

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS &
HONG KONG ASSOCIATION FOR BUSINESS EDUCATION
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2022/23
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 risk management strategies are appropriately adopted?

<u>Risk management strategy</u>	<u>Situation</u>
(1) Risk avoidance	A retailer who usually stores business data on the free cloud system charge discontinues collection of personal data such as customer addresses and telephone numbers.
(2) Risk assumption	A fast food restaurant employs a former staff.
(3) Risk reduction	A hotel empowers frontline staff to upgrade the room upon receiving a reasonable complaint from a customer.
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 statements are **not** correct?

- | | |
|--|--|
| (1) Hong Kong is a net importer of raw materials. | |
| (2) The small and medium enterprises contribute to the greatest proportion of Gross Domestic Product (GDP) in Hong Kong. | |
| (3) According to the Closer Economic Partnership Agreement (CEPA), all goods imported to Mainland are tariff-free. | |
| A. (1) and (2) only | |
| B. (1) and (3) only | |
| C. (2) and (3) only | |
| D. (1), (2) and (3) | |

3. A local car manufacturer sets the following goal:

‘We shall enhance our productivity by the end of next year.’

Which of the following criteria for good objectives is/are fulfilled in the above goal?

- (1) specific
- (2) measurable
- (3) time-bound

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

4. Which of the following statements about entrepreneurship is correct?

- A. Entrepreneurs are particularly concerned about social responsibility.
- B. All owners are entrepreneurs.
- C. Entrepreneurs only exist in small and medium businesses.
- D. Entrepreneurs pool people and resources together to form a business.

5. Which of the following is/are the characteristic(s) of a small and medium enterprise?

- (1) provide sophisticated products and services
- (2) provide support to large businesses only
- (3) serve a narrow market

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

6. Which of the following performance standards should be set for respective departments?

<u>Department</u>	<u>Performance Standards</u>
(1) Production department	the average cost of production
(2) Finance department	the quoted price of the company on the stock market
(3) Marketing department	the number of complaints from customers on the service provided by salesmen

- 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 equations are correct?
- (1) $\text{Net loss} = \text{Gross loss} + \text{Operating expenses} + \text{Other losses}$
 - (2) $\text{Non-current assets} - \text{Net current liabilities} = \text{Capital} + \text{Non-current liabilities}$
 - (3) $\text{Net purchases} = \text{Purchases} - \text{Returns outwards} + \text{Carriage outwards}$
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
8. Arrange the following investment products in an ascending order in terms of level of investment risk.
- (1) government inflation-linked bonds
 - (2) blue-chip stocks
 - (3) corporate bonds of a blue-chip company
 - (4) time deposits
 - (5) GEM stocks
- A. $(1) \rightarrow (2) \rightarrow (3) \rightarrow (4) \rightarrow (5)$
 - B. $(1) \rightarrow (3) \rightarrow (4) \rightarrow (2) \rightarrow (5)$
 - C. $(4) \rightarrow (3) \rightarrow (1) \rightarrow (5) \rightarrow (2)$
 - D. $(4) \rightarrow (1) \rightarrow (3) \rightarrow (2) \rightarrow (5)$
9. Which of the following statements about consumer credit is correct?
- A. Interest of a credit card is calculated on the pre-approved credit limit.
 - B. Bank overdraft is a widely acceptable form of payment.
 - C. Repayment schedule of an instalment loan is planned.
 - D. A collateral is necessary for a personal loan.

10. A firm had working capital of \$300,000 on 31 December 2020. In 2021, cash sales amounted to \$100,000. A customer repaid his account of \$25,000 by cheque, less 5% cash discount. Also, the firm did not have enough idle fund and raised a short term bank loan of \$30,000. On 31 December 2021, the firm signed a 3-year rental contract starting on 1 January 2022 and paid a rental deposit of \$15,000 immediately.

What was the working capital on 31 December 2021?

- A. \$430,000
 B. \$398,750
 C. \$385,000
 D. \$383,750
11. A chained medical centre employs different medical specialists and professionals. The Chief Operation Officer (COO) sets up an objective of maximizing profits for the centre without compromising the quality of medical services. He talks to different staff members occasionally for improving the service quality. For daily routine, a clerical officer is responsible for the registration of patients while an enrolled nurse dispensing the drugs after the diagnosis of patients from medical doctors. Which of the following effective management principles have been adopted in this case?
- (1) division of work
 (2) unity of direction
 (3) management by objective
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)
12. Which of the following double entries is/are correct when the toy shop has been operating for half a year?

	<u>Debit</u>	<u>Credit</u>
(1) the unused stationery sold in cash	Cash	Stationery
(2) the compensation paid to a customer by cash	Sales	Cash
(3) the inventory introduced by the owner for resale	Inventory	Capital

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

13. The following was the list of account balances in the trial balance of a firm as at 31 March 2022:

	\$
Bank Overdraft	2,700
Loan to owner	30,000
Donation to a charity	3,000
Sales	173,500
Purchases	100,000
Inventory, 1 April 2021	20,000
Deposit from customers	5,600
Equipment	8,000
Capital, 1 April 2021	5,000

What is the difference of the unbalanced trial balance?

- A. Debit \$14,600
B. Debit \$25,800
C. Debit \$31,800
D. Debit \$85,800
14. Which of the following is the best scenario that illustrates the participative leadership style?
- A. A Station Officer gives clear instructions to firemen for putting out fire.
B. A general manager allows staff members to discuss company policy without providing guidelines and instructions.
C. Copywriters can make decisions on their own without notifying the creative director of an advertising company.
D. The coach of a soccer team discusses with all players to determine the tactics against the opponents.
15. Which of the following statements about the Hang Seng Index (HSI) are **not** correct?
- (1) Stock prices of all constituent stocks of HSI will decrease when the HSI drops.
(2) HSI constituent securities are grouped into 4 sectors including Finance, Utilities, Properties and Technology Sub-indexes.
(3) Investors can compare performances of the HSI with the index of other stock markets to optimize their investment decisions.
- 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 is/ are related to the function(s) of accounting?
- (1) place purchase orders
 - (2) report the financial performance to the management
 - (3) record the payroll
- A. (2) only
B. (1) and (2) only
C. (2) and (3) only
D. (1), (2) and (3)
17. Which of the following incidents can have negative impacts on all stock prices of real estate companies listed in Hong Kong?
- (1) a slump in property prices in Mainland
 - (2) an increase of interest rate within a short period of time
 - (3) more stringent measures imposed by the government on regulating the sale of first-hand residential properties
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
18. Which of the following statements regarding international trade organisations is/are correct?
- (1) Asia-Pacific Economic Cooperation (APEC) settles trade disputes among members.
 - (2) Fines and punishment may be imposed to the member in case of violation of rules of World Trade Organization (WTO).
 - (3) Both WTO and APEC provide training for their members to take advantage of global trade.
- A. (2) only
B. (1) and (2) only
C. (1) and (3) only
D. (2) and (3) only

19. Which of the following transactions violate(s) the business entity concept if it is recorded in the books of a firm?
- (1) The owner paid salaries to staff by a personal cheque.
 - (2) The owner paid the electricity bill of his apartment by a firm's cheque.
 - (3) The owner had lunch at his office which was paid by his Octopus Card.
- A. (2) only
B. (3) only
C. (1) and (3) only
D. (2) and (3) only
20. Which of the following statements about life cycle on personal finance is/are correct?
- (1) Spending on insurance should be kept minimal after having children in order to reserve more money for education.
 - (2) A large portion of retirement fund should be allocated to speculative activities during pre-retirement stage in order to maintain the standard of living after retirement.
 - (3) Paying off mortgage loan is prioritized before the retirement stage.
- A. (2) only
B. (3) only
C. (1) and (3) only
D. (2) and (3) only
21. Which of the following statements is/are correct?
- (1) The amount of capital in a partnership is greater than that of a sole proprietorship.
 - (2) A partnership enjoys a lower tax rate compared to a limited company.
 - (3) If there is one owner in a firm, he or she must bear unlimited liabilities.
- A. (2) only
B. (3) only
C. (2) and (3) only
D. (1), (2) and (3)

22. Windy wants to invest \$15,000 in a project. This project will bring cash inflows at the end of the following three years. Since the market interest rate is fluctuating, the discount rate is expected to change yearly. Details of the project are as follows:

	Cash inflows	Discount rate (per annum)
Year 1	\$8,000	5%
Year 2	\$10,000	10%
Year 3	\$12,000	8%

Calculate the Net Present Value (NPV) for the project (correct to 2 decimal places).

- A. \$7,987.79
B. \$10,409.50
C. \$10,897.07
D. \$12,812.07
23. Which of the following is/are the limitation(s) of a statement of financial position?
- (1) It shows quantitative information only.
(2) It neglects time value of money.
(3) It cannot be used for future planning.
- A. (1) only
B. (1) and (2) only
C. (2) and (3) only
D. (1), (2) and (3)
24. Peter and John are in a partnership. Peter neither involves himself in the daily management nor introduces the capital in the business while John doesn't enjoy limited liabilities and has the right to make decisions in the business. Peter and John are a _____ and a _____ respectively.
- A. limited partner...general partner
B. nominal partner...limited partner.
C. general partner...limited partner
D. nominal partner...general partner

25. Which of the following statements about risk diversification is/are correct?
- (1) Uncorrelated investment is a way of risk diversification that offsets firm-specific risk.
 - (2) Market risk can be avoided by risk diversification.
 - (3) Risk diversification is aimed at maximizing investment return.
- A. (1) only
B. (2) only
C. (1) and (2) only
D. (2) and (3) only
26. Which of the following transactions will **not** affect the agreement of a trial balance?
- (1) Cash sales was wrongly debited to the bank account.
 - (2) A sales invoice was overcast by \$90.
 - (3) Drawings of goods was credited to the inventory account.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
27. Which of the following companies do/does **not** fulfill its social responsibility towards its stakeholders?
- (1) A company does not distribute dividends to its ordinary shareholders even though it earns profit.
 - (2) A company sets its product price a bit higher than the average of the market.
 - (3) A company does not provide any training and development opportunities to its employees.
- A. (2) only
B. (3) only
C. (2) and (3) only
D. (1), (2) and (3)

28. Which of the following statements about organizational structures are correct?
- (1) More promotion opportunities are available in tall organizational structures.
 - (2) Decision making processes can be shortened in flat organizational structures.
 - (3) Better interpersonal relationship can be developed between the top management and subordinates in flat organizational structures.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

Based on the following information, answer Questions 29 and 30.

Lee's firm sold 200 units of goods at \$50 each on credit to a customer on 1 March 2022, being granted a 5% trade discount. If the customer repays the amount within 20 days, one can also have a 3% cash discount. On 3 March 2022, Lee's firm received 4 units of damaged goods which were returned by the customer.

29. On 3 March 2022, the customer should send a _____ to Lee's firm.
- A. debit note of \$200
B. debit note of \$190
C. credit note of \$200
D. credit note of \$190
30. Lee's firm received money from the customer on 18 March 2022. Which of the following would appear in the ledger accounts of Lee's firm?
- (1) Trade receivable \$9,030.7
 - (2) Discounts allowed \$279.3
 - (3) Bank \$9,030.7
 - (4) Discounts received \$279.3
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (3) and (4) only

END OF SECTION A

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

1. Kingsi Ltd is going to launch an online platform for selling accessories. In order to attract more customers to visit its online platform, famous super star ToTo was invited to promote a new series of bracelet.

In a meeting, Marketing Manager, Information Manager and Financial Manager had the following discussion:

Marketing Manager: To increase customers' confidence in using our platform, we must be careful with protecting the privacy of customers' data.

Information Manager: I agree with you. I suggest forming a project team headed by you and me to formulate measures on preventing leakage of customers' information. Our two departments can assign some employees to join the team and work on this common goal.

By the way, your subordinate, Peter, has got outstanding performance on leading the promotion campaign. How do you supervise Peter to come up with this performance?

Marketing Manager: Peter has worked with me for many years. He is smart and I trust him very much. I believe that a relaxing and comfortable working atmosphere helps people think out of the box. I delegate him to design the whole promotion campaign. I just remind myself to keep an open mind and to be available anytime for consultation.

Financial Manager: We have spent a lot of money on inviting ToTo to cooperate with us. We must evaluate whether we should continue to invite famous stars to be the promoting ambassadors in the future.

- (a) State one principle of effective management that has been violated in forming the team. (1 mark)
- (b) Suggest one problem that might arise from the violation of the principle in (a). (1 mark)
- (c) Identify the leadership style of Marketing Manager. (1 mark)
- (d) Explain one condition for the Marketing Manager to adopt the style in (c). (2 marks)
- (e) Briefly describe one way the Financial Management Department and the Marketing Department could cooperate after launching the campaign. (2 marks)

2. David is now reviewing an investment proposal presented by his financial consultant. David can get back his principal after 5 years of investment with a guaranteed return on annual basis. However, his financial consultant emphasizes that the projected returns are usually higher than the guaranteed returns. David and his wife, Mary, evaluate carefully the proposed investment based on the Net Present Value (NPV). The result of David's calculation is positive, but Mary's calculation turns out to be negative.

- (a) List one possible reason to explain the difference between David's and Mary's NPV calculations of the investment proposal. (2 marks)

The financial consultant also tries to persuade David to invest in stock market. Before the investment, David wants to understand the differences between the Main Board and GEM.

- (b) Compare and state one difference in the listing requirements of the Main Board and GEM related to management continuity. (2 marks)

David earns a basic salary of \$180,000 per annum as a salesman in a computer equipment store and he receives 2% commission based on the monthly sales target met. He reached the sales target of \$300,000 this month.

- (c) Calculate the monthly Mandatory Provident Fund (MPF) contribution by David. Apart from monthly contribution, suggest one responsibility he has to fulfill as an employee joining the MPF scheme. (2 marks)

Mary settles the bills of electricity, water supplies and other miscellaneous expenses by bank cheques. However, she has been notified on several occasions that the bank cheques have been rejected because of insufficient fund temporarily.

- (d) To prevent cheque rejection, suggest one suitable type of consumer credit for Mary and one advantage of it. (2 marks)

3. Lee's business had been running at a loss during the past three years. He decided to lay off his staff and close his business on 30 June 2022. As at 31 March 2022, he listed all the assets at their disposal values instead of historical costs.
- (a) With reference to a relevant accounting concept, explain whether Lee's suggestion is proper or not. (3 marks)

There were three transactions extracted in April 2022:

- Apr 10 Lee paid the salaries of \$20,000 for redundancy by borrowing a personal loan from the bank.
- Apr 12 Lee returned cash of \$2,000 into the business's bank account. (The amount had previously been withdrawn for personal use in December 2021.)
- Apr 13 Lee paid transportation insurance of \$300 by a cheque for the goods sent to the customer.

- (b) Prepare two real accounts to show double entries for the transactions above. (2 marks)

Part 2 (10 marks) Answer ONE question in this part.**Based on the following information, answer either Question 4 or 5.**

Esther runs a metal trading firm in Hong Kong, importing different kinds of metal from the Mainland China and Russia, and reselling them to manufacturing companies in East Asia. She would like to expand her business and enter the European market next year. She thinks that forming a joint venture with European companies can help her enter the European market more easily.

Before making the final decision, she needed to understand the current financial situation of the company. Therefore, she hired an accounting clerk and asked him to prepare the trial balance as at 31 December 2022. The following was the trial balance prepared by the clerk:

Esther		
Trial Balance as at 31 December 2022		
	Dr (\$)	Cr (\$)
Cash sales		1,141,000
Total purchases	810,750	
Credit purchases	444,000	
Net profit for the year		147,000
Drawings	?	
Carriage expenses	60,000	
Returns inwards	200	
Net current assets	36,000	
Inventory as at 31 December 2022	32,000	
Capital as at 1 January 2022		2,323,000
Bank	22,000	
Trade receivables	?	
Trade payables		28,000
Premises	1,112,000	
Motor vehicles	204,080	
Discounts allowed	?	
	<u>2,721,030</u>	<u>3,639,000</u>

Additional information:

- (i) The inventory as at 1 January 2022 was \$100,000.
- (ii) The net profit ratio of the year was 12%.
- (iii) The quick ratio was 1.14.
- (iv) The return on capital employed of the year was 8%.
- (v) Carriage expenses included both carriage inwards and carriage outwards. The costs for transferring goods from the Mainland China and Russia were \$17,000 and \$23,000 respectively.

Esther realized a trial balance has its own limitation. After studying the trial balance prepared by the accounting clerk, she asked the clerk to rectify it and proceed to next steps of the accounting cycle.

Answer ONE question.

4. (a) State the major limitation of a trial balance. (1 mark)
- (b) Prepare an income statement for the year ended 31 December 2022. (5 marks)
- (c) Explain one political factor and one economic factor each with an example that may hinder Esther's choice to enter the European market. (4 marks)
- (Total: 10 marks)
5. (a) Name the step in the accounting cycle right after preparing the trial balance. (1 mark)
- (b) Prepare a statement of financial position as at 31 December 2022. (5 marks)
- (c) Besides the benefits from more partners, explain two reasons why forming a joint venture with European companies can help Esther enter the European market more easily. (4 marks)
- (Total: 10 marks)

END OF PAPER