

**Business, Accounting and Financial Studies**  
**Mock Exam Paper (Nov 2020)**

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** Linda Chan is a sole trader. What is/are the purpose(s) for her to prepare a trial balance for her business?

- (1) Check the arithmetical accuracy of accounting entries.
- (2) Report the financial position of her business.
- (3) Record the business transactions of her business.

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

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- 2** Which of the following statements about the Hong Kong economy is/are correct?

- (1) The working population in Hong Kong engages in the tertiary sector.
- (2) Hong Kong imports a lot of consumer goods from the Mainland to meet people's daily needs.
- (3) Only a few goods and services in Hong Kong are subject to taxation.

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

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- 3** Which of the following companies are socially responsible?

- (1) A supermarket which donates good quality unsold food to food banks
- (2) A bank which allows its employees to work from home during a pandemic
- (3) A pharmaceutical company which specialises in medicines for the elderly

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

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- 4** Which of the following is a nominal account?

- A. Cash at bank
- B. Bank interest
- C. Office equipment
- D. Trade payables

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- 5** Which of the following is not a disadvantage of adopting autocratic leadership in a business?
- A. Employees may have low job satisfaction.
  - B. Employees may become passive.
  - C. Employees may feel helpless.
  - D. Employees may have less motivation.
- ☐
- 6** Which of the following statements about small and medium enterprises (SMEs) in Hong Kong are correct?
- (1) Some SMEs are limited companies.
  - (2) Some SMEs have over 80 employees.
  - (3) Some SMEs engage in the secondary industry.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- ☐
- 7** Which of the following statements about cash discounts that a business offers are correct?
- (1) They are given to encourage customers to pay by cash.
  - (2) They should be recorded in the accounting records.
  - (3) They should be treated as business expenses.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- ☐
- 8** Which of the following statements about the Mandatory Provident Fund (MPF) System in Hong Kong is correct?
- A. Both the employer and the employee can make voluntary contributions to the employer's MPF scheme.
  - B. It is not necessary for an MPF scheme member to withdraw all of his accrued benefits at age 65.
  - C. Self-employed persons have to make monthly mandatory contributions to their MPF schemes regardless of their income.
  - D. Workers in the catering industry do not need to join an MPF scheme.
- ☐

- 9** Last week, Robert paid his tuition by cheque. The cheque was not dishonoured even though he did not have enough money in his current account. He also bought a new TV on credit. He has to repay a fixed sum of money every month for a year.

Which type(s) of consumer credit did Robert use?

- (1) Credit card
- (2) Bank overdraft
- (3) Instalment loan

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

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- 10** A nominal partner \_\_\_\_\_.

- A. does not share in the profits of the partnership
- B. invests money in the partnership
- C. is a limited partner
- D. takes part in running the business

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- 11** Mr Li is a franchisor in Hong Kong. His franchise consists of 20 stores run by franchisees.

Which of the following statements about Mr Li are correct?

- (1) He has control over the store appearance and product prices of the franchise stores.
- (2) He can receive royalties from the franchisees.
- (3) He needs to provide premises to the franchisees to operate their stores.

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

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- 12** Keith is the operations manager of a fast food chain. Which of the following is not one of his job responsibilities?

- A. Managing the company's inventory
- B. Recruiting front-line staff for each outlet
- C. Ensuring that the food produced is of good quality
- D. Assigning jobs to front-line staff

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- 13** Lily Ko started a trading business on 1 October 2019 by depositing cash of \$500,000 into the firm's bank account. She also introduced her own furniture costing \$50,000 into the firm. The firm also borrowed \$20,000 from Lily's mother to purchase office equipment for the business. Total revenues and expenses for the year ended 30 September 2020 were \$135,000 and \$40,000, respectively.

What is the amount of Lily's capital as at 30 September 2020?

- A. \$455,000
- B. \$515,000
- C. \$535,000
- D. \$645,000

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**Based on the following information, answer Questions 14 and 15.**

Jason Lam started a firm on 1 January 2019. Sales and purchases for the year ended 31 December 2019 amounted to \$120,000 and \$66,000, respectively. The gross profit ratio and net profit ratio for the year were 50% and 10%, respectively.

- 14** The firm's inventory as at 31 December 2019 amounted to:

- A. \$6,000
- B. \$12,000
- C. \$54,000
- D. \$60,000

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- 15** The firm's expenses for the year ended 31 December 2019 amounted to:

- A. \$12,000
- B. \$48,000
- C. \$54,000
- D. \$60,000

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- 16** Which of the following statements about the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) are correct?

- (1) It brings new business opportunities to the Mainland and Hong Kong.
- (2) Under CEPA, certain professional qualifications are mutually recognised between the Mainland and Hong Kong.
- (3) Under CEPA, most goods of Hong Kong origin can enjoy zero tariff preference upon importation into the Mainland.

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

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**17** Which of the following statements about Hong Kong Exchanges and Clearing Ltd (HKEx) is/are correct?

- (1) It is the only stock exchange in Hong Kong.
- (2) It has one platform for companies to list their stocks.
- (3) It is one of the largest stock exchanges in the world.

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

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**18** Unethical business behaviour \_\_\_\_\_.

- (1) may damage a firm's reputation
- (2) is illegal
- (3) will increase a firm's operating costs in the long run

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

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**19** Which of the following statements about the non-current assets of a trading firm are incorrect?

- (1) They are used for business operations.
- (2) They would be presented at cost in the income statement.
- (3) Trade receivables would be classified as non-current assets.

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

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**20** The Hang Seng Index can help investors \_\_\_\_\_.

- (1) understand general price movements on the Hong Kong stock market
- (2) compare the performance of the Hong Kong stock market at different time periods
- (3) predict the price changes of its constituent stocks

- 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** Elise and Frank work at the same company. Elise is the human resources manager and Frank is the marketing manager. Which of the following statements about the authority in the company is/are correct?

- (1) Elise has line authority over her subordinates.
- (2) Elise has staff authority over Frank.
- (3) Frank has staff authority over his subordinates.

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

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**22** Which of the following should be recorded on the debit side of the respective accounts?

Account

- |                                   |                   |
|-----------------------------------|-------------------|
| (1) Increase in trade receivables | Trade receivables |
| (2) Decrease in trade payables    | Trade payables    |
| (3) Increase in drawings          | Drawings          |

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

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**23** On 1 January 2020, Flora deposited \$35,000 into her bank savings account at an interest rate of 2% per year, compounded annually. Assume Flora deposits the same amount on 1 January every year. Calculate the amount of her deposit as at 31 December 2022.

- A. \$37,142
- B. \$72,114
- C. \$107,114
- D. \$109,256

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**24** A manager finds out why the defective rate of his company's products was higher than the acceptable level. He then takes remedial action to reduce the defective rate. In which of the following management functions do these tasks belong?

- A. Planning
- B. Organising
- C. Leading
- D. Controlling

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- 25** Which of the following statements about accounting ratios are correct?
- (1) They are used to ensure that no mistakes were made in the preparation of accounting records.
  - (2) The quick ratio of a firm is usually lower than its current ratio.
  - (3) They are used to evaluate the financial performance and financial position of a firm.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
- ☐
- 26** Company A is a public corporation and Company B is a public limited company. Which of the following statements about the two companies are correct?
- (1) Both companies are listed on the stock exchange.
  - (2) Both companies may appoint a board of directors to manage the company.
  - (3) Both companies operate on a commercial basis.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
- ☐
- 27** Ms Lai plans to replace the refrigerator at her restaurant with a new one. Which of the following are required to calculate the net present value of this investment?
- (1) The cost of capital at Ms Lai's restaurant
  - (2) The useful life of the new refrigerator
  - (3) The initial cost of the old refrigerator
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
- ☐
- 28** Which of the following statements about accounting principles and conventions is incorrect?
- A. Under the going concern assumption, it is assumed that a business will continue in operation in the foreseeable future.
  - B. Under the historical cost principle, sales revenue should be recorded at cost.
  - C. According to the business entity concept, an owner's personal transactions should not be recorded in the books of his firm.
  - D. The accrual concept is applied to the measurement of revenues and expenses.
- ☐



**29** Which of the following is not a correct example of the factors affecting business decisions?

	<u>Factors</u>	<u>Example</u>
A.	Economic factors	Inflation rate
B.	Social factors	Infrastructure
C.	Physical factors	Climate
D.	Legal factors	Licensing regulations

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**30** Which step in the accounting cycle comes immediately after preparing a trial balance?

- A. Making period-end adjustments
- B. Recording transactions
- C. Preparing financial statements
- D. Reporting financial results to users

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## SECTION B

### Part 1

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

**1** Fast Auto Limited is a multinational car manufacturer listed in Europe. It adopts division of work in its factories. Each factory worker is responsible for only one task. The management believes that this can improve the factory's efficiency.

- (a) Apart from improving efficiency, explain two advantages of adopting division of work in Fast Auto Limited's factory. (4 marks)

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Jerry is an employee at Fast Auto Limited. His department is responsible for obtaining funds for all company projects.

- (b) (i) State the department in which Jerry is working. (1 mark)

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(ii) Apart from obtaining funds, suggest two major tasks of the department in (i).

(2 marks)

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- 2** On 1 October 2020, Iris Lam's firm purchased goods of \$1,500 in cash. On 20 October 2020, the firm sold goods to Jade Lau on credit for \$2,000. A cash discount of 2% would be offered to Jade if she were to settle the payment within 14 days after purchase. Jade settled the account in cash on 25 October 2020.

You are now given a list of accounts:

(1) Purchases; (2) Sales; (3) Cash; (4) Discounts received; (5) Discounts allowed; (6) Jade Lau

- (a) With reference to the accounts above, prepare the accounts to record the above transactions for Iris Lam's firm. You do not need to balance off the accounts. (4 marks)

The firm's financial year ends on 31 October. On 3 November 2020, the firm received a water bill for October 2020 of \$1,200. The bill was settled on 5 November 2020.

- (b) Explain, with a relevant accounting principle or convention, in which financial year the water fees of \$1,200 should be recorded as an expense. (3 marks)

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- 3** Alan wants to invest in the ordinary shares of an IT company in Hong Kong. As he does not have enough money, he plans to take out a personal loan from a bank. However, his friend advises him against it as he has a poor personal credit record.

- (a) Give two reasons why Alan should not take out a personal loan from a bank. (2 marks)

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- (b) Assume Alan can finally obtain enough money to buy the IT company's ordinary shares. Describe two benefits that he can gain from this investment. (4 marks)

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## Part 2

Answer **ONE** question in this part. (Total: 10 marks)

**4** A fast food chain in Hong Kong has set up the following goal in 2020:

'More people will like our food in the near future.'

(a) Explain two SMART goal characteristics that are not demonstrated by the above goal.

(4 marks)

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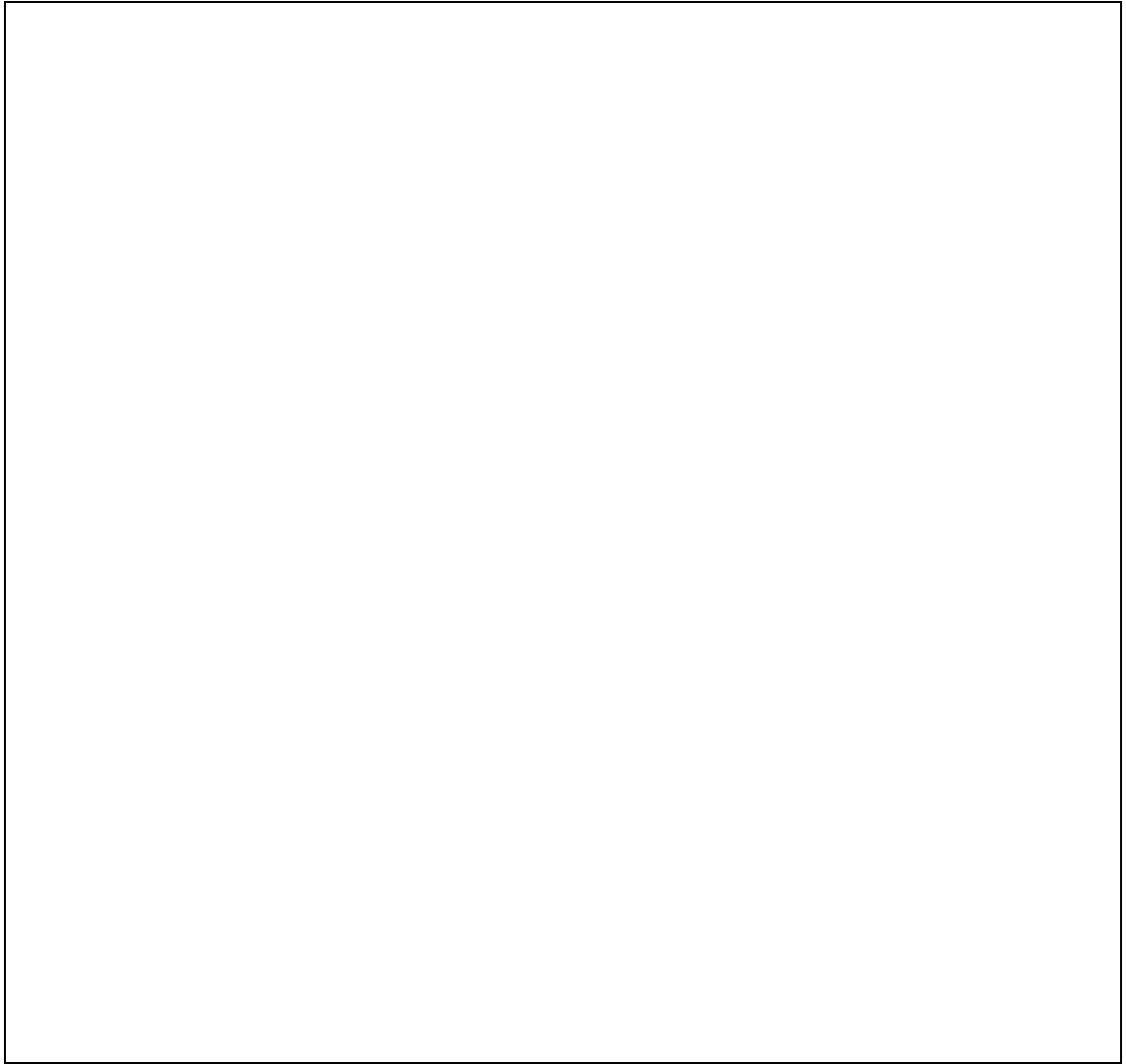
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Eric Ng started a firm selling household items on 1 July 2019. The following balances were extracted from his books as at 30 June 2020:

	\$
Other operating expenses	105,300
Returns outwards	1,300
Returns inwards	2,800
Carriage inwards	5,100
Carriage outwards	600
Purchases	50,400
Sales	250,800
Office equipment	500,000
Bank overdraft	10
Capital, 1 July 2019	412,090

(b) Prepare a trial balance for Eric's firm as at 30 June 2020.

(6 marks)



(Total: 10 marks)

- 5** Richard is the owner of a trading firm in Hong Kong. He makes plans for the coming year at the end of each year.

- (a) List the steps involved in Richard's planning process. (5 marks)

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On 1 September 2019, Mary Cheung started a firm selling computer accessories. The following balances were extracted from her books as at 31 August 2020:

	\$
Capital, 1 September 2019	?
Cash at bank	14,400
Operating expenses	28,500
Office furniture	300,000
Purchases	36,800
Sales	120,600
Trade receivables	4,000
Trade payables	80
Bank loan (repayable on 31 December 2020)	100,000
Motor vehicles	80,000

- (b) Inventory as at 31 August 2020 was valued at \$100. Prepare a statement of financial position for Mary's firm as at 31 August 2020. (5 marks)

(Total: 10 marks)

**END OF PAPER 1**