

Business, Accounting and Financial Studies Paper 1

Mock Exam Paper (Mar 2023)

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 'division of work' are **not** correct?
- (1) It reduces cost of mistakes.
 - (2) It improves job satisfaction.
 - (3) It facilitates automation.
- 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 will increase the gross profit of a firm?
- (1) Increase in closing inventory
 - (2) Drawings of inventory
 - (3) Increase in carriage outwards
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
- 3** John is a mobile phone retailer. During May 2022, he sold 10 mobile phones to 10 customers on credit at \$5,500 each. Two of the customers returned the phones a few days later. Another five customers settled the debt in May. What is the balance of the sales account on 31 May 2022?
- A. \$16,500
B. \$27,500
C. \$44,000
D. \$55,000
- 4** A company is going to enter a new market. Its finance manager is responsible for:
- A. Renting office premises in the new market
 - B. Launching advertisements in the new market
 - C. Preparing budgets for investment in the new market
 - D. Determining the amount of manpower needed in the new market

- 5** Which of the following would adversely affect the stock price of a specific company?
- (1) Decrease in interest rate
 - (2) Decrease in dividend payout
 - (3) Decrease in the company's net profit
- 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 social responsibilities is/are **not** correct?
- (1) Ensuring product safety is a socially responsible act.
 - (2) Social responsibilities are not applicable to the owners of a firm.
 - (3) Fulfilling social responsibilities ensures the profitability of a firm.
- 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 (SMEs) in Hong Kong is/are correct?
- (1) They must be in the form of a sole proprietorship or partnership.
 - (2) SMEs are able to compete with large scale businesses.
 - (3) SMEs in the manufacturing sector can hire fewer than 100 workers.
- A. (1) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
- 8** George took out a personal bank loan and bought the newly issued shares of Genius Company Limited. Which of the following are the effects of this transaction on the accounting equation of Genius Company Limited?
- | | <i>Assets</i> | <i>Liabilities</i> | <i>Capital</i> |
|----|---|--------------------|----------------|
| A. | Unchanged | Decrease | Increase |
| B. | Increase | Unchanged | Increase |
| C. | Increase | Increase | Unchanged |
| D. | This transaction does not affect the books of Genius Company Limited. | | |

- 9** The following account balances as at 31 December 2021 were extracted from the books of Tony Co:

| | \$ |
|---|-------|
| Cash | 3,000 |
| Bank overdraft | 2,000 |
| Trade payables | 4,000 |
| Fixed bank deposit (until 30 June 2022) | 1,000 |
| Trade receivables | 5,000 |
| Inventory | 2,000 |

What is the quick ratio of the firm?

- A. 1.3 : 1
 B. 1.5 : 1
 C. 1.8 : 1
 D. 2.8 : 1
- 10** Andy has been operating a restaurant as a sole proprietor for 5 years. Six months ago, he hired Angus, a 25-year-old part-time worker on a day-to-day basis with a daily salary of \$200. Which of the following statements are correct?
- (1) Andy needs to make mandatory contributions into Angus's MPF scheme.
 (2) Angus does not need to make mandatory contributions into his own scheme.
 (3) Andy 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) Purchased motor van by cheque | Motor van | Bank |
| (2) Settled owner's personal bank loan by cheque | Drawings | Bank |
| (3) Received a payment by cheque from cash returns outwards | Bank | Returns outwards |
- 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 functional departmentalisation is correct?
- A. Employees are divided according to management functions.
 - B. Under functional departmentalisation, a manager would be responsible for both the manufacturing and marketing of a product.
 - C. Under functional departmentalisation, a manager only performs a function for a specific customer group.
 - D. It is suitable for a sole proprietorship.
- 13** Which of the following statements about a risk management department are correct?
- (1) It performs risk analysis for the factories under the operations department.
 - (2) It decides the annual budget for risk assumption alone.
 - (3) It transfers the risk of the company through insurance.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
- 14** Candy is considering an investment with a \$45,000 initial outlay. The investment will bring cash inflows of \$20,000 at the end of the following three years. At the end of the three years, the scrap value will be \$3,000. Given that the discount rate is 6% per annum, the net present value of the project is:
- A. -\$15,677
 - B. -\$629
 - C. \$8,460
 - D. \$10,979
- 15** Which of the following statements are correct?
- (1) Hong Kong does not have manufacturing sector.
 - (2) There are no duties on any imports in Hong Kong.
 - (3) Hong Kong is one of the Greater Bay Area cities.
- A. (1) only
 - B. (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

16 The details of two savings plan for \$10,000 in a year are shown below:

Plan X: 4% per annum, compounded semi-annually

Plan Y: 3.5% per annum, compounded quarterly

Plan ____ (1) ____ offers a higher return which is ____ (2) ____.

| | (1) | (2) |
|----|-----|-------|
| A. | X | \$400 |
| B. | X | \$404 |
| C. | Y | \$355 |
| D. | Y | \$719 |

17 Which of the following would be shown in the statement of financial position?

- (1) Returns inwards
- (2) Opening inventory
- (3) Trade receivables

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

18 Which of the following statements about the GEM are **not** correct?

- (1) The Hang Seng Index reflects the general price level of companies listed on GEM.
- (2) The stocks listed on GEM are less risky than the stocks listed on the Main Board.
- (3) The requirements for listing on GEM are looser than those of listing on the Main Board.

- 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 credit side of the bank account?

- (1) Cash deposit to bank account
- (2) Cheque payment to trade suppliers
- (3) Bank charges

- 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 a social factor affecting elderly homes in Hong Kong?
- A. The restriction on visit to elderly home due to the pandemics
 - B. The inflation rate increased last year
 - C. The population structure reflects an ageing population
 - D. The minimum wage increased from \$37.5 to \$40
- 21** Which of the following is **not** the right of a self-employed person under the MPF System?
- A. To check the amount of their accrued benefits at any time
 - B. To withdraw their accrued benefits at any time
 - C. To make voluntary contributions to their MPF schemes
 - D. To transfer the accrued benefits to any MPF trustee and scheme at any time
- 22** Which of the following statements about marketing management is/are correct?
- (1) It helps identify and satisfy suppliers' needs.
 - (2) It helps the company compete with competitors.
 - (3) It helps the company maintain long-term relationships with investors.
- 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 as expense(s) of a retailer?
- (1) Goods purchased on credit 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** an advantage of using credit cards in Hong Kong?
- A. Cardholders can use credit card at most shops in Hong Kong.
 - B. Credit cards do not involve a fixed deadline for repaying the balance in full.
 - C. Cardholders may be tempted to buy more than they should.
 - D. Discounts at and cash coupons for designated stores are provided.

- 25** Which of the following statements about 'leading' is correct?
- A. Every leadership style is applicable for any manager.
 - B. Quick decisions can be made under autocratic leadership.
 - C. Participative leadership allows subordinates to make their own decisions.
 - D. Laissez-faire leadership is suitable for inexperienced employees.
- 26** Firm A sold all of its inventory and used the amount to repay trade payables. As a result,
- A. the current ratio and the liquid ratio increased.
 - B. the current ratio and the liquid ratio decreased.
 - C. the current ratio increased, but the liquid ratio decreased.
 - D. the current ratio was the same as the liquid ratio.
- 27** On 3 August, Chong's Co bought 200 units of goods for \$100 each. A 20% trade discount was given and a 5% discount would be given if the amount is settled within 14 days. If Chong's Co settled the amount on 15 August, it should pay _____.
- A. 15,000
 - B. 15,200
 - C. 16,000
 - D. 19,000
- 28** Which of the following is/are possible sources of capital for a private limited company?
- (1) Share capital of founders
 - (2) To be listed on a stock exchange
 - (3) Debentures issued to the public
- A. (1) only
 - B. (3) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)

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

Eric Co had the following balances before preparing the financial statements for the year ended 31 March 2023:

| | |
|-------------------------|---------|
| | \$ |
| Cash at bank | 40,000 |
| Sales | 430,800 |
| Purchases | 201,000 |
| Carriage outwards | 500 |
| Rent and rates | 53,000 |
| Electricity expenses | 10,100 |
| Office equipment | 300,000 |
| Inventory, 1 April 2022 | 46,700 |
| Capital, 1 April 2022 | ? |

29 Capital as at 1 April 2022 was:

- A. \$180,500
- B. \$190,600
- C. \$201,300
- D. \$220,500

30 Given that inventory as at 31 March 2023 was valued at \$39,000. Net profit for the year was:

- A. \$80,500
- B. \$118,000
- C. \$158,500
- D. \$173,900

END OF SECTION A

SECTION B (30 marks)

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

- 1** Johnny is an inexperienced investor. His friend recommended that he invest in the shares of a Hong Kong hotel group. The business of the hotel group is expected to improve after the pandemic.

- (a) Ignoring other factors, describe how the stock price of the Hong Kong hotel group would be affected by the end of the pandemic. (3 marks)
- (b) List two of Johnny's responsibilities as a stock investor. (2 marks)

A bank offered a deposit plan to Johnny. If he deposits \$40,000 in the bank for three years, the interest rate will be 3% per annum, compounded annually.

- (c) What is the amount of interest that Johnny can receive if he joins the plan? (2 marks)

- 2** Timothy runs a fast-food restaurant as a sole trader. He wants to take out a bank loan for business expansion. His friend suggested that he record the value of assets at a higher market value so that he can gain better terms for the loan.

- (a) State an accounting concept or principle that should be applied to this case. Briefly explain whether the suggestion violated this concept or principle. (3 marks)

| | <u>Timothy's firm</u> | <u>Industry average</u> |
|--------------------|-----------------------|-------------------------|
| Gross profit ratio | 42% | 40% |
| Net profit ratio | 14% | 23% |

- (b) Describe the profitability of Timothy's firm. (4 marks)

- 3** Thomas and Richard operate a fashion design firm in Hong Kong. Their designs will be manufactured in factories in Southeast Asia. Thomas and Richard do not enjoy limited liabilities. They are thinking of changing the form of business ownership so that they can have limited liability but do not need to disclose their financial information to the public.

- (a) Explain whether the above firm is a multinational corporation. (2 marks)
- (b) Which form of business ownership should the firm convert to? (1 mark)
- (c) Other than limited liabilities, explain two advantages of the form of business ownership in part (b) over its current form of business ownership. (3 marks)

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

Refer to the following information for Questions 4 and 5.

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

| | \$ |
|-------------------------|---------|
| Sales | 641,000 |
| Purchases | 245,000 |
| Wages | 154,000 |
| Rent and rates | 52,000 |
| Sundry expenses | 3,500 |
| Capital, 1 January 2022 | 528,600 |
| Cash at bank | 96,000 |
| Trade payables | 160,000 |
| Motor van | ? |

Inventory as at 31 December 2022 was valued at \$82,500.

- 4** (a) Prepare a statement of financial position as at 31 December 2022 for Sunny's business. (6 marks)

Sunny decided to adopt departmentalisation by location for her firm.

- (b) Explain to which management function departmentalisation belongs? (2 marks)
(c) State an advantage of departmentalisation for Sunny's business. (2 marks)
(Total: 10 marks)

- 5** (a) (i) Calculate (to two decimal places) the current ratio and liquid ratio for Sunny's business. (4 marks)
(ii) Suggest one difficulty that Sunny's business may face based on the calculations above. (2 marks)

Sunny decided to expand her business to overseas markets and expected that the business's net profit would increase by 10% within a year.

- (b) Describe which two criteria of an effective goal are indicated above. (4 marks)
(Total: 10 marks)

END OF PAPER