

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

### **Mock Exam Paper (November 2016)**

#### **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.

## SECTION A

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

- 1** Which of the following is not a characteristic of the Hong Kong economy?
- A. Hong Kong has a simple taxation system.
  - B. Hong Kong relies heavily on external trade.
  - C. Hong Kong is regarded as a free market economy.
  - D. Hong Kong lacks primary and secondary production.
- ☐
- 2** Noah has deposited \$4,500 in his bank account, which offers an annual interest rate of 5%, compounded annually. How much compound interest can he earn in three years?
- A. \$450
  - B. \$461
  - C. \$675
  - D. \$709
- ☐
- 3** Which of the following is a benefit of CEPA for businesses in Hong Kong?
- A. Hong Kong firms which set up production line in the Mainland are not taxed in the Mainland.
  - B. Hong Kong firms can enjoy free movement of capital across borders.
  - C. Tariffs are not levied on goods originating in Hong Kong that are exported to the Mainland.
  - D. Hong Kong firms can increase the number of products exported to the Mainland.
- ☐
- 4** Which of the following statements concerning risks and returns is correct?
- A. Returns must be positive.
  - B. All risks can be diversified.
  - C. Risks and returns are generally negatively related.
  - D. Investors cannot earn a return without taking any risks.
- ☐
- 5** Which of the following accounting equations is correct?
- A.  $\text{Capital} = \text{Assets} - \text{Liabilities}$
  - B.  $\text{Capital} = \text{Assets} + \text{Liabilities}$
  - C.  $\text{Capital} = \text{Liabilities} - \text{Assets}$
  - D. None of the above
- ☐

- 6** In a partnership, owners bear \_\_\_\_\_ liability and all partners \_\_\_\_\_ legally bound by the decisions made in the name of the firm.
- A. limited; are not
  - B. limited; are
  - C. unlimited; are
  - D. unlimited; are not
- ☐
- 7** Which of the following is not a characteristic of a franchise?
- (1) Franchisees can operate their business independently.
  - (2) Franchisees are employed by the franchisor to run their business.
  - (3) Franchisees can enjoy the benefits of a large shop.
  - (4) Franchisees can set up their businesses with ease with the support of the franchisor.
- A. (1) and (2) only
  - B. (1) and (4) only
  - C. (2) and (3) only
  - D. (3) and (4) only
- ☐
- 8** If the Hang Seng Index (HSI) dropped 10% yesterday, which of the following statements is most likely to be true?
- A. The prices of most HSI constituents decreased yesterday.
  - B. The value of the Hong Kong Dollar dropped 10% yesterday.
  - C. All investors in the stock market suffered a loss yesterday.
  - D. HSI will increase today.
- ☐
- 9** The current ratio and quick ratio of Silver Co are both 2 : 1. Which of the following statements is/are correct?
- A. The business appears to have sufficient liquidity.
  - B. The business has no inventory.
  - C. The business has net current assets.
  - D. All of the above statements are correct.
- ☐
- 10** Raymond Chan paid the electricity bill for his business with his own money. The double entry for this transaction would be:
- A. *Dr* Electricity; *Cr* Capital
  - B. *Dr* Capital; *Cr* Electricity
  - C. *Dr* Electricity; *Cr* Bank
  - D. According to the business entity concept, this transaction should not be recorded in the books of the business.
- ☐

**11** Which of the following accounts would appear on the debit side of a trial balance?

- (1) Capital
- (2) Drawings
- (3) Mary Wong, a trade debtor

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

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**12** Louisa Ko is a part-time worker at a flower shop. She has worked for six months and her monthly salary is \$6,500. Which of the following statements about her Mandatory Provident Fund (MPF) scheme is correct?

- (1) She does not need to make monthly contributions to her MPF scheme.
- (2) If her monthly salary increases by \$1,000, her employer does not need to make monthly contributions to her MPF scheme.
- (3) She can make voluntary contributions to her MPF scheme.

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

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**13** Which of the following is an example of a business being socially responsible?

- (1) Organising a company picnic
- (2) Conducting product safety testing
- (3) Visiting the elderly in an elderly house

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

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**14** Given the following figures on Maxi & Co for the year ended 31 March 2016: sales \$1,000,000; returns inwards \$20,000; cost of goods sold \$450,000; rent and rates \$120,000; wages and salaries \$130,000; carriage outwards \$20,000; and carriage inwards \$15,000. Net profit for the year amounted to

- A. \$245,000.
- B. \$260,000.
- C. \$280,000.
- D. \$980,000.

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- 15** The most effective leader is one who
- A. makes managerial decisions without consulting others.
  - B. works with top managers and employees to make decisions.
  - C. has the leadership style most appropriate to the situation and the employee involved.
  - D. delegates authority to subordinates and supports them in performing their tasks.

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- 16** Which of the following items would not be listed in a sole proprietorship's statement of financial position?
- (1) Gross profit for the year
  - (2) Net profit for the year
  - (3) Cash at bank
  - (4) Overdraft interest

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

☐

- 17** Planning, organising, leading and controlling are the
- A. goals of management.
  - B. results of management.
  - C. functions of management.
  - D. All of the above

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- 18** Given the following figures on Amazing Co as at 31 December 2016, its year-end date: total assets \$1,500,000; total liabilities \$300,000; net profit for the year \$400,000; and drawings during the year \$100,000. Capital as at 1 January 2016 amounted to
- A. \$700,000.
  - B. \$900,000.
  - C. \$1,200,000.
  - D. \$1,500,000.

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**Refer to the following information to answer questions 19 and 20.**

Given the following figures on Trident Co for the year ended 30 September 2016: sales \$2,000,000; returns inwards \$80,000; cost of goods sold \$800,000; discounts received \$40,000; and operating expenses \$500,000.

**19** The gross profit ratio is

- A. 56%.
- B. 58.33%.
- C. 60%.
- D. 60.42%.

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**20** The net profit ratio is

- A. 33.33%.
- B. 34.38%.
- C. 36.98%.
- D. 41.02%.

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**21** Which of the following is an effective standard for a control system?

- A. Renting new premises of 1,500 square feet
- B. Deciding to hire 10 new employees next year
- C. Increasing the sales of product A by 10% next month
- D. Replacing all of the old machines to improve product quality

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**22** Which of the following is not a characteristic of SMEs in Hong Kong?

- (1) Dominant in the market
- (2) Independently owned and operated
- (3) Meeting certain standards in terms of labour size

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

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**23** Which of the following characteristics is likely be found in an industry dominated by SMEs in Hong Kong?

- A. Technology-based
- B. Little capital required
- C. Service-based
- D. Labour intensive

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**24** Companies which have many brands often use the \_\_\_\_\_ structure to organise their marketing activities.

- A. functional
- B. customer
- C. geographical
- D. product

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- 25** The marketing department of a company is responsible for
- A. deciding the pay rises of salespeople.
  - B. deciding on the price of the product.
  - C. training salespeople to better serve customers.
  - D. collecting daily sales figures.
- ☐
- 26** Mitchell Chan, the owner of Chan's Co, took goods costing \$5,000 from his business for personal use. Those goods had a selling price of \$10,000. Which of the following statements is true?
- A. Under the business entity concept, this transaction should not be recorded in the books of Chan's Co.
  - B. The drawings account should be debited by \$5,000.
  - C. The capital account should be debited by \$10,000.
  - D. Mitchell Chan has violated the business entity concept by taking goods from his business.
- ☐
- 27** The nominal interest rate and effective interest rate of a bank account is X% and 3.84% per annum, respectively. Interest is compounded semi-annually. If the compounding frequency is increased to four times a year and the nominal interest rate is increased by 1%, what is the new effective interest rate?
- A. 4.8%
  - B. 4.89%
  - C. 4.93%
  - D. Cannot be determined because the value of X is unknown
- ☐
- 28** A credit card user can
- (1) settle the credit card balance in irregular or lump-sum payments.
  - (2) be exempt from interest charges by paying the monthly minimum payment.
  - (3) make payments in all shops in Hong Kong with a credit card.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- ☐
- 29** According to the \_\_\_\_\_, a business should not use cash-basis accounting.
- A. going concern concept
  - B. consistency principle
  - C. historical cost principle
  - D. accrual concept
- ☐

**30** A beverage manufacturer has decided to set up a production plant in Shenzhen. Which of the following tasks are performed by its finance department?

- (1) Deciding the sources of finance for the investment
- (2) Buying insurance to protect the plant against fires
- (3) Evaluating this capital investment project and its returns
- (4) Deciding the wages of employees in Shenzhen

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



## **SECTION B**

### **Part 1**

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

**1** In order to revamp its brand, a fashion retailer hires a marketing specialist to coordinate the launch of its new products. Both the marketing specialist and the shop managers at the retail shops can give instructions to the salespeople. All of the salespeople are required to report to both the marketing specialist and the shop managers.

(a) What principle of effective management has been violated in the above case?

(2 marks)

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(b) Suggest two problems that might arise when the principle in (a) is violated. (4 marks)

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(Total: 6 marks)





**3** Kevin Wong is a common stockholder of Deco Ltd, a department store listed in Hong Kong.

(a) Explain two rights that Kevin Wong has as a common stockholder of Deco Ltd.

(4 marks)

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(b) Holding other factors constant, how would an increase in interest rates affect Deco Ltd's stock price? Explain.

(3 marks)

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(Total: 7 marks)

## Part 2

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

**4** Apollo & Co operates retail shops that sell a wide range of household items. The following figures were extracted from its books as at 31 March 2016, the financial year-end date:

	\$
Sales	5,000,000
Purchases	2,500,000
Inventory, 1 April 2015	228,000
Inventory, 31 March 2016	139,500
Wages and salaries	600,000
Rent and rates	240,000
Other operating expenses	8,500
Returns inwards	88,300

*Required:*

(a) Prepare for Apollo & Co an income statement for the year ended 31 March 2016.

(5 marks)

(b) Lucas Sit, the chief executive officer of Apollo & Co, is thinking of expanding the business in the Mainland. A business consultant suggests that he should operate the business under a franchise arrangement. However, Lucas rejects the idea.

What is a franchise? Give two reasons to explain why Lucas rejects operating the business under a franchise arrangement. (5 marks)

(Total: 10 marks)

- 5** Carol Ng runs a cleaning business as a sole proprietor. Her firm provides specialised cleaning services for businesses in Hong Kong. The firm has 10 employees.

You are given the following balances as at 30 June 2016:

	\$
Cleaning equipment	800,000
Motor vehicles	300,000
Trade receivables	20,000
Trade payables	30,000
Bank	50,000
Cash	70,000
Bank loan, repayable on 1 January 2017	30,000
Net profit for the year	320,000
Drawings	?
Capital, 1 July 2015	900,000

*Required:*

- (a) Prepare for Carol Ng's firm a vertical-style statement of financial position as at 30 June 2016. (6 marks)

(b) Explain two ways in which Carol Ng's firm contributes to Hong Kong's economy.

(4 marks)

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(Total: 10 marks)

**END OF PAPER 1**