

**FANLING LUTHERAN SECONDARY SCHOOL**  
**2020 - 2021 Mock Examination**  
**S6 BUSINESS, ACCOUNTING AND FINANCIAL STUDIES**  
**PAPER 1**

Date: March 29, 2021

Time allowed: 1 hour 15 minutes

Name : \_\_\_\_\_

Class : \_\_\_\_\_(    )

Seat No.: \_\_\_\_\_

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**GENERAL INSTRUCTIONS:**

1. There are **TWO** sections, A and B, in this Paper. Section A consists of multiple-choice questions and Section B contains short questions.
  2. Answer ALL questions in Section A. There are two parts in Section B. Answer ALL questions in Part 1 and ONE of the two questions in Part 2.
  3. Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the Answer Book. In the Answer Book, start EACH question (not part of a question) on a NEW page.
  4. The Answer Sheet for **Section A** and the Answer Book for **Section B** must be handed in separately at the end of the examination.
  5. This paper must be answered in English
  6. This paper consists of 9 pages.
  7. Full marks of this paper is 90
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**INSTRUCTIONS FOR SECTION A (MULTIPLE-CHOICE QUESTIONS)**

1. Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first insert the information required in the spaces provided. No extra time will be given for inserting the information required in the spaces provided
  2. When told to open this book, you should check that all the questions are there. Look for the words '**END OF SECTION A**' after the last question.
  3. All questions carry equal marks.
  4. **ANSWER ALL QUESTIONS.** You are advised to use an HB pencil to mark all the answers on the answer sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.
  5. You should mark only **ONE** answer for each question. If you mark more than one answer, you will receive **NO MARKS** for that question.
  6. No marks will be deducted for wrong answers.
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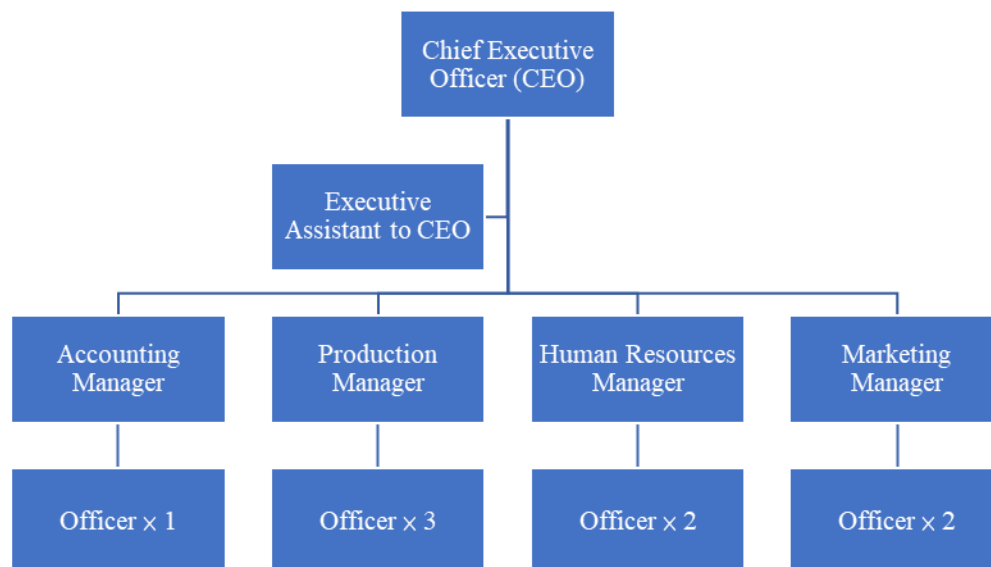
## SECTION A (60 marks) Multiple-choice Questions

There are 30 questions in this section. Answer ALL questions. Choose the **best** answer for each question.

- 1 Which of the following statements about the Hang Seng Index are not correct?
  - (1) It is composed of 33 constituent stocks.
  - (2) There are four sub-indexes: commerce and industry, finance, properties and information technology.
  - (3) Companies listed on both the Main Board and GEM are eligible to be constituent stocks.
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 2 Which of the following descriptions regarding the 'Closer Economic Partnership Arrangement' (CEPA) is/are not correct?
  - (1) Under CEPA, service suppliers on the Mainland enjoy preferential treatment when setting up business in most service sectors in Hong Kong.
  - (2) The Mainland and Hong Kong have further signed a number of Supplements under CEPA, expanding market liberalisation and further facilitating trade and investment.
  - (3) CEPA ensures free movement of labour between the Mainland and Hong Kong.
  - A. (1) only
  - B. (3) only
  - C. (1) and (3) only
  - D. (1), (2) and (3)
- 3 Compared to a sole proprietorship, which of the following is/are the advantage(s) of a limited company?
  - (1) The business will not close upon the withdrawal or death of the owner(s).
  - (2) Profits tax rates are lower.
  - (3) The setup cost is lower.
  - A. (1) only
  - B. (1) and (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
- 4 Which of the following is the main use of a company's financial statements to potential investors?
  - A. To evaluate the company's repayment ability
  - B. To forecast the company's profitability
  - C. To comply with legal requirements
  - D. To assess job security
- 5 Which of the following statements about credit cards or personal credit record are not correct?
  - (1) Credit cards involve a fixed schedule for repayments.
  - (2) No interest is charged if the minimum payment on the credit cards is made.
  - (3) A person's personal credit record would worsen if he lost a job that provided a stable income.
  - 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 about the World Trade Organization (WTO) and the Asia-Pacific Economic Cooperation (APEC) is correct?
  - A. APEC issues certificates of origin for products manufactured in the Asia-Pacific region.
  - B. WTO provides forums for trade negotiations among members.
  - C. WTO provides financial assistance to developing countries for trade development.
  - D. Hong Kong is a founding member of APEC.

- 7 Below are some of the tasks in the accounting cycle. Arrange them in sequence.
- (1) Recording transactions in the books of original entry
  - (2) Preparing financial statements
  - (3) Preparing period-end adjustments
  - (4) Preparing a trial balance
- A. (1) → (2) → (3) → (4)  
B. (1) → (3) → (4) → (2)  
C. (1) → (4) → (3) → (2)  
D. (4) → (1) → (3) → (2)
- 8 Which of the following are not regarded as examples of unethical behaviour of a business?
- (1) Not declaring and paying dividends to shareholders despite making profit
  - (2) Hiring staff according to nationality and religion only
  - (3) Requiring employees to work overtime
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
- 9 Non-current assets are listed in the statement of financial position
- A. in order of durability.  
B. in order of liquidity.  
C. in alphabetical order.  
D. in order of amount.
- 10 Which of the following statements about the effective rate of return is/are correct?
- (1) It is also known as the quoted interest rate.
  - (2) It will increase if the amount of the principal increases and the nominal rate of return remains unchanged.
  - (3) It will increase if the frequency of compounding increases and the nominal rate of return remains unchanged.
- A. (2) only  
B. (3) only  
C. (1) and (3) only  
D. (2) and (3) only
- 11 Which of the following is/are not the disadvantage(s) of division of work to a manufacturing company?
- (1) Difficult to motivate workers
  - (2) Difficult to supervise workers
  - (3) Lead to independence in the production process
- A. (1) only  
B. (2) only  
C. (1) and (3) only  
D. (2) and (3) only
- 12 Which of the following is/are the listing requirements for GEM in Hong Kong?
- (1) Meet the minimum requirement on total cash flow from investment activities for the two financial years before the issue of the listing document
  - (2) Meet the minimum requirement on market capitalisation at the time of listing
  - (3) Have a trading record of at least two full financial years with continuity of ownership and control throughout the two full financial years preceding the issuing of the listing document
- A. (2) only  
B. (3) only  
C. (1) and (2) only  
D. (1) and (3) only

- 13 The organisational chart of a company is as follows:



Which of the following statements are not correct?

- (1) The span of control of the CEO is 13.
- (2) The company is departmentalised by product.
- (3) The Production Manager has staff authority over the Accounting Manager.

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

- 14 The following are some accounting tasks:

- (i) Keeping separate records for revenues, expenses, resources owned by the firms and amounts owed to others
- (ii) Explaining the key points to different stakeholders of a business

Which of the following accounting functions are being performed?

- (1) Communicating
- (2) Classifying
- (3) Recording
- (4) Summarising

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

- 15 Which of the following is/are the main function(s) of a company's marketing department?

- (1) Plan marketing research
- (2) Formulate pricing strategies for products
- (3) Control product quality

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

16 The following are the differences between two business partners or owners:

	<i>A</i>	<i>B</i>
Involvement in daily operations	Not required	Not necessarily required
Bearing of liabilities	Not required	Required
Introduction of capital	Not required	Required

A is a (1), while B is a (2).

(1)

- A. nominal partner in a partnership
- B. nominal partner in a partnership
- C. nominal partner in a partnership
- D. limited partner in a partnership

(2)

- limited partner in a partnership
- general partner in a partnership
- shareholder in a limited company
- nominal partner in a partnership

17 Which of the following statements about the Mandatory Provident Fund (MPF) System are not correct?

- (1) When changing jobs, MPF scheme members can transfer their accrued benefits to another MPF trustee.
  - (2) MPF scheme members can apply for early withdrawal of the accrued benefits from the MPF scheme if they are unemployed for more than one year.
  - (3) Self-employed persons have to make monthly mandatory contributions to their MPF schemes regardless of their income.
- 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 is not a favourable physical factor possessed by Hong Kong?

- A. Proximity to the Mainland
- B. Sound infrastructure
- C. Mild climate
- D. The Country Parks Ordinance

19 Which of the following statements about small and medium enterprises (SMEs) in Hong Kong is/are correct?

- (1) SMEs exclude multinational corporations employing fewer than 50 employees.
  - (2) Most of the SMEs are in the import/export trade and wholesale industries.
  - (3) SMEs enjoy tax concessions in Hong Kong.
- A. (1) only
  - B. (2) only
  - C. (1) and (2) only
  - D. (1), (2) and (3)

20 Which of the following about nominal accounts are not correct?

- (1) They would not be shown in the trial balance.
  - (2) They would not be shown in the income statement.
  - (3) They include personal accounts.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

- 21 Which of the following statements about a bank overdraft and an instalment loan is/are not correct?
- (1) The interest rate on an instalment loan is usually lower than that on a bank overdraft.
  - (2) The interest on a bank overdraft is usually charged on a monthly basis.
  - (3) The borrower may not be able to take out an instalment loan if he has a poor personal credit record.
- A. (2) only
  - B. (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 22 If an account has a debit balance, which of the following statements about the account is/are correct?
- (1) The account must be an asset account.
  - (2) The balance carried down must appear on the right-hand side of the account.
  - (3) The total of the debit entries in the account must be greater than the total of the credit entries.
- A. (2) only
  - B. (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 23 Which of the following statements about the limitations of financial statements is correct?
- A. Time value of money is ignored.
  - B. Accounting information mainly reflects future transactions and events.
  - C. Accounting information is mostly qualitative.
  - D. Its preparation does not involve personal judgments.
- 24 Which of the following are not features of the Hong Kong economy?
- (1) The government plays a role as a proactive market participant.
  - (2) Most businesses in Hong Kong are small and medium enterprises.
  - (3) Hong Kong is a net exporter of raw materials.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 25 Which of the following descriptions about joint venture and franchising is/are correct?
- (1) Franchising is only applicable to retail and catering businesses.
  - (2) The form of business ownership of a joint venture can be a sole proprietorship.
  - (3) A joint venture that is project-based will normally be terminated when the project is completed.
- A. (2) only
  - B. (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 26 Which of the following accounting concepts cannot be applied in the situation listed to its right?
- | <b>Accounting concept</b> | <b>Situation</b>   |
|---------------------------|--|
| A. Accrual                | The expenses prepaid in the previous year have been recorded in the financial statements of the current year.                            |
| B. Business entity        | A vehicle used by an owner that came from his family is not recorded as an asset of his firm.  |
| C. Consistency            | The same method is used to record similar items across different periods.  |
| D. Going concern          | The current market price of an asset is shown on the statement of financial position when the company has to liquidate within one month. |

- 27 Which of the following statements about the risks and returns of investments is/are not correct?
- (1) Investing in shares of companies from different industries can diversify firm-specific risk.
  - (2) Risk-averse investors usually prefer investing in bonds to making term deposits.
  - (3) Investors can earn capital gains and interest as returns for investing in bonds.
- A. (2) only
  - B. (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 28 With other figures remaining unchanged, which of the following will cause a fall in the gross profit ratio?
- A. An increase in drawings
  - B. A decrease in discounts received
  - C. An increase in carriage inwards
  - D. An increase in purchases returns

Based on the following information, answer Questions 29 and 30.

	<i>Leung Kee</i>	<i>Chung Kee</i>
Turnover	\$80,000,000	\$62,000,000
Average capital	\$157,000,000	\$90,000,000
Gross profit ratio	71%	79%
Net profit ratio	18%	14%
Current ratio	2.43 : 1	2.12 : 1
Liquid ratio	0.98 : 1	1.25 : 1

- 29 Which of the following comments on the financial performance of Leung Kee as compared with Chung Kee are not correct?
- (1) Leung Kee has higher operating expenses.
  - (2) Leung Kee has a smaller cost of goods sold.
  - (3) Leung Kee has a higher return on capital employed.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 30 Which of the following comments on the liquidity of Leung Kee as compared with Chung Kee is correct?
- A. Leung Kee has more liquid assets to meet short-term obligations.
  - B. Leung Kee has a higher proportion of funds tied up in inventory.
  - C. Leung Kee has fewer current liabilities.
  - D. Leung Kee has less working capital.

**END OF SECTION A**

**SECTION B (30 marks) Short Questions****Part 1 (20 marks)** Answer **ALL** questions in this part.

1. The information about the form of business ownership for some businesses in Hong Kong is shown below.

	Business A	Business B	Business C
Form of business ownership	Public enterprise		Private enterprise
	X	Government department	Public limited company / Listed company

**REQUIRED:**

- (a) (i) Name X in the above table.  
(ii) Briefly explain why the operational efficiency of X is higher than that of a government department.  
(iii) Explain one difference in terms of the source of capital between X and a public limited company.

- (b) Ignoring other factors, explain how speculation may lower the share price of a listed company.

(6 marks)

- 2 The following transactions of Rocky's firm took place in November 2020:

Nov	8	Purchased goods from Joseph for \$30,000 on credit.
"	20	Sold goods to Lawrence on credit with a list price of \$21,000. A trade discount of 2% would be offered for sales orders over \$10,000 and a cash discount of 5% for settlements within 10 days after purchase.
"	21	Took goods costing \$11,000 for Rocky's private use.
"	29	Lawrence settled the account by cheque

With reference to the accounts listed below:

(1) Purchases account; (2) Sales account; (3) Joseph account; (4) Lawrence account; (5) Cash at bank account; (6) Discounts received account; (7) Discounts allowed account; (8) Drawings account

- (a) Prepare appropriate T-accounts to record the above transactions for Rocky's firm. Balancing off the accounts is not required.

The COVID-19 pandemic has had a significant negative impact on Rocky's firm.

- (b) Human resources management can help Rocky's firm achieve cost reduction. Explain two ways to do this with reference to human resources management tasks.

(9 marks)

- 3 Louis wants to buy office equipment for his business. The cost is \$108,000 and it could be used for three years. Louis estimates that it could generate a net cash inflow of \$35,000 at the end of the first year. In the second and third years, the net cash inflow will decrease by 3% each year. He also projects that the equipment could be sold to another company for \$20,000 at the beginning of the fourth year. The cost of capital is 6% per annum and interest is compounded annually.

- (a) Should Louis buy the office equipment? Show your calculations and correct your answer to the nearest dollar.  
(b) Louis has no investment experience, but he plans to invest his savings in some financial products. Suggest one way in which Louis can use the Hang Seng Index to make investment decisions.

(5 marks)



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

**Based on the following information, answer either Question 4 or 5.**

Kaiser commenced a firm selling grocery and household products to local customers on 1 January 2020. The following account balances were extracted from the books of the firm as at 31 December 2020:

	\$
Bank overdraft	1,000
Capital, 1 January 2020	3,779,000
Carriage inwards	52,000
Discounts allowed	48,000
Drawings	91,000
Furniture and fixtures	2,900,000
General expenses	1,000,000
Interest income	5,000
Purchases	2,016,000
Returns inwards	73,000
Sales	2,651,000
Term deposit (to be matured in September 2021)	200,000
Trade payables	750,000
Trade receivables	800,000
Utility deposit	6,000

Inventory as at 31 December 2020 was valued at \$500,000.

- 4 (a) Prepare for Kaiser's firm an income statement for the year ended 31 December 2020.  
(b) With reference to the above case, state two reasons to explain the importance of business to the Hong Kong economy.

As Kaiser believes that his employees are all very experienced and capable, he encourages them to take part in the decision-making process. He takes their opinions into consideration when making decisions.

- (c) State the leadership style adopted by Kaiser.  
(d) Give two other circumstances under which the leadership style in (c) above should be adopted.

(10 marks)

5. (a) Prepare for Kaiser's firm a statement of financial position as at 31 December 2020.

Kaiser's firm aims to reduce costs. However, the marketing manager wants to launch an anniversary celebration event. The budgeted cost of the event is 40% of last year's sales.

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

(10 marks)

**END OF PAPER**