (3) only  
D. (1), (2) and (3)

(28%)  
(65%)  
(2%)  
(5%)

The information manager assists the collection of information about suppliers of freezing systems for the operations manager.

Section B  
Part I

Question Number	Performance in General
1 (a)	Very good. Many candidates were able to explain that the business is a multinational corporation.
(b) (i)	Very good. Many candidates were able to identify the current form of ownership of the business.
(ii)	Fair. Many candidates were able to cite the disadvantages, but they failed to give appropriate explanations. Some candidates did not make a comparison of the disadvantages of the two forms of ownership. Some just stated the characteristics of a public limited company.
2 (a) (i)	Poor. Most candidates were unable to point out that the Hang Seng Index reflected the general price level of the shares listed in Hong Kong.
(ii)	Poor. Most candidates failed to explain how the Hang Seng Index could help investors make investment decisions. Some candidates mistakenly thought that the Hang Seng Index reflected the performance of all the shares listed in Hong Kong.
(b)	Fair. Most candidates were able to state that the new policy would lead to an increase in the share price of the real estate development company. However, many of them failed to explain the reason for the increase in share price with reference to the background of the company and/or the case scenario.
(c)	Poor. Some candidates wrongly listed out the responsibilities, instead of the rights of the share investors.
3 (a)	Good. Many candidates were able to prepare the two nominal accounts and complete the double entries. However, some candidates failed to identify the nominal accounts and prepared all the corresponding accounts listed in the bank account.
(b)	Satisfactory. Many candidates were able to calculate the overdraft balance of the bank account. However, some of them classified the bank overdraft balance as a current asset instead of a current liability. Some candidates showed the other parts of the statement of financial position, which was not required by the question.
(c)	Satisfactory. Most candidates were able to state the business entity concept as answer. However, some of them failed to explain the meaning of the concept with reference to the case context.

Part 2		Performance in General
Question Number	Popularity	
4 (A) (a) (i)(ii)	29%	Good. Many candidates were able to work out the working capital ratio and acid test ratio. However, some candidates failed to present the figures in the form of X:1 or round the answer to two decimals.
(b)		Fair. Many candidates were able to point out that the two ratios were higher than the industry averages and hence the firm would be able to meet its short-term debts. However, only a few candidates mentioned the large difference between the two ratios and hence concluded that there were current assets tied up in inventory. Some candidates compared the ratios with the casual rule of thumb of 2:1 and 1:1 instead of the industry averages given in the question.
(B) (c) (i)		Satisfactory. Many candidates managed to name 'unity of direction', but some others stated 'management by objectives'.
(ii)		Poor. Many candidates failed to explain the advantages of adopting unity of direction with reference to the case scenario. Some candidates just explained the benefits from the view of the staff.
5 (A) (a)	71%	Very good. Many candidates were able to prepare the income statement and arrive at the net profit figure correctly. However, some candidates failed to present the income statement in a proper format. Proper indication of subtraction of certain items was not seen in some scripts.
(b)		Fair. Some candidates were able to explain one use to the government of the income statement of a business.
(B) (c)		Poor. Only a few candidates were able to draw the organisation chart of the business. Most candidates failed to provide a proper title for the superior of the three department managers.
(d) (i)		Good. Many candidates were able to name the human resources manager.
(ii)		Poor. While many candidates were able to explain how the human resources manager exercises its line authority, many of them failed to give appropriate explanations regarding its staff authority.

#### General comments and suggestions

Candidates were weak in applying business knowledge and analysing case scenarios. They spent much effort on recalling textbook contents and marking schemes for similar questions in past papers. Candidates should study the case information and requirements of the questions carefully and relate their answers to the case background as far as possible. For questions requiring the application of knowledge and/or analysis of information, the answers should be supported by appropriate explanations and/or arguments.

Section A

Question Number	Performance in General
1	<p>Satisfactory. Most candidates provided correct answers for items B, C and I. However, many did not show the rental income in arrears (item E) nor the repair and maintenance expenses owing (item L) as balances carried down (items D and K) as at 31 December 2020. The transfers of the amounts of rental income (item G) and repair and maintenance expenses (item N) to profit and loss (items F and M) at year end were not properly dealt with by some candidates.</p>
2	<p>(a) Good. Most candidates were able to update the cash at bank account with dividend income, electricity expenses, bank charges and the credit transfer from Sunny Limited. However, many candidates failed to credit the post-dated cheque of Fanny Company. Some candidates did not notice that the original balance carried down of the cash at bank account as at 31 December 2020 was a credit balance, i.e. an overdraft, and wrongly showed it as a debit balance in the updated cash at bank account. Some candidates failed to use the correct account names as descriptions of the postings in the cash at bank account.</p> <p>(b) Satisfactory. Many candidates were able to prepare the bank reconciliation statement correctly. However, some candidates confused 'unpresented cheque' with 'uncredited deposit'.</p> <p>(c) Fair. Many candidates failed to identify the 'realisation principle' as the most relevant accounting principle for the scenario. While some candidates wrongly stated the 'accrual concept' as their answer, others stated the appropriate principle but failed to explain that revenue should be recognised only after the services have been provided.</p>
3	<p>(a) Satisfactory. Most candidates were able to identify direct material costs and direct labour costs as production costs as well as variable costs. However, some candidates mistakenly treated selling expenses as production costs. While some candidates wrongly included fixed manufacturing overhead costs in the calculation of contribution margin, others were either unable to apply the sales mix ratio in the computation of contribution margin for multiple products or wrongly worked out the contribution margin per unit instead of the contribution margin per sales mix.</p> <p>(b) Poor. Many candidates failed to determine the contribution margin and sales quantity required to break even for surfboards when the sales quantity for kayaks and paddles were given. Some candidates wrongly computed the breakeven point at product level instead of company level.</p> <p>(c) Fair. Many candidates were able to include the target profit in the calculation. However, they failed to determine the contribution margin required to achieve the target profit for kayaks and paddles when the sales quantity of surfboards was known.</p>

Question 2

Question Number	Popularity	Performance in General
4	(a)	45% Good. Most candidates demonstrated a basic understanding of the three-column cash book. However, many candidates failed to use proper account names as descriptions for the postings in the cash book. Some candidates did not arrive at the correct amounts for the settlements and cash discounts relating to credit purchases and credit sales.
	(b)	Fair. Most candidates were able to compute the amounts of sales, returns inwards, purchases and carriage inwards. However, many candidates did not include carriage inwards as part of the cost when using the weighted average cost method to calculate the unit cost of closing inventory. Some candidates ignored the prepaid operating expenses as at 1 March 2021 in the calculation of operating expenses.
5	(a)	40% Satisfactory. Most candidates were able to record the general transactions in the trade receivables account. However, many candidates failed to understand the nature and the accounting treatment for credit notes issued by the business.
	(b)	Poor. Most candidates failed to find out the total amount of purchases. Some candidates failed to consider the transactions that took place between 1 April to 6 April to arrive at the closing inventory as at 31 March. Candidates were generally weak in presenting their answers in statement form.
	(c)	Satisfactory. Most candidates were able to record the general transactions in the trade payables account.
	(d)	Poor. Though many candidates were able to classify the items into current assets and current liabilities, they were not able to present the accurate figures for some of the items. Some candidates limited themselves to listing the items without showing the calculation of working capital.
6	(a)	15% Good. Most candidates were able to work out the correct amounts for indirect labour cost, fixed manufacturing overheads and unit variable manufacturing overheads for Products X, Y and Z respectively. Some candidates failed to provide the total amount of indirect labour cost.
	(b)(1)	Fair. Some candidates were able to incorporate the changes derived from the proposal to work out the unit contribution margin of Product X. Many of them failed to calculate the revised direct labour cost and selling price.
	(2)	Poor. Most candidates failed to get the total profit or loss of the company as a whole in the coming quarter. They did not follow the instruction to start the statement with the total contribution margins of Product X and Product Y. In addition, they did not consider that the proposal would affect the fixed costs of the company as a whole.
	(c)	Fair. Many candidates were not able to give a correct conclusion with proper supporting reason.

Section C

Question Number	Popularity	Performance in General
7 (a) (1)	38%	Fair. Most candidates were able to prepare the income statement in proper format. However, many candidates failed to calculate the value of closing inventory accurately since they did not fully understand the issues relating to sale-or-return, free samples and net realisable value. Some candidates mistakenly calculated full-year depreciation on a fully depreciated motor van that was still in use by the company.
(2)		Fair. Most candidates were able to show the appropriate items to calculate the closing balance of the retained profits in a statement form.
(3)		Poor. Many candidates were able to prepare the statement of financial position in the proper format. However, many candidates failed to record the credit transfer from a customer properly. Some candidates ignored the maturity date of the debenture and mistakenly listed the debenture as a non-current liability.
(b)		Poor. Most candidates failed to explain whether the final dividend should be recorded as a liability of 2020.
8 (a)	62%	Poor. Many candidates were able to calculate the interest on drawings, interest on capital and share of profit accurately, but they failed to use proper account names (i.e. appropriation) to describe these items in the current account. Some candidates mistakenly treated the unpaid interest on Wu's loan as an appropriation of profit and recorded it in Wu's current account.
(b)		Good. Many candidates were able to handle the treatment of goodwill properly, but some candidates failed to calculate the profit on revaluation accurately.
(c)		Poor. Most candidates failed to point out the reason for asset revaluation upon the admission of a new partner.
(d)		Satisfactory. Many candidates were able to use correct account names as descriptions for the accounting entries in the realisation account. Some candidates did not record the realisation expense in Chau's capital account since they ignored that Chau paid the expense on behalf of the partnership.
(e)		Poor. Many candidates failed to transfer the correct balances of the current accounts to the capital accounts upon dissolution of the partnership.

**General comments and suggestions**

Candidates are expected to possess a broad understanding of the topics in the curriculum and be able to give appropriate answers based on the scenarios given in the questions. 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. Candidates should show workings in their answers so that they can get some step marks even if the final answer is wrong.

Performance in General

Question Number	
1	Fair. Many candidates were able to explain the objectives of conducting performance appraisal in the context of an insurance company. However, some just gave general objectives such as 'bring more profit', 'increase motivation or 'enhance loyalty'.
2 (a)	Satisfactory. Many candidates were able to calculate the Economic Order Quantity. However, some confused the ordering cost and carrying cost in the calculation or failed to present the answer in the correct unit.
(b)	Poor. Some candidates were able to state 'safety stock' as a variable involved in the determination of the re-order level. However, most explanations were unclear and many candidates gave wrong variables, e.g. 'delivery time', 'ordering cost' or 'carrying cost'.
3 (a)	Fair. Many candidates were able to explain the meaning of personal selling. However, some candidates failed to mention promoting the products by salespersons.
(b)	Fair. Many candidates were able to describe the advantages of using personal selling. However, some candidates failed to explain the advantages with reference to a computer company.
4 (a)	Satisfactory. Most candidates were able to identify the type of target marketing strategy. However, many candidates failed to state the disadvantage of concentrated marketing that it relies on one small market segment.
(b)	Poor. Some candidates were able to explain the causes of sales-volume variance. Many candidates confused sales-volume variance and material/labour variance. Consequently, they mistakenly explained the causes of material variance or labour variance.

Section B

Question Number	Popularity	Performance in General		
5	82%	(a)(i) Fair. Some candidates failed to use 'parents' as the target for stratification or were unable to point out that samples should be 'randomly' drawn from each stratum.		
		(ii) Satisfactory. Many candidates were able to suggest another sampling technique, though some candidates wrongly used targets other than parents for data collection.		
		(b) Satisfactory. Many candidates were able to give 'penetration pricing' with a valid objective as their answer.		
		(c) Poor. Many candidates failed to state the correct type of insurance though some of them were able to explain the purpose of taking out an insurance.		
		(d) Fair. Some candidates failed to suggest ways to improve the morale of the salespersons with reference to the characteristics of Theory X. They only quoted from the case the reasons why the employees were dissatisfied.		
		(e)(i) Fair. Many candidates failed to calculate the net present value of the project correctly when the cash flows are generated bi-annually, though some of them were able to show the discounting process.		
		(ii) Poor. Many candidates wrongly gave external environmental factors as their answers. Some candidates explained the advantages of setting up the e-shop without considering from the perspective of key business functions.		
		6	18%	(a)(i) Fair. Many candidates did not understand the meaning of total assets turnover and failed to calculate the ratio correctly.
				(ii) Poor. Many candidates did not understand the meaning of total assets turnover and so they were not able to explain why the ratio would drop in the case scenario.
				(b) Fair. Many candidates explained 'time frame' and 'interest burden' as the reasons to support the suggestion of sourcing the funds in other ways. However, some of their explanation was unclear and inaccurate.
(c) Poor. Some candidates were able to explain the benefits of e-marketing generally, e.g. more promotion opportunities and no time constraints. However, many candidates failed to link the explanation to key opinion leaders as stated in the case.				
(d) Satisfactory. Most candidates were able to explain the disadvantages of recruiting the senior manager externally.				
(e) Poor. Some candidates were able to give an advantage of recruiting the senior manager via a headhunter, but many of them only provided the benefits of external recruitment.				

## Section C

## Performance in General

Question Number	Popularity	
7 (a)	44%	Fair. Many candidates failed to make reference to human resources functions when they suggested ways to deal with the surplus of trainers. The solutions proposed by some candidates were too general that they did not directly address the problem of 'surplus of trainers'. For example, they suggested that more training should be provided to trainers without relevant elaboration.
(b)		Fair. Many candidates were able to propose various ways to achieve the objectives of customer relationship management, but they failed to clearly point out how these ways were linked to the corresponding objectives. Some candidates merely listed the examples such as providing add-on services, but they did not elaborate how the ways could be applied to Sunshine Fitness.
8 (a)	56%	Poor. Some candidates were able to identify the relevant factors when considering establishing its own physical stores or expanding the sales channels to include a large retail chain. However, most of them failed to explicitly explain the differences between the two options for each factor. For example, in terms of 'cost', some candidates did not explain that Starry Company needs to pay rent if setting up its own stores whereas commission should be considered if choosing sales channels for expansion.
(b)		Satisfactory. Many candidates were able to explain how the bank assesses the credit standard before approving the loan by adopting the 5Cs.

**General comments and suggestions**

Candidates need to pay attention to the situation and requirements of the questions. They tended to rely on memorisation and repeated general points provided by books and past papers in their answers. They need to strengthen their ability to apply knowledge and concepts to specific contexts.