

HONG KONG ASSOCIATION FOR BUSINESS EDUCATION
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2011/12

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES
MOCK EXAMINATION
PAPER 1

Time allowed: 1½ hours
This paper must be answered in English.

GENERAL INSTRUCTIONS

1. There are TWO sections, A and B in this paper. Section A carries 60 marks and Section B carries 40 marks. You are advised to finish Section A in about 45 minutes.
ANSWER ALL QUESTIONS.
2. Section A consists of multiple-choice questions in this question book. Section B contains conventional questions printed separately in Question-Answer Book B.
3. Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the spaces provided in Question-Answer Book B. **The Answer Sheet for Section A and the Question-Answer Book for Section B must be handed in separately at the end of the examination.**

SECTION A (MULTIPLE-CHOICE QUESTIONS)

INSTRUCTIONS

1. Read the instructions on the Answer Sheet carefully.
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 should use an HB pencil to mark all your answers on the Answer Sheet. Wrong marks must be completely erased.
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

Mark all your answers for Section A on the multiple-choice answer sheet provided. Read carefully the instructions on the answer sheet and insert the information required in the space provided.

1. Which of the following recording procedure is correct?
 - A. Cash sales recorded in sales journal → debited to trade debtor's account → monthly total posted to credit side of sales account in the general ledger
 - B. Credit purchases recorded in purchases journal → credited to trade creditor's account → monthly total posted to debit side of purchases account in the accounts payable ledger
 - C. Purchases returns recorded in returns outwards journal → credited to trade creditor's account → monthly total posted to debit side of returns outwards account in the general ledger
 - D. Sales returns recorded in returns inwards journal → credited to trade debtor's account → monthly total posted to debit side of returns inwards account in the general ledger

2. Which of the following statement(s) concerning a three-column cash book is/are correct?
 - (i) The discount received column records trade discounts which are offered by suppliers for bulk purchases.
 - (ii) At the end of the month, the discounts columns will be balanced off to find out the net amount of discounts.
 - (iii) A credit balance in the bank column of a cash book indicates a bank overdraft.
 - (iv) It is not possible for a cash column to show a credit balance.
 - A. All of the above
 - B. (i), (iii) and (iv)
 - C. (iii) and (iv)
 - D. (iv) only

3. The following transactions will be recorded in the general journal except
 - A. Closing off accounts at the end of an accounting period.
 - B. The owner took a laser printer from the company for his own use and he paid \$500 for the printer.
 - C. A motor vehicle bought for delivery of goods is returned to the supplier.
 - D. An out-of-date computer is donated to a charitable organization.

4. Which of the following concerning a trial balance is true?
- (i) A trial balance with the totals of its credit and debit balances agreed to each other means that there are no errors in the accounts.
 - (ii) A trial balance ensures the accuracy of double entries in the ledger accounts.
 - (iii) A trial balance can only be prepared at the end of an accounting period.
 - (iv) A trial balance can locate errors.
- A. (ii) only
B. (ii) and (iii)
C. (ii), (iii) and (iv)
D. None of the above
5. The total of debit balances exceeds the total of credit balances by \$200 in a trial balance can result from:
- A. Carriage inwards of \$200 is wrongly added to the carriage outwards in the trial balance.
B. The \$200 balance in the drawings account is missing in the trial balance.
C. A \$100 bank overdraft is listed in the wrong column of the trial balance.
D. A credit balance of \$100 in a debtor's account is not listed in the trial balance.
6. Which of the following concerning the accrual concept are correct?
- (i) It reflects the financial position of a business.
 - (ii) It determines the profit of a business for an accounting period.
 - (iii) Sales revenue should be recorded when the goods are delivered and accepted by customer.
 - (iv) Expenses are incurred when money is paid.
- A. (ii) and (iii)
B. (i) and (iii)
C. (iii) and (iv)
D. (ii), (iii) and (iv)
7. When a marketing manager completed a marketing campaign for a product and received very positive results in raising customers' awareness on the product but the actual expenses on the campaign far exceeded the budgeted expenditures. The manager's performance can be described as:
- A. low efficiency/low effectiveness
B. low efficiency/high effectiveness
C. high efficiency/high effectiveness
D. high efficiency /low effectiveness

Refer to the following information relates to BB Company for the year ended 31 December 2011 for Question 8 - 9:

	\$
Petty cash	800
Office equipment	32 000
Bank overdraft	7 000
Net profit for the year	9 000
Accounts payable	15 000
Bank loan, repayable on 1 January 2013	50 000
Motor vehicles	20 000
Drawings	6 000
Accounts receivable	28 000
Inventories as at 31 December 2011	120 000

8. Calculate the capital as at 1 January 2011.

- A. \$125 800
- B. \$128 800
- C. \$134 800
- D. \$ 8 800

9. Calculate the liquid ratio as at 31 December 2011.

- A. 0.40:1
- B. 2.39:1
- C. 1.31:1
- D. 1.92:1

Refer to the following information relates to CC Company for the year ended 30 September 2011 for Questions 10:

	Dr \$	Cr \$
Inventory as at 1 October 2010	50 000	
Inventory as at 30 September 2011	62 000	
Carriage outwards	5 000	
Returns	200	800
Discounts	120	450
Purchases	80 000	
Sales		135 000
Interest income		300
Other expenses	20 480	

10. Calculate the gross profit ratio for the year.
- A. 46.44%
 - B. 49.63%
 - C. 50.07%
 - D. 50.15%
11. Objections to bringing ethics into business include:
- (i) in a free market economy, the pursuit of profit will ensure maximum social benefit
 - (ii) a manager's most important obligation is to the company
 - (iii) business ethics is limited to obeying the law
 - (iv) consumers will have to pay a higher price
- A. (i) & (ii) only
 - B. (ii) & (iii) only
 - C. (i) & (iv) only
 - D. All of the above
12. The disadvantages of globalization include:
- (i) the threat that control of world media by a handful of corporations will limit cultural expression
 - (ii) spread of materialistic lifestyle and attitude that sees consumption as the path to prosperity
 - (iii) increased flow of skilled and non-skilled jobs from developing nations to developed nations
 - (iv) more allegation of dumping between nations
- A. (i) & (iv) only
 - B. (i), (ii), (iv) only
 - C. (ii) & (iii) only
 - D. (ii), (iii) & (iv) only
13. Managers are not willing to delegate because
- (i) they can do a better job themselves
 - (ii) the task is routine
 - (iii) they fear they would be replaced by their subordinates
 - (iv) they are accountable for their subordinates' actions
- A. (i) & (iii) only
 - B. (i), (iii) & (iv) only
 - C. (ii), (iii) & (iv) only
 - D. All of the above

14. Arrange the process of decision making in the correct sequence:

- (i) identifying problems / opportunities
- (ii) evaluate alternatives
- (iii) follow up to determine effectiveness of decision
- (iv) develop alternatives
- (v) selecting alternatives
- (vi) implementation of alternatives

- A. (i)→(ii)→(iv)→(vi)→(v)→(iii)
- B. (i)→(iv)→(ii)→(v)→(vi)→(iii)
- C. (i)→(ii)→(iv)→(v)→(vi)→(iii)
- D. (i)→(iv)→(v)→(vi)→(ii)→(iii)

15. A functional structure has the following disadvantages except:

- (i) It fosters development of expertise
- (ii) Responsibility to customers is less clear
- (iii) Less incentive for staff as each one's contribution to success is difficult to measure
- (iv) Relatively less costly for the organization

- A. (i) & (iv) only
- B. (i), (ii) & (iii) only
- C. (ii), (iii) & (iv) only
- D. (ii) & (iii) only

16. The following is/are the characteristic(s) of a limited company:

- (i) lack of continuity
- (ii) separation of ownership and management
- (iii) liability of the company is limited
- (iv) shareholders can always sell their shares freely in the market

- A. (i) & (iv)
- B. (ii) & (iii)
- C. (ii) & (iv)
- D. (ii) only

17. Which of the following statement concerning informal communication is true?
- A. informal communication takes place outside the office
 - B. informal communication has a lot of jargons
 - C. informal communication helps to satisfy social needs of employees
 - D. informal communication can only be harmful to management
18. Entrepreneurship is a factor of production because an entrepreneur:
- A. hires labour to produce products.
 - B. provides capital to a business.
 - C. combines other factors of production innovatively to satisfy human needs.
 - D. finds opportunities in the market.
19. Which of the following is not included in the marketing mix?
- A. product
 - B. promotion
 - C. channel
 - D. market research
20. Manpower planning ensures that
- A. the company gets workers who are qualified and skillful.
 - B. the best candidates are selected for jobs.
 - C. the company has the right number and kinds of workers.
 - D. the company gets highly motivated workers to attain the best productivity.
21. A company with a tall structure
- A. has lower administration costs
 - B. has narrower span of control
 - C. has higher efficiency in communication
 - D. has greater flexibility

22. When a manager acts as a figurehead for his company, which management role is he playing?
- A. interpersonal role
 - B. decision making role
 - C. human resourcing role
 - D. information role
23. Which of the following item should not be included in the personal income statement?
- A. Utilities bill.
 - B. Tax withheld.
 - C. Mortgage payment.
 - D. The outstanding balance of your mortgage.
24. Which of the following statement about “compounding” is correct?
- A. Compounding applies simple interest in calculating the future value of a cash flow.
 - B. Compounding applies compound interest in calculating the future value of a cash flow.
 - C. Compounding applies simple interest in calculating the present value of a cash flow.
 - D. Compounding applies compound interest in calculating the present value of a cash flow.
25. What is the correct sequence of a personal financial planning process?
- (i) Presenting the financial plan
 - (ii) Monitoring
 - (iii) Fact-finding and determining the financial needs
 - (iv) Implementation
 - (v) Developing the financial plan
- A. (v), (i), (iii), (iv), (ii)
 - B. (iii), (v), (i), (iv), (ii)
 - C. (v), (iii), (i), (iv), (ii)
 - D. (iii), (iv), (ii), (v), (i)

26. How do collective investment funds reduce the risk of their capital invested in their underlying assets?
- A. Their high trading volume allows them to buy investments at cheaper prices.
 - B. Their large amount of investment funds allows them to spread their investments amongst different assets.
 - C. Their large amount of investment funds allows them to eliminate the market risk.
 - D. Their large amount of investment funds allows them to influence financial markets.
27. After the implementation of Minimum Wage Ordinance, what is the **new** minimum level of relevant income for the mandatory contributions of Mandatory Provident Fund (MPF) Scheme in Hong Kong?
- A. \$5,000
 - B. \$5,500
 - C. \$6,500
 - D. \$8,000
28. _____ are limited liability companies that sell their shares on the stock market. Their business is to invest in securities and other assets for the benefit of the shareholders.
- A. Investment trusts
 - B. Unit trusts
 - C. Securities firms
 - D. Insurance companies
29. What risk rating would you give to an investment in the credit default swap (CDS) of a European country?
- A. No risk
 - B. Low risk
 - C. Medium risk
 - D. High risk
30. What effect will a substantial fall in interest rates have on fixed income securities?
- A. Their market value will go down.
 - B. Their market value will go up.
 - C. The income from them will fall.
 - D. The income from them will rise.

END OF SECTION A

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B

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EDUCATION EXAMINATION 2011/12

**BUSINESS, ACCOUNTING AND
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PAPER 1

SECTION B: Question-Answer Book B

This paper must be answered in English.

INSTRUCTIONS

- (1) Write your name (in English) and information in the Space provided in the top right hand corner.
- (2) Refer to the general instructions on the cover of the Question Book for Section A.
- (3) The questions in this Question-Answer Book carry 40 marks. Answer ALL questions.
- (4) Write your answers to Section B in the spaces provided in this Question-Answer Book. Do not write in the margins. Answers written in the margins will not be marked.
- (5) Supplementary answer sheets will be provided on request. Write your candidate number, fill in the question number. Tie them loosely but securely with a string **INSIDE** this Question-answer Book.

Name of Candidate :

Centre – Location	Seat No.

		Marker's Use Only	Examiner's Use Only
		Marker No.	Examiner No.
Question No.		Marks	Marks
1	a		
	b		
	c		
	d		
	Total		
2	a		
	b		
	c		
	d		
	e		
	Total		
Total (Sect. B)			

Write your answers for this section in the spaces provided in this Question-Answer Book. Do not write in the margins.

Question 1

Sham Shui Po is an old district with many small-scale grocery stores. Jack, CEO of a large supermarket chain, is very worried about the rising prices, especially in rent and food. Furthermore, implementation of minimum wages makes it very hard for the supermarket to control its expenses and to keep its position as a ‘value for money’ chain store. Therefore, Jack would like his financial manager, John, to help him put on a tighter control.

(1)(a) Give three advantages of a small-scale shop over the large chain stores.

(3 marks)

(1)(b) Identify three factors which affect differently large corporations and small firms in carrying out their social responsibilities.

(6 marks)

- (1)(c) Describe three managerial skills that are needed for John to perform his duties well in this situation and state which skill is more important for a functional manager like John. (7 marks)

- (1)(d) Explain one of the management functions that can help John to tighten financial control. (2 marks)

(Total: 18 marks)

This is the End of Question 1

Due to the great support from the public, Mr. Hong decided to take Option 2, i.e. continue his café business. He realised that the café needs to be furnished so as to attract more customers but that might cost him \$1,000,000. He plans to seek for a long-term loan from the bank.

- (2)(c) From the perspective of the bank, how should the credibility of Mr. Hong's loan be assessed? (4 marks)

- (2)(d) Since Hong Kee Café is popular in Hong Kong, Mr. Hong wishes to expand its operations in nearby cities such as Shenzhen in Mainland. Explain three relevant factors on the business environment for Hong Kee Café's operations. (3 marks)

- (2)(e) Mr. Hong is considering opening a store in either one of the two locations in Shenzhen. The information about the cash flows is shown below:

Timing	<u>Project A</u> Location 1 Cash inflows (\$)	<u>Project B</u> Location 2 Cash inflows (\$)
Beginning of Year 1	-1,021,000	-450,000
End of Year 2	400,000	580,000
Beginning of Year 3	450,000	0
End of Year 3	500,000	0

- (i) If the rate of discount is 12 percent, calculate the Net Present Values (NPV) of the two projects? Which location should Mr. Hong choose?
(Calculation to the correct cents) (4 marks)

- (ii) If the overall risk of investment has increased drastically, what adjustment should be made to the rate of discount? Will it change the decision in (i)? Which project will be affected more by the uncertainty of cash flows estimation? Explain your decisions. (4 marks)

(Total: 22 marks)

This is the End of Question 2

End of Paper

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