

## **Business, Accounting and Financial Studies**

### **Mock Exam Paper (Dec 2014)**

#### **Paper 1**

Time allowed: 1 hour and 15 minutes

This paper must be answered in English.

#### **Instructions:**

- 1 There are TWO sections in this paper: Section A (60 marks) and Section B (30 marks).
- 2 Answer ALL questions in Section A and Part 1 of Section B (20 marks). For Part 2 of Section B (10 marks), answer ONE of the TWO questions.
- 3 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.
- 4 No marks will be deducted for wrong answers.

For HKDSE Exam in 2016 and onwards

## SECTION A

Answer all questions in this section. (Total: 60 marks, 2 marks for each question)

**1** Which of the following statements about limited companies is/are correct?

- (1) Shareholders have limited liability.
- (2) Changes in directors will affect the operating of a limited company.
- (3) It is easier for limited companies to raise capital than a sole proprietorship.

- A. (1) only
- B. (2) only
- C. (1) and (3) only
- D. (1), (2) and (3)

☐

**2** Rita deposited \$8,500 into her bank account on 31 December 2014. If the bank account offers an interest rate of 7% per annum, compounded annually, how much could she withdraw on 1 January 2017?

- A. \$9,095
- B. \$9,690
- C. \$9,732
- D. \$10,413

☐

**3** A socially responsible business can gain from

- (1) enhancing its image and reputation.
- (2) lowering production costs.
- (3) tax concessions.

- A. (1) only
- B. (2) only
- C. (1) and (3) only
- D. (1), (2) and (3)

☐

**4** Peter earns \$6,500 per month and has just joined a Mandatory Provident Fund (MPF) scheme. Which of the following is not one of his responsibilities under the MPF System?

- A. Choosing MPF funds according to his risk tolerance level
- B. Contributing \$325 to his MPF scheme each month
- C. Bearing the investment risk of the MPF funds he chose and the outcome of the investment
- D. All of the above are his responsibilities under the MPF system.

☐

- 5** If there are no bookkeeping errors in the books of a business,
- (1) its trial balance must agree.
  - (2) it is impossible for the cash account to have a credit balance.
  - (3) the amount of assets must be equal to the amount of capital and liabilities.

- A. (1) and (2)
- B. (1) and (3)
- C. (2) and (3)
- D. (1), (2) and (3)

☐

- 6** Miss Wong sets a target for her boutique: Increasing the sales volume by 10% as soon as possible. Which of the following criteria for setting effective goals has not been met by this target?

- A. specific
- B. measurable
- C. relevance
- D. time frame

☐

- 7** Which of the following are advantages of Management by Objectives?

- (1) Managers can have better control of subordinates' work progress.
- (2) The communication between managers and their subordinates can be improved.
- (3) MBO can enhance coordination between different departments of a company.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

☐

- 8** Which of the following are the disadvantages of using credit cards?

- (1) High interest rates
- (2) Cannot be used in the Mainland
- (3) Rejected by some shops which sell low-value products
- (4) Short repayment period

- A. (1) and (3) only
- B. (2) and (3) only
- C. (1), (2) and (4) only
- D. (2), (3) and (4) only

☐

- 9** In a statement of financial position,
- A. gross profit for the year would be shown.
  - B. net profit for the year would be shown.
  - C. other operating revenues would be shown.
  - D. None of the above
- ☐
- 10** Which of the following statements concerning the income statement is incorrect?
- A. Service businesses do not need to compute net profit for the year.
  - B. Owner's capital is not shown in the income statement.
  - C. The income statement shows the financial performance of a business.
  - D. The income statement is not part of the double-entry system.
- ☐
- 11** Happy Travel is a local travel agency listed on the Hong Kong Stock Exchange. Which of the following conditions would most probably cause its stock price to rise?
- A. Ten Hong Kong tourists died in a serious traffic accident during a tour organised by another Travel Agency.
  - B. A lethal infectious disease broke out in many countries around the world.
  - C. The government announced that it would set up a fund to support the Hong Kong tourism industry.
  - D. Happy Travel saved 10% in labour costs as it laid off 30 employees.
- ☐
- 12** A company has decided to take part in an exhibition. Which of the following falls under the company's organising responsibilities?
- A. Setting sales targets for employees
  - B. Assigning responsibilities for employees
  - C. Determining what products to sell at the booth
  - D. Calling a meeting to give instructions to employees
- ☐
- 13** Which of the following is a favourable economic factor that Hong Kong possesses?
- A. Well-developed infrastructure
  - B. Low tax rates
  - C. A free flow of information
  - D. Good telecommunications network
- ☐
- 14** By having a good personal credit record, a consumer can
- A. receive more gifts when applying for credit cards.
  - B. obtain loans at lower interest rates.
  - C. borrow as much money as he wants.
  - D. All of the above
- ☐

Refer to the following information to answer Questions 15 to 17.

Given the following figures: non-current assets \$55,740; total assets \$264,450; inventory \$110,000; current liabilities \$45,110; and non-current liabilities \$12,000.

**15** Capital amounts to

- A. \$207,340.
- B. \$263,080.
- C. \$320,190.
- D. \$377,300.

☐

**16** The current ratio is

- A. 1.81 : 1.
- B. 2.19 : 1.
- C. 4.63 : 1.
- D. Cannot be determined

☐

**17** The quick ratio is

- A. 1.83 : 1.
- B. 2.19 : 1.
- C. 4.91 : 1.
- D. Cannot be determined

☐

**18** Participative leadership is appropriate when

- (1) workers are experienced and capable.
- (2) workers are not willing to assume job responsibilities.
- (3) there is a crisis and a quick decision is required.

- A. (1) only
- B. (2) only
- C. (1) and (2) only
- D. (2) and (3) only

☐

**19** What is the first step in a company's planning process?

- A. Setting a time frame for actions
- B. Gathering useful and relevant information
- C. Establishing objectives and goals
- D. Evaluating and determining alternative options

☐

**20** Mable conducts a survey on the tastes of customers before she sets up a yoghurt shop in Tsuen Wan. Which business function is involved in this case?

- A. Operations management
- B. Marketing management
- C. Information management
- D. Risk management

☐

**21** Which of the following should be treated as a capital contribution?

- (1) The owner paid the rent on the company's office with his own money.
- (2) The owner gave his second-hand motor vehicle to his business.
- (3) The electricity bill of a business is settled by the owner's personal bank cheque.

- A. (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

☐

**22** The acid-test ratio

- A. is also called the 'quick ratio'.
- B. measures the profitability of a business.
- C. is usually higher than the current ratio.
- D. is usually lower than 0.

☐

**23** The owner took away a computer from her business without paying for it. The effect of this event on the accounting equation was:

- A. Both assets and capital increased.
- B. Both liabilities and capital increased.
- C. Both assets and capital decreased.
- D. Assets decreased and liabilities increased.

☐

**24** Larry made a deposit of \$55,000 into his bank account on 1 January 2016. Given that the bank offers an annual interest rate of 15% (compounded annually), when would the total interest that he earned exceed \$25,000 (assuming he does not draw money from the bank account)?

- A. 1 January 2018
- B. 1 July 2018
- C. 1 January 2019
- D. 1 January 2020

☐

- 25** Bank deposits generally have a lower risk-return trade-off than corporate bonds because
- A. the return on bank deposits are guaranteed but the return on corporate bonds are not.
  - B. the return on bank deposits are fixed but the return on corporate bonds are not.
  - C. bank deposits offer interest but corporate bonds do not.
  - D. companies are generally more likely to go bankrupt than banks.
- ☐
- 26** Which of the following is a function of the WTO?
- A. Arbitrating trade disputes between members
  - B. Supporting the sustainable economic growth of members
  - C. Providing financial aid to developing countries
  - D. Issuing certificates of origin for products manufactured by members
- ☐
- 27** Which of the following statements regarding the characteristics of the Hong Kong economy is incorrect?
- A. Hong Kong lacks primary industry.
  - B. No profits tax is levied for companies in Hong Kong.
  - C. The Hong Kong government pursues a laissez-faire policy.
  - D. Hong Kong needs to import foodstuffs from other countries.
- ☐
- 28** Which of the following is not a contribution of SMEs to the Hong Kong economy?
- A. They provide jobs for Hong Kong people.
  - B. They introduce new products and services to the market.
  - C. They provide raw materials and supplies to large companies.
  - D. They purchase the shares of large companies.
- ☐
- 29** A human resources manager is responsible for
- (1) designing a performance appraisal system.
  - (2) assigning duties for employees in different departments.
  - (3) providing training to workers to improve their knowledge.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
- ☐

- 30** Jimmy is a sole proprietor. As he did not hire an accountant for his business, he prepared the following trial balance for his business:

<b>Jimmy Company</b>		
<b>Trial Balance as at 31 December 2016</b>		
	<i>Dr</i>	<i>Cr</i>
	\$	\$
Bank	80,800	
Cash		10,500
Purchases	68,000	
Sales		135,000
Trade payables		21,000
Trade receivables	85,400	
Drawings	300	
Capital		68,000
	<u>234,500</u>	<u>234,500</u>

Which of the following statements is correct?

- A. The trial balance indicates all the records were correctly made.
- B. Trade receivables should be listed in the credit column.
- C. Drawings should be listed in the credit column.
- D. There must be an error/errors in the books of the business.



## SECTION B

### Part 1

Answer all questions in this section. (Total: 20 marks)

- 1** Ray, Mark and Connie set up a business in the form of a limited partnership. They signed an agreement as follows:
- Only Mark and Connie will invest money in the business.
  - While Connie is involved in the management of the business, Ray and Mark will not take part in the running of the business.

- (a) Identify the nominal partner and limited partner in the partnership. (2 marks)

\_\_\_\_\_

- (b) Suggest two ways that a nominal partner can contribute to a partnership. (4 marks)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



**2** Joseph is a retired teacher. He has received his \$3 million Provident Fund.

(a) Describe three financial needs of retirees. (3 marks)

---

---

---

(b) Joseph wants to invest part of his Provident Fund in stocks and earn a stable return. Should he invest in common stocks or preferred stocks? Explain. (3 marks)

---

---

---

**3** John started a business on 1 January 2016. He contributed \$500,000 into the business bank account to start the business. During the year, the business bought \$100,000 in office equipment and office furniture for \$50,000 by cheque. His business also made cash purchases and cash sales of \$250,000 and \$400,000 during the year, respectively. A total of \$50,000 was paid in rent and rates, \$40,000 for water and electricity and \$30,000 for wages and salaries during the year. There was no inventory as at 31 December 2016.

(a) Compute the amount of net profit earned by John's business for the year ended 31 December 2016. (3 marks)

---

---

---

---

(b) Compute the net profit ratio for the year. (2 marks)

---

---

---

---

(c) Compute the amount of bank and cash as at 31 December 2016 for his business.

(3 marks)

---

---

---

---

---

## Part 2

Answer one of the two questions in this part. (Total: 10 marks)

- 4** Steve sets up a company, Solution Pro, which specialises in providing computer hardware, software and system development services for companies. The following figures were extracted from his books as at 31 December 2016, the financial year-end date:

	\$
Trade receivables	53,000
Trade payables	28,000
Bank	13,000
Cash	5,000
Rent and rates	60,000
Wages and salaries	80,000
Water and electricity	21,000
Purchases	153,000
Sales and commission revenue	238,000
Capital, 1 January 2016	?
Inventory, 31 December 2016	100,000

There was no inventory as at 1 January 2016.

- (a) Prepare a trial balance for Steve's business as at 31 December 2016. (5 marks)

A business consultant advised that Steve should pay attention to risk management at the company.

- (b) Explain what risk management is. (1 mark)

- (c) Identify two types of risk that Steve faces and suggest how they can be managed. (4 marks)

- 5** Gogo Supermarket had the following financial information as at 31 December 2017:  
buildings \$500,000; office equipment \$430,000; shop fixtures \$380,000; bank \$600,000;  
cash \$300,000; inventory \$600,000; short-term bank loan (repayable on 30 June 2018)  
\$400,000; other payables \$200,000; and 5-year bank loan (repayable on 30 June 2022)  
\$130,000.

- (a) Calculate the business's current ratio and quick ratio. (5 marks)

---

---

---

---

---

---

---

Alan, the CEO of the supermarket, delegates authority to managers. He does not provide any instructions or guidance to them. He allows managers from different departments to decide what they want to do and how to complete their tasks.

- (b) Identify Alan's leadership style. (1 mark)

---

---

- (c) Explain two disadvantages of this leadership style. (4 marks)

---

---

---

---

**END OF PAPER 1**