

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

### **Mock Exam Paper (Mar 2015)**

#### **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 2015 onwards

## SECTION A

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

- 1** Which of the following statements about a partnership is correct?
- A. Liabilities of all partners are limited.
  - B. Financial information about a partnership has to be disclosed to the public.
  - C. New partners can be recruited for the purpose of raising capital and contributing their expertise.
  - D. A partner can transfer his ownership to other people if he wants to leave the partnership.
- ☐
- 2** Which of the following statements about a trial balance is correct?
- A. If a trial balance is prepared during the year instead of at the year-end date, the debit balance and the credit balance would disagree.
  - B. The trial balance is a financial statement.
  - C. The amount of owner's capital would not be listed in the trial balance.
  - D. None of the above
- ☐
- 3** Carol deposited a sum of money into her bank account three years ago. The bank account offers an annual interest rate of 5%, compounded annually. If the interest on her deposit amounted to \$1,000 today, how much did she deposit three years ago?
- A. \$864
  - B. \$6,344
  - C. \$6,667
  - D. \$7,276
- ☐
- 4** Which of the following statements about small and medium enterprises (SMEs) in Hong Kong is/are correct?
- (1) SMEs will not cooperate with large companies as they see them as competitors.
  - (2) SMEs often focus on narrow markets which are not attractive to large companies.
  - (3) SMEs enjoy a lower tax rate than large companies.
- A. (2) only
  - B. (3) only
  - C. (1) and (3) only
  - D. (1), (2) and (3)
- ☐

**5** Mr Wong is a bank manager. He sets a target for his employees: Improve customer service quality in a year. Which of the following criteria for setting good objectives have not been met in this target?

- (1) Specific
- (2) Time-bound
- (3) Measurable

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

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**6** Which of the following items would be listed in the statement of financial position?

- A. Amount of rent and rates
- B. Net profit for the year
- C. Trade discounts given by suppliers
- D. None of the above

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**7** Which of the following statements concerning Hong Kong Exchanges and Clearing Ltd (HKEx) are correct?

- (1) HKEx has two platforms for companies to list their stocks.
- (2) HKEx is the only stock exchange in Hong Kong.
- (3) Companies incorporated outside Hong Kong can also list their stocks on HKEx.

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

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**8** Which of the following statements about the WTO is correct?

- A. It provides loans to developing countries in the world.
- B. It helps resolve trade disputes among member countries.
- C. It issues certificates of origin for products manufactured in member countries.
- D. It supports sustainable economic growth and prosperity around the world.

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**9** Facilitating communication among employees based in a distant location is part of

- A. operations management.
- B. marketing management.
- C. information management.
- D. risk management.

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Refer to the following information to answer Questions 10 to 12.

Sales \$1,425,410; returns outwards \$4,730; purchases \$1,100,300; returns inwards \$5,910; opening inventory \$138,000; closing inventory \$212,000; operating expenses \$144,000.

**10** Gross profit amounts to

- A. \$109,930.
- B. \$253,930.
- C. \$397,930.
- D. \$541,930.

☐

**11** Net profit amounts to

- A. \$109,930.
- B. \$253,930.
- C. \$397,930.
- D. \$541,930.

☐

**12** The net profit ratio is

- A. 17.89%.
- B. 20.13%.
- C. 22.58%.
- D. Cannot be determined

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**13** Which of the following is not a right of an employee under the MPF System?

- A. Withdrawing his accrued benefits at 65 if he has not yet retired
- B. Stop contributing to his MPF scheme when he faces financial difficulty
- C. Choosing MPF funds under the MPF scheme chosen by his employer
- D. None of the above

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**14** June is a Hong Kong resident. She is considering whether to invest in the common stocks issued by Wealthy Company, a listed company in Hong Kong. Which of the following is the least important factor affecting her decision?

- A. Wealthy Company's prospects
- B. June's risk tolerance level
- C. Wealthy Company's financial performance
- D. Hong Kong's inflation rate

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**15** Which of the following is an asset of a business?

- A. Amount owed to creditors
- B. The sole proprietor's private apartment
- C. A motor van contributed by the owner for business use
- D. Both B and C are assets of a business

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**16** The process of establishing goals and objectives for an organisation, and determining the best ways to achieve them is known as

- A. planning.
- B. organising.
- C. leading.
- D. controlling.

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**17** Which of the following should not be treated as drawings?

- (1) The owner paid the rent on his private apartment with a cheque drawn on the business bank account.
- (2) The owner withdrew money from the business bank account to settle the creditors.
- (3) The owner took away a motor vehicle for personal use. The motor vehicle was contributed by the owner last year.

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

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**18** Which of the following statements is correct?

- A. Return on capital employed measures both the liquidity and profitability of a business.
- B. The current ratio is also called the "acid-test ratio".
- C. If the amount of other revenues exceeds the amount of expenses, the net profit ratio of the business would be higher than its gross profit ratio.
- D. None of the above

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**19** Which of the following statements concerning the economic relationship between Hong Kong and the Mainland is incorrect?

- A. Hong Kong imports many consumer goods from the Mainland.
- B. Hong Kong imports goods from other countries and re-exports them to the Mainland.
- C. The Mainland has a large amount of direct investment from Hong Kong's businesses.
- D. The Mainland serves as a major funding centre for Hong Kong's businesses.

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**20** Which of the following accounts are nominal accounts?

- (1) Rent and rates
  - (2) Premises
  - (3) Motor expenses
  - (4) Motor van
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- A. (1) and (3) only
  - B. (2) and (4) only
  - C. (1), (3) and (4) only
  - D. (1), (2), (3) and (4)

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**21** Alice is a full-time employee and has \$500,000 in savings. She wants to purchase a dictionary which costs \$400 but does not have enough cash on hand. Which of the following types of consumer credit is the most appropriate for her?

- A. Overdrafts
- B. Instalment loans
- C. Credit cards
- D. Cannot be determined

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**22** Amy is one of the owners of a company. As do all of the owners of the company, she enjoys limited liability. Moreover, she has good control over the company as ownership in the company is not freely sold on the market. This form of company ownership is a

- A. limited partnership.
- B. general partnership.
- C. private limited company.
- D. public limited company.

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**23** Which of the following factors would affect the amount of interest you receive from a bank deposit?

- A. The deposit amount
- B. The bank account's interest rate
- C. The compounding frequency of the bank account
- D. All of the above

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**24** A trading company has two managers of the same rank. They can both give orders to employees. Which of the following principles of effective management has been violated?

- A. Unity of command
- B. Unity of direction
- C. Division of labour
- D. All of the above

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**25** Vicky is a watch retailer. She prepared the following trial balance for her business at the year-end date:

<b>Vicky</b>		
<b>Trial Balance as at 31 October 2015</b>		
	<i>Dr</i>	<i>Cr</i>
	\$	\$
Inventory, 1 November 2014	368,000	
Capital		303,460
Drawings	25,000	
Trade receivables	139,450	
Trade payables		26,850
Bank	50,460	
Purchases	679,980	
Returns outwards		1,350
Rent and rates	23,800	
Water and electricity	13,000	
Cash	410	
Sales		968,440
	<u>1,300,100</u>	<u>1,300,100</u>

Which of the following statements are correct?

- (1) All items in the trial balance were listed in the correct column.
- (2) "Capital" listed in the above trial balance refers to the capital balance as at 1 November 2014.
- (3) Even if the above trial balance agrees, it cannot be said that there are no errors in the books of Vicky's business.

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

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- 26** A & A Company will never grant credit to customers in order to avoid bad debt. Which risk management strategy has been used?
- A. Risk avoidance
  - B. Risk assumption
  - C. Risk reduction
  - D. Risk transfer
- ☐
- 27** Mary is a sole proprietor. During the year, she took goods costing \$1,500 from her business without paying for them. Her bookkeeper recorded this transaction as drawings. Which of the following accounting principle or concept has been violated?
- A. Business entity concept
  - B. Accrual concept
  - C. Going concern concept
  - D. No accounting principle or concept is violated.
- ☐
- 28** Which of the following is an advantage of a public limited company over a private limited company?
- A. There is no need to disclose a lot of information.
  - B. It is easier to obtain loans from banks.
  - C. Lower costs in preparing financial statements are incurred.
  - D. The legal procedure for forming a public limited company is less complex.
- ☐
- 29** A firm is considered socially responsible to its customers if it
- (1) sets reasonable prices for its products.
  - (2) offers discounts to loyal customers.
  - (3) produces products up to the government's safety standards.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- ☐
- 30** Which of the following are contributions of entrepreneurship to the Hong Kong economy?
- (1) Entrepreneurs organise production and enhance production efficiency.
  - (2) Entrepreneurship promotes market competition.
  - (3) Entrepreneurs employ many Hong Kong young people for business development.

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



## SECTION B

### Part 1

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

- 1** (a) Complete the following expanded accounting equation by stating the name of A, B and C: (3 marks)

$$\text{Assets} = \text{Capital} + (\mathbf{A} - \mathbf{B}) - \text{Drawings} + \mathbf{C}$$

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- (b) Fill in the missing figures in the following table. (5 marks)

	Capital	Liabilities	Assets
	\$	\$	\$
Business A		12,345	34,567
Business B	12,345		34,567
Business C	12,345	34,567	
Business D	50,000		50,000
Business E		25,235	35,235

- 2** What is authority? Explain why top managers possess more authority than middle and first-line managers. (6 marks)

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- 3** Vivian and Paul have just been married and plan to open a boutique in three years. They estimate that they will need \$200,000 as their starting capital. Their current savings total \$170,000.

(a) Suggest three financial needs of a just married couple. (3 marks)

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(b) Vivian and Paul plan to deposit all of their savings into a bank account which offers an annual interest rate of 6%, compounded annually. Will they have enough money to open the boutique in three years? (3 marks)

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## Part 2

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

- 4** Sandy Chan is a sole proprietor. She is a watch retailer who has been in business for 10 years. The following figures were extracted from her books as at 31 March 2017, the financial year-end date:

	\$
Water and electricity	24,000
Bank	2,000
Cash	15,000
Rates	2,300
Wages and salaries	120,000
Trade receivables	3,000
Trade payables	213,000
Purchases	550,000
Sales	938,000
Capital, 1 April 2016	?
Inventory, 31 March 2017	280,000
Rent	480,000

Inventory as at 1 April 2016 was valued at \$50,000.

- (a) Prepare a trial balance for Sandy's business as at 31 March 2017. (6 marks)

- (b) Sandy's friend, Cherry, suggests that she should change the company to a private limited company. Give two reasons to explain why Sandy rejects this idea. (4 marks)

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(Total: 10 marks)

- 5** Wendy Store had the following financial information as at 30 June 2017: Sales \$2,200,000; Electricity \$30,000; Rent and rates \$220,000; Purchases \$1,500,000; Closing inventory \$200,000; Returns inwards \$50,000; Returns outwards \$50,000.

- (a) Calculate (to two decimal places) the gross profit ratio and net profit ratio for the business. (5 marks)

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- (b) Wendy, the owner of Wendy Store, plans to expand the business to the Mainland of China.

What is financial management? Explain the major financial management tasks involved in Wendy's expansion plan. (5 marks)

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**END OF PAPER 1**