

Business, Accounting and Financial Studies

Mock Exam Paper (Mar 2019)

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/are the advantage(s) of a private limited company over a public limited company?
- (1) It is easier to obtain loans from banks because of higher creditworthiness.
 - (2) Lower accounting costs are incurred in preparing financial statements.
 - (3) A private limited company has a separation of ownership and management.
- A. (2) only
B. (3) only
C. (1) and (3) only
D. (2) and (3) only
- ☐
- 2** Which of the following are stakeholders of a bank operating in Hong Kong?
- (1) The Hong Kong government
 - (2) The bank's stockholders
 - (3) The bank's bondholders
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
- ☐
- 3** A sportswear retail company plans to expand its business to Hong Kong. Which of the following is the responsibility of its information manager?
- A. Setting up a system to support the daily operations of the new outlet
 - B. Deciding how to raise funds for the expansion plan
 - C. Finding a location to open the first outlet in Hong Kong
 - D. Choosing the most suitable way to manage risks associated with its operations
- ☐
- 4** Which of the following statements about the business entity concept is incorrect?
- A. This concept applies to sole proprietorships and partnerships but not limited companies.
 - B. For a sole proprietorship, the owner's personal transactions should not be recorded in the books of his business.
 - C. This concept helps ensure that the accounting information provided by a firm represents just the financial performance and position of the business entity itself.
 - D. According to this concept, a business is treated as an entity separate from its owner.
- ☐
- 5** A restaurant has installed an automatic sprinkler system in its kitchen and purchased insurance to obtain protection against losses from a fire. Which risk management strategies has it used?
- (1) Risk avoidance
 - (2) Risk reduction
 - (3) Risk transfer
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
- ☐

6 Which of the following statements regarding SMEs in Hong Kong are correct?

- (1) SMEs widen the variety of products offered.
- (2) SMEs provide jobs for Hong Kong people.
- (3) SMEs bring in overseas capital and talent for large companies.

- 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 Which of the following are contributions made by entrepreneurship to business development in Hong Kong?

- (1) Narrowing the income gap
- (2) Promoting the growth of innovative products and services
- (3) Promoting competition in the market

- 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 Company A is a luxury goods company listed in Hong Kong. Although its global headquarters is in France, it has set up regional headquarters and retail shops all over the world.

From the above information, Company A is _____.

- (1) a franchise
- (2) a public limited company
- (3) a multinational corporation

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

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9 Which of the following items would not be recorded in a statement of financial position?

- (1) Inventory
- (2) Rent and rates
- (3) Sales
- (4) Purchases

- 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 accrual concept is applied to the measurement of revenues.
 - (2) The trial balance is a ledger account.
 - (3) Not all types of accounting errors can be detected by preparing a trial balance.
- 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 Which of the following items would be listed under 'other revenues' in an income statement?

- (1) Discounts received
 - (2) Returns outwards
 - (3) Discounts allowed
 - (4) Interest revenue
- A. (1) and (4) only
B. (2) and (3) only
C. (3) and (4) only
D. (1), (2) and (4) only

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12 Which of the following statements about the Mandatory Provident Fund (MPF) system is/are correct?

- (1) Self-employed persons do not need to make mandatory contributions to their MPF schemes.
 - (2) If an employee's salary is \$35,000 per month, he needs to contribute 5% of his monthly relevant income to his MPF scheme each month.
 - (3) Both the employer and the employee can opt to make voluntary contributions to an employee's MPF scheme.
- A. (3) only
B. (1) and (2) only
C. (1) and (3) only
D. (2) and (3) only

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13 Karen is one of the owners of a company. As do all owners of the company, she has unlimited liability. Moreover, she is bound by the decisions made in the name of the company. 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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14 Chan's Enterprise bought office equipment for \$1,200 on credit from Joyce Wong. Which of the following statements is/are correct?

- (1) Joyce Wong is a creditor of Chan's Enterprise after the transaction.
 - (2) If Chan's Enterprise bought the office equipment for resale, the purchases account would be debited in the books of Chan's Enterprise.
 - (3) If Chan's Enterprise bought the office equipment for office use, the office equipment account would be debited in the books of Chan's Enterprise.
- A. (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

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15 Roger runs a Japanese snack shop in Hong Kong. He imports the snacks from Japan. Which of the following are economic factors which affect his profits?

- (1) Japanese snacks become more and more popular among Hong Kong people.
- (2) The exchange rate of the Japanese Yen rises.
- (3) Hong Kong people are reluctant to spend during an economic downturn.

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

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16 Given the following information: total assets \$1,000,000, net current liabilities \$120,000, non-current liabilities \$220,000, total liabilities \$640,000.

Current assets amount to

- A. \$120,000.
- B. \$300,000.
- C. \$520,000.
- D. \$760,000.

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17 Which of the following is not a function of the WTO?

- A. Providing financial aid to member countries
- B. Monitoring the trade practices of member countries
- C. Helping remove trade barriers such as tariffs and quotas among member countries
- D. Imposing trade sanctions on member countries which fail to comply with the rules of the WTO

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

Given the following figures:

Discounts received \$5,668, opening inventory \$10,000, closing inventory \$21,050, returns outwards \$5,500, returns inwards \$3,150, sales \$250,000, purchases \$111,358, operating expenses \$100,000.

18 The gross profit for the year was

- A. \$146,374.
- B. \$152,042.
- C. \$157,710.
- D. \$246,850.

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19 The net profit ratio for the year was

- A. 61.59%.
- B. 60.82%.
- C. 23.38%.
- D. 23.08%.

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- 20** Which of the following is not a function of accounting?
- A. Classifying data
 - B. Communicating information with users
 - C. Summarising data
 - D. All of the above are functions of accounting.
- ☐
- 21** The following are reasons for making plan except for _____.
- A. anticipating potential problems
 - B. providing direction to employees
 - C. aiding managers in monitoring the progress of employees
 - D. coordinating the work of different departments
- ☐
- 22** Justin groups similar activities in his company under one plan and assigns one manager to be responsible for monitoring their implementation. This is an application of _____.
- A. unity of command
 - B. division of labour
 - C. unity of direction
 - D. MBO
- ☐
- 23** A multinational company decides to set up a new hotel which targets business executives. Which of the following is probably the major concern of the marketing manager?
- A. The capital required
 - B. The internal communication system
 - C. The number of employees required
 - D. The pricing strategy of the hotel
- ☐
- 24** Beatrix plans to invest a sum of money in a savings plan. The plan offers an interest rate of 8% per annum, compounded quarterly. What is the minimum number of months that she needs to invest if she wants her money to grow by at least 5%?
- A. 6
 - B. 9
 - C. 12
 - D. Cannot be determined as the sum of money is unknown
- ☐
- 25** Orange Airways is a listed airline based in Hong Kong. Which of the following situations would most probably cause its stock price to drop?
- A. Interest rates in Hong Kong decrease.
 - B. Another Hong Kong-based airline increases its flight routes.
 - C. The major competitor of Orange Airways has suffered a huge loss.
 - D. Orange Airlines has laid off 400 employees in order to save costs.
- ☐

26 Given that the current ratio is 1:1, which of the following statements are correct?

- (1) If the business takes out a five-year bank loan, its current ratio will increase.
- (2) If the business takes out a six-month loan, its current ratio will decrease.
- (3) If the owner contributes cash into the business, its current ratio will increase.

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

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27 Which of the following statements about the rights and responsibilities of individual investors is not correct?

- A. Individual investors have the right to check the licence status of their brokers.
- B. Individual investors have the right to complain if they suffer a huge loss from the financial product recommended by their brokers.
- C. Individual investors have the responsibility to read all the transaction documents carefully.
- D. Individual investors have the responsibility to give clear instructions to their brokers when they place an order.

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28 Which of the following statements about an instalment loan is not correct?

- A. The borrower needs to make repayments regularly.
- B. Interest on an instalment loan is usually lower than that on a bank overdraft.
- C. The borrower needs to repay the loan principal as a lump sum at maturity.
- D. The borrower may not be able to take out an instalment loan if he has a poor personal credit record.

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29 The opening and closing capital balances for Gary & Co for the year ended 31 December 2019 were \$120,000 and \$100,000, respectively. Gary Yuen, the owner, contributed capital of \$40,000 during the year. The net profit/loss of the year was

- A. \$20,000 (net loss).
- B. \$60,000 (net loss).
- C. \$20,000 (net profit).
- D. \$60,000 (net profit).

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30 Vincent's wife has deposited a sum of money into her bank account. The account offers an interest rate of 5% per annum. If Vincent wants to calculate the future value of his wife's deposit after three years, which of the following pieces of information does he need?

- (1) The amount his wife deposited
- (2) The compounding frequency of the bank account
- (3) The date on which his wife made the deposit

- A. (1) 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 Mr Tam runs a successful tutorial business in Hong Kong. Recently, he has planned to expand his business into the Mainland. A business consultant suggests that Mr Tam should change the company from a private limited company to a public limited company. He should also form a joint venture with a local company in the Mainland.

(a) In terms of business expansion, describe one advantage for Mr Tam of changing the company to a public limited company. (2 marks)

(b) Explain two advantages for Mr Tam of forming a joint venture with a local company in the Mainland. (4 marks)

- 2 Cheung's business had prepared the income statement for the year ended 31 December 2018. You are given the following balances as at that date:

	\$
5-year bank loan (repayable on 30 June 2020)	220,000
Office equipment	580,000
Inventory	83,210
Trade receivables	160,390
Trade payables	44,880
Bank	55,087
Net profit for the year	283,109
Drawings	23,000

Required:

- (a) Prepare for Cheung's business a statement of financial position as at 31 December 2018, showing opening capital, closing capital, and also net current assets as at that date. (5 marks)

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- (b) Calculate (to two decimal places) the return on capital employed for the year. (2 marks)

3 Mr Cheung has just received a huge bonus from his company. He decides to deposit half of it into the bank to meet unexpected needs.

- (a) Should Mr Cheung deposit the money into his savings deposit account or use it to open a term deposit account? Explain. (3 marks)

Mr Cheung decides to invest the other half of his bonus in the stock market. As he wants to earn a higher potential return, he plans to buy the shares of GEM companies instead of those listed on the Main Board.

- (b) Explain why Mr Cheung may earn a higher potential return by investing in companies listed on GEM. (4 marks)

Part 2


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

- 4** Tina Lee is the sole owner of a firm that sells dried seafood. The following balances were extracted from the books of her business as at 28 February 2019, the last day of the financial year:

	\$
Inventory, 1 March 2018	58,300
Sales	1,218,840
Purchases	698,543
Returns inwards	32,209
Returns outwards	3,765
Wages and salaries	249,319
Rent and rates	362,212
Inventory as at 28 February 2019 was valued at \$102,500.	

Required:

- (a) Prepare for Tina Lee's business an income statement for the year ended 28 February 2019. (5 marks)



Tina's firm has been socially responsible to all of its stakeholders, such as its customers, employees and suppliers.

- (b) (i) Apart from the stakeholders mentioned above, identify another stakeholder of Tina's firm. (1 mark)

- (ii) Illustrate with two examples how Tina's firm can be socially responsible to its customers. (4 marks)

- 5 Robin Ho operates a Japanese restaurant as a sole proprietor. The following balances were extracted from the books of the restaurant as at 31 January 2019, the financial year-end date:

	\$
Motor vehicles	250,000
Food and beverage revenue	3,131,965
Purchases	1,619,830
Miscellaneous expenses	450
Staff salaries	658,060
Rent	960,000
Capital, 1 February 2018	300,000
Cash at bank	55,000
Loan from Robin's uncle	80,000
Cheung Kee Seafood Co (trade creditor)	?

Required:

- (a) Prepare for Robin's business a trial balance as at 31 January 2019. (5 marks)

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Robin plans to use robots to take orders and deliver dishes to customers at his restaurant. He thinks that customers will be attracted by the innovative robotic system. A business consultant reminds Robin of the importance of operations management, and that he should pay attention to the operations management tasks involved in the plan.

- (b) Explain the role and importance of operations management in Robin's plan. (1 mark)

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- (c) Explain any two operations management tasks which are involved in his plan. Illustrate your answers with examples. (4 marks)

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END OF PAPER 1