

Business, Accounting and Financial Studies Paper 1

Mock Exam Paper (Nov 2022)

This paper must be answered in English.

Time allowed: 1 hour and 15 minutes

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.

INSTRUCTIONS FOR SECTION A (MULTIPLE-CHOICE QUESTIONS):

- 1 All questions carry equal marks.
- 2 **ANSWER ALL QUESTIONS.**
- 2 You should mark only **ONE** answer for each 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 (60 marks)

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

- 1** Which of the following statements about 'management by objectives' are **not** correct?
- (1) It allows managers to focus on other important tasks.
 - (2) It has adverse effects on staff morale.
 - (3) It facilitates communication between managers and subordinates.
- 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 accounting treatments are correct?
- (1) A sole proprietor withdrew money from his firm to pay his personal rental expenses. This event was recorded in the books of his business.
 - (2) Derrick owns five firms. He keeps a separate set of accounting records for each of his firms.
 - (3) A sole proprietor paid a trade creditor with his own money. This event was recorded in the books of his business.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
- 3** Given the following figures of a firm as at 31 December 2022: Quick ratio 2 : 1; Five-year bank loan (repayable on 1 June 2023) \$50,000; Cash \$25,000; Trade payables \$70,000; Inventory \$80,000.
- Based on the above information, calculate the amount of trade receivables as at 31 December 2022.
- A. \$115,000
B. \$135,000
C. \$215,000
D. \$225,000

- 4 A company is going to launch three new products. Its marketing manager is responsible for:
- A. Renting a factory to produce the new products
 - B. Setting the price for the new products
 - C. Preparing budgets for the new products
 - D. Hiring workers to produce the new products
- 5 Joyce took out a five-year bank loan of \$10,000 at an annual interest rate of 3%, compounded daily. Which of the following statements are correct?
- (1) Nominal interest rate of the bank loan is lower than 3% per annum.
 - (2) Effective interest rate of the bank loan is higher than 3% per annum.
 - (3) The interest rate on her bank loan is usually less than that of her credit cards.
- 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 business ethics is/are **not** correct?
- (1) Illegal actions of businesses are generally considered unethical.
 - (2) In Hong Kong, a 'code of ethics' is being published by the Labour Department.
 - (3) Laws clearly distinguish between ethical and unethical business practices.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
- 7 Which of the following statements about small and medium enterprises in Hong Kong is/are correct?
- (1) They can operate as a public limited company.
 - (2) They can hire up to 200 workers locally.
 - (3) It is easier for them to raise capital than large enterprises.
- A. (1) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

- 8** Patrick Wong, the owner of Patrick Trading Co, settled the trade payables for his business with his own money. Which of the following are the effects of this transaction on the accounting equation of Patrick Trading Co?

	<i>Assets</i>	<i>Liabilities</i>	<i>Capital</i>
A.	Increase	Decrease	Decrease
B.	Unchanged	Decrease	Increase
C.	Increase	Increase	Increase
D.	This transaction does not affect the books of Patrick Trading Co.		

- 9** The following account balances as at 31 December 2022 were extracted from the books of Lily Co:

	\$
Furniture	100,000
Cash at bank	37,000
Trade payables	50,000
Loan from Lily's father, repayable in 2025	70,000
Trade receivables	13,000
Inventory	10,000

What is the current ratio of the firm?

- A. 0.83 : 1
B. 1 : 1
C. 1.2 : 1
D. 3.2 : 1
- 10** Gary had been operating a convenience store as a sole proprietor for 10 years. Six months ago, he hired Gabriel, a 35-year-old part-time worker at a monthly salary of \$7,000. Which of the following statements are correct?
- (1) Gary needs to make mandatory contributions into Gabriel's MPF scheme.
(2) Gabriel does not need to make mandatory contributions into his own scheme.
(3) Gary does not need to enrol himself into any MPF scheme.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

11 Which of the following double entries are correct?

<i>Transaction</i>	<i>Account to be debited</i>	<i>Account to be credited</i>
(1) Deposited cash of \$100 into the business bank account.	Bank	Cash
(2) Purchased a computer by cheque from Ultra Computer Co for office use.	Office equipment	Bank
(3) Received a commission from Jane Lee.	Jane Lee	Commission income

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

12 Which of the following statements about product departmentalisation is correct?

- A. It is most suitable for companies which produce and sell a single product.
- B. Under product departmentalisation, a manager would be responsible for both the production and marketing of a particular product.
- C. Under product departmentalisation, a company shall only sell one of its products to a particular market.
- D. It is suitable for limited companies only.

13 Which of the following are advantages of delegation?

- (1) It could improve the job satisfaction level of subordinates.
 - (2) It allows subordinates to focus on other important tasks.
 - (3) It could provide on-the-job training opportunities for subordinates.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

14 Linda is considering an investment with a \$63,000 initial outlay. The investment will bring cash inflows of \$25,000 per year in each of the following three years. At the end of the three years, the scrap value will be \$1,000. Given that the discount rate is 10% per annum, the net present value of the project is:

- A. -\$21,389.5
- B. -\$77.4
- C. \$1,568.1
- D. \$13,000

- 15** Which of the following statements about joint ventures is/are **not** correct?
- (1) Only public limited companies can form joint ventures.
 - (2) A joint venture can be formed by a single entity.
 - (3) All joint ventures are listed companies.
- A. (1) only
 - B. (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
- 16** Nina opened a bank account on 1 January 2022 and deposited \$10,000 into her account. The interest rate on the account was 6% per annum, compounded monthly. The total amount of interest that she could get for the six months ended 30 June 2022 was:
- A. \$206
 - B. \$300
 - C. \$304
 - D. \$600
- 17** Which of the following are multinational corporations?
- (1) A convenience store which operates a store in Hong Kong and two stores in Japan.
 - (2) A Mainland company which established a branch in South Korea.
 - (3) A Hong Kong restaurant chain which imported all food ingredients from Vietnam.
- 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 statements about the Hang Seng Index are **not** correct?
- (1) It reflects the general price level of companies listed on GEM.
 - (2) It reduces the market risks of investors.
 - (3) It takes into account the price level and market capitalisation of every stock listed in Hong Kong.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

- 19** Which of the following should be shown on the debit side of the capital account?
- (1) A computer contributed by the owner to the firm
 - (2) Money withdrawn by the owner
 - (3) Losses made by the firm during the year
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
- 20** Which of the following is **not** a legal factor affecting the operation of a cinema in Hong Kong?
- A. The minimum wage increased from \$37.5 to \$40.
 - B. The maximum number of audience members allowed is increased because of the relaxed COVID-19 restrictions.
 - C. There are changes in the *Fire Safety (Buildings) Ordinance*.
 - D. The average rent decreased during the past year.
- 21** Which of the following is the right of a share investor?
- A. To vote on important matters at the general meeting
 - B. To receive guaranteed dividends every quarter
 - C. To manage the daily operations of the company
 - D. To determine the company's pricing strategy
- 22** Which of the following statements about staff authority is/are correct?
- (1) The store manager has staff authority to support the salespeople at the store.
 - (2) The finance manager has staff authority to support the operations manager.
 - (3) The human resources manager has staff authority to support the marketing manager.
- A. (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

- 23** Which of the following should be recorded in the sales account of a retailer?
- (1) Goods purchased that are intended for resale
 - (2) Goods taken by the owner for personal use
 - (3) Goods sold on credit to a customer
- A. (1) only
 - B. (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
- 24** Which of the following is **not** a problem caused by a poor personal credit rating?
- A. Paying a higher interest rate when applying for new loans
 - B. Applications for credit cards being rejected
 - C. Earning a lower interest rate on bank deposits
 - D. Applications for tax loans being rejected
- 25** Jenny is the chief web developer of a firm which designs websites for businesses. She lets her subordinates decide their own work approach and schedule, and she only provides guidance to her employees when asked to do so. Which of the following statements is correct?
- A. Jenny practices laissez-faire leadership.
 - B. Unity of command is violated in this case.
 - C. Jenny practices management-by-objectives.
 - D. Jenny has staff authority over her subordinates.
- 26** Firm A found that an inventory item was omitted from the closing inventory. After correcting this error:
- A. Both gross profit and net profit will decrease.
 - B. Gross profit remains unchanged, while net profit will decrease.
 - C. Gross profit will increase, while net profit remains unchanged.
 - D. Both gross profit and net profit will increase.

- 27** Cheung's Co is a retailer. On 5 November 2022, 100 units of Product A were sold to Li's Co at a list price of \$200 each. The accountant of Cheung's Co recorded the transaction in the sales account as follows:

Sales		
	2022	\$
	Nov 5 Li's Co	16,000

Which of the following statements is/are correct?

- (1) Li's Co paid for the products immediately.
- (2) Li's Co is a trade creditor of Cheung's Co.
- (3) A trade discount was given by Cheung's Co.

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

- 28** Which of the following is/are the advantage(s) of a private limited company over a public limited company?

- (1) It is easier to raise capital as there can be more shareholders.
- (2) It does not need to disclose its financial statements to the public.
- (3) It enjoys a lower tax rate in Hong Kong.

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

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

Abby Co had the following balances before preparing the financial statements for the year ended 31 March 2022:

	\$
Cash at bank	4,000
Sales	830,000
Purchases	288,000
Discounts allowed	500
Bank loan	15,000
Rent and rates	230,000
Other operating expenses	10,100
Office equipment	300,000
Inventory, 1 April 2021	33,590
Capital, 1 April 2021	?

29 Capital as at 1 April 2021 was:

- A. \$13,390
- B. \$21,190
- C. \$65,510
- D. \$137,410

30 Given that inventory as at 31 March 2022 was valued at \$1,000. Net profit for the year was:

- A. \$33,580
- B. \$134,680
- C. \$203,320
- D. \$268,810

END OF SECTION A

SECTION B (30 marks)

Part 1 (20 marks) Answer **ALL** questions in this part.

- 1** O-Convenient is a convenience store chain founded in Japan. It has branches in 50 countries around the world. It is currently considering entering the Hong Kong market. A large local retail chain has proposed becoming the franchisor of O-Convenient in Hong Kong.
- (a) Describe one main feature of O-Convenient as a multinational corporation. (2 marks)
 - (b) Describe two disadvantages of becoming a franchisee for O-Convenient. (4 marks)
- 2** Lam's Co is considering applying for a bank loan of \$500,000 to survive the economic downturn. The bank asked for the financial statements of Lam's Co. The accountant of Lam's Co suggested changing the policy on allowance for doubtful debts, in order to reduce the expenses reported in its income statement.
- (a) State an accounting concept or principle that should be applied to this case. Briefly explain whether the suggestion of the accountant violated this concept or principle. (3 marks)
 - (b) Explain how the bank could use the financial statements submitted by Lam's Co when considering whether to approve the loan. (2 marks)
 - (c) Suppose the bank approved the loan. State how this transaction affects the accounting equation of Lam's Co. (2 marks)
- 3** Lily is a professional engineer who is 25 years old and single. She decided to buy a new car, and is considering whether to apply for an instalment loan, use a bank overdraft or use her credit card.
- (a) List one financial need of Lily in her present life stage. (1 mark)
 - (b) Briefly explain what an instalment loan is. (2 marks)
 - (c) Lily decided to use a bank overdraft for the purchase. State two disadvantages of using a bank overdraft. (4 marks)

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

Refer to the following information for Questions 4 and 5.

Tammy Cheung operates a retail business. The following balances were extracted from her books as at 31 December 2022:

	\$
Sales	2,582,123
Purchases	1,573,965
Wages and salaries	147,518
Other operating expenses	1,410
Rent and rates	741,322
Capital, 1 January 2022	734,713
Cash at bank	87,091
Trade payables	100,000
Office equipment	?

- 4** (a) Prepare a trial balance for Tammy Cheung's business as at 31 December 2022. (5 marks)

Tammy is advised by a business consultant to set goals for her firm.

- (b) To which management function does the task of goal setting belong? (1 mark)
(c) State any four criteria of an effective goal. (4 marks)

(Total: 10 marks)

- 5** (a) Given that net profit for the year ended amounts to \$117,908. Prepare for Tammy Cheung's business a statement of financial position as at 31 December 2022. (3 marks)
(b) Calculate (to two decimal places) the return on capital employed for Tammy Cheung's firm. (2 marks)
(c) State the definition of business ethics. (1 mark)
(d) Suggest, with examples, how Tammy Cheung could be socially responsible to her employees and customers, respectively. (4 marks)

(Total: 10 marks)

END OF PAPER