

**HKDSE**  
**BAFS**  
**(Mar 2017)**  
**Paper 1**

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

### **Mock Exam Paper (March 2017)**

#### **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** On the first day of 2017, Clark deposited \$5,500 into his bank account. The account offers an interest rate of 5% per annum, compounded annually. Find (to the nearest dollar) the total amount in the account at the end of 2018.

- A. \$5,775
- B. \$6,000
- C. \$6,064
- D. \$6,367

**2** Gabi Chan purchased office equipment for \$50,000 from Lily Lee on credit for resale. In Gabi Chan's books, how would this transaction be recorded?

- A. *Dr* Office equipment \$50,000; *Cr* Bank \$50,000
- B. *Dr* Office equipment \$50,000; *Cr* Lily Lee \$50,000
- C. *Dr* Purchases \$50,000; *Cr* Lily Lee \$50,000
- D. *Dr* Purchases \$50,000; *Cr* Bank \$50,000

**3** Which of the following shows the importance of business to Hong Kong's economy?

- (1) Producing income for Hong Kong people
- (2) Promoting technology transfer from other countries
- (3) Earning foreign exchange to pay for imports

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

**4** Erica is a sole trader. She took goods from her business for personal use without paying for them. Which of the following statements is correct?

- A. To record this event, the purchases account should be debited.
- B. This event should not be recorded in the books of Erica's business.
- C. To record this event, the inventory account should be debited.
- D. None of the above.

**5** Elise has worked for a month after her graduation and has just received her first salary payment. She plans to invest the money to earn a high return. As she has no financial burden, she has a very high risk tolerance level. Which of the following financial instruments is the most appropriate for her?

- A. Common stock of a small technology company
- B. Preferred stock of a large bank

- C. iBond
- D. Saving deposits

**6** Which of the following is /are example(s) of economic factors that might affect the business of a hotel in Hong Kong?

- (1) The Renminbi to HK dollar exchange rate increases.
- (2) Cross-border transport facilities are improved.
- (3) The Mainland government allows residents from more cities to come to Hong Kong for individual visits.

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

**7** Which of the following accounts would usually have a debit balance?

- (1) Purchases
- (2) Returns inwards
- (3) Cash
- (4) Water and electricity

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

**8** Which of the following statements about a personal credit record is correct?

- A. A consumer can improve his personal credit record by applying for more credit cards.
- B. A consumer can obtain a loan at a lower interest rate if he has a good personal credit record.
- C. A consumer cannot view his own personal credit record.
- D. If a consumer goes bankrupt, his personal credit record will be deleted.

**9** Which of the following are the advantages of a sole proprietorship?

- (1) Its shares can be sold to the public.
- (2) The ownership of the business can easily be transferred.
- (3) The owner can make decisions faster and operate the business flexibly.
- (4) A board of directors can be elected to run the business.

- A. (1) and (4) only

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

**10** The advantage of a private limited company over a public limited company is that

- A. a private limited company enjoys a lower profits tax rate.
- B. there is no need to disclose financial information to the public.
- C. shares of a private limited company are bought and sold freely on the stock market.
- D. the separation of ownership and management in a private limited company enables specialists to perform different roles.

**11** Which of the following are financial statements?

- (1) The trial balance
- (2) The income statement
- (3) The statement of financial position

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

**12** The benefits to a business of assuming social responsibilities include:

- (1) lowering production costs
- (2) enhancing its corporate image
- (3) winning the support of the community

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

**13** Under which of the following circumstances can a scheme member not make a monthly contribution to his Mandatory Provident Fund scheme?

- (1) He earns \$5,000 per month.
- (2) He is self-employed.
- (3) He made voluntary contribution to his scheme last month.

- A. (1) only
- B. (1) and (2) only

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

**14** Given that the current ratio and quick ratio of Chan's Co as at 31 December 2017 were 2.5 : 1 and 1 : 1, respectively. Inventory at Chan's Co as at the same date was valued at \$60,000. Current liabilities as at 31 December 2017 amounted to:

- A. \$150,000
- B. \$90,000
- C. \$60,000
- D. \$40,000

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

- A. Competitors are not stakeholders of a company.
- B. All stakeholders have to share in the losses of a company.
- C. Stakeholders of a company would be affected by its decisions and behaviour.
- D. A customer should settle his outstanding debts before he becomes a stakeholder of the company.

**16** Given that the net profit ratio of Sunshine Company for the year ended 30 June 2017 was calculated to be -5%. Which of the following statements must be correct?

- (1) The cost of goods sold exceeded sales revenue for the year.
- (2) The business recorded a net loss for the year.
- (3) The business is no longer considered as a going concern.
- (4) The business had more current liabilities than current assets.

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

**17** Which of the following accounts is a nominal account?

- (1) Sales
- (2) Returns inwards
- (3) Drawings

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

- 18** Which of the following statements is about how managers perform the controlling function?
- A. Managers assign tasks to subordinates.
  - B. Managers define goals for their team.
  - C. Managers monitor employees' work.
  - D. Managers determine how to allocate resources.
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- 19** Given the following figures: Net sales \$550,000; Returns inwards \$38,000; Cost of goods sold \$215,000; Returns outwards \$61,000; Operating expenses \$233,000. Net profit amounts to:
- A. \$64,000
  - B. \$102,000
  - C. \$125,000
  - D. \$163,000
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- 20** \_\_\_\_\_ are responsible for making company-wide decisions.
- A. Top managers
  - B. Middle managers
  - C. First-line managers
  - D. Employees
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- 21** Which of the following are the characteristics of a flat structure over a tall structure?
- (1) Faster communication
  - (2) Fewer levels of management
  - (3) Wider span of control
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
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- 22** When a business records a gross loss,
- (1) the cost of goods sold must exceed sales revenue for the period.
  - (2) the business must also record a net loss.
  - (3) operating expenses must exceed sales revenue for the period.
- A. (1) only
  - B. (3) only
  - C. (1) and (3) only
  - D. (1), (2) and (3)
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**23** A human resources manager is responsible for:

- (1) hiring production workers
- (2) designing a performance appraisal system
- (3) developing the skills and talents of workers
- (4) scheduling work for the production line

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

**24** On 1 January 2017, Sze Kee purchased goods with a list price of \$60,000 from Joyce Company on credit. A trade discount of 10% was allowed. A cash discount of 2% was offered for payment within two weeks. On 12 January 2017, Sze Kee paid for the goods by cheque. In Sze Kee's books, discounts received for this transaction amounted to:

- A. \$1,080
- B. \$6,000
- C. \$7,080
- D. \$7,200

**25** Assuming other factors are constant, which of the following conditions would usually cause the stock price of a Hong Kong airline to fall?

- (1) One of the airline's planes crashes and kills all of the passengers on board.
- (2) More Hong Kong people travel overseas as the economy improves.
- (3) The airline reduces its dividend payouts.

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

**26** An airline company has enhanced its training for its pilots. Which risk management strategy has been used?

- A. Risk avoidance
- B. Risk assumption
- C. Risk reduction
- D. Risk transfer

**27** On 1 January 2017, Linda Choi purchased a motor vehicle for her business to deliver goods to customers. The list price of the motor vehicle was \$200,000. A trade discount of 15% was given. A week later, the market price of the same type of motor vehicle rose to \$250,000. In the books of Linda Choi's business as at 10 January 2017, the motor vehicle should be valued at (ignore depreciation):

- A. \$170,000
- B. \$200,000
- C. \$220,000
- D. \$250,000

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

- A. Most SMEs are partnerships or limited companies in Hong Kong.
- B. SMEs can be found in both secondary and tertiary industries in Hong Kong.
- C. SMEs provide fewer employment opportunities to local workers than large companies.
- D. Most SMEs employ large companies as a subcontractor to support their business operation.

**29** All entrepreneurs

- A. earn profits by taking business risks.
- B. start their businesses with their own capital.
- C. enter the market with new products.
- D. hire professional managers to run their business.

**30** Assuming other factors are constant, the effective interest rate on a bank deposit decreases when

- A. the deposit period is longer.
- B. less money is deposited.
- C. the bank's stock price drops.
- D. the frequency of compounding decreases.

**SECTION B**

**Part 1**

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

**1** A Mainland property development company which is listed on the Hong Kong Stock Exchange decides to enter the Hong Kong market. It plans to develop several properties, including residential estates, offices and shopping centres in Hong Kong.

(a) List two possible sources of funding for the Mainland property development company regarding the investment plan. (2 marks)

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(b) Suggest the favourable (i) economic; and (ii) legal and political factors that can account for its decision. (4 marks)

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(Total: 6 marks)

**2** You are given the assets and liabilities of Iris Hung’s business as at 31 December 2017:

	\$
Office equipment	1,000,000
Bank overdraft	52,000
Five-year bank loan, repayable on 31 March 2018	20,000
Trade payables	13,800
Cash	1,900
Trade receivables	33,000
Inventory, 31 December 2017	68,000

*Required:*

(a) Calculate (to two decimal places) the quick ratio as at 31 December 2017. (2 marks)

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- (b) Given that the business made a net profit of \$50,000 for the year ended 31 December 2017. Drawings of \$15,000 were made during the year. Calculate the amount of capital on 1 January 2017. (5 marks)

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(Total: 7 marks)

- 3** Patrick and Joyce plan to get married in three years. They estimate that their wedding will cost \$300,000 but they only have \$200,000 now. Joyce suggests depositing the money in a bank account to earn interest. However, Patrick thinks it is better to invest in a common stock.

- (a) In which life stage are Patrick and Joyce entering? Suggest two possible financial needs of people at this life stage. (3 marks)

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- (b) Explain the problem with each of Joyce's and Patrick's suggestions. (4 marks)

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(Total: 7 marks)

**Part 2**

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

- 4** Bosco runs a book shop in Hong Kong as a sole proprietor. The following figures were extracted from its books as at 31 March 2017, the financial year-end date:

	\$
Returns inwards	21,212
Carriage inwards	13,805
Sales	3,834,135
Purchases	968,771
Wages and salaries	465,103
Rent and rates	545,780
Other operating expenses	2,807

Inventory as at 31 March 2017 was valued at \$33,993.

- (a) Prepare an income statement for Bosco's business for the year ended 31 March 2017.

(5 marks)

- (b) A business consultant suggests that Bosco should invest more in the book shop's information management.

What is information management? Explain two ways in which information management can help Bosco in his book shop's daily operations. (5 marks)

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(Total: 10 marks)

- 5** Carl runs a small fast food restaurant in Wan Chai as a sole proprietor. You are given the following balances of the business as at 30 June 2017:

	\$
Furniture and fixtures	2,000,000
Trade payables	88,190
Bank overdraft	32,530
Cash	12,818
Inventory, 1 July 2016	21,993
Sales	4,328,530
Purchases	1,318,777
Returns outwards	23,456
Discounts received	8,250
Rent and rates	860,000
Wages and salaries	1,128,875
Capital, 1 July 2016	861,507

*Required:*

- (a) Prepare a trial balance for Carl's business as at 30 June 2017. (6 marks)

(b) Explain two ways in which Carl could fulfill his social responsibility with respect to the fast food restaurant's product strategies. (4 marks)

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(Total: 10 marks)

**END OF PAPER 1**