

Business, Accounting and Financial Studies
Mock Exam Paper (Nov 2021)

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 Yuki is considering whether to set up a factory in Hong Kong. Which of the following is/are the political and legal factor(s) that will encourage her to do so?

- (1) The government imposes a lower tax rate to encourage entrepreneurs to establish businesses in Hong Kong.
- (2) The government decides to impose a stricter environmental protection law.
- (3) The government loosens regulations on factories in Hong Kong.

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

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2 Which of the following statements about a joint venture are correct?

- (1) This can be a way for firms to enter a new market.
- (2) The entity formed by a joint venture has a separate legal status.
- (3) A joint venture can be terminated with the consent of one of the parties involved.

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

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3 Which of the following statements about lines of credit and overdrafts are **not** correct?

- (1) The interest on overdrafts is always lower than on lines of credit.
- (2) Lines of credit could create a debt trap for consumers, while overdrafts would not.
- (3) Both lines of credit and overdrafts offer repayment flexibility.

- 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** The following account balances as at 31 December 2021 were extracted from the books of a firm:

	\$
Inventory	15,000
Cash at bank	35,000
Trade receivables	18,000
Trade payables	30,000
Loan from owner (repayable in 2022)	5,000
Six-month bank loan	3,000
Loan to employee (collectible in 2025)	10,000

What is the current ratio of the firm?

- A. 1.39 : 1
- B. 1.42 : 1
- C. 1.79 : 1
- D. 2.10 : 1

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- 5** Which of the following statements regarding the contributions of small and medium enterprises (SMEs) to Hong Kong are correct?

- (1) SMEs produce all of the goods and services that society needs.
- (2) SMEs offer job opportunities to unskilled and inexperienced labour.
- (3) SMEs bring keen competition to the market which encourages innovation.

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

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- 6** Which of the following statements about the Asia-Pacific Economic Cooperation (APEC) is/are correct?

- (1) Hong Kong is a founding member of APEC.
- (2) APEC provides loans to developing countries in the Asia-Pacific region.
- (3) APEC supports sustainable economic growth in the Asia-Pacific region.

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

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- 7** On 1 August 2021, the firm's bank account and cash in hand account had debit balances of \$5,000 and \$500, respectively. Cash sales during the month were \$11,000. After paying a \$2,000 management fee, the firm banked all of its cash in hand except for \$8,000 left in the cash box at the end of the month. During the month, the owner withdrew \$7,000 from the bank account for personal use.

The bank account had a _____ on 31 August 2021.

- A. credit balance of \$1,000
- B. credit balance of \$500
- C. debit balance of \$6,000
- D. debit balance of \$8,000

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- 8** Tommy invested in a three-year savings plan which guarantees a return of 5% per year, compounded annually. At the beginning of each year for the next three years, he deposited \$6,000, \$3,000 and \$4,000 into the plan respectively. Suppose Tommy withdraws all his money from the plan after three years. Calculate (to 1 decimal place) the amount he will receive at the end of the third year.

- A. \$13,765
- B. \$22,525.9
- C. \$14,453.3
- D. \$15,175.9

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- 9** Which of the following accounts must carry a credit balance in a trial balance?

- A. Electricity expense
- B. Sales returns
- C. Loan from bank
- D. Trade receivables

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- 10** Which of the following are the rights of individual investors of financial services?

- (1) To be informed of the license status of service providers
- (2) Seek clarification about the rationale behind the recommendations that a broker makes
- (3) Understand the features, risk and return characteristics of the investment product

- 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 is/are **not** the main function(s) of a company's human resources management?

- A. Allocate tasks to workers with suitable skills
- B. Design a fair and competitive compensation system
- C. Decide what positions the company needs to fill
- D. Provide training to workers

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12 Which of the following is a macro-economic factor which leads a company's stock price to drop?

- A. The cost of borrowing decreases due to a reduction in interest rates.
- B. People becomes less willing to invest due to an economic downturn.
- C. There is unexpected bad news about the company.
- D. The company decides to reduce its dividend due to a decrease in net profit.

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13 Which of the following statements about entrepreneurship and entrepreneurs is correct?

- A. Any person who operates a business is called an entrepreneur.
- B. An entrepreneur must only start a business in the form of sole proprietorship or public company.
- C. Entrepreneurship benefits society by encouraging innovation.
- D. Entrepreneurs benefit the government by providing public services.

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14 The following account was extracted from the books of Cheung's firm:

Mr Chan			
2021		\$	
Nov 1	Balance b/d	30,000	
Nov 10	Sales	100,000	
		<u>130,000</u>	
2021		\$	
Nov 15	Bank	95,500	
Nov 15	Discount allowed	4,500	
Nov 20	Returns inwards	5,000	
Nov 30	Balance c/d	25,000	
		<u>130,000</u>	

Based on the information in the above account, which of the following statements is correct?

- A. Mr Chan purchased goods costing \$95,500 from Cheung's firm on 10 November 2021.
- B. Cheung's firm returned goods costing \$5,000 to Mr Chan on 20 November 2021.
- C. Cheung's firm received \$95,500 in cash from Mr Chan on 15 November 2021.
- D. Mr Chan owed Cheung's firm \$25,000 on 30 November 2021.

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15 Which of the following are regarded as examples of a business's ethical behaviour?

- (1) Good after-sales service
- (2) Hiring disabled workers
- (3) Paying dividends to shareholders when making a profit

- 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 On 1 November 2021, the firm bought a set of machines with a list price of \$300,000. Half the payment was made through the owner's personal bank account and the remaining amount was settled by cheque from the business bank account. Before acquiring the machines, the firm's bank account had a debit balance of \$100,000. Which of the following are the net effects of the above transaction on the accounting equation?

- | | <u>Assets</u> | <u>Liabilities</u> | <u>Capital</u> |
|----|---------------|--------------------|----------------|
| A. | Increase | Increase | Increase |
| B. | Increase | Unchanged | Unchanged |
| C. | Increase | Increase | Unchanged |
| D. | Increase | Unchanged | Increase |

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17 Which of the following statements about the Main Board and the GEM is correct?

- A. A company needs to have at least HK\$500 million in revenue for the most recent audited financial year to be listed on the Main Board, while GEM does not have any requirement.
- B. A company must have been in operation for at least two years to be listed on the Main Board or the GEM.
- C. It is usually riskier to invest in stocks on the Main Board than the GEM.
- D. The companies on the Main Board are usually larger and have less history.

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18 During the COVID-19 pandemic, people wear masks to protect themselves. Which risk management strategy has been used?

- A. Risk avoidance
- B. Risk assumption
- C. Risk reduction
- D. Risk transfer

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- 19** Which of the following transaction(s) should **not** be recorded by debiting to the purchases account of the company?
- (1) Goods bought for the owner's private consumption through the company's bank account
 - (2) Goods returned from customers
 - (3) Goods received from a supplier as free samples
- A. (1) only
B. (1) and (2) only
C. (2) and (3) only
D. (1), (2) and (3)
- ☐
- 20** The control manager of a bakery set up a sales revenue target of \$200,000 per month. By the end of the month, he found out that the sales revenue had increased but was still far from the target. How should he proceed with the controlling process?
- A. Nothing needs to be done as sales revenue has increased
B. Investigate the problem and take corrective action
C. Lower the sales revenue target
D. Set a new performance standard in term of sales units instead of revenue
- ☐
- 21** Benny wants to purchase a computer which costs \$6,000. He expects the computer can generate a net cash inflow of \$3,000 at the end of each year for the next two years and that the computer can be sold for \$2,000 at the end of the second year. Assume the cost of Benny's capital is 10% per annum. Calculate (to 2 decimal places) the NPV of the computer.
- A. \$859.50
B. \$1,009.24
C. \$1,380.17
D. \$1,545.45
- ☐
- 22** The current ratio and the quick ratio of a firm as at 31 May 2021 were 5 : 1 and 0.5 : 1, respectively. Which of the following(s) about the firm's liquidity is/are correct?
- (1) The inventory balance was less than that of the cash in hand.
 - (2) The firm's ability to meet its immediate debts was strong.
 - (3) Current assets were tied up in inventory.
- A. (2) only
B. (3) only
C. (1) and (3) only
D. (2) and (3) only
- ☐

- 23** Which of the following statements about accounting principles and conventions is correct?
- A. Accounting policies and methods should never be changed in any situation.
 - B. Transactions of two independent firms should be recorded in one accounting book when the firms are owned by the same person.
 - C. The value of non-current assets should be recorded at the cost of purchase when the firm is going into liquidation.
 - D. The value of assets should be recorded at the net realisable value when the firm is going into liquidation.

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- 24** Which of the following statements about tertiary production is **not** correct?
- A. Tertiary production includes agriculture and fishing.
 - B. Tertiary production has contributed most of Hong Kong's GDP in recent years.
 - C. Tertiary production has been more significant than primary production and secondary production in terms of employment in recent years.
 - D. As Hong Kong is transforming into a knowledge-based economy, tertiary production has been relatively more important.

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- 25** Which of the following characteristics is common to both sole proprietorships and private limited companies?
- A. The tax rate of a sole proprietorship and a private limited company is the same.
 - B. Owners bear unlimited liability.
 - C. It is possible for each to have only one owner.
 - D. They can issue shares to raise capital.

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- 26** A firm bought two pieces of equipment on credit from a supplier for resale, and a 30% trade discount was given. Which of the following double entries should be recorded at the date of purchase?
- A. *Dr* Equipment; *Cr* Accounts payable
 - B. *Dr* Purchases; *Cr* Trade payables; *Cr* Discounts received
 - C. *Dr* Equipment; *Cr* Accounts payable; *Cr* Discounts received
 - D. *Dr* Purchases; *Cr* Trade payables

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27 The following were the account balances of a service firm as at 31 March 2021:

	\$
Interest revenue	7,500
Wages	4,000
Rent and rates	3,700
Services fees	52,200
Equipment	5,000
Cash	50,000
Capital	25,000
Drawings	22,000

What was the net profit for the year?

- A. \$30,000
- B. \$52,000
- C. \$52,200
- D. \$57,000

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28 Which of the following are the reasons for firms to adhere to business ethics?

- (1) Unethical actions may damage a firm's image and reputation.
 - (2) Firms may be punished by the government if they do not adhere to business ethics.
 - (3) Creditors may stop lending money to the firm anymore.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

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29 Which of the following job positions would usually be more suitable for a laissez-faire leader than an autocratic leader?

- (1) Poster designer at a logistics company
 - (2) Crisis management leader at a scientific research centre
 - (3) Writer at a newspaper publisher
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

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30 Which of the following is/are the example(s) of a nominal account?

- (1) Purchases
- (2) Inventory
- (3) Drawings

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



SECTION B

Part 1

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

1 Peter and Robert operate a hair salon in Hong Kong. If Peter and Robert want to transfer their business, they need to obtain the consent of other owners. Moreover, the only way for them to raise capital is to invite new owners to join.

(a) Identify the hair salon's form of business ownership. Explain. (2 marks)

Recently, Peter and Robert have considered changing their form of business ownership so that the firm can raise more funds by issuing shares. At the same time, they want to keep their financial information secret.

(b) Which type of business ownership would be the most suitable? Why? (2 marks)

- (c) After changing the form of business ownership, Peter and Robert's firm can now issue shares. They do not mind sharing their profits with shareholders, but they want to keep full control of their business. What type of shares should they issue? Explain. (2 marks)

2

- (A)** The accounting manager at a firm prepared a set of accounts. After reviewing, the owner talked with the manager:

'I think the firm's revenue is understated. The interest received on the fixed deposit under my name had already been deposited into the firm's bank account. Hence, you should record it as interest revenue for the firm instead of additional capital introduced!'

With reference to a relevant accounting principle, explain the reason why the accounting manager recorded the amount in this way. (3 marks)

(B) The following were the account balances of Tommy's business as at 30 April 2021.

	\$
Sales	450,000
Purchases	130,000
Bank	374,000
Trade receivables	235,240
Trade payables	65,750
Inventory, 1 May 2020	25,850
Capital, 1 May 2020	249,340

Prepare for Tommy's business a trial balance as at 30 April 2021.

(4 marks)

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- 3** (a) Sandy is a 25-year-old domestic employee who has worked in Hong Kong for three months for a monthly wage of \$6,000. Does she need to join a Mandatory Provident Fund (MPF) scheme? Explain why. (2 marks)

- (b) Candy is the manager of a firm and earns a monthly salary of \$15,000. She also received a bonus of \$4,000 this month. Under the MPF System, what amount should Candy contribute this month? (1 mark)

- (c) What are the rights and responsibilities of employees and self-employed persons who have enrolled in an MPF scheme? Explain one for each of them. (4 marks)

Part 2

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

- 4 Mr Chan sells imported watches. The trial balance as at 31 January 2022 has been prepared. An inexperienced accounting clerk omitted the balance of capital account.

Mr Chan		
Trial balance as at 31 January 2022		
	<u>Dr. \$</u>	<u>Cr. \$</u>
Drawings	60,000	
Capital		?
Bank overdraft		15,000
Cash	85,000	
Equipment	30,000	
Sundry expenses	7,000	
Interest income		800
Purchases and sales	47,500	113,750
Trade payables		13,000
Trade receivables	20,000	
Fixed deposit (for 2 years)	22,000	

Additional information:

Inventory as at 31 January 2022 was valued at \$5,000.

- (a) Prepare for Mr Chan the statement of financial position as at 31 January 2022, clearly showing the opening balance and closing balance of the capital account. (6 marks)

A management consultant suggested that Mr Chan should improve the risk management of his watch trading business.

- (b) Explain two main tasks of risk management for the company. (4 marks)

(Total: 10 marks)

- 5** Fung runs a convenience store. The account balances as at 31 March 2022 extracted from its books are as follows:

	\$
Inventory as at 31 March 2022	250,000
Capital, 1 April 2021	1,000,000
Drawings	220,000
Cash	800,000
Net profit for the year	150,000

Additional information:

- (i) Sales and returns inwards for the year ended 31 March 2022 were \$2,000,000 and \$30,000 respectively.
- (ii) Gross profit for the year ended 31 March 2022 was \$900,000.

- (a) Calculate (to two decimal places) the following ratios for the year for Fung's store:

- (i) Gross profit ratio (1 mark)

- (ii) Net profit ratio (1 mark)

- (iii) Return on capital employed (1 mark)

- (b) Cheung runs another convenience store in the same district. Its gross profit ratio, net profit ratio and return on capital employed for the same financial year were 30%, 15% and 20%, respectively. Briefly comment on the profitability of Fung's convenience store for the year as compared with Cheung. (3 marks)

Fung set the following goals for next year:

'Boost sales substantially in the next year.'

- (c) Briefly explain two characteristics of a SMART goal that are missing from the above goal. (4 marks)

(Total: 10 marks)

END OF PAPER 1