

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

### **Mock Exam Paper (March 2018)**

#### **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** The government has decided to include a cinema requirement in the land lease of the commercial sites. This is a favourable \_\_\_\_\_ factor for cinema operators.

A. economic  
B. legal  
C. technological  
D. social and cultural

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- 2** Ms Chan is considering buying an \$11,000 ice cream maker for her dessert shop. She expects that the machine can be used for three years and will have no value afterwards. The machine would generate a net cash inflow of \$5,750 at the end of the first year, and the amount will decrease by \$1,000 each year for the next two years. If Ms Chan's cost of capital is 5% per annum, what is the net present value of the ice cream maker?

A. \$2,024  
B. \$4,250  
C. \$4,659  
D. \$7,293

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- 3** What is the advantage of setting up a company in the form of a partnership instead of a private limited company?

A. The company can enjoy a lower profits tax rate.  
B. The owners can have limited liability.  
C. It is easier to raise capital, resulting in a better chance of development.  
D. The company can elect a board of directors to run the business.

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- 4** Which of the following statements about the risk and return of bonds are correct?

(1) Bond investment will not result in a loss.  
(2) If investors plan to hold the bonds to maturity, the expected return on the bonds is fixed.  
(3) Some bonds may offer a higher rate of return than common stock.

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

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**5** Joe Wong, a sole proprietor, took goods of \$200 from the inventory as a birthday gift for his daughter. Those goods had a selling price of \$400. The double entry to record this transaction should be:

- A. *Dr* Drawings \$200; *Cr* Purchases \$200
- B. *Dr* Drawings \$400; *Cr* Purchases \$400
- C. *Dr* Capital \$200; *Cr* Purchases \$200
- D. *Dr* Drawings \$200; *Cr* Inventory \$200

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**6** The aim of the WTO is to

- (1) serve as a forum for multilateral trade negotiations.
- (2) promote economic development in developing countries.
- (3) settle disputes between its members.

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

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**7** According to the definition by the Trade and Industry Department, which of the following is an SME?

- (1) A real estate agent with 70 employees
- (2) A kitchenware manufacturer with 90 employees
- (3) A supermarket with 20 employees

- 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 is not a right of a Hong Kong stock investor?

- A. Receive the monthly statement of his stock trading account
- B. Be informed of the licence status of his stock broker
- C. Ask his stock broker to recommend a suitable stock to him
- D. Complain to the Hong Kong Monetary Authority when he suffers a loss

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- 9** Which of the following items would be recorded on the credit side of a trial balance?
- (1) Returns inwards
  - (2) Carriage outwards
  - (3) Discounts received
  - (4) Cash
- A. (3) only  
B. (1) and (4) only  
C. (2) and (3) only  
D. (1), (3) and (4) only
- 10** Which of the following statements are incorrect?
- (1) The statement of financial position is generally prepared before the income statement.
  - (2) In an income statement, carriage outwards is included in the cost of goods sold.
  - (3) The amount of drawings made by a sole trader is treated as an operating expense of the business.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
- 11** A sole proprietor paid a \$5,000 electricity bill for his business using his own money. Which of the following statements are correct?
- (1) This transaction should be recorded as follows: *Dr* Electricity \$5,000;  
*Cr* Drawings \$5,000.
  - (2) The electricity bill should be treated as an operating expense of the business even when it is paid for by the owner.
  - (3) The business entity concept was violated.
  - (4) In this transaction, the sole proprietor contributed capital of \$5,000 to the business.
- A. (1) and (3) only  
B. (2) and (4) only  
C. (1), (2) and (4) only  
D. (2), (3) and (4) only



- 12** The stock prices of companies in a country tend to   (1)   when the country goes to war, and tend to   (2)   when the country's interest rates decrease.

	<u>  (1)  </u>	<u>  (2)  </u>
A.	rise	rise
B.	rise	fall
C.	fall	rise
D.	fall	fall

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- 13** Which of the following is not a characteristic of unity of direction?

- A. Each plan should be led by one manager.
- B. There is only one plan for a group of activities with the same objectives.
- C. The managers should have the authority to coordinate the action of his subordinates.
- D. All employees should agree with the direction of the company.

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- 14** Which of the following statements about accounting principles and conventions is/are incorrect?

- (1) A business that has made a profit for 20 consecutive years must be a going concern.
- (2) Alice Ng purchased office equipment costing \$50,000 for business use. At the year-end date, the market value of the office equipment dropped to \$25,000. In this case, the historical cost is not applicable and Alice Ng should record the value of office equipment as \$25,000 in the books of her business.
- (3) The business entity concept is also applicable to limited companies and partnerships.

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

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

- A. Competitors are not stakeholders of a company.
- B. All stakeholders can share in the profits of the company if it earns money.
- C. Stakeholders of a company would be affected by its decision and behaviour.
- D. A customer should settle his outstanding debts before he becomes a stakeholder of the company.

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**16** On 5 January 2017, Gary Lee sold 500 units of a product at \$50 each on credit to Chan's Co. Chan's Co was given a trade discount of 7% and would receive a further discount of 2% if it settled its account within a week. On 9 January 2017, Chan's Co fully settled its account by cheque. Which of the following statements is/are correct?

- (1) In the books of Gary Lee, discounts allowed of \$1,750 should be recorded on 5 January 2017.
- (2) In the books of Gary Lee, sales of \$23,250 should be recorded on 5 January 2017.
- (3) In the books of Chan's Co, discounts received of \$465 should be recorded on 9 January 2017.
- (4) In the books of Chan's Co, payment of \$22,785 should be recorded on 9 January 2017.

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

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**17** Which of the following business functions of a company involves identifying workplace hazards and developing measures to protect employees?

- A. Human resources management
- B. Operations management
- C. Risk management
- D. Information management

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**Based on the following information, answer questions 18, 19 and 20:**

You are given the following information related to Lily Cheung's business for the year ended 31 December 2017:

	\$
Purchases	200,000
Returns inwards	1,111
Sales	560,000
Returns outwards	2,350
Carriage outwards	3,800
Carriage inwards	5,520
Discounts received	4,600
Discounts allowed	21,413
Other operating expenses	180,888
Opening inventory	31,312
Closing inventory	16,557

**18** Gross profit for the year amounted to:

- A. \$267,858
- B. \$319,551
- C. \$324,151
- D. \$340,964

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**19** The net profit ratio for the year (to two decimal places) would be:

- A. 24.90%
- B. 24.95%
- C. 26.13%
- D. 26.17%

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**20** If discounts received for the year were \$46,000 instead of \$4,600, which of the following statements is/are correct?

- (1) Gross profit for the year would increase by \$41,400.
- (2) Net profit for the year would decrease by \$41,400.
- (3) The cost of goods sold would be reduced by \$41,400.

- A. (1) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. None of the above

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**21** Which of the following shows the importance of small and medium enterprises to Hong Kong's economy?

- (1) Providing job opportunities
- (2) Promoting the diversification of the economy
- (3) Widening the variety of products offered

- 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** A magazine decides to publish its contents online. Which of the following is a task carried out by the marketing department?
- (1) Protecting customers' database from hackers
  - (2) Promoting the online content to customers
  - (3) Launching a membership club to enhance customer relationships
- A. (2) only  
B. (3) only  
C. (1) and (3) only  
D. (2) and (3) only
- ☐
- 23** Which of the following is least likely to be the goal under the planning process of a company?
- A. To increase the company's sales
  - B. To cut the company's operating costs
  - C. To decrease the need for control of the company
  - D. To improve the company's profits
- ☐
- 24** 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)
- ☐
- 25** A fast food shop can be socially responsible to the community and society by \_\_\_\_\_.
- (1) hiring mentally challenged workers
  - (2) donating unsold food to charitable organisations
  - (3) paying its workers the minimum wage required by law
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
- ☐



**26** Which of the following statements about accounting are correct?

- (1) Trial balance, income statement and statement of financial position are the three financial statements that every business is required to prepare.
- (2) Period-end adjustments should be made before the preparation of an income statement.
- (3) Communicating information to users is a function of accounting.
- (4) Carriage outwards balance is shown on the debit side of a trial balance; while returns outwards balance is shown on the credit side of a trial balance.

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

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**27** Ms Tin has joined a Mandatory Provident Fund (MPF) scheme. Which of the following statements must be correct?

- (1) She has to bear the investment risk of her MPF funds.
- (2) She has to contribute 5% of her monthly relevant income to her MPF scheme.
- (3) She can only withdraw her accrued benefits at the age of 65.

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

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**28** Holding other factors constant, the higher the present value (PV), \_\_\_\_\_.

- (1) the higher the future value (FV)
- (2) the higher the interest rate
- (3) the longer the deposit period

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

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- 29** You are given the following balances of assets and liabilities of Jessie Leung's business as at 30 June 2017, the last day of the financial year:

	\$
Non-current assets	128,000
Bank overdraft	6,900
Cash on hand	2,580
Inventory	312,000
Trade payables	13,250
5-year loan from Jessie's uncle (repayable on 1 January 2018)	20,000
2-year loan from Ace Bank (repayable on 1 April 2019)	55,000

The acid-test ratio as at 30 June 2017 was:

- A. 0.03 : 1
- B. 0.06 : 1
- C. 0.29 : 1
- D. 3.31 : 1

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- 30** Which of the following statements about a public corporation is/are correct?

- (1) It is also called a government department.
- (2) It does not operate on a commercial basis.
- (3) It has a separate legal existence.

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

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## SECTION B

### Part 1

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

- 1** A multinational corporation plans to host a carnival in Hong Kong during a holiday. It will set up motor-driven games and game booths onsite to attract visitors.

- (a) What is a multinational corporation? Explain its characteristics in terms of management. (2 marks)

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- (b) Explain two external factors which the multinational corporation should take into consideration when hosting the carnival in Hong Kong. (4 marks)

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(Total: 6 marks)

- 2** Charles Lee is a sole trader. The following balances were extracted from the books of his business as at 31 October 2017, the last day of the current financial year:

	\$
Sales	309,400
Purchases	123,015
Wages and salaries	81,139
Other operating expenses	5,818
Furniture and fixtures	600,000
Trade receivables	21,477
Trade payables	1,090
Inventory, 1 November 2016	11,697
Capital, 1 November 2016	532,668
Returns outwards	509
Carriage outwards	1,438
Bank overdraft	917

*Required:*

- (a) Prepare for Charles Lee's business a trial balance as at 31 October 2017. (6 marks)

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- (b) Does the trial balance agree? State one reason for preparing a trial balance. (1 mark)

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(Total: 7 marks)

- 3** Vincent needs to borrow a sum of money to pay for his university tuition due in a month. He plans to make use of overdraft facilities but his friend Fred advises him to take out an instalment loan instead. He also reminds Vincent to repay the loan on time so as to avoid having a poor personal credit record.

- (a) Explain what an instalment loan is. Give two reasons why Fred advised Vincent to use an instalment loan instead of overdraft facilities. (5 marks)

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- (b) Describe two problems that Vincent may face if he has a poor personal credit record. (2 marks)

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(Total: 7 marks)

## Part 2

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

- 4** Mike Wong is the sole owner of a chain store selling Japanese and Korean snacks. In the course of preparing the financial statements for the year, he asked the following questions:

- (1) "Demand for Korean snacks has increased rapidly over the past three months. I increased the selling prices of all Korean snacks by 20% last week, but the sales volume was not affected at all. Should I increase the value of Korean snacks in inventory to reflect the trend of increasing demand?"
- (2) "On 30 September 2017, the last day of the financial year, our business signed a lease agreement to rent a store. The rental period started on 1 October 2017 and we made a payment for three months' rent on 30 September 2017. Should we treat this payment as rent expense for the year ended 30 September 2017?"

- (a) Answer Mike's questions with regard to fundamental accounting principles and conventions. (5 marks)

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Mike requires each employee to focus on only one task, such as checking out items, stocking the shelves and sourcing snacks from overseas.

- (b) (i) State the principle of effective management applied by Mike. (1 mark)

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- (ii) Give two reasons why he applies the principle in part (i). (4 marks)

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(Total: 10 marks)

- 5** Jane Or runs a trading company as a sole proprietor. She has provided you with the following information for her business for the year ended 31 December 2017:

	\$
Sales	3,186,470
Purchases	1,206,845
Returns outwards	62,136
Carriage outwards	32,148
Wages and salaries	680,000
Rent and rates	1,380,890
Inventory, 31 December 2017	62,505
Inventory, 1 January 2017	11,890

(a) Prepare for Jane Or's business an income statement for the year ended 31 December 2017.



- (i) Assume that Jane Or accepts Mable's capital. Identify the form of business ownership of her business. (1 mark)

(1 mark)

- (4 marks)

**END OF PAPER 1**