

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS &

HONG KONG ASSOCIATION FOR BUSINESS EDUCATION

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2021/22

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 descriptions about World Trade Organization (WTO) and Asia-Pacific Economic Cooperation (APEC) is correct?

WTO**APEC**

- | | |
|---|---|
| A. Provide technical assistance and training for developing countries | Encourage reduction of trade barriers |
| B. Promote free trade | Monitor members' trade policies |
| C. A regional forum | Work to raise the living standards of its members through economic growth |
| D. Impose trade sanctions if necessary | Decisions made has binding force on members |

2. Which of the following cases are **not** good examples of risk diversification?

- (1) Investing in Ethiopia government bonds and a third-tier common stock listed in Hong Kong.
- (2) Investing in common stock of China Light Power Limited and debentures of Hong Kong Electric Limited.
- (3) Investing in iBond (Inflation-linked Retail Bond) issued by the HKSAR government and common stock of a company listed on the Growth Enterprise Market.
- (4) Investing in blue chips and constituent stock of the Hang Seng Index.

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

3. Which of the following statements is correct?

- A. A non-manufacturing enterprise employs 50 persons in Hong Kong is regarded as a small and medium enterprise.
- B. A private limited company may raise its capital by issuing shares to new investors.
- C. A small and medium enterprise benefits from lower profits tax rate.
- D. Directors are not liable for any legal obligation.

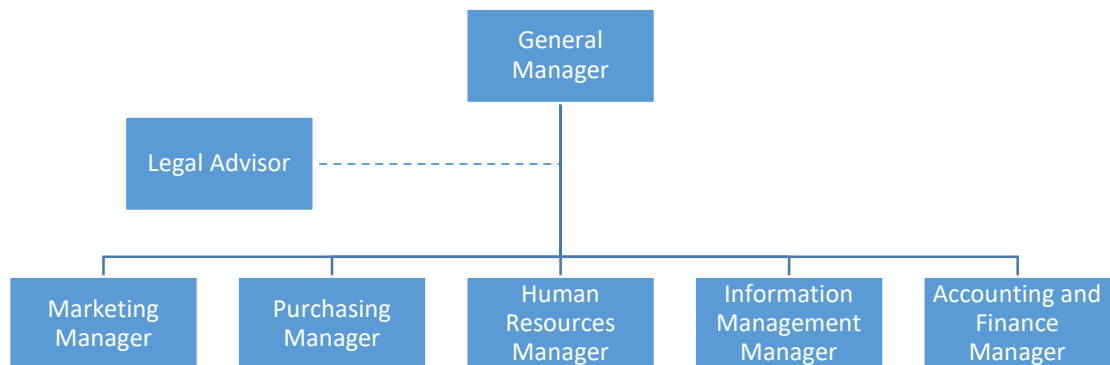
4. On 1 March 2021, Lee's firm purchased 200 units of toys at \$40 each on credit from a supplier, being granted a 5% trade discount. On 3 March 2021, Lee's firm found 3 units of damaged toys and returned them to the supplier. It should send a _____ to the supplier.
- A. debit note of \$120
 - B. debit note of \$114
 - C. credit note of \$120
 - D. credit note of \$114
5. Which of the following are the benefits of being a franchisee?
- (1) Expansion of the chain at a lower cost
 - (2) Receive support and advice
 - (3) Easy to enter the new market
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
6. Which item(s) below would be recorded in the sales account of a furniture shop?
- (1) Credit sales of a piece of office equipment
 - (2) Cash sales of a dining table set to a neighbour
 - (3) Trade discount granted to a customer
- A. (1) only
 - B. (2) only
 - C. (1) and (2) only
 - D. (2) and (3) only
7. Which of the following equations is correct?
- A. $\text{Cost of purchases} = \text{Purchases} - \text{Returns outwards} + \text{Carriage inwards}$
 - B. $\text{Capital} + \text{Current liabilities} = \text{Non-current assets} - \text{Non-current liabilities}$
 - C. $\text{Net profit} + \text{Other revenue} = \text{Gross profit} - \text{Expenses}$
 - D. $\text{Opening capital} = \text{Closing capital} + \text{Drawings} - \text{Net loss}$

8. Which of the following statements about the Hang Seng Index is correct?
- A. There are 50 constituent stocks of the Hang Seng Index.
 - B. The Hang Seng Index predicts the performance of Hong Kong stock market.
 - C. The only selection criterion of constituent stocks is the market share of the ordinary shares of the company.
 - D. The Hang Seng Index reflects the trend of stock price movement of companies listed in Hong Kong.

9. Which of the following descriptions about general partners and limited partners is correct?

	General partners	Limited partners
A. Limited liability	Yes	Yes
B. Capital investment	No	Yes
C. Ownership	Yes	No
D. Daily management	Yes	No

10. Based on the organization chart below, which of the following statement(s) is/are correct?



- (1) The wide span of control consumes a significant amount of time for General Manager.
 - (2) Legal Advisor is senior to departmental managers in the organizational structure.
 - (3) Accounting and Finance Manager is a staff manager of the General Manager.
- A. (1) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

11. Which of the following is an advantage of private limited company over partnership?
- A. A private limited company does not need to disclose its financial statements to the public.
 - B. The ownership of private limited company can be transferred more easily.
 - C. It must be easier for a private limited company to employ professionals.
 - D. A private limited company must enjoy economies of scale.
12. Jenny is going to make investment decision using net present value approach. Which of the following factor(s) must have a direct and positive effect on the net present value?
- (1) Higher residual value
 - (2) Higher cost of capital
 - (3) Huge net profit of the company invested
- A. (1) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
13. Which of the following statements about joint venture is correct?
- A. It is a contractual arrangement that can be terminated when the project is finished.
 - B. It is a right to use a specific operational method in running a business.
 - C. Each joint venture partner has to pay royalty.
 - D. A joint venture must be a partnership.
14. Which transaction(s) below will decrease the total amount of current assets of a business?
- (1) Pay a cheque to settle a currently overpaid trade debtor account
 - (2) Return goods to a supplier
 - (3) Lend a 6-month loan to an employee by cheque
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (2) and (3) only

15. Which of the following is/are the use(s) of a company's financial statements to the respective users?

<u>Users</u>	<u>Uses</u>
(1) Creditors	Financial statements help to assess the creditworthiness of the firm.
(2) Employees	Financial statements help to assess the job security.
(3) Investors	Financial statements help to ensure the positive return on their ordinary shares

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

Based on the accounting information of Chan's firm as at 31 December 2020, answer Questions 16 and 17.

	\$
Inventory	280,000
Cash	98,000
Accounts Receivables	216,000
Deposits from customers	32,000
Accounts Payables	163,000
Bank Loan (Repayable on 31 December 2021)	200,000
Bank	25,000 (Cr)
Net profit	10,000

16. Provided that the net profit ratio for the year was 5% and gross profit ratio was 4 times of it. What is the amount of cost of goods sold for Chan's firm?
- A. \$128,000
 B. \$160,000
 C. \$192,000
 D. \$800,000
17. What is the acid test ratio as at 31 December 2020?
- A. 0.75 : 1
 B. 0.81 : 1
 C. 1.43 : 1
 D. 1.84 : 1

18. Which of the following statement violates the principle of unity of command?
- A. The financial controller presents the financial statements to the chief executive officer and chairman in the meeting of the board of directors.
 - B. All sales managers report to the sales director in an insurance company.
 - C. The quality assurance specialist and product designers give advice to the production manager.
 - D. The sales manager and customer relationship manager request a marketing executive to meet sales target and customer service level respectively.
19. Which of the following statements about public corporation is correct?
- A. It is financed and managed by the government.
 - B. Its loss is shared by taxpayers.
 - C. The board of directors is appointed by the government.
 - D. It is not a profit-making organization.
20. Peter operates a stationery shop. Which of the following statements are correct?
- (1) If Peter bought some stationery for resale by personal cheque, no entries should be made on it.
 - (2) If Peter took some stationery to be utilized in the shop, he should credit the purchases account.
 - (3) If Peter gave some stationery to customers as samples, he should debit the promotion expense account.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
21. Mr. Lam has acquired a motor vehicle on credit. The other payable account can be classified as a _____ and _____ account.
- A. real...personal
 - B. nominal...personal
 - C. real...impersonal
 - D. nominal...impersonal

22. According to the information below, which of the following statement(s) is/are correct?

	Company A	Company B
Gross profit ratio	38%	26%
Net profit ratio	12%	18%
Returns on capital employed	8%	10%

- (1) Company B must earn more profit than Company A.
- (2) Control on operating expenses is stricter for Company B than Company A.
- (3) Shareholders of Company B receive more dividends than those of Company A.

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

23. Which of the following are the possible impacts of fulfilling social responsibility?

- (1) Raising productivity
- (2) Building closer customer relationship
- (3) Enjoying a lower profits tax rate

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

24. Which of the following statements about the coordination between different departments are correct?
- (1) Risk Management Department assesses the risk of various projects for investment decision made by the Finance Department.
 - (2) Information Management Department disseminates the most updated information to Production Department for the utilization of production capacity.
 - (3) Human Resources Department formulates different types of monetary and non-monetary incentives for the salesmen in Marketing Department.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
25. Which of the following cases is the best representation of an entrepreneur?
- A. A business consultant developed an innovative business model to improve efficiency of the organization.
B. A chief executive officer boosted the stock price performance through acquiring a strong competitor in the same industry.
C. A scientist in a research and development department invented a new technology to upgrade the functions of electrical appliances.
D. A small business owner opened a shop and made a profit persistently.
26. Which of the following is/are the function(s) of the quality assurance to the operations department?
- (1) Negotiate better terms and conditions for the supply of quality raw materials from suppliers.
 - (2) Consider the feedback on product's quality from customers.
 - (3) Conduct regular inspections on the production facilities.
- A. (3) only
B. (1) and (2) only
C. (2) and (3) only
D. (1), (2) and (3)

27. New World Company is an international service provider listed in Hong Kong specializing in online ordering system. Under normal situation, which of the following about the movement of its share price are correct?

<u>Situation</u>	<u>Effect on share price</u>
(1) An increase of interest rate	Increase
(2) An outbreak of pandemic	Increase
(3) Increased tension between the Chinese and US governments	Decrease
A. (1) and (2) only	
B. (1) and (3) only	
C. (2) and (3) only	
D. (1), (2) and (3)	

28. On 1 September 2021, Ms. Lam set up a firm and brought in machinery of \$18,000, furniture and fitting of \$4,500, inventory of \$10,000 and cash amounting to \$3,000 to the business. Half of these amounts were financed by Ms. Lam's personal loan. Subsequently, she took \$2,000 from the cash to open a business's bank account. The amount of Ms. Lam's capital on 1 September 2021 was _____.

- A. \$17,750
- B. \$33,500
- C. \$35,500
- D. \$37,500

29. Which of the following statements about Mandatory Provident Fund (MPF) are correct?

- (1) Self-employed persons aged 64 who have been in the catering industries are required to join an MPF scheme.
- (2) Employees can only transfer their investment returns to another self-chosen MPF trustee and scheme once a year.
- (3) Not all the employees are required to contribute 5% of their relevant income to the MPF scheme.

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

30. Kenny is going to borrow money from a bank for a year. Which of the following offers should he choose?
- A. A bank offered an interest rate of 12% per annum, compounded yearly.
 - B. A bank offered a 12% yearly interest rate, compounded quarterly.
 - C. A bank offered a 10% nominal rate, compounded half yearly.
 - D. A bank offered a 10% effective interest rate, compounded every three months.

END OF SECTION A

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

1. Bright Limited is a private education provider in the Mainland China. David, a CEO of Bright Limited, plans to develop a set of self-directed learning materials for students and offers a free online platform to support their learning.

According to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), David knows that he can employ a Hong Kong accounting firm to provide bookkeeping services for Bright Limited.

- (a) Explain how CEPA allows David to employ Hong Kong accountants providing bookkeeping services for Bright Limited. (1 mark)
- (b) State and explain one social factor and one technological factor that David should consider when developing the new product and service in China. (4 marks)
- (Total: 5 marks)

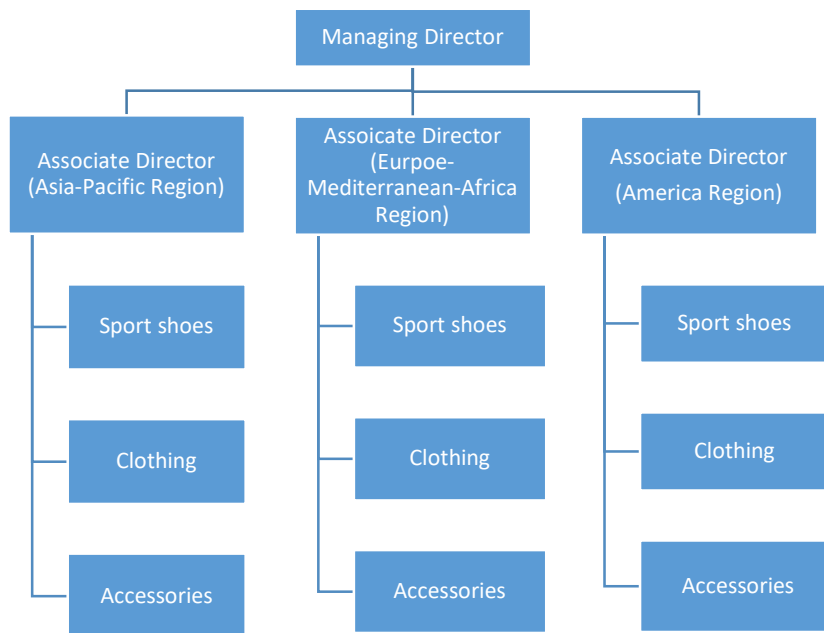
2. Moon Keung, a retail business in Hong Kong, has suffered a huge loss from the effect of COVID-19. The owner of Moon Keung decides to liquidate the business in 2021. When preparing financial statements for the year ended 31 December 2020, the accountant recorded the income received and expenses paid in the income statement. The total income received in 2020 was \$120,000, of which \$1,500 was rental income for January 2021.

- (a) Identify and explain the accounting principle that has been violated in the above case. State the amount of total income to be recognized in the income statement for Moon Keung for the year ended 31 December 2020. (3 marks)
- (b) Apart from the limitation of providing quantitative information, state two limitations on the use of financial statements. (2 marks)
- (Total: 5 marks)

3. Warwick is a renowned and well-established manufacturer specializing in designing, producing and selling sport shoes to athletes. The company is now facing steady growth in sales but decline in profit. Hence, Robert, the managing director, proposed to explore the possibility of starting new product lines on manufacturing clothing and accessories.

- (a) Identify and explain the risk management strategy proposed by Robert. (2 marks)

Below is the new organizational structure of Warwick after starting new product lines.



- (b) Identify two types of departmentalization shown in the above organizational structure. (1 mark)
- (c) “We need to increase the market share by starting new product lines of manufacturing clothing and accessories.” Explain why the goal set here cannot fulfill the criteria of a SMART goal. (2 marks)
- (Total: 5 marks)
4. Maisie was filed for bankruptcy fifteen years ago due to poor management of her personal finance. Although she is now a very successful university professor and free from debts, she is still suffering from a poor credit record. She is planning to buy a motor car by using instalment loan but is worried that her poor credit record would affect the application of loan.
- (a) Explain two reasons why instalment loan is a better choice for Maisie to purchase a motor car compared with credit card. (4 marks)
- (b) Apart from the major factor that affects an individual’s credit record in this case, explain one possible reason leading to a poor credit record of Maisie. (1 mark)
- (Total: 5 marks)

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

5. Kennedy sets up his own flower shop on 1 May 2021. His firm has one mission: providing the best service to his customers. Kennedy makes all the decisions and has got four employees in his flower shop. Each employee is responsible for one of the four aspects of work, which include accounting work, sales, customer service and stock management.

In a meeting, Alan, the accountant, presented the transactions in May 2021 and the draft accounting record to Kennedy. The details are as follows:

Date	Transactions
1 May	Kennedy put some cash in the company's bank account.
1 May	The flower shop signed a contract with a supplier. The contract stated clearly that Kennedy's shop would buy three bunches of flowers from James, the supplier, amounting to \$90,000. Except the first bunch, James offered 5% discount for payments within 10 days.
2 May	One-third of the flowers ordered arrived and Kennedy paid a cheque immediately.
5 May	Kennedy took away some cash from the bank account and flowers \$2,000 for the anniversary dinner with his wife.
5 May	Another one-third of the flowers ordered from James arrived.
8 May	Half of the flowers received on 5 May were returned to James.
21 May	Kennedy received the last bunch of flowers ordered from James.
26 May	Kennedy draw a cheque to James to fully pay the debts owing on 5 May and partially settle the remaining debts.

Bank

2021	Details	\$	2021	Details	\$
1 May	(A)	170,000	2 May	(B)	(C)
			5 May	(E)	1,000
			26 May	(F)	34,000

(B)

2021	Details	\$	2021	Details	\$
2 May	Bank	(C)	5 May	(E)	(D)
5 May	(F)	(C)			
21 May	(F)	(C)			

(F)

2021	Details	\$	2021	Details	\$
8 May	(G)	15,000	5 May	(B)	(C)
26 May	Bank	34,000	21 May	(B)	(C)
26 May	(H)	(I)			
31 May	Balance c/d	(J)			

Required:

- (a) Write your answers for Item (A) to (J) in the answer book. (5 marks)
- (b) Suggest one way that James can be socially responsible to Kennedy. (1 mark)
- (c) According to the principle of effective management, explain two benefits of the current mode of job allocation to employees. (4 marks)
- (Total: 10 marks)

6. William has operated his online shop for a year. Because of the COVID-19, more people stay at home and buy goods through online platforms. Hence, the online sales are on the rise. In order to reduce his workload, he invited his friend, Emily, to be the manager and hired four part-time employees to support the daily operation of his online shop. He prepared the following income statement for the year ended 31 December 2020 and the statement of financial position at that date:

William

Income statement for the year ended 31 December 2020

	\$	\$		\$
Cost of sales			Sales	680,100
Purchases	178,000		Less: Returns outwards	8,300
Returns inwards	4,000			<u>671,800</u>
	<u>182,000</u>			
Less: Closing inventory	10,560	171,440		
Gross profit c/d		<u>500,360</u>		
		<u>671,800</u>		<u>671,800</u>
Less: Drawings	4,500		Gross profit b/d	500,360
Salaries	180,000			
6-month Time deposit	50,000			
General expenses	60,000	294,500		
Net Profit		<u>205,860</u>		
		<u>500,360</u>		<u>500,360</u>

William

Statement of financial position as at 31 December 2020

Non-current assets	\$	\$	Capital	\$
Equipment		4,000	Balance as at 1 January 2020	
			(Balancing figure)	56,150
			Add: Net profit	<u>205,860</u>
				262,010
Current assets			Current Liabilities	
Inventory	10,560		Trade payables	30,800
Bank	<u>275,550</u>		Less: Discount received	<u>2,700</u>
		<u>286,110</u>		28,100
		<u>290,110</u>		<u>290,110</u>

After preparing the financial statements, one of the employees who has got accounting knowledge, found that there were some mistakes in the above statements.

- (i) A few items have been misplaced.
- (ii) During the year, William acquired two new computers for \$20,000 each. However, he recorded them as general expenses.
- (iii) The drawings figure was only for cash drawings. No entries were made for goods taken by William for his own use amounting to \$3,000.
- (iv) The salaries included \$1,050 paid for the repairing expense on William's private computer.

Required:

- (a) Prepare for William a corrected statement of financial position in vertical format as at 31 December 2020.

(5 marks)

At the beginning of 2021, William believed that fostering business ethical standard can benefit the business in the long run. He discussed briefly the business goal with Emily and gave her a free hand to devise and implement a plan in order to raise the firm's awareness of business ethics.

Then, Emily called a meeting with her team to explain her plan and discuss how to achieve it. Finally, the employees came up with some suggestions which Emily included in her plan.

- (b) What is business ethics? (1 mark)

- (c) Identify leadership styles of William and Emily separately. Justify with one reason for each of your answer. (4 marks)

(Total: 10 marks)

END OF PAPER