

FANLING LUTHERAN SECONDARY SCHOOL
2015 - 2016 S6 MOCK EXAMINATION

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

Date : 20th January, 2016

Time allowed: 8:30 am - 9:45 am (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. After the announcement of the start of the examination, you should first stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label after the 'Time is up' announcement.
- (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 are advised to use an HB pencil to mark all the answers on the answer sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.
- (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) Multiple-choice Questions

There are 30 questions in this section. Answer ALL questions. Choose the **best** answer for each question.

1. Which of the following statements about a limited company is correct?
A. **Liabilities of all shareholders are limited.**
B. The business will close if the company's CEO dies.
C. Financial information has to be disclosed to the public.
D. The shares of the company can be freely transferred on the stock market.

2. Karina invested \$25,000 in a savings plan on 1 January 2015. The savings plan offers an annual interest rate of 4.8%, compounded quarterly. How much compound interest would Karina earn on 31 December 2015?
A. \$1,200
B. \$1,214
C. **\$1,222**
D. \$1,240

3. Which of the following statements about a franchised shop is correct?
A. The franchisees have full control over the company's product strategies.
B. It must be registered as a limited company.
C. **It operates under the authorisation of a franchisor.**
D. Operating as a franchised shop is suitable only for retail businesses.

4. Which of the following are the advantages of using credit cards?
(1) Credit cardholders can make purchases with their credit cards even if they have no cash on hand.
(2) Credit cardholders do not need to repay their balance in full after they receive their credit card statement.
(3) Credit cardholders must not suffer a loss even if they lose their credit cards.
A. (2) only
B. **(1) and (2) only**
C. (1) and (3) only
D. (1), (2) and (3)

5. Which of the following statements is incorrect?
A. **Qualitative factors related to a business can be objectively measured in monetary terms.**
B. Potential investors are external users of accounting information.
C. Accounting information is not always objective.
D. Financial statements are expressed in monetary terms.

6. Social responsibility, in the broadest sense, includes
(1) maximising a firm's profits.
(2) paying taxes to the government.
(3) following the industry's production quality standards.
A. (1) only
B. (1) and (2) only
C. (1) and (3) only
D. **(1), (2) and (3)**

7. Which of the following statements about multinational corporations (MNCs) is correct?
- Most are private limited companies.
 - MNCs have simple organisational structures.
 - MNCs are mostly technology-based companies.**
 - MNCs mostly focus on narrow markets.
8. Which of the following conditions would most probably cause a bank's stock price to rise?
- A large bank with good company performance acquires the bank.**
 - Several officers of the bank were caught stealing money from clients' bank accounts.
 - The bank lowers its dividend payout ratio.
 - Cannot be determined
9. A business borrows a bank loan which is received by cheque. How should this transaction be recorded?
- | | <i>Account to be debited</i> | <i>Account to be credited</i> |
|-----------|------------------------------|-------------------------------|
| A. | Bank loan | Cheque |
| B. | Borrowings | Bank loan |
| C. | Bank | Bank loan |
| D. | Cheque | Bank |
10. Which of the following statements about risk is correct?
- Firm-specific risk cannot be eliminated.
 - If one invests in a high-risk financial product, he may suffer a huge loss.**
 - If one invests in a low-risk financial product, he will not suffer a loss.
 - Market risk will only affect firms in a certain industry.
11. Tommy is a sole proprietor. He prepared the following trial balance for his business as at 31 December 2016, the year-end date:

Tommy		
Trial Balance as at 31 December 2016		
	<i>Dr</i>	<i>Cr</i>
	\$	\$
Inventory, 1 January 2016	123,456	
Capital		135,048
Drawings	68,000	
Returns outwards		13,150
Rent and rates	2,629	
Water and electricity	12,020	
Cash		688
Sales		538,550
Trade receivables	56,444	
Trade payables		23,877
Bank	60,505	
Purchases	388,259	

Which of the following statements are correct?

- Both trade receivables and trade payables are posted on the wrong side.
 - Inventory as at the year-end date should be listed in the trial balance above.
 - There must be error(s) in the books of Tommy's business.
- (2) only
 - (3) only**
 - (2) and (3) only
 - (1), (2) and (3)

- 12 Which of the following account balances would not be included in the trial balance?
- (1) Interest revenue
 - (2) Sales
 - (3) Purchases
 - (4) Premises
- A. None of the above
B. (1), (2) and (3) only
C. (2), (3) and (4) only
D. (1), (2), (3) and (4)
- 13 In order to avoid accidents, an airline company has enhanced its pilot training. What kind of risk management strategy has been used?
- A. Risk reduction
B. Risk assumption
C. Risk avoidance
D. Risk transfer
- 14 Which of the following accounts will be closed off at the end of a financial year?
- (1) Sales
 - (2) Interest revenue
 - (3) Water and electricity
 - (4) Office equipment
- A. (1) and (4) only
B. (1), (2) and (3) only
C. (2), (3) and (4) only
D. (1), (2), (3) and (4)
- 15 Which of the following statements are correct?
- (1) Authority cannot be assigned to subordinates.
 - (2) Authority is the right to give orders and make decisions.
 - (3) More authority should be given to the person occupying a position with greater responsibility.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
- 16 Investors can use accounting information to
- (1) evaluate the profitability of a business.
 - (2) estimate the financial position of a business.
 - (3) evaluate whether a business is worth investing.
- 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 tasks are performed by a company's operations department ?
- (1) Determining the company's production capacity
 - (2) Paying a bonus to production workers
 - (3) Keeping track of all supplies to ensure that they are in good condition
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

Refer to the following information to answer questions 18, 19 and 20.

Given the following figures: Sales \$56,805; Returns outwards \$1,000; Returns inwards \$105; Purchases \$29,885; Water and electricity \$12,300; Rent and rates \$5,000; Carriage outwards \$1,000; Wages and salaries \$7,800. There was no opening or closing inventory.

- 18 Net profit for the year amounts to
- A. \$715.
 - B. \$1,600.
 - C. **\$1,715.**
 - D. \$2,610.
- 19 Gross profit ratio is
- A. 3.02%.
 - B. 4.6%.
 - C. **49.06%.**
 - D. 50.73%.
- 20 How should the carriage outwards of \$1,000 be treated in the income statement?
- A. **It would be listed as an operating expense in the income statement.**
 - B. It would not be shown in the income statement.
 - C. It would be deducted from the sales figure to compute the net sales figure.
 - D. It would be added to the cost of goods sold.
- 21 A CEO groups similar activities at his company under one plan and assigns one manager to be responsible for monitoring its implementation. This is an application of
- A. MBO.
 - B. division of labour.
 - C. unity of command.
 - D. **unity of direction.**
- 22 Which of the following statements concerning small and medium enterprises (SMEs) in Hong Kong is correct?
- A. SMEs enjoy a lower tax rate.
 - B. **SMEs can be listed on the stock exchange.**
 - C. Most SMEs are owned by partnerships and limited companies.
 - D. SMEs are only involved in primary and secondary production.
- 23 Which of the following statements about Asia-Pacific Economic Cooperation is correct?
- A. It helps resolve trade disputes among member countries.
 - B. It ensures the free flow of information among member countries.
 - C. It provides loans to developing countries in the Asia-Pacific region.
 - D. **It supports sustainable economic growth and prosperity in the Asia-Pacific region.**
- 24 Which of the following is not a reason that explains why many foreign firms have set up their headquarters and offices in Hong Kong?
- A. Hong Kong is close to the Mainland.
 - B. There are no foreign exchange controls in Hong Kong.
 - C. **Foreign firms are given preferential treatment in Hong Kong.**
 - D. Foreign firms view Hong Kong as a stepping-stone to the Mainland market.
- 25 Which of the following is not a contribution of entrepreneurship to Hong Kong's economy?
- A. **Entrepreneurs help raise capital for the government.**
 - B. Entrepreneurs organise the production of goods and services.
 - C. Entrepreneurs introduce innovative products to the market.
 - D. Entrepreneurship promotes market competition.

- 26 Which of the following accounts would normally have a debit balance?
- (1) Carriage inwards
 - (2) Returns inwards
 - (3) Returns outwards
 - (4) Carriage outwards
- A. (1) and (3) only
B. (1), (2) and (4) only
C. (2), (3) and (4) only
D. (1), (2), (3) and (4)
27. The following people have been working in Hong Kong for more than 60 days. Which of them need to make mandatory contributions under the Mandatory Provident Fund (MPF) System?
- (1) Mark, aged 17, works as a waiter at a tea restaurant and earns \$6,500 per month.
 - (2) Peter, aged 30, works as a self-employed translator and earns about \$12,000 per month.
 - (3) Felix, aged 60, works as a teacher at a government school and earns \$50,000 per month.
- A. (3) only
B. (1) and (2) only
C. (2) and (3) only
D. (1), (2) and (3)
- 28 Which of the following statements concerning bonds is correct?
- A. Bonds can only be issued by limited companies.
B. The return on some bonds is not guaranteed.
C. Bondholders have the right to receive dividends if declared.
D. Bonds have a lower risk-return trade-off than stock in general.
- 29 Which of the following items would be listed in the statement of financial position?
- (1) Cash
 - (2) Net profit for the year
 - (3) Drawings
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
- 30 A firm is considered socially responsible to the community if it
- (1) donates money to the community's charities.
 - (2) promotes work-life balance for employees.
 - (3) encourages employees to take part in the community's volunteer work.
- A. (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) Short Questions**Part 1** (20 marks) Answer **ALL** questions in this part.

1. M Chan operates a retail business. He provides you with the following information about his business for the year ended 31 December 2016:

	\$
Office equipment, 31 December 2016	250,000
Motor vehicles, 31 December 2016	150,000
Trade receivables	45,000
Bank overdraft	5,000
Cash	6,000
Net profit for the year	63,000
Inventory, 1 January 2016	7,800
Inventory, 31 December 2016	22,000
Bank loan (repayable on 15 November 2017)	70,000
Trade payables	33,000

Required:

- (a) Prepare for M Chan a statement of financial position (vertical style) as at 31 December 2016.
(b) Calculate (to two decimal places) the quick ratio for M Chan's business as at 31 December 2016.

(8 marks)

2. Explain the disadvantages to a company of applying Management by Objectives (MBO).

(6 marks)

3. Dreamsoft Ltd is a computer software company in Hong Kong. It is listed on the Growth Enterprise Market (GEM).

- (a) Dreamsoft Ltd is considering purchasing a new computer system which costs \$100,000. The system will last for three years and can be sold for \$3,000 at the end of Year 3. When in operation, it can generate a net cash inflow of \$35,000 at the end of each year. If Dreamsoft's cost of capital is 7% per annum, should it buy the computer system?
- (b) Dreamsoft plans to list on the Main Board next year in order to attract more people to invest in its stock. Explain why most investors prefer investing in stocks listed on the Main Board over those listed on GEM.

(6 marks)

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

4. David is a sole proprietor. He sells imported tableware to restaurants. The following figures were extracted from his books as at 31 March 2017, the financial year-end date:

	\$
Equipment	150,000
Rent	120,000
Wages and salaries	240,000
Sales	600,000
Purchases	380,500
Returns inwards	2,000
Returns outwards	600
Carriage inwards	2,300
Carriage outwards	525
Bank	60,000
Trade payables	35,000
Capital	319,725

REQUIRED:

- (a) Prepare a trial balance for David's business as at 31 March 2017.
- (b) David gets himself heavily involved in all areas of the business. A business consultant suggests that David should set up a marketing department as the business grows. State three functions of a marketing department at David's Company.

(10 marks)

5. Christine owns a shop which specialises in pet grooming services. Her shop has the following financial information for the year ended 30 June 2017: Service revenues \$3,100,000; Insurance \$50,000; Rent and rates \$240,000; Wages and salaries \$1,800,000; Water and electricity \$18,000; Sundry expense \$6,560; Advertising expense \$50,000; Pet-grooming equipment \$2,500,000; Cash \$190,000; Bank overdraft \$4,000; Bank loan (repayable on 31 December 2017) \$60,000.

- (a) Prepare an income statement for Christine's business for the year ended 30 June 2017.
- (b) Calculate (to two decimal places) the current ratio for Christine's business as at 30 June 2017.
- (c) Christine plans to enter the Mainland market. She is thinking of forming a joint venture with a local company. Explain two advantages for Christine of forming a joint venture with a local company to enter the Mainland market.

(10 marks)

END OF PAPER