

Business, Accounting and Financial Studies

Mock Exam Paper (2011)

Paper 1

Time allowed: 1 $\frac{1}{2}$ hours

This paper must be answered in English.

Instructions:

- 1 There are two sections in this paper: Section A (60%) and Section B (40%).
Answer all questions.
- 2 You should mark only one answer for each multiple choice question. If you mark more than one answer, you will receive no marks for that question. No marks will be deducted for wrong answers.

SECTION A

Answer **ALL** questions in this section. Each question carries 2 marks.

- 1 Agriculture is classified as
- A. Primary production
 - B. Secondary production
 - C. Tertiary production
 - D. None of the above

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- 2 Which of the following is/are international trade organisations?
- A. World Trade Organisation
 - B. International Monetary Fund
 - C. World Bank
 - D. All of the above

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- 3 Which of the following is not a function of accounting?
- A. To provide management with information for decision-making
 - B. To report the financial performance and position of a business
 - C. To determine employee pay adjustments
 - D. To record the transactions undertaken by a business

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- 4 What was the bank account balance brought down on 1 February 2012?

Bank			
2012		\$	
Jan	5	Capital	57,000
"	20	Loan from bank	35,000
2012		\$	
Jan	10	Office equipment	17,220
"	15	Rent	24,500
"	28	Creditor	1,800
"	31	Salaries	23,000

- A. \$25,480 *Dr*
- B. \$25,480 *Cr*
- C. \$48,480 *Dr*
- D. \$48,480 *Cr*

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- 6 Which of the following are advantages of a sole proprietorship?
- (i) Low set-up costs
 - (ii) Flexible operations
 - (iii) Simple set-up procedures
 - (iv) Limited liability
- A. (i) and (iii)
 - B. (ii) and (iv)
 - C. (i), (ii) and (iii)
 - D. (i), (iii) and (iv)

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- 7 Which of the following are stakeholders of a firm?
- (i) Shareholders of the firm
 - (ii) The government
 - (iii) CEO of the firm
- A. (ii) only
B. (i) and (ii)
C. (i) and (iii)
D. All of the above
- 8 Which of the following accounts normally have credit balances?
- A. Assets, expenses and owner's capital
B. Liabilities, revenue and owner's capital
C. Assets, owner's capital and revenue
D. Owner's drawings, liabilities and revenue
- 9 On 1 April 2012, Top Quality Co sold 295 units of goods on credit to a customer at a list price of \$200 each, less a 15% trade discount. The customer would be entitled to a cash discount of 5% if payment was made within 14 days. On 3 April 2012, the customer returned 25 defective units. The required entries in the books of Top Quality Co for the return would be:
- A. *Dr* Accounts receivable \$5,000
Cr Returns outwards \$5,000
B. *Dr* Returns inwards \$4,250
Cr Accounts receivable \$4,250
C. *Dr* Returns outwards \$4,250
Cr Accounts receivable \$4,250
D. *Dr* Returns outwards \$4,037.5
Cr Accounts receivable \$4,037.5
- 10 Which of the following is a type of credit card?
- A. Octopus card
B. ATM card
C. Affinity card
D. None of the above
- 12 Autocratic leadership is appropriate when
- A. workers are willing to take up additional job responsibilities.
B. a quick decision is needed.
C. the tasks require a high level of creativity such as scientific research.
D. the decision cannot be carried out without support from workers.

13 Arrange the correct order for the following steps of management by objectives?

- (i) Developing an action plan
- (ii) Implementing the action plan
- (iii) Setting objectives
- (iv) Reviewing performance

- A. (i) → (iii) → (ii) → (iv)
- B. (i) → (iii) → (iv) → (ii)
- C. (iii) → (ii) → (i) → (iv)
- D. (iii) → (i) → (ii) → (iv)

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14 Which of the following transactions should not be recorded in the cash book?

- (i) Refunded \$1,500 by cheque to Henry Cho who overpaid.
- (ii) Bought machinery on credit from Elegant Ltd for \$50,000, less a trade discount of 10%.
- (iii) Paid rates of \$18,900 in cash.
- (iv) The owner took goods costing \$3,000 as gifts for her friends.

- A. (i) and (ii)
- B. (i) and (iii)
- C. (ii) and (iii)
- D. (ii) and (iv)

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16 Financial management is a business function of

- A. acquiring funds.
- B. using funds.
- C. managing funds.
- D. All of the above

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19 The following journal is extracted from the books of Davidson & Co, a health food wholesaler:

The Journal			
	Details	Dr	Cr
(i)	Honest Office Equipment Ltd Office equipment	\$ 23,800	\$ 23,800
(ii)	Drawings Purchases	7,200	7,200
(iii)	Rent and rates Bank	36,000	36,000
(iv)	Jason Fung Furniture and fittings	6,000	6,000

An error was made in the recording of the above transactions. Which of the above entries is incorrect and in which book of original entry should that transaction be recorded?

- A. (i); purchases return journal
- B. (ii); purchases journal
- C. (iii); cash book
- D. (iv); sales journal

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20 The following information is extracted from the books of a firm:

	\$
Purchases	295,300
Discounts received	37,650
Discounts allowed	2,690
Commission revenue	12,750
Sales	479,680
Salaries and wages	168,970
Accounts receivable	158,700
Accounts payable	26,900
Bank loan	31,800
Cash	2,890
Inventory	19,450

What is the amount of capital?

- A. \$59,220
- B. \$84,720
- C. \$53,440
- D. \$113,020

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21 The following information is extracted from the books of a firm as at the end of the financial year:

	\$
Cash on hand	3,300
Bank overdraft	12,750
Accounts receivable	38,490
Accounts payable	124,050
Inventory	29,850
Furniture and fixtures	32,600
Motor vehicles	170,440
Net profit for the year	23,500
Capital	114,380

As at the year end date, the firm had

- A. net current assets of \$137,880.
- B. net current assets of \$72,720.
- C. net current liabilities of \$65,160.
- D. net current liabilities of \$203,040.

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22 The following information is extracted from the books of a firm:

Opening inventory	\$23,590
Closing inventory	\$32,900
Returns outwards	\$17,500
Returns inwards	\$21,350
Carriage inwards	\$13,200
Carriage outwards	\$22,580
Discounts allowed	\$6,810
Discounts received	\$3,860
Sales	\$327,850
Gross profit ratio	20%

The purchases figure is

- A. \$258,810.
- B. \$280,160.
- C. \$275,890.
- D. \$254,540.

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24 Which of the following are the 'Four Pillar Industries' of Hong Kong?

- (i) Tourism
- (ii) Manufacturing
- (iii) Producer and professional services
- (iv) Financial services
- (v) Construction
- (vi) Trading and logistics

- A. (ii), (iii) and (v)
- B. (i), (iii), (iv) and (vi)
- C. (ii), (iv), (v) and (vi)
- D. All of the above

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25 Which of the following statements are incorrect?

- (i) In a limited partnership, all partners have limited liability.
- (ii) A private limited company must have at least two shareholders.
- (iii) In Hong Kong, profits tax rate for partnerships is lower than that for limited companies.
- (iv) A limited partnership is a legal entity.

- A. (i) and (iv)
- B. (iii) and (iv)
- C. (i), (ii) and (iii)
- D. (i), (ii) and (iv)

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26 According to the definition by the Trade and Industry Department, a small and medium enterprise in the manufacturing sector is an enterprise which

- A. employs fewer than 100 persons.
- B. had a turnover of less than \$5 million per annum.
- C. is not a limited company.
- D. suffers a loss for more than two consecutive years.

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27 State the accounting principle/concept that should be applied for each of the following events:

- (i) The firm bought goods before the end of the financial year but was allowed to pay one month later.
- (ii) The firm wanted to change the depreciation method to better reflect the usage of non-current assets.
- (iii) The firm bought a factory unit for \$2 million and used it for production purposes. It has a current market value of \$3 million.
- (iv) The firm suffered losses in the past two years. However, the owner continued to give it financial support.

- A. (i) going concern; (ii) consistency; (iii) historical cost; (iv) business entity
- B. (i) accrual; (ii) consistency; (iii) historical cost; (iv) going concern
- C. (i) accrual; (ii) going concern; (iii) historical cost; (iv) business entity
- D. (i) accrual; (ii) historical cost; (iii) consistency; (iv) business entity

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28 Mr Mok works as an accountant and earns a relevant income of \$30,000 per month. Which of the following statements concerning his Mandatory Provident Fund (MPF) scheme is true?

- A. It is possible for Mr Mok to withdraw his money from the MPF scheme before reaching the age of 65.
- B. Mr Mok has to make a contribution of \$1,500 to his MPF scheme each month.
- C. Mr Mok's employer does not have to make a contribution to Mr Mok's MPF scheme.
- D. If Mr Mok becomes self-employed, he can choose not to join the MPF scheme.

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29 The following information concerns the business of Ivan Lau, a sole proprietorship, for the year ended 31 December 2012:

	\$
Inventory, 1 January 2012	12,500
Inventory, 31 December 2012	18,100
Sales	285,300
Purchases	123,700
Returns inwards	3,200
Carriage inwards	7,200
Carriage outwards	11,300
Operating expenses	57,400
Capital, 1 January 2012	170,800
Capital contributed in 2012	22,000
Drawings of goods by the owner	4,700

Calculate the gross profit ratio and the return on capital employed.

- A. 53.24%; 33.04%
- B. 58.25%; 33.04%
- C. 57.25%; 41.09%
- D. 54.91%; 41.09%

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30 Bank A offers an investment plan to Molly. If she invests \$50,000, she can gain \$20,000 at the end of each year for three years. The annual interest rate of the plan is 5%. As Molly does not have enough money, she wants to borrow \$50,000 from Bank B. The loan has an annual interest rate of X% and requires full repayment at the end of the third year (i.e., one instalment only). What is the highest value of X so that it is worthwhile for Molly to borrow from Bank B?

- A. 7
- B. 8
- C. 9
- D. 10

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SECTION B

Part 1 (20 marks) Answer **ALL** questions in this part.

- 1 In response to environmentalists' concerns, the management of Vick, an international sportswear company, has decided to take measures to reduce the hazardous substances generated from its production process. However, this will mean that Vick's production costs are likely to increase.
- (a) Give three reasons that account for Vick's decision to respond to the environmentalists' concerns.
- (b) What is the meaning of a stakeholder? With reference to the above case, explain with two reasons why the community and society are regarded as important stakeholders for a company.
- (6 marks)

- 2 With reference to the principles of effective management, explain with two reasons whether large corporations or small family businesses are more likely to have difficulties with:
- (a) division of labour
- (b) unity of command
- (6 marks)

- 3 The trial balance of Lance Kim's business as at 30 June 2012 is as follows:

Lance Kim		
Trial Balance as at 30 June 2012		
	<i>Dr</i>	<i>Cr</i>
	\$	\$
Purchases and sales	585,970	1,221,160
Carriage inwards	7,980	
Rent and rates	241,570	
Returns inwards and outwards	17,330	6,370
Inventory, 1 July 2011	39,880	
Bank overdraft		48,910
Salaries and wages	291,260	
Furniture and fittings	179,110	
Accounts receivable and payable	233,550	127,560
Bank loan (repayable on 31 May 2013)		177,640
Capital		68,630
Bank interest	33,700	
Drawings	19,920	
	<u>1,650,270</u>	<u>1,650,270</u>

Inventory as at 30 June 2012 was valued at \$28,900.

You are required to prepare:

- (a) an income statement for the year ended 30 June 2012.
- (b) a balance sheet as at 30 June 2012.
- (8 marks)

Part 2 (10 marks) Answer **ONE** question in this part.

- 4 (A) State the effects of the following transactions on assets, liabilities, capital, revenue and expenses and the required entries:

Transaction	Effects	Required entries
<i>Example:</i> The owner put in additional capital of \$50,000 by cheque.	Increase in assets Increase in capital	<i>Dr</i> Bank \$50,000 <i>Cr</i> Capital \$50,000
(i) Paid rent of \$50,000 by cheque.		
(ii) The owner paid \$35,000 to Trendy Ltd, a creditor of the business.		
(iii) Received \$7,000 cash from Alpha Co for goods it purchased on credit last month.		

- (B) A list of accounting terms is provided below:

- | | |
|-----------------------------------|-------------------------------------|
| (i) Real account | (vii) Balance sheet |
| (ii) General journal | (viii) Returns outwards journal |
| (iii) Accrual concept | (ix) Discounts allowed |
| (iv) Opening entries | (x) Income statement |
| (v) Historical cost principle | (xi) Trade discount |
| (vi) Acid test ratio | (xii) Current ratio |

You are required to:

Choose an accounting term from (i) to (xii) above that best matches each of the definitions or descriptions below:

Definition/Description	Accounting term
<i>Example:</i> The double entries needed to open a new set of accounting books.	iv
(a) Revenues should be recognised when earned and expenses should be recognised when incurred.	
(b) A financial statement that reports the profit or loss made by a business during an accounting period.	
(c) An account whose balance will be carried forward to the next accounting cycle and will appear in the balance sheet.	
(d) A book of original entry which records returns of goods purchased on credit.	
(e) An accounting ratio which shows the liquidity of a business without considering inventory.	
(f) Reductions given to trade debtors who pay their accounts within the cash discount period.	

(10 marks)

- 5 A newly opened electric appliance store has the following interest-free monthly instalment loan schemes in cooperation with Like Credit Card and Plus Credit Card.

	Like Credit Card	Plus Credit Card
Minimum loan amount	\$4,000	\$2,500
Repayment period	12/24 months	6/12/18 months

Suppose Tony has both a Like Credit Card and a Plus Credit Card. He wants to buy a tablet computer with instalment loans.

- (a) If the tablet computer costs \$3,500, which credit card should Tony use? Why?
- (b) If the tablet computer costs \$5,000, how can Tony benefit from using (i) Like Credit Card and (ii) Plus Credit Card?
- (c) Instead of using the instalment loans, Tony decides to buy the tablet computer with a ViVi Credit Card. With a ViVi Credit Card, Tony can purchase goods up to \$30,000 on credit. He just needs to sign a sales voucher. Upon receiving the statement issued by the issuing bank, Tony can decide whether to pay the balance in full. Interest will be charged on any unpaid balances.
 - (i) How does the loan offered by a ViVi Credit Card differ from that of the above instalment loan schemes? Explain.
 - (ii) List one advantage and one disadvantage of using credit cards.

(10 marks)

END OF PAPER 1