

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS &
HONG KONG ASSOCIATION FOR BUSINESS EDUCATION
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2017/18

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.**
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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 circumstances should laissez-faire leadership be adopted by management?
 - A. Subordinates are creative while their works demand a high degree of autonomy.
 - B. Subordinates are young and willing to take up job responsibilities.
 - C. Superior concerns about friendly working environment and provide chances of development for subordinates.
 - D. Subordinates possess required knowledge and skills and superior encourages participation.

2. Rank the following financial instruments in accordance with the investment preferences of a risk-averse investor.
 - (1) A junk bond with a high return rate
 - (2) Shares from companies included in Hang Seng Index
 - (3) Shares from companies listed on the Main Board
 - A. (1)→(3)→(2)
 - B. (1)→(2)→(3)
 - C. (2)→(3)→(1)
 - D. (3)→(2)→(1)

3. “The Hong Kong-Zhuhai-Macau Bridge will be of strategic importance to further economic development of Hong Kong.” The construction of the bridge is an example of _____ which will affect future business decision.
 - A. political factor
 - B. economic factor
 - C. technological factor
 - D. physical factor

4. Which of the following statements are correct?

- (1) An account with a zero balance must not be shown in a trial balance.
- (2) A trial balance will not agree if a credit purchase was debited to the purchases account and credited to the cash account.
- (3) A trial balance will not agree if a salary payment was debited to the salaries account for \$1,000 and debited to the cash account with the same amount.

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

5. In franchise arrangement, a franchisee can _____.

- (1) earn stable income from the operation
- (2) be benefited from the franchise's brand name
- (3) gain support in business management

- 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 are the advantages of using an organisational chart to show the organisational structure of an enterprise?

- (1) The enterprise will avoid deviating from the goal.
- (2) The relationship between superiors and subordinates will become clearer.
- (3) Staff will have a better understanding of the authorities at different ranks.

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

7. Arrange the following steps in chronological order for a planning process:

- (1) develop forecasts and plan assumptions
- (2) implement a plan
- (3) establish objectives
- (4) develop and choose between alternative actions

- A. (1) → (3) → (2) → (4)
- B. (1) → (3) → (4) → (2)
- C. (3) → (1) → (4) → (2)
- D. (3) → (4) → (1) → (2)

8. A company has transferred \$30,000 from its bank current account to a 12-month time deposit account on 31 December 2017. The 12-month time deposit account should be presented as _____ in the _____ .

- A. a non-current asset.....statement of financial position
- B. an expense.....income statement
- C. a current liability.....statement of financial position
- D. a current asset.....statement of financial position

9. In December 2017, a company made the following transactions:

- Dec 11 Purchased goods on credit from C Chan for \$2,400, before deducting a 4% trade discount.
- Dec 19 Returned goods purchased from a supplier on credit for \$180.
- Dec 27 Purchased goods on credit from WH for \$3,500, with 10% cash discount if the payment was made within 7 days.

Calculate the total amount of purchases recorded for the month of December 2017 in its purchases account?

- A. \$5,454
- B. \$5,624
- C. \$5,804
- D. \$5,900

10. Which of the following statement(s) about consumer credit is/are correct?
- (1) Consumer credit is often unsecured.
 - (2) Student loan is a kind of consumer credit.
 - (3) Company usually uses consumer credit to finance its business.
- A. (1) only
B. (1) and (2) only
C. (2) and (3) only
D. (1), (2) and (3)
11. On the first day of 2017, Mable made a 2-year fixed deposit of \$20,000 with interest rate of 8% per annum compounded quarterly. How much will she have (to the nearest dollar) when the fixed deposit matures?
- A. \$23,433
B. \$23,328
C. \$23,200
D. \$20,808
12. Which of the following tasks are performed by marketing department of a company?
- (1) conduct survey on customer needs
 - (2) formulate promotion strategies of products
 - (3) design remuneration package for salespersons
 - (4) sort out customers' data for maintaining customer relationship
- A. (1) and (2) only
B. (3) and (4) only
C. (1), (2) and (4) only
D. (1), (2), (3) and (4)

13. A listed company is going to be privatized. Which of the following are the major incentives for privatization?

- (1) mitigate the risk of being taken over
- (2) keep financial information secret
- (3) save fees to prepare audited financial statements

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

14. Arrange the following tasks in an accounting cycle in correct order.

- (1) post transactions to ledger accounts
- (2) prepare financial statements
- (3) prepare period-end adjustments
- (4) enter transactions in relevant books of original entry
- (5) prepare a trial balance

- A. (1) → (4) → (5) → (3) → (2)
- B. (4) → (1) → (5) → (3) → (2)
- C. (1) → (5) → (4) → (3) → (2)
- D. (4) → (1) → (3) → (5) → (2)

15. Which of the following descriptions about ordinary shares and bonds is correct?

	<u>Ordinary shares</u>	<u>Bonds</u>
A. Returns	higher	lower
B. Voting right	yes	yes
C. Redemption upon maturity	yes	yes
D. Relationship between holders and company	owners	creditors

16. Which of the following is/are internal factor(s) affecting share prices?
- (1) dividend policy
 - (2) industry prospect
 - (3) company performance
- A. (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
17. Which of the following is/are the possible motive(s) for companies to sponsor charities?
- (1) to increase long-term revenue
 - (2) to maximize profit
 - (3) to comply with legal requirements
- A. (1) only
B. (2) only
C. (1) and (3) only
D. (2) and (3) only
18. Which of the following statements regarding controlling is correct?
- A. Companies should take corrective actions whenever the actual performance is below standard.
 - B. Managers in different departments in the same company should use the same performance standard.
 - C. Only top management should be responsible for controlling in a company.
 - D. Managers should compare the actual performance of their departments with performance standards regularly.

19. Which of the following are the major functions of accounting?
- (1) communicating
 - (2) budgeting
 - (3) summarising
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
20. On 30 June 2016, Hi-tech Computer Shop signed an agreement to purchase stationery stock on credit for \$1,000. On the same date, the market value of the stationery stock was \$1,100 and no entries had yet been made in the book. On 15 January 2017, Hi-tech paid and recorded \$1,000 in the book. The financial year of Hi-tech Computer Shop ended on 31 December 2016. Which of the following accounting concept has been violated in this case?
- A. Accrual concept
 - B. Historical cost concept
 - C. Consistency concept
 - D. Going concern concept
21. Which of the following is/are the possible way(s) for a bank to fulfill social responsibility to a community?
- (1) offer incentives for customers to use electronic bank statements
 - (2) provide employees with volunteering leaves
 - (3) sponsor staff recreational activities
- A. (2) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)

22. Which of the following business functions is responsible for setting up an App to facilitate customers in making reservation at restaurants?
- A. Financial management
 - B. Operations management
 - C. Marketing management
 - D. Information management
23. Which of the following statements are correct descriptions of SMEs?
- (1) They enjoy lower profits tax rate.
 - (2) They serve only local customers on small market.
 - (3) They are usually lack of economies of scale.
 - (4) The owners often could not afford to hire management specialists.
- A. (1) and (2) only
 - B. (3) and (4) only
 - C. (1), (3) and (4) only
 - D. (2), (3) and (4) only
24. It is a common practice for the banks in Hong Kong to pay semi-annual interest to all savings accounts on 30 June and 31 December each year. The following is an 18-month savings plan starting on 1 January 2016. Calculate the net present value of the savings plan (to the nearest dollar) if the nominal interest rate is 4% per annum:

<u>Events</u>	<u>Amount in \$</u>
First Deposit on 1 July 2016	40,000
Second Deposit on 1 January 2017	30,000
Cash Return on 30 June 2017	77,000

- A. \$ 2,345
- B. \$ 4,508
- C. \$ 2,254
- D. \$62,178

25. Which of the following statements about the personal financial planning at different life stages is correct?
- A. The most important objective of estate planning in Hong Kong is to minimize tax expenses.
 - B. For married couples with young children, the insurance protection for parents is more important than children.
 - C. Retirement planning is needed at the pre-retirement stage only and more financial resources must be directed to savings for retirement preparation.
 - D. The most important objective of savings management for retired people is providing enough resources for medical expenses.

Consider the following information and answer Q26 and 27:

The following accounting information for the year ended 31 December 2017 was extracted from the books of a firm:

Gross profit margin	50%
Net profit margin	20%
Other revenue	2,000
Drawings	\$9,600
Net profit	\$15,600
Capital, 1 January 2017	\$75,000
Capital, 31 December 2017	?

26. The gross profit for the year 2017 is _____.
- A. \$23,200
 - B. \$78,000
 - C. \$39,000
 - D. \$13,600
27. The return on capital employed for the year 2017 is _____.
- A. 20.80%
 - B. 18.84%
 - C. 20.00%
 - D. 19.26%

28. In March 2017, a purchases return of \$750 was entered twice in the trade payables account while the purchases returns account was correctly entered. What were the effects on the balance of trade payables account and the totals of trial balance at 31 March 2017?

- A. The balance of trade payables account was overstated by \$750 and the debit total of trial balance was overstated by \$750.
- B. The balance of trade payables account was overstated by \$750 but it would not affect the trial balance agreement.
- C. The balance of trade payables account was understated by \$750 but it would not affect the trial balance agreement.
- D. The balance of trade payables account was understated by \$750 and the credit total of trial balance was understated by \$750.

29. Which of the following statements are correct?

- (1) The Mainland is the main re-export destination of Hong Kong commodities.
- (2) The Closer Economic Partnership Arrangement is a piece of free trade legislation to promote cross-border trade in goods and services.
- (3) Hong Kong is the largest offshore Renminbi trading centre of the Mainland.

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

30. On 13 July 2017, Sun Enterprise purchased goods on credit for \$9,000 from Moon Company, and obtained a 5% trade discount. If Sun Enterprise repays within 23 days, it can enjoy a 2% cash discount.

If Sun Enterprise settled the amount on 22 July 2017, what are the double entries in the books of Moon Company to record this transaction?

	Dr		Cr
A. Trade payables	\$8,379	Bank	\$8,379
B. Trade payables	\$8,550	Bank	\$8,550
C. Bank	\$8,550	Trade receivables	\$8,550
D. Bank	\$8,379	Trade receivables	\$8,379

END OF SECTION A

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

1. (a) Identify two differences between a government department and a public corporation. (2 marks)
- (b) As the labour and rental costs keep rising, Vivien, a boutique owner, is considering developing an on-line retail business to save operation costs.
Explain one technological factor and one social-cultural factor that may affect Vivien's decision. (4 marks)
2. (a) State two reasons for the importance of maintaining a good personal credit record. (2 marks)
- (b) Compare the differences between revolving personal loan and instalment loan in terms of flexibility of repayment and pattern of drawing the loan. (4 marks)
3. On 30 June 2017, Peter bought an antique motor car and printed his company's logo on the car at a total cost of \$700,000. The purchase agreement was signed in the name of the company. Peter solely used the car to drive his son to and from school. On 30 September 2017, he obtained a market valuation of the car from an auction house. The market value was estimated to be \$760,000 and this amount was shown on his company's statement of financial position as a non-current asset. On 1 October 2017, the company settled the total costs of \$700,000 by cheque. The financial year ends on 30 September each year.

Required:

- (a) For the above situation, describe and explain a relevant accounting concept that has been violated and provide an explanation for the violation. (3 marks)
- (b) Prepare double entries to record the acquisition of the antique motor car on 30 June 2017. (1 mark)
4. Employees work in three departments including purchasing, operations and marketing in a book store. The store is running successfully with full cooperation from all departments.
- (a) With reference to the principles of effective management, briefly explain the principle adopted in the book store. (2 marks)
- (b) From the view of employees, state one advantage and one disadvantage of the above principle. (2 marks)

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

Based on the following information, answer either Question 5 or 6.

Kingsley runs a company selling innovative electronic products in Wan Chai as a sole proprietor. Accounting information of his company for the year 2017 was extracted below:

	\$
Sales by cheques	?
Credit sales	500,000
Purchases by cheques	144,000
Goods returned by customers of credit sales	40,000
Goods returned to suppliers of credit purchases	20,000
Credit purchases	200,000
Payments to suppliers of credit purchases by cheques	150,000
Operating expenses	62,000
Trade receivables, 31 December 2016	30,000
Trade receivables, 31 December 2017	90,000
Inventory, 31 December 2016	60,000
Inventory, 31 December 2017	30,000
Discounts received	3,000
Receipts from customers of credit sales by cheques	?
Bank, 31 December 2016	53,000
Bank, 31 December 2017	227,000

Other information:

- (i) The gross profit for the year 2017 was \$236,000.
- (ii) All operating expenses were paid by cheque.

5. (a) Prepare for Kingsley an income statement for the year ended 31 December 2017. (5 marks)
- (b) Briefly explain one importance of planning. (1 mark)

Kingsley prepares to enter the Mainland market. He plans to develop a new product line in Mainland.

- (c) Explain the interrelationship between human resources management and operations management in the new product line. (4 marks)
6. (a) Prepare for Kingsley the Trade Receivable account and the Bank account for the year ended 31 December 2017. (5 marks)
- (b) Define span of control. (1 mark)

Kingsley appoints Alan and Bob to be regional managers of Hong Kong and Mainland respectively. Alan suggests that more resources should be allocated to develop the local market in Hong Kong while Bob proposes to build a new production line in Shenzhen Qianhai. Both of them complain that Kingsley does not delegate enough decision making power to them. Unluckily, the company is running out of resources and has to make late payments to its suppliers due to insufficient funds.

- (c) With reference to the principles of effective management, state and briefly explain which principle has been violated. (2 marks)
- (d) With reference to the social responsibility, briefly explain Kingsley's responsibility and how his company will be affected. (2 marks)

END OF PAPER