

Supplementary Notes 13/14 for Trimmed BAFS Curriculum

(To be implemented in S4 in 2013/14; effective for 2016 HKDSE and onwards)

Appendices:

1. Formulae of Ratios
2. Accounting Terminology

Compulsory Part

1(a) Business Environment

Topics	Explanatory Notes	S	P	11	12	13	14	15	16	17
Hong Kong Business Environment	(i) Describe the role and importance of business in the Hong Kong economy.									
	(ii) Analyse the recent development and characteristics of the Hong Kong economy.									
	<i>Closer economic and business relationships with the Mainland (e.g. CEPA, trading partners, sources of capital)</i>									
	<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>									
	<i>Increasing international trade cooperation (major international trade organizations include WTO and APEC)</i>									

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20		
	<p>Characteristics of Hong Kong economy: <i>lack of primary industries, dependence on external trade, concentration on tertiary industry, free trade, simple taxation</i></p>											
	<p>(iii) Evaluate how economic, technological, cultural, physical, social, political and legal factors affect business decisions.</p> <p><i>ECON tech C Phy Soc Pol L</i></p>		all		L P	L C						
<p>Forms of Business Ownership Set up procedures of different forms of business ownership and related documents are not required</p>	<p>(i) Distinguish between the major forms of business ownership: sole proprietorship, partnership, limited company, joint-venture, franchise and public enterprise.</p> <p><i>P L.C J F P</i></p>	partnership			PLC DIS	F	J Adv					
	<p>- Characteristics of <i>general, limited and nominal partners</i></p>											
	<p>(ii) Evaluate the <u>pros</u> and <u>cons</u> of the different forms of business ownership.</p>											
	<p>(iii) Describe the characteristics of multinational corporations in Hong Kong.</p>											
<p>Business Ethics and Social Responsibilities</p>	<p>(i) Explain why and how a business should be ethically responsible to various stakeholders.</p> <p><i>st</i> <i>EH</i></p>	St		st			Ethics S.H					
	<p>(ii) Describe how business ethics and social responsibilities affect business decisions.</p>											

1(b) Introduction to Management

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20		
Management Functions Detailed process of MBO is not required	(i) Explain the importance of management.											
	(ii) management functions for organisations			C								
	Plan Planning: importance, planning process and characteristics of SMART goals	C	G		G		goal					
	Org - Organising: <u>organisational structure</u> – by level and by authority; departmentalisation – by function, by product, and by location					Dept (L)		Dept F/P				
	L - Leading: leadership styles = Autocratic (A) Participative (P)											
	Con Controlling: control process + (purpose) Laissez-Faire (L)						con STP					
(iii) Apply the following principles of effective management: division of work, unity of command, unity of direction, authority and responsibility, and management by objectives.	D.W V.C R MBO span of control		D.W MBO	U.C		MBO Adv Dis	SC					
Key Business Functions	(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.						R Insurance					
	(ii) Explain the interrelationship and integrated nature of different business functions in solving business problems.											
Small and Medium Enterprises (SMEs)	(i) Describe the characteristics of SMEs.											
	(ii) Explain the importance of SMEs to the local economy.											
	(iii) Explain the importance of <u>entrepreneurship</u> in business development.											

1(c) Introduction to Accounting

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20
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 & communicating</i>									
	(iii) Describe the flow of the accounting cycle. <i>books of original entry, ledgers, trial balance, period-end adjustments, financial statements</i> Cash Book (C.B)		C.B							
The Accounting Cycle J 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. T-accounts									
J Trial balance	(iii) Explain the functions and limitations of a trial balance.									
	(iv) Balance off the accounts and prepare a trial balance.						T			
J Financial statements	(v) Prepare income ^{In} statement and ^{FP} statement of financial position (balance sheet) for sole proprietorships. Calculations and entries for period-end adjustments are not required	FP		FP	FP In		In			

Nominal vs Real Accounts
(N) (R)

n
R

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20		
Uses of Financial Statements	(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.	L										
Accounting Assumptions, Principles and Conventions	(i) Explain the meaning of the following: business entity, going concern, historical cost, consistency and accrual. - Application to case scenario is required	G	BE H		C H	BE	A					
Basic Ratio Analysis	(i) State the general functions of accounting ratios.											
	(ii) Calculate and interpret the following ratios: working capital/current ratio, quick/liquid/acid test ratio, gross profit ratio, net profit ratio and return on capital employed.	Gross				Gross Net R.C WC CR						
	(iii) Evaluate the liquidity and profitability of a business using accounting ratios. - Proposal for remedial actions is not required											

1(d) Basics of Personal Financial Management

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20
Time value of Money not required to look up the annuity or discount factor table required	(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. Only simple calculation (with not more than 3 compounding periods) is			✓						
	(iii) Distinguish between nominal and effective rate of return.									
Consumer Credit Bo	(i) Compare different types of consumer credit. - Common types of consumer credit: bank overdraft, credit card and personal loans (L)		C							
	(ii) Explain the importance of maintaining a good personal credit record.		✓							
Personal Financial Planning and Investments Numerical concepts and application are not required	(i) Identify the basic characteristics and the relationship between risk & return for the following investments: saving/term deposits, bonds/ debentures and stocks. Able to explain: 1. investors should expect higher risks of investments for higher return 2. higher risks of investments do not necessarily bring higher returns mutual funds (MF)									
	(ii) Explain the importance of personal financial planning at different life stages. Financial needs after retirement						FIN Needs			
	(iii) Describe the rights and responsibilities of employees and self-employed persons under Mandatory Provident Fund (MPF) scheme.									

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20		
* Investor Compensation Fund (ICF)	<p>(iv) Describe the rights and responsibilities of individual investors and consumers of financial services.</p> <ol style="list-style-type: none"> right to ask for rationale behind an investment recommendation made by a broker or bank right to file a complaint duty to understand the terms of a contract before signing it duty to monitor activities on own account by checking account statements, transaction documents 				ICF	Investor Res						
Stock Trading as an Investment	<p>(i) Explain the factors affecting share prices. SP</p> <p>- Major factors include: <i>general economic condition, political factors, interest rate, industry prospects, company performance, dividend policy and speculation</i></p>					SP						
	<p>- (ii) Describe the platforms of stock trading in Hong Kong: Main Board and Growth Enterprise Market (GEM).</p> <p>- Knowledge about the basic listing requirements for new applicants is required:</p> <ol style="list-style-type: none"> operating history and management financial requirements: profit attributable to shareholders, market capitalisation, revenue and cash flow (exact figures of the above are not required) <p>[Website for reference: Hong Kong Exchanges and Clearing Limited (HKEx)]</p>											
	<p>(iii) Describe the importance of Hang Seng Index (HSI).</p>						HSI					

Elective Part -- Business Management Module

3(a) Financial Management

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20			
Financial Analysis	(i) Explain the role of financial management in running an organization.												
	<ul style="list-style-type: none"> (ii) Assess business performance from a range of accounting ratios in terms of profitability, liquidity, solvency and management efficiency. <i>Aspects</i> - discuss the <u>limitations</u> of financial analysis - The ratios required are: <i>gross profit ratio, net profit ratio, working capital/current ratio, quick/liquid/acid test ratio and return on capital employed, trade receivables turnover, inventory turnover, trade payables turnover, total assets turnover and gearing ratio</i> <i>TAT</i> 		<i>Ratio</i>				<i>Lim Aspects</i>						
Budgeting -Calculation of variances is not required	(i) Explain the purposes of budgeting.	<i>B</i>						<i>B</i>					
	(ii) Describe the usefulness and limitations of budgetary control.				<i>B (L)</i>								
	(iii) Identify the causes of budgeting variance and propose remedial action. <i>Sales Variance</i>		<i>B.V</i>				<i>S.V</i>						
Sources of Financing -Details of the features of financing instruments are not required	(i) Compare different <u>sources of financing</u> : <i>D</i> <u>debt</u> and <i>EQ</i> <u>equity</u> financing, short-term and long-term financing, and internal and external financing.	<i>S</i>	<i>S</i>	<i>Govt Bond</i>				<i>EQ</i>					
	(ii) Apply the basic principles for selecting financing methods.												

EQUITY Finance { *self-finance / partnership / private limited company / long-term loan*

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20			
Capital Investment Appraisal - Calculation of IRR and ARR is not required	(i) Evaluate financial and non-financial factors affecting capital investment decisions.												
	(ii) Apply the basic capital <u>investment appraisal methods</u> to evaluate capital projects: <u>payback</u> period, net present value, internal rate of return and accounting rate of return. IRR												
	(iii) Compare the usefulness and limitations of different capital investment appraisal methods.												
Working Capital Management -Preparation of cash budget is not required	(i) Explain the importance of working capital management. describe the operating cycle and cash conversion cycle												
	(ii) Describe the basic principles of <u>cash management</u> and the relevance of cash budgeting. Cash Flow (CF)												
	(iii) Analyse the factors affecting the formulation of accounts receivable and accounts payable policies. the elements of a credit policy, including credit terms, credit standard (<u>5Cs: capital, capacity, collateral, condition and character</u>) and collection policy												
	(iv) Explain the objectives of inventory management and apply simple inventory control techniques: Economic Order Quantity (EOQ) and re-order level methods. Inventory Cost (I.C)												

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20			
Risk Management	(i) Identify different types of risk faced by business firms and analyse their impact on business activities. - Types of risks: <i>insurable vs non-insurable; pure vs speculative</i> (S) I NON-I * macro-environmental factors (M)	NON-I		M		non-I	Pure v Sp risk						
	(ii) Demonstrate an understanding of various types of insurance protection available to business. - Types of insurance: <i>comprehensive insurance, motor insurance, fidelity insurance, liability insurance, public liability insurance, employees' compensation insurance</i> CI MI FI LI PL EL			I _a PL			Pub lia Emp Lia						
	(iii) Explain the following risk management strategies: risk avoidance, risk assumption, risk reduction and risk transfer. apply appropriate risk management strategies to given scenarios		R		AS R T		AS R						

3(b) Human Resources Management

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20
Functions of Human Resources Management	(i) Explain the importance of manpower planning for an organization. <i>functions of HR</i>			<i>Shortage</i>						
	(ii) Describe the manpower planning process. - <i>Approaches</i> and <i>process of job analysis</i> are not required			<i>HR Fun</i>		<i>HR Fun</i>				
Staffing	(iii) Describe the staffing process.									
	(iv) Compare different methods of staffing. <i>Internal recruitment</i> vs <i>External recruitment</i>			<i>Internal</i>		<i>Internal</i>	<i>Internal</i>			
Performance management	(v) Describe the <u>objectives</u> of performance management. Performance appraisal (<i>APP</i>)			<i>APP</i>		<i>APP</i>				
	(vi) Describe the basic steps in the performance management process.					<i>OBJ</i>				

J Compensation and benefit management	(vii) Describe the characteristics and advantages of ^M monetary and ^{n-m} non-monetary rewards.	n-m	m		n-m						
	(viii) Compare different forms of compensation. - Forms: <i>time-based pay (hourly, daily, monthly) Vs performance-based pay</i>										
	(ix) Explain the purposes of <u>benefits</u> . Fringe Benefits										FB
J Training and development	(x) Explain the <u>objectives</u> of training and development.	T		T							T
	(xi) Evaluate the effectiveness of different modes of training. suggest various <u>on-the-job</u> and <u>off-the-job</u> training methods <u>ON</u> <u>OFF</u> • Orientation (o)					O	OFF				
Development of a Quality Workforce	(i) Apply the following motivation theories to enhance staff efficiency and reduce absenteeism: 1. Maslow's Hierarchy of Needs Theory M 2. Herzberg's Dual-factor Theory H 3. McGregor's Theory X and Theory Y X Y	low morale	X		X Y	H	M				
	(ii) Suggest appropriate <u>internal communication</u> programmes to enhance employee relations. (EF) Effective communication										

3(c) Marketing Management

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20
Role of Marketing <i>Limitations</i>	(i) Explain the marketing concept.	✓								
	(ii) Discuss the importance of marketing as a business function. <i>marketing Plan (MP)</i>						MP			
	(iii) Describe the planning, organizing, implementing and controlling of marketing activities.		MNC							
	(iv) Discuss the objectives, strategies and resources of the marketing process. <i>(P.D) Primary vs Secondary Data (S.D)</i>						SD Lim			
Marketing Research	(i) Explain the importance and major objectives of marketing research.									
	(ii) Apply basic principles for designing marketing research: data collection methods and sampling techniques. <i>D C M</i> - <i>(S) Sampling techniques: random sampling, convenience sampling, stratified random sampling</i>		✓ DCM	(S) R S			Research Qs Limit			
Customer Behaviour <i>* Consumers's Right</i>	(i) Describe the customer decision-making process. describe the process with respect to both <u>individual</u> and business customers <i>DMP</i>	DMP cus	-	DMP Cus		Customer DMP				
	(ii) Analyse the factors which affect customer decisions. <i>Social-cultural / Psychological</i>						SC P			
	(iii) Identify the major business customers: producers, resellers, governments and institutions.									
	(iv) Distinguish between business and consumer markets.									

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20
Marketing Strategies for Goods and Services J Target markets	(i) Explain different types of market segmentation methods. <i>Criteria to evaluate</i>	✓								
	(ii) Explain the factors affecting the determination of target market: market niche and positioning.		✓							
J Marketing mix <i>4Ps</i>	(iii) Explain the concept of <u>marketing mix</u> .									
	(iv) Illustrate different pricing, promotion, product and place strategies for goods. <i>(S) SKimming / Penetration (P)</i>	<i>4Ps</i>	<i>Promote</i>	<i>SP</i>	<i>Promote</i>	<i>Place</i>				
	(v) Apply various <u>marketing mix</u> strategies to different stages of the product life cycle. <i>PLC</i>		<i>PLC</i>			<i>PLC</i>	<i>PLC</i>			
	(vi) Explain the characteristics of <u>services</u> and their effect on marketing mix design.						<i>Services</i>			
	(vii) Compare the differences between traditional marketing strategies and <u>e-marketing strategies</u> . <i>e-mkt</i>	<i>e-mkt distribution</i>			<i>e-mkt</i>		<i>online shopping</i>			
	(viii) Explain the importance of <u>CRM</u> to the marketing process.						<i>CRM</i>			
J Customer relationship management (CRM)	(ix) Evaluate the factors affecting customer loyalty and develop marketing strategies to enhance customer loyalty. <i>retain existing vs attract new</i>	<i>CRM</i>	<i>CRM</i>			<i>CRM</i>	<i>Promotion</i>			

Appendix 1 : Formulae of Ratios

$$\begin{aligned} \text{mark-up} &= \frac{\text{gross profit}}{\text{cost of goods sold}} \times 100\% \\ \text{gross profit ratio/margin} &= \frac{\text{gross profit}}{\text{sales}} \times 100\% \\ \text{net profit ratio/margin} &= \frac{\text{net profit before tax}}{\text{sales}} \times 100\% \\ \text{return on capital employed} &= \frac{\text{profit before interest and tax}}{\text{average capital employed}} \times 100\% \end{aligned}$$

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

$$\begin{aligned} \text{working capital / current ratio} &= \frac{\text{current assets}}{\text{current liabilities}} : 1 \\ \text{quick / liquid ratio / acid test} &= \frac{\text{current assets - inventories}}{\text{current liabilities}} : 1 \\ \text{inventory turnover (times)} &= \frac{\text{cost of goods sold}}{\text{average inventory}} \\ \text{average trade receivables collection period} &= \frac{\text{average trade receivables}}{\text{credit sales}} \times 365 \text{ days / 12 months} \\ \text{average trade payables repayment period} &= \frac{\text{average trade payables}}{\text{credit purchases}} \times 365 \text{ days / 12 months} \\ \text{trade receivables turnover (times)} &= \frac{\text{credit sales}}{\text{average trade receivables}} \\ \text{trade payable turnover (times)} &= \frac{\text{credit purchases}}{\text{average trade payables}} \\ \text{earnings per share} &= \frac{\text{net profit after tax - preference dividend}}{\text{number of ordinary shares issued}} \\ \text{total assets turnover (times)} &= \frac{\text{sales}}{\text{total assets}} \\ \text{gearing ratio} &= \frac{\text{non-current liabilities} \Gamma \text{ preference share capital}}{\text{non-current liabilities} \Gamma \text{ shareholders' fund}} \times 100\% \\ \text{dividend cover for ordinary shares (times)} &= \frac{\text{net profit after tax - preference dividend}}{\text{ordinary dividend paid}} \\ \text{price-earnings ratio} &= \frac{\text{current price per ordinary share}}{\text{earnings per share}} \end{aligned}$$

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.

Accounting Terminology Acceptable for the HKDSE BAFS Examination	
English	Chinese
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
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