

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

### **Mock Exam Paper (Mar 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 NOMARKS 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** The population structure of a country is an example of a/an
- A. economic factor.
  - B. technological factor.
  - C. physical factor.
  - D. social and cultural factor.
- ☐
- 2** Jeremy deposited \$X in his bank account at the end of 2012. The bank offers an annual interest rate of 6.5%, compounded annually. If Jeremy withdraws \$10,000 on 1 January 2015, what is X?
- A. 8,278
  - B. 8,817
  - C. 9,390
  - D. 9,685
- ☐
- 3** Which of the following statements concerning MBO is correct?
- A. Managers can devote less time communicating with employees as each employee has a clear understanding of what he should do.
  - B. Employees have a higher commitment to objectives that they set themselves than those imposed on them by their managers.
  - C. Coordination among workers in different departments is improved as employees work together to carry out the organisation's plan.
  - D. MBO can ensure that employees' objectives are linked to the organisation's long-term objectives.
- ☐
- 4** Which of the following statements concerning Hong Kong Exchanges and Clearing Limited (HKEx) is/are correct?
- (1) This is the stock exchange for listing and trading stocks in Hong Kong.
  - (2) To list on HKEx, a company must meet the listing requirements set by HKEx.
  - (3) Stock trading on HKEx cannot be performed by electronic means.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- ☐

- 5** When a trial balance agrees,
- A. this means there are no errors in the accounting records.
  - B. this means all transactions of the business have been properly recorded.
  - C. the amount of assets must be equal to the amount of capital.
  - D. None of the above
- ☐
- 6** In a horizontal-style statement of financial position,
- A. the amount of net current assets is not shown.
  - B. the amount of net current assets cannot be computed.
  - C. non-current assets and current assets are not shown separately.
  - D. None of the above
- ☐
- 7** \_\_\_\_\_ cover(s) a firm's responsibility to all of its stakeholders.
- A. Social responsibility
  - B. Business ethics
  - C. Company law
  - D. Law and ethics
- ☐
- 8** Which of the following descriptions of business ownership is incorrect?
- A. A partnership must be formed by at least two partners.
  - B. A private limited company has a separate legal existence.
  - C. A sole proprietorship is solely owned by one person.
  - D. A joint venture is formed by only two business entities.
- ☐
- 9** Which of the following is not a right of a worker who has joined an MPF scheme?
- A. Can choose funds provided under the MPF scheme
  - B. Can make extra voluntary contributions to the MPF scheme
  - C. Can withdraw his contributions plus investment returns at the age of 65
  - D. Can stop contributing to the MPF scheme whenever he likes
- ☐
- 10** Which of the following statements concerning the income statement is correct?
- A. There is no need to prepare an income statement for a business that has incurred a loss during the accounting period.
  - B. Capital contributed by the owner during the accounting period is listed as 'other revenues' in the income statement.
  - C. The income statement is not part of the double-entry system.
  - D. The income statement was formerly known as the 'balance sheet'.
- ☐

**11** Which of the following is not a characteristic of the Hong Kong economy?

- A. Hong Kong lacks primary production.
- B. Hong Kong relies heavily on internal trade.
- C. Hong Kong is regarded as a free market economy.
- D. Hong Kong has a simple taxation system.

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**12** Rebecca is deciding whether to invest in bonds issued by ABC Company. Which of the following is the least important factor affecting her decision?

- A. Rebecca's risk tolerance level
- B. The coupon rate of the bonds
- C. ABC Company's net profit last year
- D. The risk level of the bonds

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**13** Claudia wants to purchase a car which costs \$200,000. Which of the following types of credit is the most appropriate for her financially?

- A. Instalment loan
- B. Overdraft
- C. Credit card
- D. Cannot be determined

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**14** A car manufacturer is being socially responsible to its customers if it

- (1) offers discounts to its loyal customers.
- (2) ensures that the cars it produces are up to the safety standard.
- (3) separates the ownership and management of the company.
- (4) provides good after-sales services.

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

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**15** Orlando buys common stocks through his sister, Mary, who works as a stockbroker. Orlando has the right to

- A. ask Mary to waive the transaction levy.
- B. complain when his stock investment suffers a loss.
- C. exchange his common stocks for preferred stocks issued by the same company.
- D. ask Mary why she recommended a certain stock.

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- 16** Which of the following should be treated as drawings?
- (1) The owner took a computer from the business for personal use.
  - (2) The owner took goods from the business as a gift for his son.
  - (3) Electricity bills of the owner's apartment were paid for by cheques drawn on the business bank account.

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

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- 17** Benny practises laissez-faire leadership at his company. Which of the following are likely to be correct?

- (1) He provides guidance for employees whenever necessary.
- (2) He does not set limits on employees' authority.
- (3) He allows employees to make their own decisions.

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

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- 18** Which of the following tasks is not performed by the company's marketing department?

- A. Conducting surveys on customer satisfaction
- B. Collecting daily sales figures of the company's products
- C. Setting the price of a product
- D. Deciding on the distribution channel for a product

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- 19** You want to deposit \$10,000 in a bank account to earn interest. Which of the following banks will you choose?

- A. Bank A: Offers an annual interest rate of 8%, compounded annually
- B. Bank B: Offers an annual interest rate of 7.8%, compounded twice a year
- C. Bank C: Offers an interest rate of 7.5% per annum, compounded quarterly
- D. Cannot be determined as the term of deposit is unknown

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Refer to the following information to answer Questions 20 to 22.

Given the following figures: non-current assets \$3,680; total assets \$13,540; current liabilities \$2,010; non-current liabilities \$2,110.

**20** Capital amounts to

- A. \$9,420.
- B. \$13,540.
- C. \$17,660.
- D. \$21,340.

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**21** The current ratio is

- A. 1.83 : 1.
- B. 3.29 : 1.
- C. 4.91 : 1.
- D. Cannot be determined

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**22** The quick ratio is

- A. 1.83 : 1.
- B. 3.29 : 1.
- C. 4.91 : 1.
- D. Cannot be determined

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**23** The quick ratio

- A. measures the profitability of a business.
- B. measures the liquidity of a business.
- C. will never be higher than the current ratio.
- D. Both B and C are correct.

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**24** The major aim of operations management is to

- A. ensure that goods and services are produced efficiently and can meet quality standards.
- B. set up an inventory management system.
- C. design an effective production process.
- D. estimate future demand for the company's goods and services.

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**25** Which of the following statements regarding small and medium enterprises (SMEs) in Hong Kong is correct?

- A. SMEs enjoy a lower tax rate than large companies.
- B. SMEs cannot be listed on the stock market.
- C. Most SMEs are financed solely by their owners.
- D. SMEs are involved in tertiary production only.

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- 26** Which of the following is not a characteristic of a franchise?
- A. Franchisees have to operate their businesses according to the franchisor's requirement.
  - B. Franchisees can operate the business independently.**
  - C. Franchisees can set up their businesses with ease with the support of the franchisor.
  - D. Franchisees can enjoy the benefits of a large shop.

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- 27** The owner bought a computer for her business with her own money. The effect of this event on the accounting equation was:
- A. Both assets and capital increased.**
  - B. Both liabilities and capital increased.
  - C. Assets increased while liabilities decreased.
  - D. Capital increased while both assets and liabilities remained unchanged.

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- 28** Tommy Chow is the owner of Tommy &Co and he prepares the accounts of his business himself. As he lacks sufficient knowledge about accounting, he made some mistakes in the preparation of the following trial balance:

<b>Tommy &amp;Co</b>		
<b>Trial Balance as at 31 May 2014</b>		
	<i>Dr</i>	<i>Cr</i>
	\$	\$
Bank	52,300	
Cash		2,320
Purchases	5,550	
Sales		35,180
Trade payables		1,100
Trade receivables		2,790
Drawings	300	
Capital	40,000	
	<u>98,150</u>	<u>41,390</u>

Which of the following statements is incorrect?

- A. Cash should be listed in the debit column.
- B. The trial balance reveals that more than one bookkeeping error was made in Tommy &Co's accounting records.
- C. The trial balance will agree once all trial balance items are placed in the correct columns.**
- D. Capital should be listed in the credit column.

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**29** Which of the following concerning the importance of entrepreneurship to business development is correct?

- A. Entrepreneurship brings more products and services, which are lower in price and better in quality.
- B. Entrepreneurship leads to innovation in products and services which can better satisfy customers' needs.
- C. Entrepreneurship generates economic growth as entrepreneurs organise production and enhance production efficiency.
- D. All of the above

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**30** A fast food chain is looking for a shop supervisor for one of its outlets. Which of the following would not be a task for the new supervisor?

- A. Setting up a roster for shop assistants
- B. Monitoring the daily operations of the outlet
- C. Deciding on the acquisition of a food supplier
- D. Handling customer complaints

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## SECTION B

### Part 1

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

- 1** Mr Wong is a common stockholder of Lion Bank, a large local bank in Hong Kong. His friend suggested that he buy the bank's preferred stocks instead. State three differences between a common stockholder and a preferred stockholder. (6 marks)

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- 2 Explain three advantages of division of labour in the manufacturing industry. (6 marks)

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- 3 Mary Ho is the bookkeeper at Alice Co. She made some errors when preparing the statement of financial position for the business, which is shown as follows:

<b>Alice Co</b> <b>Statement of Financial Position for the year ended 30 September 2014</b>		
	\$	\$
<i>Non-current assets</i>		
Office equipment	603,000	
Motor vehicles	450,000	
Trade receivables	<u>118,000</u>	1,171,000
<i>Current assets</i>		
Trade payables	80,000	
Cash on hand	5,000	
Inventory	<u>219,000</u>	
	304,000	
<i>Less Current liabilities:</i>		
Bank loan (repayable on 1 January 2020)	<u>275,000</u>	
Net current assets		<u>29,000</u>
		<u>1,200,000</u>
<i>Financed by:</i>		
<i>Capital</i>		
Balance as at 1 October 2013		880,000
Add Net profit for the year		<u>168,500</u>
		1,048,500
<i>Less Drawings</i>		<u>8,500</u>
		<u>1,040,000</u>

*Required:*

- (a) Identify four errors that Mary Ho made. (4 marks)

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(b) After identifying the errors, compute (to two decimal places) the:

(i) Current ratio

(2 marks)

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(ii) Quick ratio

(2 marks)

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(Total: 8 marks)

## Part 2

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

**4** Jacky opened a restaurant specialising in Taiwanese food in Wan Chai a year ago. With his signature dish of ice cream toast, his restaurant is popular among female students and office ladies. Because business is growing, Jacky plans to open an outlet in Shanghai.

(a) Explain three external environmental factors to be considered in setting up a restaurant in Shanghai.

(6 marks)

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- (b) Identify one risk involved in running a restaurant in Shanghai and explain how this risk can be controlled. (2 marks)

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- (c) Jacky is thinking of forming a joint venture with a local restaurant in Shanghai. Give one reason in support of his decision. (2 marks)

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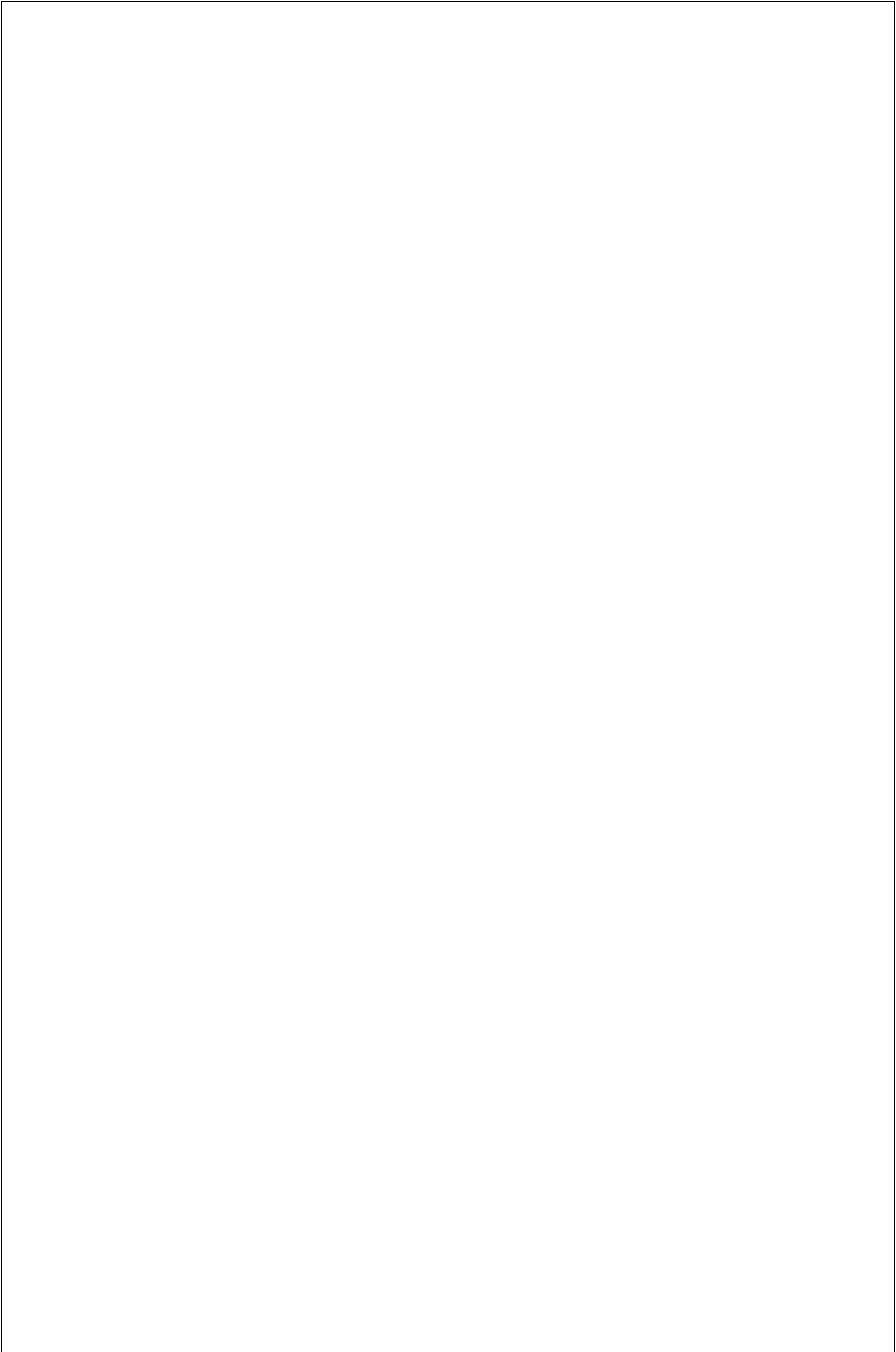
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(Total: 10 marks)

- 5** The following balances of Peterson Enterprise as at 31 December 2014, its year-end date, are provided. Prepare a trial balance and an income statement for the business. (10 marks)

	\$
Bank	25,368
Cash	1,203
Purchases	1,102,000
Sales	1,502,005
Returns inwards	85,000
Returns outwards	100,000
Inventory, 1 January 2014	75,050
Capital	?
Bank loan (repayable on 5 June 2016)	20,000
Office equipment	56,800
Furniture	45,000
Wages and salaries	250,400
Rent and rates	140,000
Water and electricity	6,800
Discounts received	3,500
Discounts allowed	7,500

As at 31 December 2014, there was no inventory on hand.



**END OF PAPER 1**