

## Business, Accounting and Financial Studies (BAFS)

### Supplementary Notes for Accounting Strand

(To be implemented in S4 in 2022/23; effective for 2025 HKDSE Examination and onwards)

#### Appendices:

1. Formulae of Ratios
2. Accounting Terminology

#### Compulsory Part

##### 1(a) Business Environment

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
Hong Kong Business Environment	(i) Describe the role and importance of business in the Hong Kong economy.	
	(ii) Analyse the recent developments and characteristics of the Hong Kong economy.	<p>- Recent developments of Hong Kong economy:</p> <ol style="list-style-type: none"> <li>1. <i>Closer economic and business relationships with the Mainland (e.g. CEPA, trading partners, sources of capital)</i></li> <li>2. <i>Impacts of globalization on Hong Kong business (-e.g. keen competition, international flow of capital and information, global sourcing and outsourcing, technology transfer)</i></li> <li>3. <i>Increasing international trade cooperation– (major international trade organisations include WTO and APEC)</i></li> </ol>

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
		- Characteristics of Hong Kong economy: <i>lack of primary industries, dependence on external trade, concentration on tertiary industry, free trade, simple taxation</i>
	(iii) Evaluate how economic, technological, cultural, physical, social, political and legal factors affect business decisions.	
<b>Forms of Business Ownership</b>	(i) Distinguish between the major forms of business ownership: sole proprietorship, partnership and limited company; joint venture, franchise and public enterprise.	- Characteristics Only of <i>general and limited and nominal partners</i> are required - Setup procedures of different forms of business ownership and related documents are not required
	(ii) Evaluate the pros and cons of the different forms of business ownership.	
	(iii) Describe the characteristics of multinational corporations in Hong Kong.	
<b>Business Ethics and Social Responsibilities</b>	(i) Explain why and how a business should be ethically responsible to various stakeholders.	
	(ii) Describe how business ethics and social responsibilities affect business decisions.	

1(b) **Basics of Management**

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
<b>Management Functions</b>	(i) Explain the importance of management.	
	(ii) Demonstrate a basic understanding of the following management functions for organisations: planning, organising, leading and controlling.	<ul style="list-style-type: none"> <li>- <i>Planning: importance, planning process and characteristics of SMART goals</i></li> <li>- <i>Organising: organisational structure – by level and by authority; departmentalisation – by function, by product, and by location</i></li> <li>- <i>Leading: leadership styles</i></li> <li>- <i>Controlling: control process</i></li> </ul>
	(iii) Apply the following principles of effective management: division of work, unity of command, unity of direction, as well as balancing authority and responsibility, and management by objectives.	<del>Detailed process of MBO is not required</del>
<b>Key Business Functions</b>	(i) Describe the role and importance of the following key business functions: human resources management, financial management, operations management, marketing management, information management and risk management.	- <b>Interrelationship and integrated nature of different business functions in solving business problems are not required</b>
	<del>(ii) Explain the interrelationship and integrated nature of different business functions in solving business problems.</del>	
<b>Small and Medium Enterprises (SMEs)</b>	(i) Describe the characteristics of SMEs.	
	(ii) Explain the importance of SMEs to the Hong Kong economy.	
	(iii) Explain the importance of entrepreneurship in business development.	

## 1(d) Basics of Personal Financial Management

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
Time Value of Money	(i) Explain the concepts of compounding, discounting, present value and future value.	
	(ii) Apply the concepts of present value and future value to compute net present value.	<ul style="list-style-type: none"> <li>- Only simple calculation (with not more than 3 compounding periods) is required</li> <li>- Students are not required to look up the annuity or discount factor table</li> </ul>
	(iii) Distinguish between nominal and effective rate of return.	
Consumer Credit	(i) Compare different types of consumer credit.	<ul style="list-style-type: none"> <li>- Common types of consumer credit: <i>bank overdraft, credit card and personal loan</i></li> </ul>
	(ii) Explain the importance of maintaining a good personal credit record.	
Personal Financial Planning and Investment	(i) Identify the basic characteristics and the relationship between risk and return of the following investments: savings/term deposits, bonds/debentures and stocks.	<ul style="list-style-type: none"> <li>- Students are expected to be able to explain:               <ol style="list-style-type: none"> <li>1. <i>investors should expect higher risk of investments for higher return; and</i></li> <li>2. <i>higher risk of investments does not necessarily bring higher return</i></li> </ol> </li> <li>- Numerical concepts and application are not required</li> </ul>
	(ii) Explain the importance of personal financial planning at different life stages.	
	(iii) Describe the rights and responsibilities of employees and self-employed persons under Mandatory Provident Fund (MPF) scheme.	

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
	(iv) Describe the rights and responsibilities of individual investors and consumers of financial services.	<ul style="list-style-type: none"> <li>- Rights and responsibilities:               <ol style="list-style-type: none"> <li>1. <i>right to ask for rationale behind an investment recommendation made by a broker or bank</i></li> <li>2. <i>right to file a complaint</i></li> <li>3. <i>duty to understand the terms of a contract before signing it</i></li> <li>4. <i>duty to monitor activities on own account by checking account statements, transaction documents</i></li> </ol> </li> </ul>
Stock Trading as an Investment	(i) Explain the factors affecting share prices.	<ul style="list-style-type: none"> <li>- Major factors include: <i>general economic condition, political factors, interest rate, industry prospects, company performance, dividend policy and speculation</i></li> </ul>
	(ii) Describe the platforms of stock trading in Hong Kong: Main Board and <del>Growth Enterprise Market (GEM)</del> .	<ul style="list-style-type: none"> <li>- <b>Knowledge about the basic listing requirements for new applicants of Main Board and GEM is not required</b></li> <li><del>— Knowledge about the basic listing requirements for new applicants is required:—</del> <ol style="list-style-type: none"> <li><del>1. <i>operating history and management</i></del></li> <li><del>— <i>financial requirements: profit attributable to shareholders, market capitalisation, revenue and cash flow (exact figures of the above are not required)</i></del></li> </ol> </li> </ul> <p><del>[Website for reference: Hong Kong Exchanges and Clearing Limited (HKEx) <a href="http://www.hkex.com.hk/eng/listing/listreq_pro/listreq/equities.htm">http://www.hkex.com.hk/eng/listing/listreq_pro/listreq/equities.htm</a>]</del></p>
	(iii) Describe the importance of Hang Seng Index (HSI).	

## Elective Part -- Accounting Module

- 1(c) Introduction to Accounting (the shaded parts) being moved from the compulsory part to the elective part and subsumed under 2(a).

### 2(a) Financial Accounting

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
Purposes and Role of Accounting	(i) Explain the importance of accounting and its relevance to decision-making.	
	(ii) Describe the functions of accounting.	- Functions: <i>recording, classifying, summarising and communicating</i>
	(iii) Describe the flow of the accounting cycle.	- Flow of an accounting cycle: <i>books of original entry, ledgers, trial balance, period-end adjustments, financial statements</i>
Double entry system	(i) Explain the accounting equation and demonstrate how transactions affect it.	- Accounting equation: $C = A - L - (R - E)$
	(ii) Apply the principles of double entry to the recording of business transactions in ledger.	
Books of Original Entry and Types of Ledgers	(i) Explain the functions of books of original entry and ledgers.	- Petty cash book is not required
	(ii) Record transactions in books of original entry and post to ledger accounts.	
	(iii) Identify the major types of ledgers.	

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
Trial balance	(i) Explain the functions and limitations of a trial balance.	
	(ii) Balance off the accounts and prepare a trial balance.	
Period-end Adjustments Relating to the Preparation of Financial Statements	(i) Differentiate between cash accounting and accrual accounting.	
	(ii) Distinguish between bad debts and allowance for doubtful accounts.	<ul style="list-style-type: none"> <li>- Allowance for discounts allowed on trade receivables is not required</li> <li>- Students are expected to be able to interpret an ageing schedule</li> </ul>
	(iii) State the meaning and objectives of providing depreciation in accounting.	
	(iv) Distinguish between capital expenditures and revenue expenditures.	
	(v) Compare the commonly used methods of depreciation: straight-line, reducing-balance and depreciation based on usage; and explain the effect of depreciation charge (including disposal) on profits.	<ul style="list-style-type: none"> <li>- Students are expected to be able to record <i>disposals of non-current assets including trade-in</i></li> <li>- Calculation and reversal of impairment loss are not required</li> </ul>
	(vi) Apply the following to determine the value of inventory: <ol style="list-style-type: none"> <li>1. lower of cost and net realisable value</li> <li>2. sale or return</li> <li>3. weighted average cost</li> </ol>	<ul style="list-style-type: none"> <li>- Distinction between the accounting treatment for normal and abnormal inventory loss is required</li> <li>- Perpetual inventory system is not required</li> </ul>
	(vii) Prepare adjusting entries at the close of accounting period and show their effect on income statement and statement of financial position.	

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
<b>Financial Reporting for Different Forms of Business Ownership</b> <ul style="list-style-type: none"> <li>Financial statements</li> </ul>	(i) Explain how information in financial statements can assist decision-making.	- Identify the users of financial statements and state their information needs
	(ii) Explain the uses and limitations of financial statements.	
	(iii) Prepare income statement and <b>statement of financial position</b> for sole proprietorship, partnership and limited company.	<del>Both horizontal and vertical form of financial statements are accepted.</del> <ul style="list-style-type: none"> <li>Published accounts are not required</li> <li>Students are expected to be able to record income tax in the financial statements of limited companies but over or under-provision brought forward and tax payable outstanding at period end will not be included</li> </ul>
<ul style="list-style-type: none"> <li>Accounting for partnership</li> </ul>	(iv) <b>Prepare appropriation account and current accounts for partnership.</b>	
	(v) Define goodwill and explain the factors affecting its valuation.	- Valuation of goodwill is not required
	(vi) Prepare the necessary adjustments to capital and/or net assets arising from changes in profit-sharing ratio, admission and retirement of partner(s) <b>at the beginning or end of a financial period.</b>	- <b>Preparation of the necessary accounting entries arising from dissolution of partnership is not required</b>



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Topics	Explanatory Notes	
	(vii) <del>Prepare the necessary accounting entries required in dissolution.</del>	<ul style="list-style-type: none"> <li><del>— Students are expected to be able to record capital deficiency of insolvent partner(s) as instructed</del></li> <li><del>— Piecemeal realisation and the Garner v Murray rule are not required</del></li> <li><del>— Conversion or sale of a partnership to a limited company is not required</del></li> </ul>
<ul style="list-style-type: none"> <li>• Accounting for limited company</li> </ul>	(vii) Explain the nature of share capital (preference shares and ordinary shares), loan capital (debentures), reserve and provision.	➤ Revaluation of non-current assets is not required
	(viii) Prepare journal and ledger entries relating to the issue of ordinary shares and debentures fully paid on application.	<ul style="list-style-type: none"> <li>➤ Only requires knowledge of issue of shares at no par and issue of debentures at par</li> <li>➤ Oversubscription and the related refunds are required</li> <li>➤ Rights and bonus (capitalisation) issues of shares are not required</li> </ul>
	(ix) Prepare appropriation account and calculate the balance of retained profits for limited company.	
<b>Control System</b> <ul style="list-style-type: none"> <li>• Bank reconciliation statement</li> </ul>	(i) Explain the functions of a bank reconciliation statement.	
	(ii) Identify reasons for discrepancies between cash book and bank statement balances and prepare a bank reconciliation statement.	
<ul style="list-style-type: none"> <li>• Correction of errors</li> </ul>	(iii) Identify the types of accounting errors and their effects on accounting records.	
	(iv) Prepare correcting entries and, where appropriate, a suspense account.	

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
<b>Incomplete Records</b>	(i) Determine profits or losses from statement of affairs.	
	(ii) Calculate the cash and inventory value from incomplete record.	
	(iii) Prepare income statement and statement of financial position from incomplete records.	- Calculation of cash and inventory loss from incomplete record is not required
<b>Accounting Assumptions, Principles and Conventions</b> <del>Generally Accepted Accounting Principles</del>	(i) Explain the meaning, importance and shortcomings of the following principles and conventions: business entity, going concern, historical cost, consistency, accrual, matching, realisation, prudence, materiality, <del>objectivity, timeliness</del> and money measurement.	
	(ii) Apply the relevant accounting principles and conventions in accounting situations.	
<b>Financial Analysis</b>	(i) Calculate ratios and comment on a company's profitability, liquidity, solvency, management efficiency and return on investment: mark-up, gross profit ratio, net profit ratio, return on capital employed, working capital/current ratio, quick/liquid/acid test ratio, inventory turnover, average trade receivables collection period, average trade payables repayment period, trade receivables turnover, trade payables turnover, earnings per share, total assets turnover, gearing ratio, dividend cover and price-earnings ratio.	- Proposal for remedial actions is not required - Refer to <u>Appendix 1</u> for the relevant formulae of ratios

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
	(ii) Explain the functions and limitations of accounting ratios in financial analysis.	

## 2(b) Cost Accounting

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
Cost Classification, Concepts and Terminology	(i) Explain the general nature of cost accounting and its importance for financial decision-making.	
	(ii) Distinguish between direct and indirect costs, fixed and variable costs, and factory and administrative overheads.	
Marginal and Absorption Costing	(i) Prepare income statement under marginal and absorption costing.	<ul style="list-style-type: none"> <li>- Students are only expected to apply weighted average cost for the costing of inventory</li> <li>- Reconciliation of profit/loss under the two methods is not required</li> <li>- Over and under-absorption of overheads is to be charged to cost of goods sold</li> </ul>
	(ii) Compare the advantages and disadvantages of adopting marginal and absorption costing.	
Cost Accounting for Decision-making	(i) Identify the nature of various cost items and their relevance to decision-making: sunk costs, incremental costs and opportunity costs.	
	(ii) Apply costing concepts and techniques in business decisions e.g. 'hire, make or buy', 'accept or reject an order at a special price', 'retain or replace equipment', 'sell or process further', and 'eliminate or retain an unprofitable segment'.	<ul style="list-style-type: none"> <li>- Joint product costing is not required</li> </ul>

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
	(iii) Conduct cost-volume-profit analysis to assess the effects of changes in costs, selling price and units sold on the breakeven point and target profit.	<ul style="list-style-type: none"> <li>- Calculation of margin of safety is required</li> <li>- CVP analysis for multiple products is required</li> <li>- The involvement of limiting factors is required</li> <li>- Graphical presentation is not required</li> </ul>

## Appendix 1 : Formulae of Ratios

$$\text{mark-up} = \frac{\text{gross profit}}{\text{cost of goods sold}} \times 100\%$$

$$\text{gross profit ratio/margin} = \frac{\text{gross profit}}{\text{sales}} \times 100\%$$

$$\text{net profit ratio/margin} = \frac{\text{net profit before tax}}{\text{sales}} \times 100\%$$

$$\text{return on capital employed} = \frac{\text{profit before interest and tax}}{\text{average capital employed}} \times 100\%$$

Capital employed =

1. Sole proprietorships: capital balance
2. Partnerships: capital account balances + current account balances (if any)
3. Limited companies: non-current liabilities + shareholders' fund

$$\text{working capital / current ratio} = \frac{\text{current assets}}{\text{current liabilities}} : 1$$

$$\text{quick / liquid / acid test ratio} = \frac{\text{current assets} - \text{inventories}}{\text{current liabilities}} : 1$$

$$\text{inventory turnover (times)} = \frac{\text{cost of goods sold}}{\text{average inventory}}$$

$$\text{average trade receivables collection period} = \frac{\text{average trade receivables}}{\text{credit sales}} \times 365 \text{ days}/12 \text{ months}$$

$$\text{average trade payables repayment period} = \frac{\text{average trade payables}}{\text{credit purchases}} \times 365 \text{ days}/12 \text{ months}$$

$$\text{trade receivables turnover (times)} = \frac{\text{credit sales}}{\text{average trade receivables}}$$

$$\text{trade payables turnover (times)} = \frac{\text{credit purchases}}{\text{average trade payables}}$$

$$\text{earnings per share} = \frac{\text{net profit after tax} - \text{preference dividend}}{\text{number of ordinary shares issued}}$$

$$\text{total assets turnover (times)} = \frac{\text{sales}}{\text{total assets}}$$

$$\text{gearing ratio} = \frac{\text{non-current liabilities} + \text{preference share capital}}{\text{non-current liabilities} + \text{shareholders' fund}} \times 100\%$$

$$\text{dividend cover for ordinary shares (times)} = \frac{\text{net profit after tax} - \text{preference dividend}}{\text{ordinary dividend paid}}$$

$$\text{price-earnings ratio} = \frac{\text{current price per ordinary share}}{\text{earnings per share}}$$

**Appendix 2: Accounting Terminology**

Except for term(s) specifically identified in the question or stated in the requirement, the following alternative accounting terminology will be accepted for marking purposes in the HKDSE Business, Accounting and Financial Studies examination.

<b>Accounting Terminology Acceptable for the HKDSE BAFS Examination</b>	
<b>English</b>	<b>Chinese</b>
Statement of financial position / Balance sheet	財務狀況表 / 資產負債表
Year end / Balance sheet date / End of reporting period	年終 / 期末
Income statement / Trading and profit and loss account	損益表 / 購銷及損益帳
Net book value / Carrying amount	帳面淨值
Reducing balance method / Diminishing balance method	餘額遞減法
Depreciation based on usage / Units of production method	按使用量計算折舊
Sales / Turnover / Revenue	銷售 / 銷貨 / 收益
Cost of goods sold / Cost of sales	銷貨成本 / 銷售成本
Selling and distribution expenses / Distribution costs	銷售及運送費用
Allowance for doubtful debts / Provision for bad and doubtful debts	呆帳準備
Net profit / profit (or Net loss / loss) for the year / period	年度淨利 / 淨虧損
Retained profits / Retained earnings	留存利潤 / 保存利潤
Accounts receivables / Trade and other debtors	應收帳款
Accounts payables / Trade and other creditors	應付帳款
Trade receivables / Trade debtors	應收貨款
Trade payables / Trade creditors	應付貨款
Other receivables / Other debtors	其他應收帳款
Other payables / Other creditors	其他應付帳款
Inventories / Stocks	存貨
Short term investments / Current investments	短期投資
Equity / Capital and reserves	股東權益 / 資本及儲備
Total equity and liabilities / Total capital and liabilities / Shareholders' Fund and liabilities	股東權益及負債總額 / 資本及負債總額
Short term loans / Short term borrowings / Current portion of long-term borrowings	短期貸款
Deposits	訂金 / 定金 / 存款