

**Business, Accounting and Financial Studies**  
**Mock Exam Paper**

**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 show(s) the importance of management?
  - (1) Improves communication between management and staff
  - (2) Helps staff work towards the goal of the company
  - (3) Ensures the efficient use of resources in the company
  - A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
  
- 2 Which of the following tasks are performed by the finance department of a company?
  - (1) Formulating debt collection policy
  - (2) Setting up a payroll system
  - (3) Seeking funds to finance a promotion campaign
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
- 3 On 1 June 2019, Susan Kwan started a sole proprietorship. She contributed cash of \$11,000 and furniture of \$50,000 to her business on that day. The business also took out a bank loan of \$90,000 as at the same date to purchase office equipment.  
On 1 June 2019, the amount of capital of Susan's business was
  - A. \$11,000.
  - B. \$61,000.
  - C. \$140,000.
  - D. \$151,000.
  
- 4 Which of the following is a benefit of using credit cards?
  - A. Cardholders can purchase goods and services with a credit card at any shops.
  - B. Cardholders do not need to settle the outstanding balance in full at the end of each month.
  - C. Cardholders do not need to pay interest as long as they have settled the monthly minimum payment.
  - D. There is no upper spending limit when using a credit card.
  
- 5 For a fashion company, which of the following is not regarded as an example of fulfilling its social responsibility?
  - A. Setting reasonable prices for its clothes
  - B. Recycling wastewater for reuse in its garment factory
  - C. Launching a membership scheme and offering a 10% discount to its members
  - D. Designing a good appraisal system to ensure that its employees are treated fairly
  
- 6 Which of the following descriptions about joint ventures is correct?
  - A. A joint venture must operate in the form of a limited company.
  - B. A joint venture operates on a large scale and usually employs over 100 employees.
  - C. A joint venture can enjoy a lower profits tax rate than a multinational company.
  - D. A joint venture is legally separate from its joint venture partners.

- 7 Which of the following are assets for a trading business?
- (1) Furniture for office use
  - (2) Furniture purchased for resale
  - (3) Furniture owned and used solely by the owner of the business
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 8 Given the following balances of Brett Co for the year ended 30 September 2019:
- |                          | \$      |
|--------------------------|---------|
| Opening inventory        | 10,000  |
| Sales                    | 280,000 |
| Purchases                | 140,000 |
| Carriage inwards         | 900     |
| Carriage outwards        | 6,000   |
| Returns inwards          | 1,500   |
| Other operating expenses | 65,000  |
- Given that closing inventory was half the amount of opening inventory. Net profit for the year amounted to:
- A. \$43,500
  - B. \$51,500
  - C. \$61,600
  - D. \$67,500
- 9 The middle manager of a company is responsible for
- (1) implementing decisions made by the top management.
  - (2) supervising front-line workers.
  - (3) formulating corporate policies.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
- 10 Which of the following statements about business ownership is/are correct?
- (1) A limited company is owned by its shareholders.
  - (2) A limited partner is not the owner of a partnership.
  - (3) A franchisee owns his retail business but not the franchise brand.
- A. (1) only
  - B. (1) and (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
- 11 Vera, aged 60, has worked at a flower shop on a part-time basis for one year. She earns \$1,500 a week. Which of the following statements about her Mandatory Provident Fund (MPF) scheme is/are correct? (Assume there are four weeks in a month)
- (1) Vera can choose her own MPF scheme.
  - (2) Vera needs to contribute \$300 to her MPF scheme every month.
  - (3) Vera's employer needs to contribute \$300 to Vera's MPF scheme every month.
- A. (3) only
  - B. (1) and (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only

- 12 Which of the following accounts would appear on the credit side of a trial balance?
- (1) Capital
  - (2) Drawings
  - (3) Sales
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 13 You are given the following balances of assets and liabilities of Jessica Chan's business as at 30 June 2019, last day of the financial year:
- |  | \$      |
|--|---------|
| Non-current assets   | 528,000 |
| Bank overdraft   | 6,900   |
| Cash on hand   | 12,580  |
| Inventory  | 402,000 |
| Trade payables   | 53,250  |
| 4-year loan from Jessica's uncle (repayable on 1 January 2020) | 50,000  |
| 2-year loan from Hong Lee Bank (repayable on 1 April 2021)     | 60,000  |
- The acid-test ratio as at 30 June 2019 was:
- A. 0.11 : 1
  - B. 0.21 : 1
  - C. 0.55 : 1
  - D. 2.31 : 1
- 14 Which of the following are the characteristics of a public corporation?
- (1) Its losses are borne by taxpayers.
  - (2) It has a separate legal existence.
  - (3) The government does not participate in the daily running of the business.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 15 Which of the following statements about division of work is correct?
- (1) It facilitates automation of production as production is divided into small tasks.
  - (2) Even if a worker makes mistakes, the entire production process will not be affected.
  - (3) Workers can find it easier to master the production process for which they are responsible.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 16 Which of the following shows the importance of small and medium enterprises (SMEs) to the local economy?
- (1) SMEs provide goods and services to large businesses.
  - (2) SMEs provide jobs for Hong Kong people.
  - (3) SMEs are important sources of new products and services.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

- 17 Which of the following statements about Asia-Pacific Economic Cooperation (APEC) are correct?
- (1) It is a forum for high-level government-to-government dialogues.
  - (2) It encourages cooperation on trade and investment among countries in the Asia-Pacific region.
  - (3) It has the power to impose trade sanctions against its members.
- 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 best explains why investing in government bonds is less risky than investing in ordinary shares?
- A. Governments will compensate investors if they suffer a huge loss, but companies will not.
  - B. Ordinary shareholders have voting rights at annual general meetings, but bondholders do not.
  - C. Government bonds cannot be sold in the bond market, but ordinary shares can be sold in the stock market.
  - D. Bond interest is guaranteed, but dividends to ordinary shareholders are not.
- 19 Which of the following savings plans offers the highest return in six months for a \$20,000 deposit?
- A. Plan A: Offers an annual interest rate of 6.5%, compounded annually
  - B. Plan B: Offers an interest rate of 6% per annum, compounded semi-annually
  - C. Plan C: Offers a nominal interest rate of 5.8% per year, compounded quarterly
  - D. Plan D: Offers a lump sum of \$20,630 in six months, including the principal
- 20 Which of the following items would not be listed in the statement of financial position?
- (1) Sales
  - (2) Net profit
  - (3) Bank overdraft
  - (4) Bank overdraft interest
- A. (1) and (4) only
  - B. (2) and (3) only
  - C. (3) and (4) only
  - D. (1), (2) and (4) only
- 21 Going concern concept
- (1) assumes that a business will not incur a loss in the coming year.
  - (2) is not applicable to a business that incurred a loss last year.
  - (3) is also called the accrual concept.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. None of the above
- 22 Which of the following statements about the Hang Seng Index (HSI) is not correct?
- A. Its constituent stocks are adjusted from time to time.
  - B. Its constituent stocks include H-shares, red chips and foreign companies.
  - C. It reflects the general price movements of stocks listed on the Hong Kong stock market.
  - D. Utilities is one of the sub-indexes of the HSI.

- 23 Which of the following are the main functions of a company's risk management department?
- (1) Identify and assess the risks that the company faces
  - (2) Select suitable risk management strategies to control the risks that the company faces
  - (3) Obtain funds to purchase insurance for the company
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
- 24 Which of the following statements about accounting principles and conventions is/are correct?
- (1) A business that has posted a loss for five consecutive years must not be a going concern.
  - (2) Jocy Lee purchased a motor vehicle of \$150,000 for business use. At the year-end date, the market value of the vehicle increased to \$250,000. In this case, the historical cost is not applicable and Jocy Lee should record the revaluation gain of \$100,000 in the books of her business.
  - (3) The business entity concept is applicable to all types of business ownership.
- A. (3) only  
B. (1) and (2) only  
C. (1) and (3) only  
D. (1), (2) and (3)
- 25 Which of the following statements about small and medium enterprises (SMEs) in Hong Kong is/are correct?
- (1) The majority of businesses in Hong Kong are SMEs.
  - (2) SMEs are the major source of tax income for the government.
  - (3) SMEs can enjoy tax concessions in Hong Kong.
- A. (1) only  
B. (2) only  
C. (1) and (3) only  
D. (2) and (3) only
- 26 Mr Chan is the owner of a garment company. His supplier is promoting a new garment machine. It can be used for three years but will be worthless afterwards.  
Mr Chan estimates that it can bring net cash inflows of \$55,000, \$40,000 and \$30,000 at the end of the next three years, respectively. Based on the net present value, he is willing to buy the machine only if its cost can be reduced by at least \$3,000.  
Calculate the original cost of the machine. (Assume the cost of capital of Mr Chan's company is 5% per annum)
- A. \$111,577  
B. \$114,577  
C. \$117,577  
D. \$120,577
- 27 On 1 January 2019, Jenny Chan started a business. On that date, she contributed a cheque of \$30,000 and office equipment of \$320,000 to her business. Net profit during the first year of operation amounted to \$128,000. During the year, Jenny withdrew \$2,000 each month from the business bank account for personal use.  
Capital of the business as at 31 December 2019 amounted to
- A. \$220,000.  
B. \$350,000.  
C. \$454,000.  
D. \$476,000.

- 28 Which of the following is/are economic factor(s) that might affect businesses in Hong Kong?
- (1) Price level
  - (2) Population structure
  - (3) Exchange rate
- A. (1) only  
B. (2) only  
C. (1) and (3) only  
D. (2) and (3) only
- 29 Andy Co took out a six-month bank loan of \$100,000. Which of the following statements must be correct?
- (1) The current ratio of the business decreased.
  - (2) The quick ratio of the business increased.
  - (3) The total amount of current liabilities increased.
- A. (3) only  
B. (1) and (2) only  
C. (1) and (3) only  
D. (1), (2) and (3)
- 30 Given the following figures: Sales (net) \$501,600; Returns outwards \$1,800; Returns inwards \$65,110; Purchases (gross) \$90,600; Wages and salaries \$195,600; Rent \$180,000; Carriage outwards \$12,000; Closing inventory \$20,000. Gross profit ratio is
- A. 12.52%.  
B. 35.11%.  
C. 76.14%.  
D. 86.28%.

**END OF SECTION A**

## SECTION B

### Part 1

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

- 1 Jack runs a fast food restaurant chain in the US. It has branches in London and Melbourne. Jack is considering expanding his business to Hong Kong. A business consultant suggests that he operate the business under a franchise arrangement.

**REQUIRED:**

- (a) What is a franchise?
- (b) Explain to Jack two advantages of running a franchised business in Hong Kong.

(6 marks)

- 2 You are given the following figures for Jacky Mo's business for the year ended 31 December 2019:

	\$
Office equipment	2,000,000
5-year bank loan (repayable on 30 June 2020)	50,000
Cash at bank	53,590
Inventory, 31 December 2019	158,005
Trade receivables	45,660
Trade payables	39,110
Capital, 1 January 2019	1,558,650
Motor vehicles	100,000
Drawings	10,000
Net profit/(loss) for the year	?

**REQUIRED:**

- (a) Prepare the statement of financial position as at 31 December 2019.
- (b) State the form of business ownership of Jacky's business.

(7 marks)

- 3 Bob is an investor who is willing to bear high risks. Recently, he invested all his savings in the shares of New Life Limited, a pharmaceutical company listed in Hong Kong. As he believes that the company's share price will rise sharply, he plans to also invest his family's emergency funds in the stock. However, his wife is highly against this idea. She suggests depositing the funds in the bank instead.

**REQUIRED:**

- (a)
  - (i) Explain why Bob should not invest his family's emergency funds in the stock.
  - (ii) Suggest one type of bank deposit that is suitable for Bob's family if they decide to deposit their emergency funds. Explain briefly.
- (b) Three days after Bob bought the shares of New Life Limited, the company announced that it has discovered a cure for a new virus. Describe how this would affect Bob's investment return.

(7 marks)



**Part 2 (10 marks)** Answer **ONE** question in this part.

- 4** Ethan commences a trading company as a sole proprietor. The following balances were extracted from the books of the company as at 30 November 2019, the financial year-end date of the first operation year:

	\$
Motor vehicles	150,000
Sales	1,288,503
Purchases	219,330
Miscellaneous expenses	1,450
Staff salaries	58,060
Rent	840,000
Capital, 1 December 2018	300,000
Cash at bank	75,000
Loan from ABC Bank	40,000
Lee Kee Co (trade debtor)	?

**REQUIRED:**

- (a) Prepare for Ethan's business a trial balance as at 30 November 2019.

At the beginning of every year, Ethan and the departmental managers will discuss and agree on the objectives for the year. Throughout the year, Ethan will meet with the departmental managers regularly to discuss any problems encountered and see whether the objectives have been achieved as planned.

**REQUIRED:**

- (b) State the principle of effective management that has been adopted in the above case.  
(c) Explain two advantages for Ethan of adopting the principle of effective management in (b).

(10 marks)

- 5** Stephanie Li is the sole owner of a toy firm in Hong Kong. The following balances were extracted from the books of her business as at 31 January 2020, the last day of the current financial year:

	\$
Rent and rates	120,000
Wages and salaries	256,880
Sales	685,000
Purchases	255,380
Returns outwards	11,110
Carriage outwards	500
Inventory, 1 February 2019	12,330
Inventory, 31 January 2020	10,850

**REQUIRED:**

- (a) Prepare the income statement for the year ended 31 January 2020.

Stephanie plans to expand her business to other Asian cities in the next few years. She will restructure the firm and set up various departments, including production, marketing, finance and human resources.

**REQUIRED:**

- (b) (i) State the form of departmentalisation that Stephanie plans.  
(ii) Briefly describe two other forms of departmentalisation that could be adopted by Stephanie's firm.

(10 marks)

**END OF PAPER 1**