

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
EXAMINATION IN BAFS

Paper 1

Accounting and Business Essentials

Examination Time: 1 hour 15 minutes
This paper must be answered in English

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.

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 insert the information required in the spaces provided. No extra time will be given for completing the information after the 'Time is up' announcement.
- (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.

SECTION A (60 marks)

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

1. Which of the following is not an influence of globalisation on the world?
 - A. Investment and financial activities are centred in countries that are pursuing regional protectionism.
 - B. There is a constant increase in the number of globally applied standards and laws.
 - C. Multinational enterprises reduce staff number and salary in order to cut costs.
 - D. Efficient development of global telecommunications favours information sharing.

2. Which of the following statements about the functions of accounting ratios is not correct?
 - A. Accounting ratios are used to evaluate the financial performance of a business.
 - B. Accounting ratios facilitate comparisons between different accounting periods.
 - C. Accounting ratios are common tools for comparing the financial position of firms of different industries.
 - D. Accounting ratios better reflect the profitability and liquidity of a firm than the figures in the financial statements.

3. Which of the following factors would result in an increase in Hang Seng Index?
 - A. Increase in unemployment rate
 - B. Rise in interest rate
 - C. Improvement in economic conditions
 - D. Improvement in performance of a red chip company

4. To cope with the environmental protection regulations, Alice Company is now putting a lot of efforts against pollution by modifying its production process and reviewing its packaging methods so that it can follow the law and, even more, protect the health conditions of the nearby community. Which of the following is not the major concern for Alice Company in its initiative?
 - A. Staff morale
 - B. Cost control
 - C. Legal responsibility
 - D. Reactions of stakeholders

5. Mr. Chan has been operating a fast food restaurant for many years. He wants to be a franchisor. Which of the following is a reason supporting the franchise arrangement?
 - A. He can reduce the time and effort in decision-making.
 - B. He can innovate with more kinds of food to attract customers.
 - C. He can use resources of franchisees to increase the market share of his brand.
 - D. He can obtain marketing and management support from the franchisees.

6. A trade debtor repaid his debt by cheque to Lily Company. What is the impact of this transaction on the accounting equation of Lily Company?
- A. Assets decrease and liabilities decrease
 - B. Assets increase and liabilities decrease
 - C. Assets increase and equity decreases
 - D. No impact
7. Which of the following are characteristics of a multinational corporation?
- (1) Influenced by multicultural environment
 - (2) Incorporated as a public limited company
 - (3) Obtains benefits from economies of scale
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
8. Wing Kee Company plans to buy a new machine for \$2 500 000 after three years. The company is going to invest in a financial product that guarantees an annual return of 6%. What is the minimum amount Wing Kee Company should invest now to accumulate enough money to buy the machine three years later?
- A. \$2 016 130
 - B. \$2 099 050
 - C. \$2 358 500
 - D. \$2 977 540
9. In a normal situation, which of the following statements regarding risks and returns is correct?
- A. Bonds involve a lower risk but a higher return than deposits.
 - B. Share is a high risk product but may yield a higher return than bonds.
 - C. Share is the best investment tool for investors aged over 60 as this kind of investment product has an average risk and return.
 - D. Bonds are investment products without risk.
10. Which of the following is a function of a trial balance?
- A. To detect the arithmetical errors of double entries
 - B. To report the profit or loss made by a company
 - C. To present the financial position of a company
 - D. To record transactions

11. Based on the MPF Scheme in Hong Kong, a self-employed person has the legal obligation to enrol in an MPF scheme and make contributions. Which of the following is not classified as a self-employed person under the MPF System?
- A. A person earns income from production of or trading in goods or services
 - B. A person is not an employee but provides services to companies
 - C. A sole proprietor
 - D. A company director
12. If the opening inventory is \$600 000, cost of goods purchased is \$3 800 000, and closing inventory is \$500 000, cost of goods sold is:
- A. \$3 700 000.
 - B. \$3 800 000.
 - C. \$3 900 000.
 - D. \$4 900 000.
13. Peter is now preparing the journal entries of business transactions. Which of the following functions of accounting is he working on?
- A. Communicating
 - B. Classifying
 - C. Summarising
 - D. Recording
14. Many factories use the principle of division of labour because:
- A. workers' efficiency can be improved.
 - B. it is easier for managers to supervise the production process.
 - C. workers can handle those tasks in which they are more competent and proficient.
 - D. All of the above.
15. Buying insurance is an example of _____ while installing fire alarm is an example of _____.
- A. risk reduction ... risk avoidance
 - B. risk assumption ... risk transfer
 - C. risk transfer ... risk reduction
 - D. risk avoidance ... risk assumption
16. Which of the following is an advantage of small and medium enterprises?
- A. Fast decision making process
 - B. Easy delegation
 - C. Efficient management by professionals
 - D. More systematic operations

17. Which of the following is/are the importance of entrepreneurship in economic growth?
- (1) Promotes competition
 - (2) Eliminates monopoly
 - (3) Prevents foreign importation
- A. (1) only
B. (1) and (2) only
C. (2) and (3) only
D. (1), (2) and (3)
18. The bank informed Karry Company that a cheque (from a customer) was dishonoured. Which of following are correct double entries for this transaction?
- A. Dr. Bank account; Cr. Trade receivables account
B. Dr. Bank account; Cr. Trade payables account
C. Dr. Trade receivables account; Cr. Bank account
D. Dr. Trade payables account; Cr. Bank account
19. Company A sold 50 items at a list price of \$25 each to Company B in April and a trade discount of 5% was allowed. Few days later, Company B returned two defective items. It then settled its account within the credit period and 10% cash discount was allowed. How much did Company A receive from Company B?
- A. \$1026.00
B. \$1023.75
C. \$562.50
D. \$540.00
20. Which of the following terms describes “the number of staff who report directly to a designated supervisor”?
- A. Delegation
B. Span of control
C. Organisation chart
D. Leadership
21. Which of the following is not a disadvantage for businesses ignoring their social responsibilities?
- A. Damage the company image
B. Be sued for compensation
C. Result in imposition of stricter rules
D. Increase operating cost

22. Which of the following are the limitations of financial statements?
- (1) Firms use different accounting policies and methods
 - (2) Personal judgements and bias are involved
 - (3) Only qualitative information is shown
 - (4) Current and historical data are used to prepare financial statements
- A. (1) and (2) only
 - B. (1), (2) and (3) only
 - C. (1), (3) and (4) only
 - D. (1), (2), (3) and (4)
23. Which of the following is/are not financial statement(s)?
- (1) Bank statement
 - (2) Income statement
 - (3) Trial balance
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
24. Which of the following principles or concepts can appropriately explain the accounting treatment of the scenario listed on the right?
- | <u>Principle or concept</u> | <u>Scenario</u> |
|-----------------------------|---|
| A. Accrual | Customer relationship is recorded as a non-current asset |
| B. Going concern | Rent of the owner's residence paid by the company is recorded as drawings |
| C. Consistency | Building is depreciated using the same method every year |
| D. Business entity | Cost, instead of market value, of the building is recorded |
25. Which of the following is commonly established in form of small and medium enterprise?
- A. Import / export trading
 - B. Real estate developer
 - C. Department store
 - D. Tele-communications
26. A company owns a factory in Shenzhen and manufactures 15 different types of electrical appliances. Which of the following is the most appropriate way for the company to set up its management structure?
- A. By sources of raw materials
 - B. By geographical locations
 - C. By product types
 - D. By customer groups

27. Which of the following statements is correct?
- A. Consumers must repay in full the credit card balance before a fixed deadline.
 - B. Bank interest is not charged on an overdraft amount not exceeding the preapproved limit.
 - C. Borrowers of revolving personal loans have a fixed number of payments to repay the interest and the principal.
 - D. Consumer credit reduces the need to carry a large amount of cash.
28. Which of the following are the rights and duties of consumers of financial services?
- (1) Right to file a complaint
 - (2) Right to ask for sufficient information from the broker and the bank
 - (3) Duty to monitor the securities account
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
29. Which of the following is not a duty of a human resources manager?
- A. Ensure fairness in performance appraisal system
 - B. Perform quality control
 - C. Recruit suitable employees
 - D. Ensure that the company complies with labour regulations
30. Which of the following are contributing to closer business and trade relationship between Hong Kong and Mainland China?
- (1) Hong Kong is close to Mainland China.
 - (2) Hong Kong enterprises can establish their businesses freely in Mainland China.
 - (3) Hong Kong investors relocate their factories to Mainland China to reduce rental and labour costs.
- A. (2) and (3) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)

End of Section A

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

1. The following is the trial balance of Queen Company as at 31 October 2015. Some of the accounts are listed on the wrong side of the trial balance.

Trial Balance as at 31 October 2015		
	Dr. \$	Cr. \$
Capital		630 000
Drawings		5 000
Sales		1 400 000
Purchases	700 000	
Inventory, at 1 November 2014		80 000
Office equipment	945 000	
Trade receivables		86 200
Bank	95 990	
Trade payables	67 900	
Bank loan	100 000	
Carriage inwards		17 000
Salaries	72 500	
Carriage outwards		18 500
Rent and rates		83 510
Sundry expenses	30 500	
Electricity		71 700
Commission income	<u>8 000</u>	<u>71 700</u>
	<u>2 019 890</u>	<u>2 391 910</u>

Draw up a corrected trial balance as at 31 October 2015. (6 marks)

2. Expecting rapid economic growth in future, Kammy Garment Company Limited is now planning to expand its business to increase revenue by introducing a new product.

State and briefly explain four key business functions that may be affected in its future expansion. (8 marks)

3. Ms. Lam and Mr. Chan purchased financial products with characteristics as follows:

Ms. Lam's financial products:	Mr. Chan's financial products :
• Holders are entitled to part of the ownership of the issuing company	• Holders are not entitled to any ownership of the issuing company
• No repayment date	• Fixed repayment date
• Holders receive returns depends on performance of the issuing company	• Holders receive fixed return

- (a) State the respective type of financial products bought by Ms. Lam and Mr. Chan. (2 marks)
- (b) In addition to the above mentioned features, state two other features to differentiate between these two types of financial products. (4 marks)

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

4. Ho Wah Seafood Restaurant is owned by eight persons. They are responsible for the daily operations and management of the restaurant and bear unlimited liability.

- (a) State the form of business ownership of Ho Wah Seafood Restaurant. (1 mark)
- (b) List three features of this form of business ownership. (3 marks)

The following information is extracted from the books of Ho Wah Seafood Restaurant for the two years ended 31 December 2013 and 2014:

	<u>2013</u>	<u>2014</u>
	\$	\$
Sales	5 600 000	5 400 000
Cost of sales	2 800 000	2 800 000
Expenses	1 400 000	1 223 000

- (c) Calculate the net profits and net profit ratios for each of the years of 2013 and 2014 respectively and briefly explain whether the profitability of the business deteriorated in 2014. (6 marks)

5. Mr. Mak is the marketing manager of a trading firm. In view of the poor performance of last year, he told his subordinates that the goal of this year was to increase sales significantly. He was confident about the ability of his subordinates and allowed full autonomy in their work. However, by the end of the year, it was found that the performance was still not satisfactory.

- (a) Identify the leadership style of Mr. Mak. (1 mark)
- (b) Name two circumstances under which Mr. Mak's leadership style is not appropriate. (4 marks)

Mr. Mak saw the following promotional offer for a credit card of Edwin Bank:

Edwin Bank
U-Like Visa

- Successfully apply for U-Like Visa to get a

Foldable
Bike¹

OR

Leather
Luggage¹

OR

Smart
Phone¹
- Credit limit up to 12 times of monthly salary!
- Lower interest rate²!
- Enjoy up to 120-day interest-free repayment period for all travel and overseas spending³!

Terms and conditions:

- 1 With accumulated retail spending or cash advance of HK\$6000 or above within three months from the date of card issuance.
- 2 Monthly interest rate on normal spending:

<u>Outstanding balance</u>	<u>Monthly interest rate</u>
Below \$20 000	3%
\$20 000 or above	2%
\$50 000 or above	1%
- 3 Monthly interest rate after 120-day interest-free repayment period is 5%.

- (c) State two advantages and two disadvantages of using the above credit card of Edwin Bank. (4 marks)
- (d) Mr. Mak is now considering purchasing a residential flat for his personal use. Suggest an appropriate type of consumer credit to him. (1 mark)

END OF PAPER

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
EXAMINATION IN BAFS

Paper 1

Accounting and Business Essentials

Suggested Answers

SECTION A (60 marks)

Question	Key
1.	A
2.	C
3.	C
4.	B
5.	C
6.	D
7.	B
8.	B
9.	B
10.	A
11.	D
12.	C
13.	D
14.	D
15.	C
16.	A
17.	A
18.	C
19.	A
20.	B
21.	D
22.	A
23.	C
24.	C
25.	A
26.	C
27.	D
28.	D
29.	B
30.	C

SECTION B (30 marks)**Part 1** (20 marks)

1.

Queen Company			
Trial Balance as at 31 October 2015			
	Dr.	Cr.	Marks
	\$	\$	
Capital		630 000	
Drawings	5 000		[0.5]
Sales		1 400 000	
Purchases	700 000		
Inventory, at 1 November 2014	80 000		[0.5]
Office equipment	945 000		
Trade receivables	86 200		[0.5]
Bank	95 990		
Trade payables		67 900	[0.5]
Bank loan		100 000	[0.5]
Carriage inwards	17 000		[0.5]
Salaries	72 500		
Carriage outwards	18 500		[0.5]
Rent and rates	83 510		[0.5]
Sundry expenses	30 500		
Electricity	71 700		[0.5]
Commission income		8 000	[0.5]
	<u>2 205 900</u>	<u>2 205 900</u>	[1]

(6 marks)

2. Operations management – The company has to evaluate the current production process as well as the production capacity to see if there is any improvement through streamlining the process in order to save cost and any spare production capacity to manufacture the new product in order to increase future revenue.

Human resources management – The company has to liaise with different departments to evaluate the current manpower position to see if there is a need to employ additional manpower for the expansion. The company also needs to assess the training needs of the current workforce in order to improve the effectiveness and efficiency of the company.

Marketing management – The company has to carry out market analysis and figure out the future promotional plan for the new product. It also needs to contact the existing customers for recurring business.

Financial management – The company has to evaluate whether there is a need to raise additional capital for this expansion. If a need exists, it has to decide how to raise the fund to finance this expansion and control all the financial resources in order to ensure it is within the budget.

Information management – The company may have to design new or improve the current information systems so as to support the new expansion.

Risk management – The company has to identify the possible risks that it may face in this expansion in order to ensure it can bear these risks.

(Any four, 2 marks each, maximum 8 marks)

3. (a) Ms. Lam purchased ordinary shares; while Mr. Chan purchased bonds. **(2 marks)**
- (b) In addition to the above-mentioned features, the financial products that Ms. Lam and Mr. Chan bought have the following differences:
- (1) Bondholders have no voting rights. Therefore, they cannot participate in the important decisions of the company. Ordinary shareholders have voting rights. They may participate in the company's annual general meeting, and they can take part in the important decisions of the company.
 - (2) Bondholders have priority in receiving interest returns. However ordinary shareholders receive dividends after the bondholders have been paid interests.
 - (3) When the company goes into liquidation, bondholders have the priority to get back their investments. Ordinary shareholders recover their funds invested after bondholders have been paid.
 - (4) Bondholders can probably get back the full amount invested. Ordinary shareholders may not get back the full amount invested.
- (Any other relevant points)

(Any two points, 2 marks each, maximum 4 marks)

(Total: 6 marks)

Part 2 (10 marks)

4. (a) General partnership (1 mark)

(b) Features of partnership:

(1) Partners bear unlimited liability for the business. [1 mark]

(2) A partnership is not a separate legal entity. [1 mark]

(3) A partnership has no continuity on the death or insolvency of a partner. [1 mark]

(Any other relevant points) (3 marks)

(c) Net profit

2013 $\$5\,600\,000 - \$2\,800\,000 - \$1\,400\,000$
 $= \$1\,400\,000$ [1 mark]

2014 $\$5\,400\,000 - \$2\,800\,000 - \$1\,223\,000$
 $= \$1\,377\,000$ [1 mark]

Net profit ratio

2013 $\$1\,400\,000 \div \$5\,600\,000 = 25\%$ [1 mark]

2014 $\$1\,377\,000 \div \$5\,400\,000 = 25.5\%$ [1 mark]

The net profit ratio has increased in 2014.

The profitability of the business improved instead of deteriorating in 2014. [2 marks]

(6 marks)

(Total: 10 marks)

5. (a) Leadership style: Laissez-faire / Free-rein (1 mark)

(b) Circumstances under which Laissez-faire leadership is not appropriate:

- (1) when the subordinates are inexperienced
- (2) when the subordinates have low motivation at work / are not willing to take up responsibilities
- (3) when the information needed for decision-making is available to the manager only
- (4) when the tasks require a high degree of cooperation and coordination

(Any other relevant points)

(Any two points, 2 marks each, maximum 4 marks)

(c) Advantages

- (1) Mr. Mak can enjoy flexible repayments since he is only required to settle the monthly minimum payments on time and he can settle the balance in full at any time.
- (2) Mr. Mak can enjoy longer repayment period especially for overseas spending and travel.
- (3) Credit cards are widely accepted by stores all over the world.
- (4) Credit card is convenient and safe. Mr. Mak does not need to carry too much cash, hence reducing the risk of theft.

(Any other relevant points)

[Any two points, 1 mark each, maximum 2 marks]

Disadvantages

- (1) Mr. Mak needs to pay high interest charges if he does not settle the balance in full.
- (2) It could be a trap for creating heavy debts because of the excessive credit limit.
- (3) Some shops, especially those selling low-value products, may refuse to accept credit card payments.

(Any other relevant points)

[Any two points, 1 mark each, maximum 2 marks]

(4 marks)

(d) Mr. Mak should apply for a personal loan (mortgage loan). (1 mark)

(Total: 10 marks)

END

HKICPA Examination in BAFS

December 2015 / January 2016 Session

Examiner's Report of Paper 1

General Comments

This paper aimed at testing candidates' competence, in terms of awareness, knowledge and application of the essentials in accounting, business environment, business management and personal financial management. The overall performance was good. Candidates generally did well in computational questions. However, they were weak in answering essay-type questions and some did not even seem to have understood the requirements of the questions.

Candidates were expected to have a good understanding of the relevant concepts and be able to explain and apply them to the given scenarios. Some candidates did not read the instructions carefully and answered more questions than required. For this paper, candidates were required to answer all the three compulsory questions and only one optional question in Section B.

Section A – Multiple-choice Questions

The overall performance in Section A was very good and more than 92% of the candidates managed to score more than 50% of the marks allocated to this section. The questions included both conceptual and computational issues and covered almost all aspects of the four main areas in the compulsory part of the BAFS curriculum, namely, introduction to accounting, business environment, introduction to management and basics of personal financial management. Candidates generally performed better in questions on business management, accounting and personal financial management areas than in business environment area. They generally performed poorly in Questions A1, A4, A11, A22, A25 and A30. Some candidates were careless in reading the questions, resulting in irrelevant answers.

Section B –Short Questions

Compulsory Questions

Question 1

Candidates generally did very well in this question. Most managed to list the balances of ledger accounts in the appropriate columns of the trial balance. However, a few were not familiar with the 'normal balance' of the various ledger accounts. Some also confused trade receivables with trade payables, thus they listed the balances in the wrong columns.

Question 2

Candidates' performance in this question was far from satisfactory. While some did not answer this question at all, many mistakenly stated and explained the management functions instead of the business functions as required by the question. There were also a few who failed to focus on the effects of business expansion on the business functions.

Question 3

Candidates' performance in this question was fair. In part (a), not many candidates could state correctly the financial products bought by Ms. Lam and Mr. Chan. Candidates in general were not familiar with the nature of various financial products. While most could not identify the characteristics of ordinary shares, some were also not clear about the characteristics of bonds and preference shares. In part (b), quite a number of candidates tended to repeat the features as given in the question.

Optional Questions

Question 4

Most candidates attempted this question and the general performance was good. Majority of them stated the correct form of business ownership in part (a). In part (b), candidates generally had no difficulty in listing three features of a partnership as required by the question. However, some mistakenly stated the advantages and disadvantages of a partnership instead. Part (c) of this question was well-answered. Candidates generally managed to compute and explain the net profits and net profit ratios of the two years correctly.

Question 5

Candidates' performance in this question was satisfactory. In part (a), while a few could not identify the leadership style of Mr. Mak, many could not write the proper name of his leadership style as well. The performance in part (b) was good and most could at least state one circumstance under which laissez-faire style was not appropriate. Quite a number of candidates just copied the information from the question and failed to state the advantages and disadvantages of using the credit card in part (c). The points given by a handful of candidates were contradictory and confusing. In part (d), most candidates could suggest an appropriate type of consumer credit.

[END]