

FANLING LUTHERAN SECONDARY SCHOOL
2019 - 2020 MOCK EXAMINATION
S6 BUSINESS, ACCOUNTING AND FINANCIAL STUDIES
PAPER 1

Date: January 20, 2021.

Time allowed: 1 hour 45 minutes

This paper must be answered in English

Name : _____

Class : _____ ()

Seat No.: _____

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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.
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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 partnership is/are correct?
 - (1) A partnership can have more than 10 partners.
 - (2) All partners in a limited partnership have limited liability.
 - (3) A general partner is not involved in the planning and management of the business.
 - A. (1) only
 - B. (3) only
 - C. (1) and (3) only
 - D. (2) and (3) only

- 2 Which of the following is the best example of being socially responsible to employees?
 - A. Company A pays its employees' salaries on time.
 - B. Company B rewards employees who refer their friends to the company.
 - C. Company C requires its employees to work overtime every day, but they receive compensation for their overtime work.
 - D. Company D pays a high salary and offers a number of unique fringe benefits to its employees.

- 3 Which of the following are the advantages of becoming a franchisee?
 - (1) The risk of launching new products can be shared.
 - (2) Franchisors provide a wide range of support to franchisees.
 - (3) Franchisees can enjoy the benefits of a large shop such as bulk sales discounts.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

- 4 Which of the following statements about a public limited company and a private limited company is/are correct?
 - (1) Compared with a private limited company, it is easier for a public limited company to obtain loans from banks.
 - (2) A public limited company needs to disclose more financial information than a private limited company.
 - (3) A public limited company is a separate legal entity, but a private limited company is not.
 - A. (1) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

- 5 Which of the following statements about the historical cost principle is incorrect?
 - A. Historical cost is an accurate measure of the market value of non-current assets.
 - B. Historical cost is an objective measure of the value of non-current assets.
 - C. Under this principle, assets produced by a firm would be valued at their cost of production.
 - D. This principle is important in ensuring that the valuation of assets is reliable and free from bias.

- 6 Which of the following is an effective goal for an airline company?
- A. Satisfy the needs of all customers
 - B. Provide the best services for customers
 - C. Minimise customer waiting time as much as possible
 - D. Maintain an on-time rate of more than 90% during the year
- 7 A factory has two operations managers. Which principle of effective management has been violated?
- A. Authority and delegation
 - B. Unity of direction
 - C. Unity of command
 - D. Division of labour
- 8 Which of the following are economic factors affecting businesses in Hong Kong?
- (1) Population structure
 - (2) Unemployment rate
 - (3) Wage level
- 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 9 and 10:

Given the following figures:

Sales \$1,000,000; Returns inwards \$30,000; Other revenues \$50,000; Cost of goods sold \$700,000; Expenses \$150,000

- 9 What is the gross profit ratio (calculate to two decimal places)?
- A. 22.69%
 - B. 27.84%
 - C. 30%
 - D. 50%
- 10 What is the net profit ratio (calculate to two decimal places)?
- A. 22.38%
 - B. 20%
 - C. 17.53%
 - D. 14.17%
- 11 Which of the following items would be recorded in the income statement?
- (1) Closing inventory
 - (2) Rent and rates
 - (3) Sales
- 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 statements about the Mandatory Provident Fund (MPF) system is/are correct?
- (1) Sales commissions are included in the relevant income when calculating an employee's monthly mandatory contribution.
 - (2) Employers are required to enrol any eligible employees in an MPF scheme.
 - (3) An employee's accrued benefits will not be less than the total amount of the employee's mandatory contributions.
- 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 is/are disadvantage(s) of MBO?
- (1) It focuses only on long-term objectives.
 - (2) Employees play a passive role in the whole MBO process.
 - (3) It is time consuming as managers and subordinates need to meet regularly.
- A. (1) only
 - B. (3) only
 - C. (1) and (3) only
 - D. (2) and (3) only
- 14 Which of the following statements is/are correct?
- (1) A sole proprietorship is required by law to prepare a trial balance at least once in each financial year.
 - (2) An income statement is a ledger account.
 - (3) A statement of financial position reports the financial position of a business as at a certain date.
- A. (1) only
 - B. (3) only
 - C. (1) and (2) only
 - D. (2) and (3) only
- 15 Which of the following are characteristics of SMEs in Hong Kong?
- (1) They have limited capital to expand their businesses.
 - (2) They often focus on narrow markets.
 - (3) They are slow in making 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 tasks are performed by a company's marketing manager?
- (1) Conducting marketing research to decide what products to produce
 - (2) Choosing a target market to serve
 - (3) Recruiting salespeople to sell products to customers
- 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 items would be listed under “expenses” in the income statement?

- (1) Carriage inwards
- (2) Carriage outwards
- (3) Discounts allowed
- (4) Discounts received
- A. (1) and (4) only
- B. (2) and (3) only
- C. (3) and (4) only
- D. (1), (2) and (3) only

Based on the following information, answer questions 18, 19 and 20:

Given the following figures:

Ada Co has been operating for 20 years. The following balances were extracted from its books as at 31 December 2018:

	\$
Capital	335,101
Cash in hand	?
Cash at bank	35,000
Trade receivables	31,868
Trade payables	2,213
Sales	1,016,876
Purchases	523,809
Operating expenses	121,050
Furniture and equipment	300,000
Carriage inwards	15,250
Inventory, 1 January 2018	50,000

18 Cash in hand as at 31 December 2018 amounted to

- A. \$235,113.
- B. \$277,213.
- C. \$289,658.
- D. \$407,339.

19 If closing inventory as at the year-end date was \$80,000, what would be the gross profit for the year ended 31 December 2018?

- A. \$447,817
- B. \$477,817
- C. \$507,817
- D. \$523,067

20 Which of the following statements concerning the capital balance is correct?

- A. The balance represents the amount of capital contribution made by the owner 20 years ago.
- B. The balance represents the amount of capital as at 1 January 2018.
- C. The balance represents the amount of capital as at 31 December 2018.
- D. The balance would be shown on the debit side of the trial balance.

- 21 Which of the following situations requires the attention of a human resources manager?
- (1) The company will close three outlets in a year.
 - (2) Many employees are leaving the company at the same time.
 - (3) Some employees will reach retirement age in five years.
- 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 are favourable physical factors possessed by Hong Kong?
- (1) Hong Kong is close to the Mainland.
 - (2) Hong Kong has a stable supply of water and electricity.
 - (3) Hong Kong has a well-developed transportation network.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
- 23 Which of the following is/are characteristic(s) of the Hong Kong economy?
- (1) Reliance on external trade
 - (2) Foreign exchange control is enforced
 - (3) Concentration on secondary industry
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
- 24 Mr Lee deposited \$1,000,000 into a bank account two years ago. The account offered an annual interest rate of 6.5%, compounded annually. If Mr Lee withdraws \$50,000 from his deposit now, how much will he have in his account in a year?
- A. \$1,147,552
 - B. \$1,154,700
 - C. \$1,157,950
 - D. \$1,207,950
- 25 Tracy is the holder of a credit card issued by a bank in Hong Kong. The credit limit of the card is \$200,000. Which of the following statements is/are correct?
- (1) If Tracy has \$100,000 in her bank account, she can buy a \$300,000 car with her credit card.
 - (2) Tracy can use her credit card to make purchases in overseas countries.
 - (3) Tracy does not need to pay a monthly minimum payment if she does not use the credit card.
- A. (2) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

- 26 Which of the following is not a profitability ratio?
- A. Return on capital employed
 - B. Margin
 - C. Acid test ratio
 - D. Net profit ratio
- 27 Marie has joined a Mandatory Provident Fund (MPF) scheme. Which of the following are her responsibilities?
- (1) Understand the investment risk of an MPF fund before choosing it.
 - (2) Read her MPF account statement carefully every month.
 - (3) Authorise the finance staff of her company to change her MPF portfolio.
- 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 statements about the Main Board of the Hong Kong Exchanges and Clearing Ltd is correct?
- A. There are 50 stocks listed on the Main Board.
 - B. Only non-foreign companies can list on the Main Board.
 - C. The Main Board is the only stock trading platform in Hong Kong.
 - D. All of the constituent stocks of the Hang Seng Index are listed on the Main Board.
- 29 Alvin Chan sold furniture of \$8,200 on credit to Lily Kwan. Lily Kwan is possibly a _____ of Alvin Chan.
- (1) trade creditor
 - (2) trade debtor
 - (3) non-trade debtor
 - (4) non-trade creditor
- A. (1) and (3) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (2) and (4) only
- 30 Olivia is considering buying a new oven for her restaurant. The oven costs \$25,000. It can be used for three years and will be worthless afterwards. Olivia estimates that it can bring net cash inflows of \$10,000, \$10,000 and \$8,000 at the end of the next three years, respectively. Given that Olivia's cost of capital is 5% per annum, which of the following statements are correct?
- (1) Olivia should buy the oven based on the net present value.
 - (2) If the oven's cost increases by \$1,000, Olivia should not buy the oven.
 - (3) If the oven's cost increases by \$800 but the supplier is willing to buy back the oven for \$500 after three years, Olivia should buy the oven.
- 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) Short Questions**Part 1 (20 marks)** Answer **ALL** questions in this part.

1. Ethan quit his job and opened a shop which sold health products last year. He manages the store himself and has hired three salespeople. To attract customers, he often introduces new products in the market. Some of these cannot be found in large health product chain stores. Ethan is thinking of selling his products to the Mainland to expand his business.

REQUIRED:

- (a) Explain two ways in which Ethan's shop contributes to the local economy as an SME.
(b) Explain one cultural factor that Ethan should consider for business expansion.

(6 marks)

2. The following information was extracted from the books of Mr. Chan's business as at 30 June 2019, the last day of the latest financial year:

	\$
Returns inwards	858
Returns outwards	2,369
Discounts allowed	2,723
Discounts received	1,778
Sales	470,273
Purchases	144,840
Inventory, 1 July 2018	21,280
Inventory, 30 June 2019	38,910
Rent and rates	240,000
Other operating expenses	87,155

REQUIRED:

- (a) Prepare for Mr Chan's business an income statement for the year ended 30 June 2019.
(b) State one internal user of the income statement.

(7 marks)

3. Barry will get married in a year. He wants to use consumer credit to pay for his wedding expenses. The bank offers him two types of consumer credit. Some of their features and terms are as follows:

Credit A: Barry needs to repay a fixed sum of money every month within the repayment period. Interest is included in the monthly payments.

Credit B: Barry can withdraw more money than he has in his bank account. There is no fixed deadline or number of payments for repaying the loan in full. Barry only needs to settle the monthly minimum payment on time.

- (a) (i) State what Credit A and Credit B are.
(ii) Which type of consumer credit is less costly? Explain briefly.
(b) Barry does not have a stable income. Explain which type of consumer credit is more suitable for him.

(7 marks)

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

4. Eva Chan is the sole owner of a trading firm, which has eight employees. The following balances were extracted from the books of her business as at 31 March 2019, the last day of the latest financial year:

	\$
Sales	2,787,500
Purchases	1,812,480
Bank overdraft	2,000
Salaries and wages	622,209
Discounts allowed	8,152
Carriage outwards	3,088
Carriage inwards	2,749
Rent and rates	355,000
Capital	?
Office equipment	1,000,000

REQUIRED:

- (a) Prepare a trial balance for Eva Chan's business as at 31 March 2019.

As Eva believes that her employees are all very capable, she encourages them to participate in the decision-making process. She takes their opinions into consideration when making decisions.

- (b) (i) State the leadership style adopted by Eva.
(ii) Explain two advantages of the leadership style adopted by Eva.

(10 marks)

5. The accountants of Super Department Store are preparing the financial statements for the current year. Mr Chan, the owner of the business, has the following questions:

- (i) 'During the year, I drew a cheque from the business bank account to buy a car for my personal use at a cost of \$500,000. Currently, the market value of the vehicle has increased to \$800,000. Which value, \$500,000 or \$800,000, should be recorded in the books?'
- (ii) 'I am also the owner of Ultra Department Store, which operates in the same industry and market as Super Department Store. Could I prepare a single set of accounts for the two businesses?'

REQUIRED:

- (a) Answer the questions for Mr Chan with the aid of relevant accounting principles and conventions.

A business consultant suggests that Mr Chan should restructure Super Department Store, changing it from a tall structure to a flat structure.

- (b) Compare the difference between a tall structure and a flat structure in terms of levels of management.
(c) Explain two advantages of a flat structure over a tall structure.

(10 marks)

END OF PAPER