

Business, Accounting and Financial Studies

Mock Exam Paper (Feb 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 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 A cash discount is best described as a discount given to

- A. a customer who pays cash upon purchase.
- B. a supplier who sells in large quantities.
- C. a customer who buys in large quantities.
- D. a debtor who pays within a certain period.

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2 Which of the following transactions should be recorded in the general journal?

- (i) Goods returned by customers
 - (ii) Entries needed to open a new set of accounting books
 - (iii) Non-cash capital contributions by the owner
 - (iv) Disposals of assets other than goods in cash
- A. (i) and (ii)
 - B. (i) and (iv)
 - C. (ii) and (iii)
 - D. (ii) and (iv)

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4 Which of the following information is seldom provided in the financial statements of a company?

- (i) Staff turnover rate
 - (ii) Amounts owed by others
 - (iii) Sales revenue
 - (iv) Customer satisfaction index
- A. (i) and (iii)
 - B. (i) and (iv)
 - C. (ii) and (iii)
 - D. (ii) and (iv)

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5 The primary sector of Hong Kong

- A. is relatively insignificant.
- B. is the second-largest sector in terms of GDP.
- C. was the largest sector in the 1980s.
- D. grew significantly after the announcement of the open-door policy in China in 1978.

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6 As at 30 June 2012, Chan & Co had the following assets and liabilities:

	\$
Bank	37,600
Motor vehicles	139,000
Trade payables	29,750
Trade receivables	6,700
Loan from financial company	129,800

Chan & Co's capital as at 30 June 2012 was

- A. \$329,450.
- B. \$23,750.
- C. \$69,850.
- D. \$51,450.

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- 8 The trial balance of Venture Enterprise shown below does not agree. Each account in the trial balance has a normal balance and is free of mathematical errors.

Trial Balance as at 30 June 2012		
	Dr	Cr
	\$	\$
Machinery	285,320	
Returns outwards	21,745	
Discounts allowed		21,766
Accounts receivable	46,218	
Accounts payable		32,198
Discounts received	17,933	
Sales	326,911	
Purchases		205,648
Cash	2,743	
Inventory	32,510	
Returns inwards		31,854
	<u>733,380</u>	<u>291,466</u>

The difference between the two column totals after correcting all the errors in the trial balance is

- A. \$227,272.
 B. \$219,606.
 C. \$207,054.
 D. zero.

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- 9 Given the following figures:

	\$
Opening inventory	11,593
Closing inventory	24,390
Returns outwards	17,895
Returns inwards	29,386
Carriage inwards	11,481
Carriage outwards	8,258
Discounts allowed	4,181
Discounts received	2,386
Purchases	197,464
Sales	316,855

The gross profit figure is

- A. \$107,421.
 B. \$100,958.
 C. \$112,439.
 D. \$109,216.

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- 10 The following are economic factors that affect business decisions, except

- A. population structure.
 B. the unemployment rate.
 C. the wage level.
 D. the inflation rate.

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- 11 If a firm assumes its social responsibilities,

- (i) staff morale can be enhanced.
 (ii) its image can be improved.
 (iii) production costs may increase.

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

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- 12 A private limited company
- (i) has at least two shareholders.
 - (ii) shall disclose its financial information to the public upon request.
 - (iii) is a business with a separate legal existence.
 - (iv) needs to pay a higher profits tax rate than a sole proprietor.
- A. (i) only
- B. (i) and (ii)
- C. (iii) and (iv)
- D. (ii), (iii) and (iv)
- 13 During the year ended 31 December 2012, a business paid insurance premiums totalling \$39,900. However, the income statement for the year showed an insurance expense figure of \$45,800. One probable reason for the difference in amounts is the application of the
- A. accrual concept.
- B. going concern concept.
- C. historical cost principle.
- D. consistency principle.
- 14 Which of the following statements concerning market risk is false?
- A. It refers to the risk from the overall financial market.
- B. It is also called interest rate risk.
- C. It cannot be diversified.
- D. It involves changes in the general economy.
- 15 Jacob deposits a sum of money into the bank. Which of the following is required to calculate the future value of his bank deposit?
- (i) Annual interest rate of the bank deposit account
 - (ii) Deposit period
 - (iii) The amount Jacob deposits into the bank
 - (iv) The inflation rate in Hong Kong
- A. (i) and (ii)
- B. (iii) and (iv)
- C. (i), (ii) and (iii)
- D. All of the above
- 16 Laissez-faire leadership
- A. is appropriate when the information needed for decision-making is available only to managers.
- B. is also called democratic leadership.
- C. means that the leader allows subordinates to make their own decisions.
- D. encourages the leader to maintain the power of decision-making.

18 Which of the following are human resources management tasks?

- (i) Performance appraisal
- (ii) Training and development
- (iii) Designing an effective production process
- (iv) Compensation and benefits management

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

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19 What is the major financial planning objective for young singles?

- A. To plan for their children's educational expenses
- B. To create and accumulate wealth
- C. To repay loans and prepare for retirement
- D. To maintain their preferred lifestyle with a stable income

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20 The major characteristic of entrepreneurs is that

- A. they have confidence in their own abilities.
- B. they have a strong desire for excellence.
- C. they take risks in starting business for the purpose of making a profit.
- D. they are market followers.

22 The Hong Kong government adopts a laissez-faire policy, which promotes

- (i) a free market.
- (ii) government regulations.
- (iii) free trade.
- (iv) consumerism.

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

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23 Which of the following are political and legal factors that affect business decisions?

- (i) Population structure
- (ii) Minimum wage law
- (iii) Transport networks
- (iv) Tax rate

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

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24 Ma's Enterprise had the following transactions in December 2011:

Dec	1	Bought goods in cash from K Lau for \$17,800, less a 15% trade discount.
"	5	Sold goods on credit to J Kim for \$23,750, less a 5% trade discount.
"	10	Bought goods on credit from: G Tang \$28,560, F Lam \$9,800 and E Shek \$12,460, all with a trade discount of 10%.
"	11	Returns inwards: M Chow \$4,653 and K Lau \$3,000.
"	26	Returns outwards: G Tang \$4,680 and E Shek \$1,872.
"	28	Bought goods on credit from: R Tsang \$6,900 and S Tam \$8,800, both with a trade discount of 6%.
"	31	Returns outwards: S Tam \$1,880.

The balance of the purchases account as at 31 December 2011 was

- A. \$60,496 *Dr*.
- B. \$75,626 *Dr*.
- C. \$67,194 *Cr*.
- D. \$66,346 *Cr*.

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25 Identify each of the statements listed below as being true or false.

- (i) All steps in the accounting cycle take place at the end of the accounting period.
- (ii) Preparation of final accounts is the last step in the accounting cycle.
- (iii) Opening entries must be made at the beginning of each accounting period.
- (iv) A trial balance cannot be prepared without balancing off all the ledger accounts.

- | | (i) | (ii) | (iii) | (iv) |
|----|-------|-------|-------|-------|
| A. | True | False | True | True |
| B. | False | True | False | True |
| C. | True | True | False | False |
| D. | False | False | True | True |

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27 Mr Cheung bought preferred stocks of ABC Company through a bank. Which of the following is not a right to which Mr Cheung is entitled?

- A. Attend and vote at the shareholders' meetings of ABC Company
- B. Be informed of the fees and charges on the stock purchased
- C. Receive dividends distributed by ABC Company
- D. Receive financial reports about ABC Company

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28 Which of the following are reasons why investing in bonds is generally considered less risky than investing in common stocks issued by the same company?

- (i) Bond interest is guaranteed but dividends are not guaranteed.
- (ii) Bondholders do not have voting rights but common stockholders do.
- (iii) When a company is wound up, bondholders can make a claim against the company's assets after common stockholders.
- (iv) Bondholders receive fixed interest but dividends received by common stockholders are variable.

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

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29 The following information was extracted from the books of Stephen Ho's business for the year ended 30 June 2012:

Inventory, 1 July 2011	\$71,153
Inventory, 30 June 2012	\$54,970
Sales	\$568,303
Purchases	\$219,873
Returns inwards	\$15,964
Returns outwards	\$6,798
Carriage inwards	\$11,894
Discounts received	\$6,758
Operating expenses	\$179,977
Capital, 1 July 2011	\$379,860
Equipment contributed by the owner during the year	\$49,500
Goods taken by the owner for own use	\$13,990

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

- A. 26.73%; 31.62%
- B. 24.98%; 31.62%
- C. 25.43%; 32.09%
- D. 27.51%; 32.09%



SECTION B

Answer **ALL** questions in this section.

- 2 For each of the situations described below, state the accounting principle or concept that has been applied or violated and give a brief explanation.
- (a) A firm suffered large losses during the year as a number of its debtors went bankrupt and were unable to repay their debts. No decision was made as to whether the business should be closed. The accountant continued to state the assets at historical cost when preparing the financial statements for the year.
 - (b) During the year ended 31 December 2011, Angus Chow, a sole proprietor, bought antique furniture for use in the business at a cost of \$38,000. As at year end, the furniture was shown in the balance sheet at a market value of \$75,000.
- (8 marks)
- 3 You are considering whether to join a European tour. The travel agency offers you two payment terms:
Option 1: Pay \$20,000 today
Option 2: Pay \$21,600 at the end of next year.
Assume that the cost of capital is 12% per annum. Which payment option would you choose? Explain.
- (4 marks)
- 4 Johnny and May both work at a local bank. Soon after their marriage, May decided to quit her job. Her friend, Pansy, suggested that May take out insurance plan so as to protect her family.
- (a) Why is it important for May to buy insurance?
 - (b) Apart from an insurance plan, identify the financial needs of May and Johnny. Use the life cycle in financial planning to explain your answers.
- (6 marks)
- 5 An international fast food chain plans to enter the Mainland market. It will open 20-30 outlets in 'first-tier' Mainland cities within a year. Its objective is to become the market leader in the Mainland's fast food industry within 10 years.
- (a) What is a mid-term plan? Suggest the key points which should be included in this fast food chain's mid-term plan?
 - (b) What potential problems may this fast food chain encounter when entering the Mainland market? Give two examples and briefly explain.
 - (c) Discuss two social factors that the fast food chain has to consider when choosing a location for its outlets in the Mainland.
- (10 marks)

END OF PAPER 1