

Business, Accounting and Financial Studies

Mock Exam Paper (Dec 2012)

Paper 1

Time allowed: 1 hour 15 minutes
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 For Section A, all questions carry equal marks. You should mark only one answer for each 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 Identify the correct double entries from the following:

	<i>Account to be debited</i>	<i>Account to be credited</i>
(i) Equipment bought by cheque for business use.	Purchases	Bank
(ii) Goods sold to Peter Chau for cash.	Cash	Sales
(iii) Goods bought on credit from Lucy Lam.	Lucy Lam	Purchases
(iv) Defective goods returned from Ricky Tam, a trade debtor.	Returns inwards	Ricky Tam

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

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2 Which of the following is not a qualitative factor crucial to the financial success of a business?

- A. Religious beliefs of the business owner
- B. Staff morale
- C. Ethical conduct of management
- D. Product quality

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3 Which of the following statements regarding share transfers is correct?

- A. Shares can be easily transferred in a private limited company.
- B. The board of directors of a public limited company can refuse to register a share transfer.
- C. Shares of a listed company can be easily bought and sold on the stock exchange.
- D. All of the above

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5 Large companies are more likely to have communication problems because

- A. they have a complex organisational structure.
- B. they employ unity of command.
- C. delegation is common in large companies.
- D. they make plans in a formal and systematic way.

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6 Multinational corporations can gain from globalisation because

- (i) production costs are lowered.
- (ii) they can explore new markets in other countries.
- (iii) market and operational risks may be reduced.
- (iv) selling their products around the world can increase sales revenues.

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

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7 Which of the following do(es) not need to disclose his identity in the partnership?

- (i) Nominal partner
- (ii) Sleeping partner
- (iii) Secret partner
- (iv) Silent partner

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

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- 8 McDonald's hires the disabled as part-time staff. This is an example of
- A. business ethics.
 - B. social responsibility.
 - C. corporate governance.
 - D. legal behaviour.

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- 9 Which of the following affect the calculation of gross profit?
- A. Returns inwards, returns outwards, closing inventory and carriage inwards
 - B. Sales, opening inventory, discounts received and discounts allowed
 - C. Sales, purchases, returns outwards and carriage outwards
 - D. Sales, purchases, carriage inwards and carriage outwards

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- 10 Johnny Au tries to prepare opening entries for his business with the following information:

Cash	\$7,535
Furniture and equipment	\$123,864
Bank	\$39,517 <i>Cr</i>
Trade receivables	\$6,700
Trade payables	\$8,064

He needs to find the missing information in order to complete the entries. What is the missing information?

- A. Inventory of \$90,518
- B. Capital of \$90,518
- C. Capital of \$169,552
- D. Motor vehicles of \$90,518

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- 11 A trial balance is to be prepared from the following ledger accounts of Dennis Wong's business as at 31 March 2012:

Office equipment	\$75,654
Bank	\$29,970
Rent	\$97,873
Accounts payable	\$58,997
Wages	\$87,800
Sales	\$290,750
Cash	\$17,510
Purchases	\$98,742
Returns inwards	\$19,410
Accounts receivable	\$58,701
Discounts received	\$16,530
Drawings	\$3,985
Capital	\$114,668

Which trial balance column would have the larger total? What is the difference between the debit column total and the credit column total?

- A. Credit column; \$8,700
- B. Debit column; \$8,700
- C. Debit column; \$41,760
- D. Credit column; \$10,710

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- 13 Debit entries
- (i) increase revenues and decrease assets.
 - (ii) increase expenses and decrease capital.
 - (iii) decrease both liabilities and revenues.
 - (iv) decrease expenses and increase assets.
- A. (i) and (ii)
B. (i) and (iii)
C. (ii) and (iii)
D. (iii) and (iv)
- 14 A credit balance of \$1,500 in the bank columns of the cash book would mean
- A. the firm has \$1,500 in its current account at the bank.
B. the firm has overdrawn its current account at the bank by \$1,500.
C. the bookkeeper has made a mistake.
D. the firm has \$1,500 cash in hand.
- 16 Chris opened a florist shop last year and rented a small shop upstairs in Central. He lost half a million dollars in a year. He then reviewed his marketing strategy and asked his sister, Michelle, to join the business. They planned to organise a floral design course to attract customers. Which of the following tasks are involved in the operation management of Chris' florist shop if he wants to organise a floral design course?
- (i) Forecast the demand for the course
 - (ii) Design a remuneration package for the tutor of the course
 - (iii) Acquire funds to promote the course
 - (iv) Estimate the number of students that will enrol in the course
- A. (i) only
B. (i) and (iv)
C. (ii) and (iii)
D. All of the above
- 17 Which of the following statements concerning stockholders is incorrect?
- A. All stockholders have voting rights.
B. Stockholders are entitled to part of the ownership of a limited company.
C. Stockholders may earn dividends and capital gains.
D. Stockholders may suffer a loss on the stocks they purchased.
- 18 Cowboy Toys foresees that its factory cannot meet the deadline to complete a production project in the coming peak season. It thus decides to subcontract the project to Farmland Toys. Which risk strategy has been employed?
- A. Risk reduction
B. Risk assumption
C. Risk avoidance
D. Risk transfer

- 21 The CEO of a fitness club announces a new plan: to become the market leader in Hong Kong in three years. What kind of business plan is this?
- (i) A strategic plan
 - (ii) An operational plan
 - (iii) A mid-term plan
 - (iv) A long-term plan
- A. (i) and (iii)
B. (i) and (iv)
C. (ii) and (iii)
D. (ii) and (iv)
- 22 Refer to Question 21. The CEO plans to set up a customer database within one year. What kind of business plan is this?
- (i) A strategic plan
 - (ii) An operational plan
 - (iii) A short-term plan
 - (iv) A mid-term plan
- A. (i) and (iii)
B. (i) and (iv)
C. (ii) and (iii)
D. (ii) and (iv)
- 23 To investors, the risk of a firm's bankruptcy is an example of
- A. firm-specific risk.
B. insurable risk.
C. market risk.
D. property risk.
- 24 Which of the following is not a disadvantage of division of labour?
- A. Workers with specialised skills may find it difficult to change jobs.
B. Workers may not get a sense of satisfaction from their jobs.
C. Managers may find it difficult to rearrange tasks among employees with specialised skills.
D. Communication between managers and employees is hindered.
- 25 Which of the following statements about the consistency principle are correct?
- (i) No changes in accounting policies or methods are allowed under the consistency principle.
 - (ii) The consistency principle allows a fair comparison of the financial statements of different firms.
 - (iii) The application of the consistency principle makes it more difficult to manipulate the financial results of a firm.
 - (iv) A firm can change its accounting policies if this can give a more accurate view of the business.
- A. (i) and (iii)
B. (i), (ii) and (iii)
C. (i), (ii) and (iv)
D. (ii), (iii) and (iv)

- 26 The following table shows the standard deviation of the rate of return for two investment plans:

	Plan A	Plan B
Standard deviation	5%	20%

Which of the following descriptions is correct?

- A. Plan A is riskier than Plan B.
- B. Plan B will likely generate more returns than Plan A.
- C. Investors who have a low risk tolerance level should choose Plan A.
- D. Investors who are risk averse should choose Plan B.

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- 28 Modern Ltd's account appears in Comet Co's books as follows:

Purchases Ledger

Modern Ltd			
2012	\$	2012	\$
Feb 5 Sales	27,900	Feb 13 Cash	7,960
" 15 Sales	32,070	" 18 Returns inwards	4,950
		" 27 Bank	38,560

Which of the following statements about the above account are correct?

- (i) Modern Ltd is a customer of Comet Co and so the account should be placed in the sales ledger instead of the purchases ledger in Comet Co's books.
 - (ii) Sales should be recorded on the credit side of the account.
 - (iii) Returns inwards should be recorded on the debit side of the account.
 - (iv) The account had a debit balance of \$47,060 as at 26 February 2012.
- A. (i) and (iii)
 - B. (i) and (iv)
 - C. (ii) and (iii)
 - D. (iii) and (iv)

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- 29 The following information was extracted from the books of Dandy Co for the year ended 31 December 2012:

Inventory, 1 January 2012	?
Inventory, 31 December 2012	\$132,600
Sales	\$1,250,700
Purchases	\$324,822
Returns outwards	\$23,756
Carriage inwards	\$13,532
Operating expenses	\$521,832
Net profit margin	25%
Furniture and fixtures, 31 December 2012	\$421,500
Bank, 31 December 2012	\$47,500
Trade receivables, 31 December 2012	\$153,212
Trade payables, 31 December 2012	\$48,763
Bank loan (repayable in 2016)	\$129,000

Calculate the opening inventory and the quick ratio.

- A. \$210,439; 0.44 times
- B. \$234,195; 1.87 times
- C. \$234,195; 4.12 times
- D. \$234,195; 6.83 times

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30 The following information was extracted from the books of Janice Ting's business for the year ended 30 April 2012:

Inventory, 1 May 2011	\$51,154
Inventory, 30 April 2012	\$24,790
Bank, 1 May 2011	\$27,954
Accounts payable, 1 May 2011	\$37,902
Accounts receivable, 1 May 2011	\$35,800
Equipment, 1 May 2011	\$129,850
Sales	\$516,100
Purchases	\$210,730
Returns inwards	\$15,864
Returns outwards	\$7,986
Carriage inwards	\$6,898
Operating expenses	\$128,910
Owner's personal expenses (included in operating expenses)	\$4,990

Compute the net profit ratio and the return on capital employed.

- A. 28.05%; 51.11%
- B. 27.05%; 51.11%
- C. 29.29%; 53.53%
- D. 30.26%; 55.29%



SECTION B (30 marks) Short Questions

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

- 1 Explain how information management can support a supermarket's inventory management. List two and illustrate your answers with an example.

(4 marks)

- 2 Anthony is a sole trader running a small shop which sells vegetables and fruits in a housing estate. He is now thinking of inviting his uncle, who was once the marketing manager of a food company, to form a partnership together. Recently, Anthony has heard that a large supermarket chain is going to open a branch near his shop. This supermarket will also sell fresh vegetables and fruits.

- (a) List two advantages of a sole proprietorship over a partnership.
- (b) What advantages are there for Anthony in taking on a partner? List two of them.
- (c) Anthony's uncle joins the shop as a general partner. Suggest two ways which their shop can compete with the large supermarket chain.

(8 marks)

- 3 Show the journal entries required to record the following items for Kina Wong, a sole trader.

2012

- Jan 1 Bought furniture on credit from Ace Furniture with a list price of \$37,800 and was given a discount of 10%.
- " 15 Kina Wong took goods costing \$8,500 from the business for personal use.
- " 25 F Lau was unable to repay her debt and settled the debt by giving us furniture of the same value.
- " 28 Sold surplus equipment at its cost price of \$12,700 to M Chiu on credit.

(8 marks)

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

- 4 The following information was extracted from the books of Jimmy Leung's business for the year ended 31 December 2012:

	\$
Purchases (credit)	1,387,500
Sales (credit)	2,352,880
Carriage inwards	45,270
Returns inwards	32,877
Administrative expenses	638,750
Capital as at 1 January 2012	438,489
Inventory as at 1 January 2012	27,387
Inventory as at 31 December 2012	47,988
Bank loan, repayable in 2016	377,800
Cash in hand	13,950
Bank overdraft	57,870
Accounts receivable	582,765
Accounts payable	317,900

Required:

- (a) Calculate (to two decimal places) the following accounting ratios:
- (i) Gross profit ratio
 - (ii) Net profit ratio
 - (iii) Return on capital employed
 - (iv) Current ratio
 - (v) Acid test ratio
- (b) Briefly comment on the profitability and liquidity of Jimmy Leung's business.

(10 marks)

- 5 You work in a bank as a financial planner. Today, you have three clients, Peter, Dave and Otto, who come to you for financial advice. Their basic information is shown below:

	Peter	Dave	Otto
Age	25	45	58
Family status	Single	Married with two children aged 3 and 6	Married with two children aged 23 and 25
Occupation	Marketing executive	Accounting manager	Chef
Monthly income	\$15,000	\$35,000	\$9,500

- (a) Refer to the life-cycle approach. Which one has the highest and lowest risk tolerance level? Briefly explain.
- (b) Assume Peter, Dave and Otto want to save for their retirement. Given the following investment plans:
- Compare the risk-return trade-off of the three plans; and
 - Choose a suitable plan each for Peter, Dave and Otto.

Investment Plan	Investment portfolio components	Risk-return trade-off	Suitable for
Plan A	50% in stocks, 50% in bonds	<u>High / Medium / Low</u>	<u>Peter / Dave / Otto</u>
Plan B	20% in stocks, 80% in bonds	<u>High / Medium / Low</u>	<u>Peter / Dave / Otto</u>
Plan C	80% in stocks, 20% in bonds	<u>High / Medium / Low</u>	<u>Peter / Dave / Otto</u>

- (c) Peter plans to get married in two years. He wants to save up for his honeymoon.
- Would you still recommend the plan you chose for him in question (b)? If not, which plan(s) would you choose? Explain your answers.

(10 marks)

END OF PAPER 1