

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS &
HONG KONG ASSOCIATION FOR BUSINESS EDUCATION

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2023/24

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 are impacts of globalization on hotels in Hong Kong?
- (1) Promote travel packages to the Greater Bay Area (China) for tourists from Southeast Asia
 - (2) Reduce operating costs by sourcing and outsourcing
 - (3) Introduce Google AI technology to improve booking systems
- 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 double entries are correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	The firm paid cash for goods returned from a customer.	Returns inwards	Cash
(2)	The firm paid freight charges to suppliers by cheque.	Carriage inwards	Bank
(3)	The firm sold unsuitable equipment on credit.	Trade receivables	Sales

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

3. John wants to purchase a small apartment 2 years later. The price of this apartment is \$2,500,000 now and is expected to increase by 2% per annum. To pay for the apartment after 2 years, he is considering investing in a 2-year bank savings plan with an annual return of 8%, compounded semi-annually. According to the savings plan, John needs to put two equal deposits into the bank at the beginning of Year 1 and Year 2. How much should each deposit be?
- A. \$1,029,329
B. \$1,154,067
C. \$1,155,251
D. \$1,157,853
4. Which of the following sequences of control procedure performed by a sales manager in an insurance company is correct?
- (1) Measure the sales achieved by each team of insurance agents
(2) Take corrective actions if the deviation exceeds tolerance
(3) Compare the achieved sales with the budgeted sales
(4) Set the monthly sales for the sales team
- A. (1) → (4) → (3) → (2)
B. (1) → (3) → (4) → (2)
C. (4) → (3) → (1) → (2)
D. (4) → (1) → (3) → (2)
5. Which of the following situations has/have violated the effective management principle(s)?
- (1) The general manager is planning to launch a mega advertising campaign while the financial manager sets a tight budget for the marketing department.
(2) Customer service officers need to report to both branch manager and customer relations manager.
(3) The operation director delegates the factory manager to control the quality of production processes.
- A. (1) only
B. (2) only
C. (1) and (2) only
D. (1), (2) and (3)

6. Which of the following accounts should have balances on the debit side of a trial balance?

- (1) Loans to employees
- (2) Commission income
- (3) Electricity deposit
- (4) Deposit received from a customer for a tailor-made machine

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

7. On 1 March 2023, Wan set up an online shop selling printers. During the month, 160 sets of printers were purchased at a price of \$170 each. The firm successfully sold 150 sets of printers on credit to various customers at a list price of \$500 each and 10% trade discount was allowed. During the late March, printers with list price of \$2,500 were returned to the firm from customers.

What is the gross profit of the firm in March 2023?

- A. \$37,800
- B. \$38,050
- C. \$40,350
- D. \$40,600

8. Which of the following statements about the economic relationship between the Mainland and Hong Kong is/are correct?

- (1) According to the "Mainland and Hong Kong Closer Economic Partnership Arrangement" (CEPA), the Mainland recognizes some Hong Kong professional qualifications.
- (2) Service providers in the Mainland enjoy preferential treatment for setting up businesses in Hong Kong.
- (3) According to the CEPA, all goods from Hong Kong can be exported to the Mainland free of tariff.

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

9. If the nominal rate of return remains unchanged, which of the following statements about the effective rate of return are correct?

- (1) The effective rate of return will be higher if the amount of principal increases.
- (2) The effective rate of return reflects the actual rate of return on an investment.
- (3) The effective rate of return will be lower if the frequency of compounding period decreases.

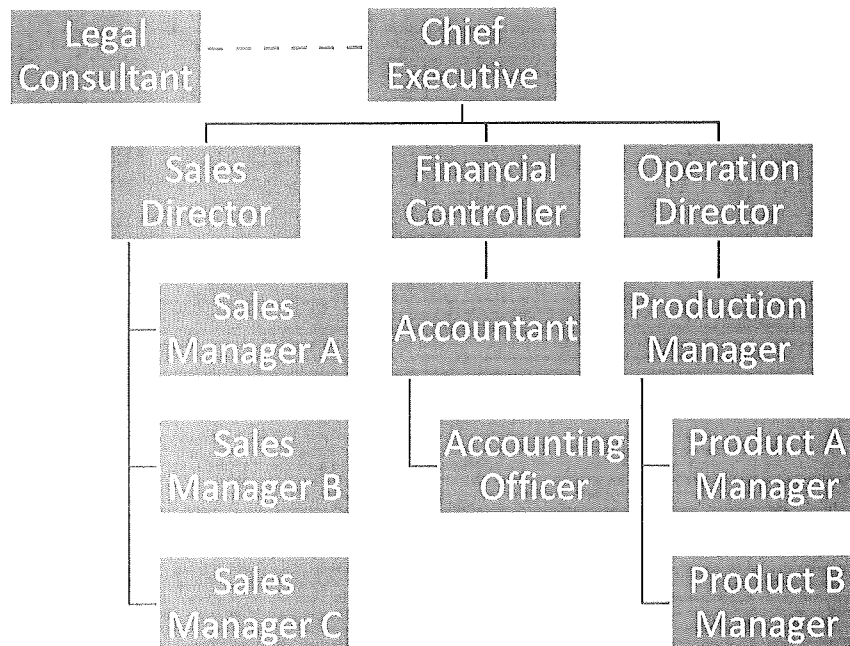
- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

10. Which of the following statements about the characteristics of Hong Kong economy is/are **not** correct?

- (1) The government does not encourage the development of secondary industry.
- (2) A few years ago, the Belt and Road Initiative and regional cooperation in the Greater Bay Area were incorporated into the CEPA framework.
- (3) Hong Kong has become the only platform for Mainland enterprises to raise international funds through the stock market.

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

11. The organization structure of a company is illustrated below. Which of the following statements is/are correct?



- (1) The sales director's span of control is the same as that of the operation director.
- (2) The decision making process of such an organization structure is relatively slower than a flat organization structure.
- (3) The legal consultant has line authority over the financial controller.
- A. (1) only
- B. (2) only
- C. (1) and (2) only
- D. (2) and (3) only
12. Which of the following transactions should be recorded in the purchases account of a bakery shop?
- (1) purchased a microwave oven for heating up cakes
- (2) donated 150 packs of biscuits to an elderly home
- (3) received trade discount 20% for bulk purchase of cup cakes
- (4) took some sandwiches from the shop for the owner's family members
- A. (1) and (3) only
- B. (2) and (4) only
- C. (3) and (4) only
- D. (2), (3) and (4) only

13. Which of the following statements about listing requirements are correct?
- (1) The company becoming listed on Stock Exchange must have a trading record while there is no trading record requirement on GEM (previously known as Growth Enterprise Market)
 - (2) Companies to be listed in GEM have no requirements on past profit records.
 - (3) The amount of market capitalization of companies listed on GEM is less than those on Main Board.
- 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 describe(s) a beverage store fulfilling its social responsibility?
- (1) Provide discounts to customers at Christmas
 - (2) Employ mentally handicapped persons as staff
 - (3) Collect extra \$1 from customers who use plastic straws
 - (4) Provide low-sugar choices for better health of customers
- A. (1) only
 - B. (2) and (3) only
 - C. (2) and (4) only
 - D. (2), (3) and (4) only

15. The following account was extracted from the books of Eric's firm:

Damon			
2023		2023	
	\$		\$
Nov 1 Balance b/d	12,000	Nov 25 Cash at bank	10,000
Nov 13 Sales	<u>36,000</u>	Nov 30 Balance c/d	<u>38,000</u>
	<u>48,000</u>		<u>48,000</u>

Based on the information in the account above, which of the following statements is **not** correct?

- A. Damon owed Eric's firm \$12,000 on 1 November 2023.
- B. The account has a debit balance as at 30 November 2023.
- C. Eric's firm sold goods for \$36,000 on credit to Damon on 13 November 2023.
- D. Eric's firm paid a cheque of \$10,000 to Damon on 25 November 2023.

16. Which of the following statements about the Mandatory Provident Fund (MPF) system are correct?
- (1) A sole proprietor can contribute 8% of his/her relevant income to the MPF scheme.
 - (2) Mr. Chan is a self-employed person who earned a net income of \$85,000 last year. He is not required to contribute to the MPF scheme.
 - (3) Nancy is 17 years old and works at a part-time waitress in a restaurant with a monthly income of \$8,000. She is required to contribute \$400 each month to the MPF scheme.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
17. Which of the following statements about Small to Medium Enterprises (SMEs) is/are correct?
- (1) Separated ownership and management cannot be found in SMEs.
 - (2) Different profits tax rate would be applied to SMEs in accordance with their form of business ownership.
 - (3) SMEs only focus on the niche market which has not been served by large companies.
- A. (1) only
B. (2) only
C. (1) and (2) only
D. (2) and (3) only
18. What is/are the contribution(s) to the local economy when a Venture Capital Fund from Guangzhou starts an investment business in Hong Kong?
- (1) Create noticeable population flow between the two places
 - (2) Support development of innovation and technology industry
 - (3) Increase the integration in the Greater Bay Area
- A. (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

19. Which of the following are examples of nominal accounts?
- (1) Returns inwards
 - (2) Bank loan
 - (3) Trade receivables
 - (4) Bank overdraft interest
- A. (1) and (4) only
B. (2) and (3) only
C. (1), (2) and (4) only
D. (1), (2), (3) and (4)
20. Cindy joins an investment plan which requires her to invest \$160,000 immediately. There is an administrative charge of 5% for the annual return every year. The plan will generate the following returns:
- Year 1: \$70,000 (at the end of year)
 - Year 2: \$50,000 (at the beginning of year)
 - Year 3: \$80,000 (at the end of year)
- It is given that the discount rate is 8% p.a. What is the net present value of the investment plan?
- A. \$2,629
B. \$3,188
C. \$5,887
D. \$15,639
21. Which of the following are the advantages of maintaining a good personal credit record?
- (1) Higher cash rebate using credit cards
 - (2) Higher credit limit
 - (3) Faster approval of a loan application
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

22. According to accounting principles and conventions, which of the following accounting treatments is/are correct?

- (1) Business Entity: Ben owns three firms. He keeps separate accounting records for each firm.
- (2) Going Concern: All assets are valued at current market price if a business is expected to cease operating in the following month.
- (3) Consistency: Once an accounting method has been adopted, the method should never be changed to ensure the comparability of financial statements over time.

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

23. Which of the following effects on the assets, capital and liabilities brought about by the respective transaction is **not** correct?

	<u>Transactions</u>	<u>Assets</u>	<u>Capital</u>	<u>Liabilities</u>
A.	Owner injected his own vehicle into the firm.	increases	increases	no effect
B.	The firm repaid bank overdraft by taking out a 2-year bank loan.	no effect	no effect	no effect
C.	Owner repaid a bank loan for the firm by his personal cheque.	no effect	increases	decreases
D.	Some unpaid goods are returned to the supplier.	decreases	no effect	decreases

24. Which of the following is/are the function(s) of the World Trade Organization?

- (1) Eliminate trade barriers between member countries
- (2) Handle trade disputes and preside over trade negotiations
- (3) Impose punishment for any violations of agreement by member countries

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

25. Which of the following about key business functions of different departments in a company is/are correct?
- (1) Information Department helps Marketing Department to process the data of customers' survey and generates a report.
 - (2) Marketing Department recruits salespersons according to the needs of Human Resource Department.
 - (3) Finance Department formulates pricing strategies for different products to maximize company's profit.
- A. (1) only
B. (2) only
C. (1) and (3) only
D. (1), (2) and (3)
26. Which of the following statements about the risk and return of investments is/are correct?
- (1) Investing in bonds are regarded as low risk because bondholders can get back their money at any time.
 - (2) Savings deposits in small banks will not be affected by market risks.
 - (3) Investing in stocks of listed companies from different industries can diversify firm-specific risks.
- A. (1) only
B. (3) only
C. (1) and (2) only
D. (2) and (3) only
27. Which of the following are the rights of a stock investor?
- (1) Cancel the investment transaction in the cooling off period
 - (2) File a complaint if a broker is involved in misconduct
 - (3) Ask for rationale behind an investment recommendation made by a broker
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

28. Which of the following are the main uses of financial statements for the corresponding users?

<u>Users</u>	<u>Main use</u>
(1) employees	to assess the prospects of the company
(2) government	to assess company's ability to pay tax
(3) trade creditors	to decide whether to buy goods from the company on credit
(4) managers	to formulate company's development strategies

- A. (1) and (2) only
B. (1) and (4) only
C. (2) and (3) only
D. (1), (2) and (4) only
29. In the trial balance, if the total of debit balances is equal to the total of credit balances, it means that _____.
- A. the books of accounts do not have any errors
B. the total income is more than the total expenses for the year
C. the amount of total assets is equal to the sum of total liabilities and capital
D. the double entries are arithmetically accurate
30. The sales manager of an electrical appliances company announces the following target for his sales team: "We need to maximize the market share in 2022."

Which of the following criteria for good objectives are fulfilled in the target?

- (1) Relevant
(2) Time-bound
(3) Specific
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

END OF SECTION A

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

1. Times Technology Co., Ltd. is a locally listed technology company. This year, the general manager decided to open a new Mega Store to provide rental services of high-end IT gadgets for young customers. The shop is located inside the airport restricted area.

The company is planning to form a joint venture business with the Hong Kong Airport Authority, a public corporation in Hong Kong.

- (a) Based on the situation above, identify one social factor and explain how it affects the business decision of Times Technology Co., Ltd. (2 marks)
- (b) State the two characteristics of a public corporation. (2 marks)
- (c) Explain one advantage to both Times Technology Co., Ltd. and the Hong Kong Airport Authority as a joint venture. (2 marks)
- (Total: 6 marks)

2. Hang Seng Index (HSI) has been fluctuating in recent years due to the rapid increase in market interest rates. John is an inexperienced and conservative investor in stock market. He notices that many property developers are heavily in debts.

Besides, John's relatives told him that they earned a lot from trading in shares on GEM (previously known as Growth Enterprise Market). However, his friend, Peter, recommended him to buy shares on the Main Board instead of GEM.

- (a) State one importance of Hang Seng Index. (1 mark)
- (b) Based on the situation above, explain how the rapid increase in market interest rates affects stock prices of property developers. (2 marks)
- (c) John accepts Peter's advice to invest shares on the Main Board. By comparing the two stock markets, give one reason to justify John's decision from a risk perspective. (2 marks)
- (Total: 5 marks)

3. Jeff has been operating a business for many years. All account balances were extracted from the books of his business as at 31 December 2023:

	\$
Capital, 1 January 2023	413,600
Inventory	9,000
Premises	338,000
Trade receivables	470
Purchases	277,000
Operating expenses	?
Rental income	5,800
Bank overdraft	40,400
Sales	580,200
5% Term deposit	94,000
Overdraft interest	2,530
Drawings	6,000

Additional information:

- (1) By an inventory take at the year end, the market value and cost of inventory were \$10,000 and \$8,100 respectively.
- (2) 5% Term deposit was made on 1 July 2023 and the interest was duly received on 31 December. No entries had been made yet.

REQUIRED:

- (a) Prepare an income statement for Jeff's business for the year ended 31 December 2023. (5 marks)

Jeff's business has recorded losses for years and it is difficult for him to operate his business. As at 31 December 2023, some customers had not yet paid the amount of goods which had been delivered to them. The accountant of Jeff's business still recorded the amount as revenue in 2023.

- (b) Explain the above accounting treatment made by the accountant with a relevant accounting principle or convention. (3 marks)
- (c) Apart from personal judgements of the accountant, state one limitation on the use of financial statements. (1 mark)

(Total: 9 marks)

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

4. Cherry set up a firm on 1 March 2023, with the transaction recorded as follows:

Cash at bank		
2023	\$	
Mar 1	Capital	40,000

The following transactions were incurred in the month of March 2023:

- Mar 6 Placed an order to a supplier and a cheque of \$16,000 for the full settlement was sent together with the order form. The goods were finally delivered and received on 15 March.
- 18 Sold goods at a list price of \$12,000, with 20% trade discount, on credit to Lisa. A 5% discount would be offered to Lisa if the settlements were made within 10 days after the purchase.
- 25 Lisa settled her account by cheque.
- 31 An inventory take revealed that inventory at cost of \$10,240 was still in warehouse.

REQUIRED:

- (a) Other than cash at bank account, prepare appropriate T-accounts to record the above transactions for Cherry. Balancing off the accounts is not required. (2 marks)
- (b) Prepare a trial balance as at 31 March 2023 and calculate the gross profit percentage for March. (3 marks)

The business of Cherry was very successful and expanding in the first half of the year. She is planning to increase the market share of her business in the coming quarter. Mr. Chan, the general manager, will separately set individual goals with different department heads in order to achieve the business goal. Mr. Chan will evaluate the performance of different departments and give feedback to them regularly.

- (c) State the effective management principle adopted by Mr. Chan. Explain one advantage and one disadvantage of the principle stated. (5 marks)
- (Total: 10 marks)

5. Anthony has worked in information technology (IT) industry for many years. He started his own IT company two years ago. His main business is selling equipment to provide a total IT solution and bidding projects outsourced from different companies. The following account balances were extracted from the books of his business as at 31 December 2023:

	\$
Trade payable	100,000
Bank loan (due on 1 January 2025)	65,000
Interest payable	5,000
Inventory	490,500
Deposits to utility companies	10,000
Deposit from one major client	300,000
Trade receivables	310,000

The industry averages of the current and liquid ratio were 2.0:1 and 1.2:1 respectively for 2023. The inventory level at the year end surged temporarily because a large batch of IT equipment was purchased for the ongoing contract of the major client.

REQUIRED:

- (a) Calculate (to two decimal places), for Anthony's business, the following ratios for 2023:
- (i) current ratio
 - (ii) liquid ratio (2 marks)
- (b) Briefly comment on the liquidity of Anthony's business for 2023. (3 marks)

Anthony's business employed ten fresh graduates as programmers. He informed programmers about the deadline of completing the projects as well as the expected outcomes required by customers. Then, he handed over the projects to them completely. He believed that such leadership style could allow the employees to fully explore their potentials. However, he terminated four programmers who could not meet the deadline or expected outcome of the projects. In order to have a better control of their work, he decided to change his leadership style.

- (c) State the leadership style that Anthony first adopted. (1 mark)
- (d) Give two reasons to support Anthony's decision to change his leadership style. (2 marks)
- (e) Based on the situation above, explain two contributions of Anthony's business to local economy as a Small and Medium Enterprise (SME)? (2 marks)

(Total: 10 marks)

END OF PAPER