

HONG KONG ASSOCIATION FOR BUSINESS EDUCATION

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2016/17

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES
MOCK EXAMINATION
PAPER 1

Time allowed: 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. Write your English name, examination centre and seat number in the space provided.
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 (60 marks)

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

1. Which of the following statement is not correct?
 - A. The higher the risk, the higher the return.
 - B. Higher risk of investments does not necessarily bring higher return.
 - C. Market risks cannot be diversified.
 - D. No risk no return
2. Which of the following statement describes the role of the World Trade Organization (WTO)?
 - A. Reduce and eliminate tariff and non-tariff barriers to trade and investment.
 - B. Promote free trade and serve as a forum for multilateral trade negotiations for developed countries.
 - C. Enforce the rules of trade and arbitrates in trade disputes between its members.
 - D. Promote economic development and global trading of all countries.
3. Which of the following are the limitations of financial statements?
 - (1) Only provide historical information
 - (2) Only provide quantitative information
 - (3) Could not reflect the current values of the company's assets
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
4. Which of the following characteristic(s) is/are common to both private limited companies and public limited companies?
 - (1) At least have one company shareholder
 - (2) Need to disclose financial information to its shareholders
 - (3) Shares can be transferred
 - A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
5. Which of the following is/are internal factor(s) affecting share price of a bank?
 - (1) Policy of the bank to declare dividends
 - (2) Prospects of the industry
 - (3) Loan interest rate offered by the bank to a customer
 - A. (1) only
 - B. (2) only
 - C. (1) and (2) only
 - D. (1) and (3) only

6. Smart Company sold 300 items of goods on credit to Mr. Chan at a list price of \$100 each. Since Mr. Chan is a loyal customer, the company offered him with a 10% trade discount and 5% cash discount. However, Mr. Chan repaid the amount after the allowed repayment date, so Smart Company required him to pay an interest of \$250. What should be the double entries for the repayment transaction in Mr. Chan's accounting records?

	<i>Dr</i>	<i>Cr</i>
A.	Bank \$25,650 Discount allowed \$1,350	Mr. Chan \$27,000
B.	Smart Company \$30,250	Bank \$30,250
C.	Smart Company \$25,900	Bank \$25,900
D.	Smart Company \$27,250	Bank \$27,250

7. The disadvantage(s) of division of labour to the manufacturing company is /are
- (1) Difficult to motivate the workers
 - (2) Lead to interdependence in the production process
 - (3) Labour force will lose their job opportunities and will be replaced by machines
- A. (1) only
B. (1) and (2) only
C. (2) and (3) only
D. (1) and (3) only
8. Which of the following are correct criteria of listing requirements for the Growth Enterprise Market in Hong Kong?
- (1) Meet the minimum requirement on total cash flow from operating activities for the two financial years before the issue of the listing document
 - (2) Meet the minimum requirement on market capitalization at the time of listing
 - (3) A trading record of at least two full financial years under the ownership and control of the same party
- A. (2) only
B. (1) and (2) only
C. (1) and (3) only
D. (1), (2) and (3)
9. Which of the following is not a necessary step in effective planning?
- A. Execution of the decision according to final proposal
 - B. Examine external situations and identify the needs and problems of the company
 - C. Prepare an action plan to handle unexpected outcomes
 - D. Formulate and evaluate the alternative options under consideration
10. If the amount of current liabilities is \$100,000 and the current value of inventory is \$44,000 which is 10% above the cost of acquisition. What is the amount of working capital when the quick ratio is 1.5:1?
- A. \$89,600
 - B. \$90,000
 - C. \$98,400
 - D. \$150,000

11. It is the policy of Hanson Bank to accrue interest to deposit accounts at the end of each three-month period. If the effective rate of return of a deposit is 12.6% p.a., what is the annual nominal rate of return?
- A. 11.6%
 - B. 11.7%
 - C. 12.0%
 - D. 12.2%
12. Which of the following is not the advantage of Management by Objective (MBO)?
- A. Subordinates have a higher commitment to the goals of the organization after thorough discussion.
 - B. The organisation goals are translated into objectives for the near future and each subordinate would clearly know the yearly targets to achieve.
 - C. Superiors need much more time to review the action plan periodically but the progress of work is under better control.
 - D. The negotiation between the superiors and subordinates may be demanding and yet there are more opportunities to exchange their thoughts.
13. Which of the following should not be classified as 'Purchases'?
- A. A motor van bought on credit, amount owing repayable during the working life of the van.
 - B. A motor van originally bought for delivery of goods is now put into the warehouse for resale.
 - C. A motor van bought and displayed in the showroom.
 - D. A motor van bought on credit, amount owing repayable after the collection of sales money.
14. Which of the following accounts will be credited when there is an increase in the amount?
- | | | |
|---------------------|-------------------------|---------------------------|
| (1) Electricity. | (2) Loan to ABC Company | (3) Loan from XYZ Company |
| (4) Returns Inwards | (5) Returns Outwards | (6) Interest received |
- A. (1), (2) and (5) only
 - B. (3), (4) and (6) only
 - C. (2), (5) and (6) only
 - D. (3), (5) and (6) only
15. The Financial Secretary unveiled his idea to introduce food trucks in Hong Kong. A well-known restaurant intends to join the scheme. Which of the following marketing strategies are being adopted by this restaurant?
- A. Product and Price
 - B. Price and Place
 - C. Product and Promotion
 - D. Promotion and Place
16. The proprietor of a business draws money from his private savings account to settle the amount owing to a creditor of the business. The ledger entries in the ledger accounts should be:
- A. debit Bank Account, credit Capital Account.
 - B. debit Creditors Account, credit Bank Account.
 - C. debit Creditors Account, credit Capital Account.
 - D. debit Drawings Account, credit Bank Account.

Based on the following information, answer Questions 17 to 18:

Mr. Man is considering investing in either Project A or Project B. The information about the projects is listed below:

	Project A	Project B
	Cash inflows / (outflows)	Cash inflows / (outflows)
Beginning of Year 1	\$ (50,000)	\$ (60,000)
End of Year 2	\$ 40,000	\$ 15,000
Beginning of Year 3	\$ (10,000)	\$ 15,000
End of Year 3	\$ 30,000	\$ 40,000

Discount rate is 5.0% p.a.

17. Calculate the net present value for Project A.

- A. \$3,126
- B. \$3,558
- C. \$4,940
- D. \$10,000

18. Which of the following statement is correct?

- A. Project A should be accepted because the present value is greater than that of Project B.
- B. Project A should be accepted because the net present value is greater than that of Project B.
- C. Project B should be accepted because the net present value is greater than that of Project A.
- D. Project B should be accepted because cash inflows are more frequent than that of Project A.

19. Which of the following is / are the task(s) of the operations management in a mobile phone factory?

- (1) Planning the funds for building sufficient production capacity of mobile phones
- (2) Hiring the staff to assure the quality of mobile phones produced
- (3) Planning production activities according to customers' demand for mobile phones

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

20. Which of the following transactions should not be recorded in the accounting records of a trading company?

- (1) Paying the fee of a playgroup attended by the owner's son with a company's cheque
- (2) Receiving free samples from suppliers
- (3) Returning sub-standard goods back to a supplier and the company does not need to pay the cost of purchases

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

21. Under which of the following circumstances will gross profit ratio definitely drop?
- (1) The volume of sales decreases drastically
 - (2) The growth rate of sales is smaller than the growth rate of cost of goods sold
 - (3) The volume of sales increases moderately but the cost of goods sold greatly increases
- A. (2) only
 - B. (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
22. Which of the following accounting equation is incorrect?
- A. $\text{Assets} - \text{Capital} - \text{Revenue} + \text{Expenses} + \text{Drawings} = \text{Liabilities}$
 - B. $\text{Capital} + \text{Revenue} - \text{Expenses} - \text{Drawings} + \text{Non-current liabilities} = \text{Assets} - \text{Current liabilities}$
 - C. $\text{Current liabilities} + \text{Non-current liabilities} = \text{Non-current assets} + \text{Net current assets} - \text{Capital}$
 - D. $\text{Capital} = \text{Non-current assets} + \text{Current assets} - \text{Non-current liabilities} - \text{Current liabilities}$
23. Which of the following statement about entrepreneurs is incorrect?
- A. Entrepreneurs enhance intense competition in the market and therefore more consumption choices are available for the public.
 - B. Entrepreneurs usually look for and are able to seize new market opportunities to turn ideas into actual products or services.
 - C. Entrepreneurs are willing to take risks of the business and have the drive and determination so the success of the business is guaranteed.
 - D. Entrepreneurs mobilise resources for the production of goods and services and create employment opportunities.
24. Which of the following is / are correct description(s) of SMEs in Hong Kong?
- (1) Accounting for over 90% of the total number of local business establishments
 - (2) Including non-manufacturing enterprises which employ fewer than 100 employees
 - (3) Most of the SMEs are in the import/export trade and finance industries
- A. (1) only
 - B. (3) only
 - C. (1) and (2) only
 - D. (1) and (3) only
25. Which of the following are the advantages of franchising to a franchisor?
- (1) Easy and faster to set up shops in a short period of time
 - (2) Share the operation risk
 - (3) Immediate benefit from a well-known brand
- A. (1) and (2) only
 - B. (2) and (3) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)

26. When a customer returns some goods to a company, the company should receive _____ from the customer.
- A. a debit note
 - B. a confirmation note of goods returned
 - C. an adjusted sales invoice
 - D. a credit note

Based on the following information, answer Questions 27 to 28:

The following financial information was obtained from the accounting records of Wai Ching Company at the year ended 31 December 2016 (after the net profit had been arrived at):

	\$
Capital, 1 January 2016	300,000
Property, plant and equipment (net)	200,000
Bank overdraft	10,000
Rental deposit	50,000
Drawings	46,000
Opening inventory	35,000
Closing inventory	40,000
Net profit	26,000

27. The capital balance of Wai Ching Company as at 31 December 2016 was _____.
- A. \$180,000
 - B. \$254,000
 - C. \$275,000
 - D. \$280,000
28. The only expenditures were purchases of \$72,000, operating expenses of \$55,000 and freight inwards of \$3,000 shown in the income statement for the year ended 31 December 2016. The gross profit for the year was _____.
- A. \$70,000
 - B. \$81,000
 - C. \$84,000
 - D. \$156,000
29. Which of the following is not considered fulfilling social responsibility to customers?
- A. Provide the lowest price to their customers
 - B. Ensure the safety of the products
 - C. Provide product liability insurance
 - D. Provide the hotline service to their customers
30. A tablet computer manufacturer received over 1,500 complaints regarding the defects in the new design and overheating problem of the tablets. Many of the complaints could not reach appropriate managers. Which of the following managers has the least responsibility for this situation?
- A. Risk manager
 - B. Operations manager
 - C. Marketing manager
 - D. Information manager

END OF SECTION A

Section B (30 marks)

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

1. (a) In terms of repayment period, state one advantage and one disadvantage of using bank overdraft as a source of finance instead of an instalment loan. (2 marks)
- (b) Ordinary shares and debentures are two common types of financial instruments. Identify the one with a higher risk and give one reason to explain why the risk is higher. (2 marks)
- (c) If you are a risk-averse investor, what will you choose between the ordinary shares of a large property developer and 20% debentures issued by a small producer of domestic electric appliances? Justify your choice. (2 marks)

<6 marks>

2. After the decision of the United Kingdom's withdrawal from the European Union (Brexit), a large construction company with plenty of cash reserves in Hong Kong was planning to build a recreational facility on a piece of land held on a 7-year lease in Britain. Since it was not familiar with British business environment, it intended to find a local partner in the tourism industry. A new company would be formed to construct and operate the facility.

- (a) Identify and explain the most suitable type of ownership of the new company that will be owned by the Hong Kong and British partner. (2 marks)
- (b) Besides the easy entry into the British market, describe one advantage of the type of ownership in (a) by referring to the case. (2 marks)
- (c) After Brexit, state one political factor and explain how it adversely affects the business decision of setting a new company in Britain by a Hong Kong company. (2 marks)

<6 marks>

3. Jung Ji-hoon is a Korean who owns a food store in Causeway Bay that imports and sells different types of Korean foods with complimentary recipes of cross-culture fusion cuisine. He only uses his own funds to establish the store and manages the operations himself. Due to the expansion of his business, he plans to hire two assistants at the shop.

- (a) List and explain one characteristic of SMEs that is the most important condition for the success of this food store. (2 marks)
- (b) Except the assistants, the government and Jung himself, name two stakeholders in this case and explain the social responsibility of the business to them. (4 marks)
- (c) Jung suggests that the financial statements of his store should adopt the Korean accounting standards instead of the local ones next year. With reference to a relevant accounting concept, explain whether the suggestion of Jung is proper or not. (2 marks)

<8 marks>

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

4. Peter Lau is a sole trader. Peter lost some of the purchases invoices. However, he tried to prepare his own financial statements in respect of the year ended 31 March 2016. The income statement was as follows:

Peter Lau				
Income statement for the year ended 31 March 2016				
	\$	\$	\$	
Inventory at 1 April 2016		20,000	Net sales	183,500
Purchases	90,000		Returns outwards	<u>500</u>
Returns inwards	<u>1,100</u>	?		184,000
		?		
Inventory at 1 April 2015		<u>18,000</u>		
		?		
Net profit c/d		?		
		<u>?</u>		<u>?</u>
Carriage inwards	800		Net profit b/d	?
Discounts received	1,055		Discounts allowed	2,300
Wages and salaries	?		Drawings	9,155
Gross profit	<u>?</u>	?		
		<u>?</u>		<u>?</u>

Other information:

- The capital at 31 March 2016 and 31 March 2015 were \$48,000 and \$30,000 respectively.
- Peter drew a personal cheque of \$5,000 and deposited it into the business bank account on 1 May 2015.

Required:

- Prepare a statement to calculate the net profit for the year ended 31 March 2016. (1 mark)
- Prepare a corrected income statement for the year ended 31 March 2016 in vertical form for Peter Lau. (5 marks)
- Peter Lau owns and manages a company to produce small domestic electric appliances. Peter is a friendly person but does not usually give clear instructions to his subordinates. He gives freedom to his subordinates and mobilizes them to develop innovative products.
 - Describe specifically the relevant management function which is performed by Peter in this case? (1 mark)
 - Identify Peter's leadership style and explain why it is the most suitable to current situation of the company. Also list one possible disadvantage of his leadership style. (3 marks)

<10 marks>

5. Mary prepares the financial statements for every year ended 31 December. In order to enhance the accuracy of accounting records, she prepares the trial balance every single month. The information extracted from Mary's business as at 31 October 2016 is shown below:

	\$
Accounts payables	11,070
Bank overdraft	10,250
Cash	12,400
Accounts receivables	38,200
Donation from a business associate	800
Net sales	52,320
Returns inwards	600
Inventory at 1 January 2016	10,000
Rent received	150
Discounts received	1,300
Purchases	38,000
Capital	?

During the month of November 2016, the following transactions took place:

- Nov 8 Paid \$9,000 in cheque to a supplier, Mr. Chiu. A cash discount of 4% had already been granted to Mary.
- 18 Mary's son took some goods of \$1,500 for his own use.
- 30 Banked \$5,000 cash.

The closing inventory at 30 November 2016 was \$13,000.

Required:

- (a) Draw up a trial balance as at 30 November 2016. (5 marks)
- (b) Prepare a statement to calculate the Net Current Assets (Total Current Assets less Total Current Liabilities) as at 30 November 2016. (1 mark)
- (c) Mary is the CEO of a trading company. Recently, she promoted two managers to supervise marketing department and accounting department separately. However, Mary asked all staff to consult her opinions before making any decision. As a result, the managers could not carry out their work effectively.
- (i) Which effective management principle has been violated in this case? Explain the cause of the problem in this case. (2 marks)
- (ii) State one benefit if the principle is effectively adopted in management. (1 mark)
- (iii) Describe one factor which Mary should consider when she assigns the specific duties to both managers. (1 mark)

<10 marks>

END OF PAPER