

Business, Accounting and Financial Studies

Mock Exam Paper (Mar 2022)

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** A multinational corporation is considering entering the Hong Kong market. Which of the following is/are the physical factor(s) that might affect its decision?

- (1) Air quality
- (2) Average age of residents
- (3) Temperature

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

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- 2** Compared to a public limited company, which is/are the advantages of a partnership?

- (1) The owners enjoy limited liability.
- (2) A partnership does not have to disclose its financial information to the public.
- (3) It is more difficult to raise funds.

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

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- 3** On 13 January 2022, Lily Co purchased goods on credit with a list price of \$50,000 from Leo Cheung. A trade discount of 5% was given. Another 1% discount would be given to Lily Co if the company settled the invoice in full within two weeks. Lily Co made the settlement on 20 January. The amount paid was _____.

- A. \$53,000
- B. \$49,500
- C. \$47,500
- D. \$47,025

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- 4** Tony invested in a three-year investment project with an initial cost of \$100,000. The investment will generate cash flows of \$50,000 at the end of both of the first two years. Given that the discount rate is 8% and the net present value of the investment is close to zero, cash flow at the end of year 3 will be:

- A. \$0
- B. \$13,651
- C. \$16,000
- D. \$26,529

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5 Under which of the following situations would autocratic leadership likely to be effective?

- (1) The job nature is highly repetitive
- (2) The job requires creativity
- (3) Time for decision-making is limited

- 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 multinational corporations is/are **not** correct?

- (1) A company which operates only in one country could be a multinational corporation if it has international investors.
- (2) Multinational corporations could be sole proprietorships, partnerships or limited companies.
- (3) A multinational corporation must have no less than 500 employees.

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

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7 The following account balances as at 31 March 2022 were extracted from the books of Cheung's firm:

	\$
Office equipment	800,000
Cash at bank	5,000
Cash on hand	7,000
Trade payables	20,000
10-year bank loan (repayable in 2022)	10,000
Trade receivables	13,000
Inventory	50,000

What is the firm's acid-test ratio?

- A. 0.40 : 1
- B. 0.83 : 1
- C. 1.25 : 1
- D. 2.50 : 1

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8 Which of the following is/are the possibly advantage(s) of having a good personal credit record?

- (1) A lower profits tax rate
- (2) A lower interest rate on a bank loan
- (3) A higher interest rate on bank savings

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

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9 Which of the following statements is correct about a credit account balance?

- A. The balance brought down appears on the debit side.
- B. The account must be a revenue account.
- C. In that particular account, the left-hand side is called the credit side.
- D. The debit total of the account is lower than its credit total.

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10 Given that the effective interest rate is 10% per annum, which of the following statements about the nominal interest rate are correct?

- (1) Nominal interest rate is 10% if the interest is compounded annually.
- (2) Nominal interest rate is lower than 10% if the interest is compounded monthly.
- (3) Nominal interest rate is higher than 10% if the amount of the principal doubles.

- 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 The following account was extracted from the books of Joseph Co:

Larry Wong			
2022	\$	2022	\$
Jan 11 Bank	61,000	Jan 1 Balance b/d	55,500
Jan 31 Balance c/d	20,000	Jan 5 Purchases	25,500
	<u>81,000</u>		<u>81,000</u>

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

- A. On 31 January 2022, Joseph Co owed Larry Wong \$20,000.
- B. Joseph Co received a cheque for \$61,000 from Larry Wong on 11 January 2022.
- C. Larry Wong is a trade debtor of Joseph Co.
- D. There was a debit balance in the above account on 31 December 2021.

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12 Which of the following statements about a small and medium enterprise in Hong Kong is correct?

- A. Its annual turnover cannot exceed \$100 million.
- B. It can operate as a limited company.
- C. It cannot hire more than 25 employees.
- D. Its annual net profit cannot exceed \$25 million.

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13 Which of the following is **not** an example of a business that fulfills its social responsibility?

- A. Reducing carbon footprints in business operations
- B. Reducing the use of non-recyclable materials in production
- C. Donating products to charitable organisations
- D. Offering buy-one-get-one-free on all products before the Lunar New Year

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14 Which of the following is/are **not** the function(s) of a company's information management department?

- A. Designing a file storage system for the finance department
- B. Creating a data-processing system of customer surveys for the marketing department
- C. Maintaining an Intranet platform for the business
- D. Preparing a budget for the following year for the accounting department

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15 Which of the following statements about business ethics is/are correct?

- (1) Ethical business behaviour would help decrease short-run business operating costs.
- (2) Unethical business behaviour is always illegal.
- (3) Ethical behaviour could help enhance a company's public image.

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

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16 A firm sold office equipment at cost which it had used in its office for two months. The buyer paid immediately in cash, and the owner of the firm took half of the amount received for personal use. Which of the following are the effects of this transaction on the accounting equation?

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

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- 17** Which of the following statements about the Main Board and GEM is correct?
- A. The listing requirements for the Main Board and GEM are identical.
 - B. Technology companies which intend to go public must be listed on GEM instead of the Main Board.
 - C. The Main Board was set up for more established companies.
 - D. GEM requires management continuity for the three prior financial years, while the Main Board does not have this requirement.

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- 18** Which of the following statements about risk and return are correct?
- (1) High-risk financial products always provide the highest returns in the long run.
 - (2) Market risk cannot be diversified.
 - (3) Risk-averse investors usually prefer making term deposits to investing in 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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- 19** Which of the following are the limitations of using financial statements?
- (1) Subjective judgment of accountants is often involved in the preparation of financial statements.
 - (2) Financial statements cannot reflect the future.
 - (3) Different companies in the same industry can adopt different accounting policies, making it difficult to compare the financial position of different firms.
- 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** Which of the following statements about the Hong Kong economy are **not** correct?
- (1) More than half of the working population work in the secondary sector.
 - (2) Value-added tax is imposed on services provided.
 - (3) The primary sector is the second-most important sector measured by the workforce employed.
- 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 Which of the following factors will lead to an increase in the share price of an airline company?

- A. A decrease in interest rates
- B. The board of directors proposes stopping the distribution of dividends
- C. An increase in fuel prices
- D. An increase in interest rates

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22 Which of the following does **not** correctly match the main use of financial statements with the respective user?

- | <u>User</u> | <u>Main use</u> |
|------------------------------|--|
| A. Inland Revenue Department | To assess the tax payable by the company |
| B. Debtors | To assess the company's repayment ability |
| C. Potential investors | To assess the company's prospects |
| D. Finance manager | To evaluate the company's financial position |

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23 Gary owns two firms. He prepared the accounting records of the two firms using two independent sets of books. Which of the following statements is correct?

- A. If one of the firms is facing liquidation, both of the firms must no longer be seen as a going concern.
- B. The business entity concept has been applied.
- C. The business entity concept is violated as the owner cannot own two businesses.
- D. If both of the firms are considered as a going concern, Gary should consider combining the two books.

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24 Which of the following is **not** a main function of a marketing department?

- A. Designing pricing strategy
- B. Conducting marketing research
- C. Deciding the distribution channels of products
- D. Controlling the costs of production

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25 Which of the following statements about the World Trade Organization (WTO) is/are correct?

- (1) Hong Kong is not a member of the WTO.
- (2) WTO attempts to settle trade disputes between its members.
- (3) WTO provides loans to members that are developing countries.

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

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26 Firm A had a gross profit ratio of 44% and a net profit ratio of 8% in 2021. Firm B had a gross profit ratio of 33% and a net profit ratio of 16% in the same year. Which of the following can be concluded?

- A. Firm B had a higher net profit.
- B. Firm A had a higher gross profit.
- C. Firm A had higher operating expenses.
- D. Firm B generated more net profit for each dollar of sales.

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27 Jason Co is a trading business. The firm had discounts received that totalled \$10,000 for the year. How will the firm's net profit and gross profit for the year be affected?

<u>Net profit</u>	<u>Gross profit</u>
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- | | |
|--------------|-----------|
| A. Increases | Increases |
| B. Decreases | Unchanged |
| C. Increases | Unchanged |
| D. Unchanged | Unchanged |

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28 The district manager of a firm compared the actual performance of a retail store with the predetermined revenue target. To which management function does this task belong?

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

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29 Which of the following is **not** a benefit of globalisation to businesses in Hong Kong?

- A. Easier access to the latest technology
- B. Lower production cost
- C. Lower profits tax rate
- D. Easier to raise funds

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30 Which of the following transactions should be recorded in the purchases account of a convenience store chain?

- (1) The owner took goods for personal use
- (2) Bought a warehouse to store inventory
- (3) Bought a microwave oven to be used in the store

- A. (1) only
- B. (3) 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** (a) What is a limited company? (1 mark)

- (b) Describe two advantages of forming a business as a private limited company. (4 marks)

- 2** Joyce is 25 years old and married with no children. She works as a nurse at a hospital. She is considering buying a new car and is considering applying for an instalment bank loan, using a bank overdraft or her credit card for her purchase.

- (a) What is a credit card? (2 marks)

- (b) List two reasons why Joyce should apply for a bank instalment loan instead of using a credit card for this purchase. (4 marks)

- (c) List two financial needs that Joyce has in her present stage of life. (2 marks)

Part 2

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

Lee's firm is a retailer. The following balances were extracted from its books as at 31 December 2021:

	\$
Gross profit for the year	1,250,000
Net profit for the year	600,000
Capital, 1 January 2021	1,000,000
Office equipment	1,480,000
Cash at bank	130,000
Trade payables	120,000
Sales	2,000,000
Inventory, 31 December 2021	110,000

During the year ended 31 December 2021, no additional capital was introduced and there were no drawings.

4 (a) Calculate (to two decimal places) the following ratios for Lee's firm for the year:

(i) Gross profit ratio (1 mark)

(ii) Net profit ratio (1 mark)

(iii) Return on capital employed (2 marks)

- (b) Given that the net profit ratio was 15% in 2020. Based on the net profit ratio you calculated for 2021, briefly explain the profitability of Lee's firm. (1 mark)

- (c) Mr Lee, owner of the firm, asked the firm's accountant to prepare the budget for the following year within one working day. One hour later, the finance manager asked the same accountant to prepare the bank account summary within the same day. State the principle of effective management violated in the above case. (1 mark)

- (d) Assume the principle of effective management you stated in (c) is being adopted. Briefly explain two advantages for Lee's firm. (4 marks)

(Total: 10 marks)

- 5** (a) Prepare for Lee's firm the statement of financial position as at 31 December 2021. (3 marks)

- (b) Given that the current ratio was 0.5 : 1 as at 31 December 2020. Based on the current ratio (to two decimal places) as at 31 December 2021, briefly comment on the liquidity of Lee's firm. (2 marks)

- (c) A business advisor encouraged Mr. Lee, the owner of the firm, to set goals for the firm. State the management function to which this task belongs. (1 mark)

- (d) State two advantages for Lee's firm of having goals. (4 marks)

(Total: 10 marks)

END OF PAPER 1