

Business, Accounting and Financial Studies

Mock Exam Paper (Nov 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 Which of the following statements regarding small and medium enterprises in Hong Kong is correct?

- A. SMEs are involved in tertiary production only.
- B. SMEs have limited resources and capital.
- C. SMEs are less innovative than large companies.
- D. SMEs are often slow in making decisions when compared with large companies.

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2 Which of the following statements about the Mandatory Provident Fund (MPF) system is/are not correct?

- (1) Every employee in Hong Kong has at least one MPF scheme.
- (2) Commissions are taken into account when calculating an employee's mandatory contribution.
- (3) In general, MPF scheme members can withdraw their accrued benefits at the age of 60.

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

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

- A. There are no foreign exchange controls in Hong Kong.
- B. Hong Kong does not impose any trade barriers on imported goods.
- C. Hong Kong relies heavily on tertiary production.
- D. Hong Kong lacks secondary production.

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4 Which of the following is not a feature of a line of credit?

- A. It allows consumers to borrow money at any time.
- B. A monthly minimum payment is charged once the loan application is approved.
- C. It does not involve a fixed repayment schedule.
- D. The more money a consumer borrows, the more interest he has to pay.

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5 Mary Lam is a sole proprietor. She hired Mr Chan, her husband, as the secretary of her business. The double entry to record Mr Chan's salary should be:

- A. *Dr* Wages and salaries; *Cr* Cash/Bank
- B. *Dr* Drawings; *Cr* Cash/Bank
- C. *Dr* Cash/Bank; *Cr* Capital
- D. *Dr* Capital; *Cr* Drawings

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6 Which of the following statements about a private limited company is incorrect?

- A. Its shareholders can have limited liability.
- B. The maximum number of owners is 50.
- C. It can issue shares to the general public to raise capital.
- D. Shareholders can elect a board of directors to run the company.

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7 Which of the following are the main functions of the production department of a company?

- (1) Control product quality
- (2) Formulate pricing strategy for the products
- (3) Set up assembly lines at the plant

- 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 Lenna plans to invest a sum of money in a three-year savings plan. The plan offers an interest rate of 6% per annum, compounded annually. At the end of each year, the plan will deduct a handling fee of 1% after calculating interests. If Lenna wants to receive at least \$200,000 at the end of the third year, what is her minimum investment now?

- A. \$161,924
- B. \$167,923
- C. \$172,768
- D. \$173,065

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9 Which of the following items would be recorded in the income statement?

- (1) Trade receivables
- (2) Rent and rates
- (3) Returns inwards
- (4) Cash

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

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10 Which of the following statements are correct?

- (1) The trial balance is a T-account.
- (2) The income statement is not part of the double-entry system.
- (3) The statement of financial position is not a double-entry account.

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

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11 A sole proprietor drew up a trial balance before preparing period-end entries. Which of the following statements about this trial balance are incorrect?

- (1) The inventory listed in the trial balance would be the value of the closing inventory.
- (2) Gross profit would be listed in the trial balance.
- (3) The business entity concept has been violated as a trial balance should not be prepared before the preparation of an income statement.
- (4) All business transactions during the period would be listed in the trial balance.

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

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12 Which of the following are the possible consequences of having a poor personal credit record?

- (1) Cannot obtain loans at a low interest rate
- (2) Cannot apply for new credit cards
- (3) Cannot open a bank savings account

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

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13 Jason has line authority over Keith. Which of the following statements is/are correct?

- (1) Jason is Keith's superior.
- (2) Jason also has staff authority over Keith.
- (3) Jason can delegate authority and responsibility to Keith.

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

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14 If a business has earned a net profit for a particular year,

- (1) the total of credit balances would exceed the total of debit balances in the trial balance.
- (2) the total of debit balances would exceed the total of credit balances in the trial balance.
- (3) it may or may not have earned a gross profit.

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

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15 Which of the following is/are the advantages of adopting Management by Objectives at a company?

- (1) It reduces managers' workload.
- (2) It enhances communication between superiors and subordinates.
- (3) It enhances coordination between different departments.

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

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16 Gary Lee purchased a motor vehicle for his business to deliver goods to customers. He paid for the motor vehicle with his own money and recorded the motor vehicle in the books of the business. At the end of the year, the market value of the motor vehicle was \$40,000, which was lower than its cost of \$50,000. Gary decided to state the value of the motor vehicle at cost.

Which of the following accounting principles or conventions has/have been applied to the above case?

- A. Business entity
- B. Going concern
- C. Historical cost
- D. All of the above

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17 Which of the following statements about a public corporation in Hong Kong are correct?

- (1) It is owned by the government.
- (2) It has a separate legal existence from the government.
- (3) The government takes part in its daily operation.

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

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

You are given the following information related to two sole proprietorships, A and B, for the year ended 31 December 2017:

	<i>A</i>	<i>B</i>
Sales	\$200,000	\$500,000
Gross profit ratio	50%	30%
Net profit ratio	10%	11%
Acid-test ratio	5 : 1	2 : 1

18 Which business had a higher gross profit and net profit for the year ended 31 December 2017?

- A. Business A had a higher gross profit, while business B had a higher net profit.
- B. Business A had a higher gross profit and net profit.
- C. Business B had a higher gross profit and net profit.
- D. Unable to answer due to insufficient information

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19 Which business had more working capital as at 31 December 2017?

- A. Business A
- B. Business B
- C. Both businesses had the same amount of working capital.
- D. Unable to answer due to insufficient information

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20 Which of the following statements are correct?

- (1) Business A had higher liquidity.
- (2) Both businesses had current liabilities.
- (3) Both businesses had more current assets than current liabilities.

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

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21 Which of the following statements is incorrect?

- A. Hong Kong has far more MNCs than SMEs.
- B. While MNCs tend to have a tall structure, SMEs tend to have a flat structure.
- C. MNCs have operations outside Hong Kong.
- D. A supermarket which employs 40 employees is an SME.

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22 Which of the following is/are the favourable physical factors of Hong Kong?

- (1) Rich in natural resources
- (2) Well-developed infrastructure
- (3) Proximity to the Mainland

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

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23 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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24 Why should a company be socially responsible to its employees?

- (1) It can reduce staff turnover.
- (2) It can pay lower salaries to its employees.
- (3) It can increase employees' productivity.

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

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25 Which of the following is an example of violating the unity of command?

- A. All staff members at a tea restaurant have to perform multiple roles.
- B. The two partners in a partnership have conflicting goals regarding the company's development.
- C. The owner of a small and medium enterprise (SME) requires all of his employees to report directly to him.
- D. An accountant receives job orders from the finance manager and the general manager at the same time.

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- 26** Which of the following statements is correct?
- A. One limitation of the statement of financial position is that it cannot report the past results of a business.
 - B. Firms can choose between different accounting policies when preparing accounting records.
 - C. According to the business entity concept, a sole proprietor is not allowed to withdraw money from his/her business.
 - D. The current ratio indicates the short-term profitability of a business.

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- 27** The Hang Seng Index (HSI) _____.
- (1) is the only stock market index in Hong Kong
 - (2) includes many large mainland and local companies listed in Hong Kong
 - (3) can help investors understand the general performance of stocks in Hong Kong
- A. (3) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

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- 28** Which of the following statements about savings deposits in Hong Kong is correct?
- A. They do not involve any investment risk.
 - B. Depositors may suffer a loss if Hong Kong faces an economic downturn.
 - C. They offer a lower return than corporate bonds.
 - D. They offer a higher interest rate than term deposits.

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- 29** Which of the following is/are internal users of the statement of financial position?
- (1) Managers
 - (2) Potential investors
 - (3) Debtors
- A. (1) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

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- 30** Which of the following statements about a public limited company are correct?
- (1) Its stock price may be affected by speculation.
 - (2) It needs to disclose its financial information to the public.
 - (3) There is an upper limit on the number of stockholders a public limited company in Hong Kong can have.
- 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** Popcorn is a Hong Kong chain store that sells snacks. It has 80 outlets. The company also manufactures and sells kitchenware under its own brand name. Because of poor sales, the management is thinking of closing some outlets. A business consultant suggests that globalisation is affecting Hong Kong's business environment. He also attributes the decrease in Popcorn's sales to globalisation.

- (a) What is globalisation? (2 marks)

- (b) Explain two ways in which globalisation can account for the decrease in Popcorn's sales. (4 marks)

(Total: 6 marks)

- 2** Lily Wong is a sole trader. The following balances were extracted from the books of her business as at 30 September 2018, the last day of the financial year:

Required:

(5 marks)

- (b) Calculate (to two decimal places) the gross profit ratio for the year. (2 marks)

(Total: 7 marks)

- 3** Lydia is the owner of a shop that sells frozen meat. The shop has installed three freezers to store the meat.

- (a) Lydia buys the freezers with a credit card. Explain one advantage of doing so.

(2 marks)

As customer demand increases, Lydia is considering buying a new freezer. The supplier offers her one that costs \$7,500 and can be used for three years. At the end of the first two years, the supplier will charge a maintenance fee of \$300 and \$500, respectively.

- (b) (i) Lydia estimates that the freezer can generate cash inflow of \$3,000 at the end of each year with no residual value. If her cost of capital is 5% per annum, calculate (to the nearest dollar) the net present value (NPV) of the freezer. (3 marks)

- (ii) Should Lydia buy the freezer? Explain.

(2 marks)

(Total: 7 marks)

Part 2

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

- 4** Peter Chan is the sole owner of a trading firm. You are given the following information as at 31 October 2018, the last day of the current financial year:

Current assets	\$1,000,000
Current ratio	2.5 : 1
Quick ratio	1 : 1

As he is considering expanding his business, he asked you, the accountant at his firm, the following questions:

- (1) "If we sell the entire inventory at cost to finance the expansion, how much money can we receive for it?"
- (2) "What would our liquidity position be after selling the inventory?"

Required:

- (a) Based on the above information, answer question (1). You should show your calculations. (3 marks)

- (b) Suppose Peter was able to sell the entire inventory for cash for 50% more than the original cost. Calculate the current ratio after the sale of the inventory. (2 marks)

In order to expand his business, Peter has developed a plan to obtain capital.

- (c) (i) To which key business function does this task belong? (1 mark)

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5 Amy runs a trading company as a sole proprietor. The following balances were extracted from her books as at 30 June 2018, the financial year-end date:

Required:

- | Case No. | Case Name | Case Type | Case Status | Case Date | Case Location | Case Description | Case Notes |
|----------|-----------------|-----------|-------------|------------|---------------|---|---|
| 1 | John Doe | Medical | Open | 2023-01-01 | New York | John Doe, 45 years old, male, reported chest pain and shortness of breath. Initial ECG showed ST-segment depression. Further tests and treatment are ongoing. | Initial ECG: ST-segment depression. Further tests and treatment are ongoing. |
| 2 | Jane Smith | Medical | Closed | 2023-01-05 | California | Jane Smith, 32 years old, female, reported a fall from a ladder at work. Initial X-ray showed a fracture of the right radius. Surgery was performed, and she is recovering well. | Initial X-ray: Fracture of the right radius. Surgery performed. Recovering well. |
| 3 | Michael Johnson | Medical | Open | 2023-01-10 | Texas | Michael Johnson, 60 years old, male, reported dizziness and fainting spells. Initial blood tests showed low blood sugar. Further tests and treatment are ongoing. | Initial blood tests: Low blood sugar. Further tests and treatment are ongoing. |
| 4 | Sarah Williams | Medical | Closed | 2023-01-15 | Florida | Sarah Williams, 28 years old, female, reported a severe allergic reaction to a medication. Initial symptoms included hives and difficulty breathing. She was treated with antihistamines and steroids, and is now stable. | Initial symptoms: Hives and difficulty breathing. Treated with antihistamines and steroids. Now stable. |
| 5 | David Brown | Medical | Open | 2023-01-20 | Illinois | David Brown, 55 years old, male, reported a persistent cough and weight loss. Initial chest X-ray showed a mass in the right lung. Further tests and treatment are ongoing. | Initial chest X-ray: Mass in the right lung. Further tests and treatment are ongoing. |
| 6 | Emily Davis | Medical | Closed | 2023-01-25 | Ohio | Emily Davis, 38 years old, female, reported a severe headache and vomiting. Initial CT scan showed a subarachnoid hemorrhage. She was treated with painkillers and is now recovering. | Initial CT scan: Subarachnoid hemorrhage. Treated with painkillers. Recovering. |
| 7 | Robert Miller | Medical | Open | 2023-02-01 | Georgia | Robert Miller, 70 years old, male, reported a persistent fever and fatigue. Initial blood tests showed elevated white blood cell count. Further tests and treatment are ongoing. | Initial blood tests: Elevated white blood cell count. Further tests and treatment are ongoing. |
| 8 | Lisa Anderson | Medical | Closed | 2023-02-05 | Arizona | Lisa Anderson, 42 years old, female, reported a severe skin rash and itching. Initial skin biopsy showed allergic contact dermatitis. She was treated with topical steroids and is now clear. | Initial skin biopsy: Allergic contact dermatitis. Treated with topical steroids. Now clear. |
| 9 | James Wilson | Medical | Open | 2023-02-10 | Colorado | James Wilson, 65 years old, male, reported a persistent cough and chest pain. Initial chest X-ray showed a mass in the left lung. Further tests and treatment are ongoing. | Initial chest X-ray: Mass in the left lung. Further tests and treatment are ongoing. |
| 10 | Amanda Taylor | Medical | Closed | 2023-02-15 | Washington | Amanda Taylor, 30 years old, female, reported a severe allergic reaction to a medication. Initial symptoms included hives and difficulty breathing. She was treated with antihistamines and steroids, and is now stable. | Initial symptoms: Hives and difficulty breathing. Treated with antihistamines and steroids. Now stable. |

Soon after the company's sales manager left, Amy decided to promote the two star marketing executives to the position of sales manager. The two marketing executives had exceeded sales goals in recent months and could be capable of distinguished performance in a higher level position.

- (b) State the principle of effective management which was violated in the above case.

(1 mark)

- (c) Refer to question (b). Explain the problems associated with the above case.

(4 marks)

(Total: 10 marks)

END OF PAPER 1