

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS &
HONG KONG ASSOCIATION FOR BUSINESS EDUCATION
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2020/21

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 statements about participative leadership are correct?
 - (1) The superior should listen to comments of subordinates during the decision-making process.
 - (2) If the decision is important and urgent, the manager should adopt participative leadership style in order to collect more valuable opinions.
 - (3) Subordinates could be involved in the decision-making process as they are given some degree of autonomy.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2. Which of the following descriptions about multinational corporations are correct?
 - (1) Enjoy scope of economies
 - (2) Involve complicated decision making process
 - (3) Respond to the sudden market changes instantly
 - 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 equations is/are **not** correct?
 - (1) Working capital = Non-current assets + Current assets – Total liabilities
 - (2) Total liabilities = Total assets – Capital – Revenue + Expenses + Drawings
 - (3) Capital = Net current assets – Non-current liabilities
 - A. (1) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

Based on the following information, answer Questions 4 and 5:

The following information was extracted from the books of King Kong's firm as at 31 December 2019:

| | \$ |
|--------------------------------|---------|
| Packaging expenses | 5,900 |
| Carriage inwards | 5,910 |
| Carriage outwards | 2,150 |
| Drawings | 1,000 |
| Returns inwards | 180 |
| Sales | 56,700 |
| Purchases | 32,100 |
| Returns outwards | 560 |
| Inventory as at 1 January 2019 | 2,500 |
| Capital as at 1 January 2019 | 150,000 |
| Cash sales | 1,000 |

4. If the inventory as at 31 December 2019 amounted to \$1,300, what would be the gross profit for the year?
- A. \$11,970
B. \$17,110
C. \$17,870
D. \$18,870
5. Calculate return on capital employed for the year ended 31 December 2019 if the net profit was \$6,750.
- A. 4.33%
B. 4.40%
C. 4.42%
D. 4.50%

6. Which of the following statements about the relationship between risk and return are correct?
- (1) Diversification of investment can spread systematic risk of the market.
 - (2) Higher risk does not necessarily mean higher return of investment.
 - (3) For general investors, higher expected return should be compensated for their risk bearing.
- 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 companies do not fulfill the social responsibility towards their stakeholders?
- (1) A private limited company that does not disclose its financial information to its shareholders
 - (2) A company that provides dinner instead of overtime payment for its employees who are required to work overtime and leave after 8 p.m.
 - (3) A small company that cannot provide promotion opportunities for its employees
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
8. Which of the following statements are correct?
- (1) Line managers can delegate authority to subordinates to finish a task.
 - (2) A staff manager has the authority to support and give expert advice to line managers.
 - (3) Line managers who specialize in certain functional areas can give expert advice to their subordinates.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

9. Arrange the following tasks in the accounting cycle in sequence.

- (1) Period-end adjustments
- (2) Balance-off accounts
- (3) Preparing a trial balance
- (4) Posting transactions to the ledgers

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

10. Which of the following are **not** Small and Medium Enterprises in Hong Kong?

- (1) A construction company that employs 80 employees
- (2) A publishing company that employs 99 employees
- (3) An aided-school that employs 49 employees
- (4) A garment factory that employs 1 manager and 99 workers

- A. (1) and (4) only
- B. (2) and (3) only
- C. (2), (3) and (4) only
- D. (1), (2), (3) and (4)

11. Alan is considering investing in a project and the information about this project is listed below:

| | <u>Amount</u> | <u>Cash flows</u> |
|----------------------------|---------------|-------------------|
| Beginning of Year 1 | \$ 60,000 | Outflow |
| End of Year 2 | \$ 50,000 | Inflow |
| Beginning of Year 3 | \$ 10,000 | Outflow |
| End of Year 3 | \$ 30,000 | Inflow |
| Discount rate is 5.0% p.a. | | |

The net present value of the project is

- A. \$ 2,196
- B. \$ 2,628
- C. \$ 4,464
- D. \$20,337

12. Which of the following double entries are correct?

| | <u>Transaction</u> | <u>Account to be debited</u> | <u>Account to be credited</u> |
|-----|---|------------------------------|-------------------------------|
| (1) | Donated goods to a charity | Donation | Purchases |
| (2) | Withdrew goods for owner's use | Drawings | Purchases |
| (3) | Employees accepted the firm's goods at purchasing price as part of salary | Salaries | Sales |

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

13. Which of the following statements about the importance of entrepreneurship are correct?

- (1) Entrepreneurs provide job opportunities which bring more profit to the company.
- (2) Entrepreneurs are eager to introduce new products and services for exploring business opportunities.
- (3) Entrepreneurs may introduce new production technologies to maintain its market competitiveness.

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

14. Which of the following statements about Management by Objectives is/are correct?

- (1) Superiors and subordinates have to hold meetings frequently in order to understand the problems encountered by subordinates.
- (2) Subordinates have greater motivation to achieve the goals set by themselves.
- (3) Superiors can monitor subordinates to achieve organizational goals ultimately.

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

15. Which of the following statements about consumer credit are correct?

- (1) Recurring loan is more flexible for loan repayment.
- (2) Credit rating is correlated with repayment history.
- (3) Credit limits given to two credit cardholders are the same if they have the same wage level.

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

16. Which of the following are the limitations of financial statements?

- (1) Personal bank account of the owner is not included in the books.
- (2) Experience of senior management is not included in the books.
- (3) Personal judgement in adopting accounting policies is involved in preparing financial statements.

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

17. Peter has an initial sum of \$100,000 for investment. He is now considering making a time deposit in a bank for 2 years. The terms of the time deposit offered by different banks are as follows:

Bank A: Compound annual interest rate of 8% on semi-annual basis

Bank B: Receive principal and interest of \$11,500 on maturity date

Bank C: Compound annual interest rate of 8.5% on annual basis

Arrange the amount received from three banks after 2 years in a descending order.

- A. Bank B → Bank A → Bank C
- B. Bank A → Bank C → Bank B
- C. Bank A → Bank B → Bank C
- D. Bank C → Bank A → Bank B

18. Which of the following statements about interrelationship of two key business functions are correct?

- (1) Through the automated ordering system, the information manager can collect the data of customers' preference to facilitate the decision of optimal inventory level by the operations manager.
- (2) The financial manager assesses the wage level in the market to help the human resource manager set a reasonable wage level for recruiting new staff.
- (3) The risk manager of a pharmaceutical factory assesses the risk of developing a new medicine to help the marketing manager formulate appropriate marketing strategies.

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

19. Company A and Company B are now forming a joint venture for entering into a new market. Which of the following statements about the characteristics of the joint venture are correct?

- (1) Profit from the joint venture will be shared between the co-venturers.
- (2) The joint venture can benefit from the synergy between the co-venturers.
- (3) Dissolution of the joint venture will affect the continuity of individual co-venturers.

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

20. Which of the following about ledger account is correct?

| <u>Account</u> | <u>Usual balance</u> | <u>Account classification</u> |
|-----------------------------------|----------------------|-------------------------------|
| A. Purchases | Debit balance | Personal account |
| B. Deposit to suppliers | Credit balance | Personal account |
| C. Drawings | Credit balance | Nominal account |
| D. Loan from the owner's relative | Credit balance | Real account |

21. Which of the following statements about the Hong Kong economy are correct?

- (1) The economy of Hong Kong highly relies on international trade and is a highly developed free market.
- (2) Most businesses in Hong Kong are Small and Medium Enterprises (SMEs). These SMEs are in the form of either sole proprietorship or partnership.
- (3) Under the Closer Economic Partnership Arrangement (CEPA), professionals in Hong Kong can set up their business in most service sectors on the Mainland China.

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

22. Which of the following descriptions about obligations of a personal investor is/are correct?

- (1) Ask the broker to explain the rationale behind the recommendation of investment
- (2) Settlement of funds on time
- (3) Get the details of charges levied by reading the transaction documents

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

23. Which of the following statements about return on capital employed is/are correct?

- (1) Return on capital employed is used to evaluate the efficiency of capital to generate profit for a year.
- (2) If the return on capital employed of a firm is low, the firm should be closed.
- (3) If a firm incurred a net loss, the return on capital employed is zero.

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

24. Which of the following are **not** the functions of World Trade Organisation?

- (1) Provide a forum for negotiation to eliminate all international trade obstacles
- (2) Settle trade disputes among different countries all over the world
- (3) Provide loans and subsidies to developing countries for trade development

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

25. Arrange the monthly increase of personal account under Mandatory Provident Fund Scheme for the following people in a descending order.

Maggie: She is now 66 years old and is working as a supply teacher to earn monthly salary of \$11,000 in a primary school after retirement.

John: A self-employed business owner earns monthly salary of \$10,000 from his own business.

Susan: She works in a tutorial school on a part-time basis with a monthly salary of \$7,100.

- A. Maggie → Susan → John
- B. Maggie → John → Susan
- C. John → Susan → Maggie
- D. Susan → John → Maggie

26. Which of the following are the results of effective human resources management?

- (1) Retain experienced staff
- (2) Enhance employees' sense of belonging
- (3) Attract high quality staff at a reasonable wage level
- (4) Recruit staff with high qualifications

- A. (2) and (3) only
- B. (1), (2) and (3) only
- C. (1), (2) and (4) only
- D. (1), (3) and (4) only

27. Which of the following situation should adopt the concept of accrual?
- A. Repayment of loan
 - B. Liquidation of a firm
 - C. Calculation of cost of sales
 - D. Payment of rent for owner's residence
28. Which of the following behaviours would have an adverse effect on personal credit record?
- (1) Repay only the minimum outstanding balance of a credit card
 - (2) Apply for several credit cards within a short period of time
 - (3) Always use the full credit limit of credit card
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
29. There was a sudden and massive increase in closing inventory which led to an increase in inventory holding cost. What are the impacts of this situation on the gross profit and net profit if the yearly sales remains steady?
- | | <u>Gross profit</u> | <u>Net profit</u> |
|----|---------------------|-------------------|
| A. | increases | unchanged |
| B. | increases | decreases |
| C. | unchanged | decreases |
| D. | unchanged | unchanged |
30. Bob Clothing has set up a fashion shop in Hong Kong which sells clothing items imported from the United Kingdom (UK). Which of the following is/are the possible economic factor(s) that affect(s) Bob's price-setting strategy?
- (1) A change in tax ordinance in Hong Kong
 - (2) Relocation of the UK suppliers' production line to the Mainland to reduce labour cost
 - (3) The turmoil caused by the outbreak of COVID-19
- A. (3) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

END OF SECTION A

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

1. The franchising of convenience stores is becoming more popular in Hong Kong. Many business starters think that becoming a franchisee can help them start up a business more easily. May wants to set up and manage a convenience store by joining the franchise. However, her friend told her that it is very risky as she may need to pay back all the debts by selling her personal assets if the business fails.

- (a) What form of business ownership would you suggest May in order to resolve her friend's concern? Explain clearly how this form of business ownership can resolve the concern. (2 marks)
- (b) From the cost perspective, list one disadvantage of the form of business ownership mentioned in (a). (1 mark)

Finally, May decided to set up the convenience store by joining the franchise. She has found that one of the franchisees sells a product which is harmful to people's health. However, she does not inform the franchisor about this.

- (c) Explain the possible consequences of a harmful product sold by another franchisee on May's business. (2 marks)
2. On 1 January 2018, Kin Kee Company acquired 10 computers with an invoice price of \$20,000 each for office use. The supplier offered 5% bulk purchase discount to Kin Kee Company. On 31 December 2019, 5 printers costing \$11,500 were bought. At the year ended 31 December 2019, the total market price of these 10 computers was valued at \$100,000.

Calculate the balance of office equipment account as at 31 December 2019. Explain your answer with reference to a relevant accounting concept. (3 marks)

3. John is having a discussion with his friends about the possibility to invest \$100,000 in either one of the two different investment plans:

Plan 1: investing in a constituent stock of the Hang Seng Index for 3 years

Plan 2: investing in 3% debentures of a large company for 2 years

The following are their conversations:

John: I have studied the total expected return of these two investment plans, and I found that the total future value of Plan 1 is higher than that of Plan 2. I intended to invest in the constituent stock.

Mandy: I think you should not use future value here to make your investment decision.

Tim: The Hang Seng Index (HSI) has dropped sharply in the past three months, and many professionals have predicted that the HSI will continue to drop as the conflicts between governments of the US and China will not be solved in a short period of time. I do not think you should invest in this stock.

Sandy: I do not think you should make your decision solely by the return of financial products. There are many other factors that affect your decision.

- (a) Explain why John should accept Mandy's opinion. (2 marks)
- (b) According to Tim's comment, describe how the movement of the Hang Seng Index affects the decision on investment in the stock. (2 marks)
- (c) According to Sandy's comment, suggest and explain one other factor that may support John to invest in the debentures instead of the stock in this case. (2 marks)
4. Due to the recent outbreak of pneumonia, there have been a number of enterprises adopting the Work from Home (WFH) policy for back-office supporting staff. The management delegates its authority to the subordinates for completion of the tasks at home. However, the management still needs to bear the ultimate responsibilities.
- (a) Briefly explain two barriers that would hinder the effectiveness of using delegation via the WFH policy. (4 marks)
- (b) From the perspective of controlling, suggest two steps in measuring the performance of subordinates who work at home. (2 marks)

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

5. Ivan is the owner of a medical equipment trading firm. His firm's major business is to import medical equipment from the Mainland China and export it to the western countries. With low labour and rental costs in the Mainland, most of the medical equipment used around the world is made in China. Many international medical equipment companies now purchase the equipment made in China or ask the factories in China to tailor-made the equipment for them.

The following are the transactions in February 2020:

Feb

- 1 The firm owed \$31,000 to the manufacturer at the start of the month.
- 2 Purchased 2 pieces of medical equipment on credit. The listed price of each equipment was \$15,000. 10% discount was granted from the manufacturer. If the firm repays the debt within 15 days, an extra 10% discount will be allowed.
- 4 Purchased another 4 pieces of equipment on credit. The firm agreed to pay \$40,000 in total, including \$2,000 for the transportation fee to deliver the goods from the manufacturer to the warehouse.
- 9 Returned 1 piece of the equipment bought on 4 February to the manufacturer.
- 16 Settled the debt due to the purchase on 2 February by cheque.
- 21 Purchased 2 pieces of equipment on credit with a selling price of \$10,000 each. One of the equipment items was separately ordered in the name of Ivan for his personal use.
- 29 Except the debt owed to the manufacturer related to the activity on 21 February, all the debts are settled by cheque.

Because of the outbreak of Covid-19, there is a huge demand of medical equipment around the world, but the supply of medical equipment is very limited. Ivan can hardly find suppliers for his business.

- (a) Prepare the firm's trade payables account for February 2020. (5 marks)
- (b) Which two accounting functions are being performed in part (a)? (1 mark)
- (c) Describe two possible impacts of globalization on the medical equipment suppliers during the outbreak of COVID-19. Explain how these impacts adversely affect the suppliers' production. (4 marks)

6. Mandy is the finance director of Chan's trading firm. She is preparing the financial report and evaluating the performance of the firm.

The following information is extracted from the books of the firm as at 31 December 2019:

| | \$ |
|--|---------|
| Premises | 562,000 |
| Inventory as at 31 December 2019 | ? |
| Capital as at 31 December 2019 | 599,850 |
| Loss for the year | 150 |
| Loan to a customer (repayable on 1 January 2021) | 100,000 |
| Deposit from a customer (Note) | 100,000 |
| Cash at bank (credit balance) | 2,120 |
| Cash in advance to suppliers (refundable) | 3,000 |
| <i>Trade receivables</i> - Tom | 880 |
| Peter | 1,700 |
| <i>Trade payables</i> - Betty | 2,430 |
| Mable | 920 |
| May | 2,440 |

Note: The deposit is related to a procurement of a specialized machine on behalf of a customer. According to the signed contract, the assembly of the machine is scheduled to complete on 31 March 2021.

- (a) Prepare for the firm the statement of financial position as at 31 December 2019. (5 marks)
- (b) Calculate the quick ratio for the firm. (Calculate to 2 decimal places) (1 mark)
- (c) According to the functions of financial management, suggest two ways to deal with the situation revealed in (b). (4 marks)

END OF PAPER