

**Business, Accounting and Financial Studies (BAFS)**  
**Supplementary Notes for Business Management 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	
<b>Hong Kong Business Environment</b>	(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 <u>and</u> , limited company, joint venture, franchise and public enterprise.	- <del>Only</del> Characteristics 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(c) Introduction to Basics of 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>
The Accounting Cycle • Double entry system	(i) Explain the accounting equation <u>as well as the principles of double entry</u> , and demonstrate how <u>business transactions</u> affect <del>it</del> <u>the former</u> .	- Accounting equation: $C = A - L - (R - E)$ - <u>Recording of business transactions and their effects to ledgers</u> are not required
	(ii) <del>Apply the principles of double entry to the recording of business transactions in ledger.</del>	
• Trial balance	(ii) Explain the functions and limitations of a trial balance.	
	(iii) <del>Balance off the accounts</del> and Prepare a trial balance.	

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
<ul style="list-style-type: none"> <li>Financial statements</li> </ul>	(iv) Prepare income statement and <a href="#">statement of financial position</a> for sole proprietorships.	<del>— Both horizontal and vertical form of financial statements are accepted. —</del> - <a href="#">Calculations and entries for period-end adjustments are not required</a>
<b>Uses of Financial Statements</b>	(i) Explain how information in financial statements can assist decision-making.	- <a href="#">Identify the users of financial statements and state their information needs</a>
	(ii) Explain the uses and limitations of financial statements.	
<b>Accounting Assumptions, Principles and Conventions</b>	(i) <a href="#">Explain</a> the meaning of <a href="#">the following</a> : <a href="#">business entity</a> , <a href="#">going concern</a> , <a href="#">historical cost</a> , <a href="#">consistency</a> and <a href="#">accrual</a> .	- <a href="#">Application to case scenario is required</a>
<b>Basic Ratio Analysis</b>	<del>(i) State the general functions of accounting ratios.</del>	
	<del>(ii) Calculate and interpret the following ratios: <a href="#">working capital/current ratio</a>, <a href="#">quick/liquid/acid test ratio</a>, <a href="#">gross profit ratio</a>, <a href="#">net profit ratio</a> and <a href="#">return on capital employed</a>.</del>	<del>— Refer to <a href="#">Appendix 1</a> for the relevant formulae of ratios</del>
	<del>(iii) Evaluate the <a href="#">liquidity</a> and <a href="#">profitability</a> of a business using accounting ratios.</del>	<del>— Proposal for remedial actions is not required —</del>

## 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 Growth Enterprise Market (GEM).	<ul style="list-style-type: none"> <li>- Knowledge about the basic listing requirements for new applicants of Main Board and GEM is not required.</li> <li><del>— Knowledge about the basic listing requirements for new applicants is required:—</del> <ol style="list-style-type: none"> <li><del>1. — operating history and management—</del></li> <li><del>— financial requirements: profit attributable to shareholders, market capitalisation, revenue and cash flow (exact figures of the above are not required)</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 -- Business Management Module

- 1(b) Introduction to Management (the shaded parts) being moved from the compulsory part to the elective part as 3(a)
- Renumbering of the 3 topics under Business Management Module as follows:
  - 3(b) Financial Management
  - 3(c) Human Resources Management
  - 3(d) Marketing Management

### 3(a) Introduction to Management

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
Management Functions	(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>- Planning: <i>importance, planning process and characteristics of SMART goals</i></li> <li>- Organising: <i>organisational structure – by level and by authority; departmentalisation – by function, by product, and by location</i></li> <li>- Leading: <i>leadership styles</i></li> <li>- Controlling: <i>control process</i></li> </ul>
	(iii) Apply the following principles of effective management: division of work, unity of command, unity of direction, <u>balancing</u> authority and responsibility, and management by objectives.	<ul style="list-style-type: none"> <li>- Detailed process of MBO is not required</li> </ul>

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
<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.	
	(ii) Explain the interrelationship and integrated nature of different business functions in solving business problems.	
<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.	



**3(b) Financial Management**

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
<b>Financial Analysis</b>	(i) Explain the role of financial management in running an organisation.	
	(ii) <u>State the general functions of accounting ratios.</u>	
	(iii) Assess business performance from a range of accounting ratios in terms of profitability, liquidity, solvency and management efficiency.	<p><del>— Students are expected to be able to discuss the limitations of financial analysis</del></p> <ul style="list-style-type: none"> <li>- The ratios required are: <i>gross profit ratio, net profit ratio, return on capital employed, working capital/current ratio, quick/liquid/acid test ratio, inventory turnover, <del>and return on capital employed, trade receivables turnover, inventory turnover, trade payables turnover, total assets turnover and gearing ratio</del></i></li> <li>- Proposal for remedial actions is not required</li> <li>- Refer to <u>Appendix 1</u> for the relevant formulae of ratios</li> </ul>
	(iv) <u>Explain the limitations of accounting ratios in financial analysis</u>	
<b>Budgeting</b>	(i) Explain the purposes of budgeting.	
	(ii) Describe the usefulness and limitations of budgetary control.	
	(iii) Identify the causes of budgeting variance and propose remedial action.	- Calculation of variances is not required

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
<b>Sources of Financing</b>	(i) Compare different sources of financing: debt and equity financing, short-term and long-term financing, and internal and external financing.	- Details of the features of financing instruments are not required
	(ii) Apply the basic principles for selecting financing methods.	
<b>Capital Investment Appraisal</b>	(i) Evaluate financial and non-financial factors affecting capital investment decisions.	
	(ii) Apply the basic capital investment appraisal methods to evaluate capital projects: payback period, net present value (NPV), internal rate of return (IRR) and accounting rate of return (ARR).	- Calculation of IRR and ARR is not required
	(iii) Compare the usefulness and limitations of different capital investment appraisal methods.	
<b>Working Capital Management</b>	(i) Explain the importance of working capital management.	- Students are expected to be able to describe the operating cycle and cash conversion cycle
	(ii) Describe the basic principles of cash management and the relevance of cash budgeting.	- Preparation of cash budget is not required
	(iii) Analyse the factors affecting the formulation of accounts receivable and accounts payable policies.	- Students are expected to be able to describe the elements of a credit policy, including credit terms, credit standard ( <i>5Cs: capital, capacity, collateral, condition and character</i> ) and collection policy

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
	(iv) Explain the objectives of inventory management and apply simple inventory control techniques: Economic Order Quantity (EOQ) and re-order level methods.	- Calculation of EOQ is required
Risk Management	(i) Identify different types of risks faced by business firms and analyse their impact on business activities.	- Types of risks: <i>insurable vs non-insurable; pure vs speculative</i>
	(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>
	(iii) Explain the following risk management strategies: risk avoidance, risk assumption, risk reduction and risk transfer.	- Students are expected to be able to apply appropriate risk management strategies to given scenarios

**3(c) Human Resources Management**

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
<b>Functions of Human Resources Management</b> • Manpower planning	(i) Explain the importance of manpower planning for an organisation.	
	(ii) Describe the manpower planning process.	- Approaches and process of job analysis are not required
• Staffing	(iii) Describe the recruitment process.	
	(iv) Compare different methods of recruitment.	
• Performance appraisal	(v) Describe the objectives of performance appraisal.	
	(vi) Describe the basic steps in the performance appraisal.	
• Reward management	(vii) Describe the characteristics and advantages of monetary and non-monetary rewards.	
	(viii) Compare different forms of compensation.	- Forms: <i>time-based pay (hourly, daily, monthly) Vs performance-based pay</i>
	(ix) Explain the purposes of benefits.	

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
<ul style="list-style-type: none"> <li>• Training and development</li> </ul>	(x) Explain the objectives of training and development.	
	(xi) Evaluate the effectiveness of different modes of training.	- Students are expected to be able to suggest various on-the-job and off-the-job training methods
<b>Development of a Quality Workforce</b>	(i) Apply the following motivation theories to enhance staff efficiency <del>and reduce absenteeism</del> : <ol style="list-style-type: none"> <li>1. Maslow's Hierarchy of Needs Theory</li> <li>2. Herzberg's Dual-factor Theory</li> <li>3. McGregor's Theory X and Theory Y</li> </ol>	
	(ii) Suggest appropriate <b>ways of internal communication programmes</b> to enhance employee relations. _	

**3(d) Marketing Management**

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
<b>Role of Marketing</b>	(i) Explain the marketing concept.	
	(ii) Discuss the importance of marketing as a business function.	
	(iii) Describe the planning, organising, implementing and controlling of marketing activities.	
	(iv) Discuss the objectives, strategies and resources of the marketing process.	
<b>Marketing Research</b>	(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>Sampling techniques: random sampling, convenience sampling, stratified random sampling</i>
<b>Customer Behaviour</b>	(i) Describe the customer decision-making process.	- <i>Students are expected to be able to describe the process with respect to both individual and business customers</i>
	(ii) Analyse the factors which affect customer decisions.	
	(iii) Identify the major business customers: producers, resellers, governments and institutions.	
	(iv) Distinguish between business and consumer markets.	
<b>Marketing Strategies</b>	(i) Explain different types of market segmentation methods.	

Learning Elements Specified in C&A Guide		Supplementary Teaching Notes
Topics	Explanatory Notes	
<b>for Goods and Services</b> <ul style="list-style-type: none"> <li>Target markets</li> </ul>	(ii) Explain the factors affecting the determination of target market: market niche and positioning.	
<ul style="list-style-type: none"> <li>Marketing mix</li> </ul>	(iii) Explain the concept of marketing mix.	
	(iv) Illustrate different pricing, promotion, product and place strategies for goods.	
	(v) Apply various marketing mix strategies to different stages of the product life cycle.	
	(vi) Explain the characteristics of services and their effect on marketing mix design.	
	(vii) Compare the differences between traditional marketing strategies and e-marketing strategies.	
<ul style="list-style-type: none"> <li>Customer relationship management (CRM)</li> </ul>	(viii) Explain the importance of CRM to the marketing process.	
	(ix) Evaluate the factors affecting customer loyalty and develop marketing strategies to enhance customer loyalty.	

## Appendix 1 : Formulae of Ratios

$$\text{gross profit ratio} \equiv \frac{\text{gross profit}}{\text{sales}} \times 100\%$$

$$\text{net profit ratio} \equiv \frac{\text{net profit before tax}}{\text{sales}} \times 100\%$$

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

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

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

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

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

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

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

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

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



**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