

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS &  
HONG KONG ASSOCIATION FOR BUSINESS EDUCATION  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2019/20  
**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 transactions will affect drawings account?
  - A. The owner instructed the firm's accountant to make a donation to a charity in his father's name.
  - B. The owner personally collected money directly from a trade debtor and banked in the business bank account.
  - C. The owner drew goods from the firm's warehouse and sent them to customers as a sample for promotion.
  - D. The owner allowed employees to draw goods from the business for personal consumption as a part of their remuneration.
  
2. Which of the following are inevitable impacts of globalisation on Hong Kong business?
  - (1) Firms can introduce advanced production technology which is not available locally.
  - (2) Firms can diversify their risk by expanding businesses across borders.
  - (3) Firms can reduce their production costs by sourcing materials through the internet.
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
3. Which of the following descriptions regarding the business relationship between Hong Kong and the Mainland are correct?
  - (1) The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) covers these areas: trade in goods, trade in services, investment, economic and technical cooperation.
  - (2) The Mainland and Hong Kong have further signed a number of Supplements under CEPA, expanding market liberalisation and further facilitating trade and investment.
  - (3) Hong Kong applies zero tariff to all imported goods of Mainland origin.
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

4. The return on capital employed of a firm for the year 2018 was 25% while the capital account balances of the firm on 31 December 2018 and 1 January 2018 were \$800,000 and \$760,000 respectively. The drawings made by the owner during the year is \_\_\_\_\_.
- A. \$155,000
  - B. \$230,000
  - C. \$235,000
  - D. \$240,000
5. Which of the following can help an individual maintain a good personal credit record?
- (1) Use instalment loans instead of credit cards for purchasing consumer goods
  - (2) Consider repayment ability before applying for loans
  - (3) Repay monthly minimum payment of credit cards on time
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
6. If net profit of a business is higher than its gross profit, which of the following descriptions are correct?
- (1) The amount of other revenues must be higher than the amount of operating expenses.
  - (2) The gross profit must be smaller than sales amount.
  - (3) The net profit must be smaller than sales amount.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

7. Which of the following statements concerning the use of credit card are correct?
- (1) If a cardholder has filed for bankruptcy before, he can still apply for a credit card after the bankruptcy discharge.
  - (2) If a cardholder pays a monthly minimum payment on his credit card, he can still spend up to his credit limit.
  - (3) Cardholders need to pay a service fee to credit card operators for every credit card transaction.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

8. The following accounting information was extracted from the books at the year ended 31 December 2019.

|                      |         |
|----------------------|---------|
|                      | \$      |
| Non-current assets   | 263,000 |
| Net current assets   | 143,000 |
| Trade receivables    | 37,000  |
| Trade payables       | 12,000  |
| Capital contribution | 20,000  |
| Drawings             | 11,000  |
| Net profit           | 55,000  |

The capital as at 1 January 2019 amounts to :

- A. \$ 224,000
  - B. \$ 342,000
  - C. \$ 367,000
  - D. \$ 406,000
9. Which of the following statements concerning the Mandatory Provident Fund (MPF) System is **not** correct?
- A. Sisi earns \$20,000 per month and receives double pay in December. She contributes \$1,500 to her MPF scheme in December.
  - B. Sasa contributes \$1,000 to her MPF scheme every month, but her employer contributes \$1,100 to her scheme.
  - C. Employees can choose different funds provided under an MPF scheme chosen by their employers.
  - D. If an employer has enrolled his employee in an MPF scheme, the employee must contribute to his scheme.

10. After preparing a trial balance, there is a difference between the total debit column and the total credit column. Which of the following errors causes the credit side greater than the debit side by \$600?
- (1) Credit sales \$1,700 to A. Lung has been debited in the A. Lam account as \$2,300.
  - (2) The double entry for paying \$300 rent by cheque has been omitted.
  - (3) Jenny repaid \$7,000 debt to the firm but the clerk has debited cash account \$6,400 and credited Jenny's account \$7,000.
  - (4) A transfer of \$300 cash to the bank account has been credited twice to the cash account only.
- A. (1) and (3) only  
B. (1) and (4) only  
C. (2) and (3) only  
D. (3) and (4) only
11. Which of the following will affect share prices of a particular public limited company?
- (1) The company declares equivalent value of stock dividends to replace normal cash dividends
  - (2) Stamp duty increases
  - (3) Sudden death of a key managerial personnel of the company
- A. (1) only  
B. (3) only  
C. (1) and (3) only  
D. (2) and (3) only
12. To evaluate the effectiveness of a marketing plan and encourage members to boost sales, Kelvin, a team's head, is collecting sales records of his team members. Which of the following management functions are involved in the above situation?
- (1) Planning
  - (2) Organizing
  - (3) Leading
  - (4) Controlling
- A. (1) and (3) only  
B. (1) and (4) only  
C. (2) and (3) only  
D. (3) and (4) only

13. Which of the following double entries is/are correct?

|     | <u>Transactions</u>                    | <u>Account to be debited</u>  | <u>Account to be credited</u> |
|-----|----------------------------------------|-------------------------------|-------------------------------|
| (1) | Paid a deposit to a landlord by cheque | Rental deposit                | Bank                          |
| (2) | Provided a loan to an employee         | Other receivables - employees | Loan to employees             |
| (3) | Refund for returns inwards             | Returns inwards               | Trade receivables             |

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

14. John is a fresh graduate from a university. Although he has been ranked the first in his class, his personality is rather passive. He is now working in a fashion design company as a clerk. If you are the supervisor of John, which of the following types of leadership style is appropriate to assist John in adopting to work?

- A. Supportive leadership style
- B. Laissez faire leadership style
- C. Participative leadership style
- D. Autocratic leadership style

15. Which of the following about multinational corporations (MNCs) and small and medium enterprises (SMEs) is **not** correct?

- A. MNCs are more profitable than SMEs in terms of return rate.
- B. MNCs face more complex management problems than SMEs.
- C. MNCs are more capable of coping with systematic risk than SMEs.
- D. MNCs are slower than SMEs in decision making process.

16. If an account shows a debit balance in a trial balance, which of the following statements about that account is correct?

- A. This must be either an asset account or expense account.
- B. This must be either a personal account or real account.
- C. The account balance must be shown in the statement of financial position.
- D. This may be a revenue account.

17.

Mary

## Statement of financial position as at 31 December 2019

|                                             | \$           | \$            | \$            |
|---------------------------------------------|--------------|---------------|---------------|
| Non-current assets                          |              |               |               |
| Motor vans                                  |              |               | 45,000        |
| 12-month fixed deposit                      |              |               | <u>10,000</u> |
|                                             |              |               | 55,000        |
| Current assets                              |              |               |               |
| Trade receivables                           |              | 3,000         |               |
| Cash                                        |              | 7,000         |               |
| Inventories                                 |              | <u>6,000</u>  |               |
|                                             |              | 16,000        |               |
| Less: Current liabilities                   |              |               |               |
| Mortgage loan (repayable on 1 January 2021) | 12,000       |               |               |
| Bank overdraft                              | <u>2,000</u> | <u>14,000</u> | <u>2,000</u>  |
|                                             |              |               | <u>57,000</u> |
| Financed by:                                |              |               |               |
| Capital as at 1 January 2019                |              |               | 43,000        |
| Add: Net profit                             |              |               | <u>14,000</u> |
|                                             |              |               | <u>57,000</u> |

Which of the above items have been wrongly presented in the statement of financial position?

- A. Bank overdraft, Inventories and Mortgage loan
  - B. Inventories, Mortgage loan
  - C. Inventories, Mortgage loan, 12-month fixed deposit
  - D. Trade receivables, Motor vans and 12-month fixed deposit
18. When considering an investment decision, the option with \_\_\_\_\_ should be taken.
- A. the highest future value
  - B. the highest nominal rate of return
  - C. the highest net present value
  - D. the highest present value
19. Alex intends to deposit \$800,000 in a bank for half a year. To earn a higher interest income, which of the following alternatives should Alex choose?
- A. interest of \$23,100 at the period end
  - B. interest being compounded quarterly, at 5.8% p.a.
  - C. interest being compounded yearly, at 6%
  - D. interest being compounded half-yearly, at a rate of 5.9% p.a.

20. Which of the following statements about interrelationship of information management and other business functions is/are correct?
- (1) With the help from financial managers, information managers set access rights to the financial information system.
  - (2) Information managers assist human resources managers to organise its personnel information in a systematic way.
  - (3) Information managers set up systems to collect data and information for marketing department to analyse feasibility of promotion projects.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
21. Which of the following about the stock market in Hong Kong is/are correct?
- (1) Ownership and continuity of management are both parameters for listing on the Main Board or the Growth Enterprise Market (GEM). However, the requirements for listing on the GEM are relatively looser.
  - (2) Hang Seng Index is the main indicator of the overall market performance representing daily share price changes of most listed companies in Hong Kong.
  - (3) Only companies listed on the Hong Kong stock market are eligible to declare dividends to shareholders.
- A. (1) only
  - B. (3) only
  - C. (1) and (2) only
  - D. (1), (2) and (3)
22. May and June are the directors of KPA Limited. They both oversee the direction of development and all staff of the company. Which of the following principles of effective management have been violated?
- (1) Unity of command
  - (2) Unity of direction
  - (3) Division of work
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

23. Which of the following are **not** social responsibilities of a business to respective stakeholders?

| <u>Stakeholders</u> | <u>Social responsibility</u>                         |
|---------------------|------------------------------------------------------|
| (1) Customers       | Provide low-priced products and services             |
| (2) Shareholders    | Ensure that shareholders receive dividends each year |
| (3) Community       | Provide employment opportunities to all people       |

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

24. On 1 November 2019, the cash at bank account has an unfavorable balance of \$29,000. Cash sales for the month were \$45,000, of which only \$20,000 were kept in a cashier register for paying sundry expenses. During the month, payment for sundry expenses amounted to \$7,800. It is the firm's policy to deposit all idle cash to its bank for safety reason. The cash at bank balance as at 30 November 2019 is a \_\_\_\_\_.

- A. credit balance of \$11,800
- B. credit balance of \$4,000
- C. debit balance of \$8,200
- D. debit balance of \$54,000

25. Ben is a sole proprietor running a Taiwan beverage shop. He is considering whether to join 7-Nine which is a franchised beverage shop or continue to run the shop on his own. Which of the following are **not** advantages that Ben can enjoy if he joins 7-Nine?

- (1) His shop can enjoy goodwill and well-known brand name brought by 7-Nine.
- (2) He can decide on the ways of promoting his products.
- (3) He is guaranteed a minimum investment return.

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

26. As a promotion strategy to increase profit, JR grocery store allowed its cashiers to give discounts to different customers without prior approval from their supervisor. After one month, the profit of JR grocery store decreased. Which of the following may be the reason leading to such result?
- A. The cashiers did not understand the long-term goal of JR grocery store.
  - B. The authority given to the cashiers did not match with their responsibility.
  - C. JR Supermarket did not adopt division of work.
  - D. The cashiers did not communicate among themselves.

27. The following is information about Firm A, Firm B and Firm C.

|                                                  | <u>Firm A</u> | <u>Firm B</u> | <u>Firm C</u> |
|--------------------------------------------------|---------------|---------------|---------------|
| Number of owners                                 | 1             | 1             | 2             |
| Disclosure of financial statements to the public | Not required  | Not required  | Required      |
| Ease of raising capital                          | Difficult     | Medium        | Easy          |

Firm A, Firm B and Firm C may be a \_\_\_\_\_, a \_\_\_\_\_ and a \_\_\_\_\_ respectively.

- A. sole proprietorship.....private limited company.....partnership
  - B. sole proprietorship.....private limited company.....public limited company
  - C. private limited company.....sole proprietorship..... public limited company
  - D. private limited company.....listed company on Growth Enterprise Market.....listed company on the Main Board
28. Arrange the following items in the sequence of an accounting cycle:
- (1) record transactions into books of original entry
  - (2) prepare trial balance
  - (3) make period-end adjustments
  - (4) post transactions to ledgers
- A. (1)→(4)→(3)→(2)
  - B. (4)→(1)→(3)→(2)
  - C. (1)→(4)→(2)→(3)
  - D. (4)→(1)→(2)→(3)

29. Which of the following statements concerning small and medium enterprise (SMEs) in Hong Kong is/are correct?
- (1) SMEs serve the local market by introducing new technology.
  - (2) SMEs provide a majority of job opportunities in Hong Kong.
  - (3) The number of employees of an SME is fewer than 100.
- A. (1) only
  - B. (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
30. STEM Limited is deeply in debt at present. On 30 June 2019, the company received an annual service fee of \$600,000 from a customer for a service commencing on 31 July. Up to the year end, materials at a historical cost of \$200,000 were spent in the service. Its financial year ends on 31 December each year.
- Which of the following is the most relevant accounting principle or concept to record the above transactions for the year ended 31 December 2019?
- A. Going Concern
  - B. Accrual
  - C. Business Entity
  - D. Historical Cost

**END OF SECTION A**

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

1. Nisson Foods Holdings Limited is a company operating in Japan. After conducting marketing research, the company's Chief Executive Officer (CEO), Yuto decides to set up Nisson Foods (HK) Limited in Mongkok to sell Japanese imported goods.

- (a) Explain one economic factor that Yuto should consider when planning to set up his company in Hong Kong. (2 marks)

Nisson Foods (HK) Ltd performs very well in Hong Kong, Yuto decides to set up two more branches and raise capital by issuing shares and debentures in Hong Kong.

Manson is a 36-year-old civil servant. He earns a monthly salary of \$60,000 and his wife mainly takes care of their only child. Manson plans to invest in one of the securities of Nisson Foods (HK) Ltd.

- (b) Explain with respect to the following perspectives, the prime consideration that Manson should consider when deciding which securities to invest:

- (1) risk and return. (2 marks)

- (2) his present life stage. (2 marks)

2. Steve, Maggie and Keith plan to set up a dental clinic in Shatin. Only Maggie and Keith will invest money into the business. While Keith is involved in management of the business, Steve and Maggie do not take part in running the business.

- (a) Identify the type of partner for Steve. (1 mark)

Two years later, Keith decides that the clinic should change its depreciation method to present a greater asset figure for the clinic in order to report a higher profit.

- (b) State which accounting principle or concept has been violated and give an explanation with reference to this case. (3 marks)

3. ABE Limited is a medium sized online game developer. The Chief Executive Officer (CEO) of ABE Limited, Allen, has received several reports that many employees misuse the company resources for personal purposes, such as working on private freelance job during office hours. Allen asks the manager of human resources department, Lydia, to follow up the issue and plan a programme for raising employees' awareness of business ethics.
- (a) State any two major steps that should be included in the planning process of the programme at this stage. (2 marks)
- (b) From the perspective of Lydia, explain two additional ways that the company can do to enhance awareness of business ethics among its employees. (4 marks)
4. In January 2019, Fong set up the following policy to boost sales of the company and encouraged his customers to make early settlement.

Trade discounts: 8% trade discount to be offered to all sales.

Cash discounts: 5% cash discount to be given if settlement made within 10 days after sales.

In January 2019, the following shows transactions between Fong and Owen, one of his new customers.

2019

- |         |    |                                                               |
|---------|----|---------------------------------------------------------------|
| January | 1  | Sold goods on credit to Owen at listed price of \$18,000.     |
|         | 8  | Sold goods to Owen in cash at listed price of \$6,300.        |
|         | 9  | Received a sales order from Owen at listed price of \$20,000. |
|         | 12 | Owen settled all his debts at the moment.                     |
|         | 13 | Delivered the goods ordered on 9 January.                     |
|         | 15 | Delivered goods which were urgently needed by Owen.           |
|         | 20 | Received goods returned from Owen at listed price of \$1,000. |
|         | 22 | Owen settled all his debts by a cheque of \$21,850.           |

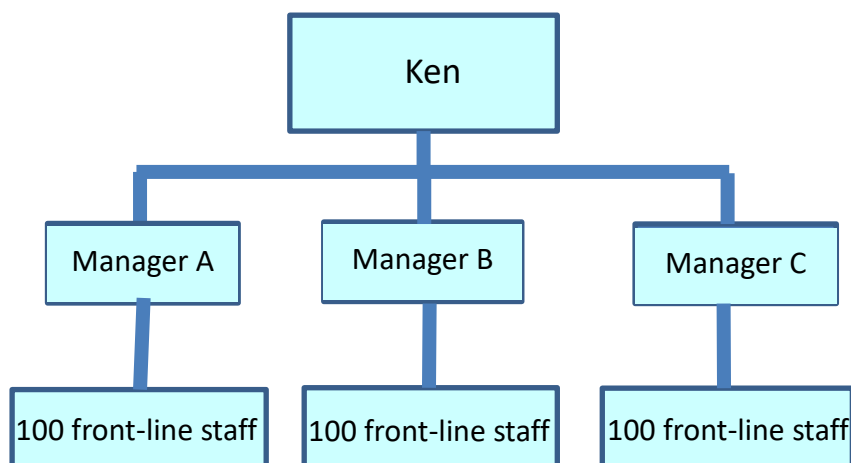
REQUIRED:

Prepare Owen's account in the books of Fong to record the above transactions for January 2019. (4 marks)

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

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

Ken runs a trading firm. The organization chart of the firm is as follows.



The following balances were obtained from his books as at 31 December 2019:

|                                                                       | \$     |
|-----------------------------------------------------------------------|--------|
| Capital as at 1 January 2019                                          | ?      |
| Capital as at 31 December 2019                                        | ?      |
| Inventory as at 1 January 2019                                        | 3,000  |
| Inventory as at 31 December 2019                                      | ?      |
| Purchases                                                             | 17,000 |
| Sales                                                                 | 36,000 |
| Carriage outwards                                                     | 7,500  |
| Carriage inwards                                                      | 500    |
| Loans to owner (repayable within 14 months)                           | 24,000 |
| Deposits to suppliers (refundable)                                    | ?      |
| Interest income                                                       | 200    |
| Accounts payable                                                      | 21,000 |
| Marketable securities (one-year debentures issued by other companies) | 9,000  |

At the year end, the quick ratio and gross profit margin were 2:1 and 45% respectively.

Ken found that morale of his staff were extremely low. His staff were frustrated because they could only follow goals set by their superiors and were not allowed to take part in decision making process. This affected their motivation to achieve better for the company.

**Answer ONE question.**

5. (a) Prepare for Ken's firm a trial balance as at 31 December 2019. (5 marks)
- (b) State the type of organization structure by level that the firm is using. (1 mark)
- (c) Explain two reasons why a change of organization structure by level can help the firm motivate its subordinates. (4 marks)

(Total: 10 marks)

6. (a) Prepare an income statement for Ken's firm for the year ended 31 December 2019. (5 marks)
- (b) State an effective management principle that can help Ken solve his problem. (1 mark)
- (c) Explain two ways that the effective management principle stated in (b) can improve the motivation of the staff. (4 marks)

(Total: 10 marks)

**END OF PAPER**