

**FANLING LUTHERAN SECONDARY SCHOOL**  
**2023 - 2024 Mock Examination**  
**S6 BUSINESS, ACCOUNTING AND FINANCIAL STUDIES**  
**PAPER 1**

Date: February 5, 2024  
Time allowed: 1 hour 15 minutes

Name : \_\_\_\_\_  
Class : \_\_\_\_\_(    )  
Seat No.: \_\_\_\_\_

.....  
**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.
5. This paper must be answered in English.
6. This paper consists of 8 pages.
7. Full marks of this paper is 90.

---

**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 insert the information required in the spaces provided. No extra time will be given for inserting the information required in the spaces 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 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)

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

- 1 Which of the following are the impacts of globalisation on business?
  - (1) It reduces global competition.
  - (2) It enhances technological transfer between countries.
  - (3) It lowers the production cost of goods.

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 is NOT a benefit brought by the World Trade Organization (WTO) for businesses in Hong Kong?

A. Promoting free international trade  
B. Helping developing countries increase trading opportunities  
C. Promoting growth and development within the Asia-Pacific region  
D. Conducting multilateral trade negotiations among members on a regular basis
- 3 Which of the following about franchises is/are incorrect?
  - (1) Franchisees have full autonomy in business decision-making and do not need to consult franchisors.
  - (2) Franchisees must have the right to gain access to the secret recipe from franchisors after they pay a royalty fee.
  - (3) Franchisees may fail even if they benefit from the reputation of franchisors.

A. (1) only  
B. (1) and (2) only  
C. (1) and (3) only  
D. (2) and (3) only
- 4 When entering the Mainland market, Tiffany decides to form a joint venture with a local company. Which of the following statements is correct?

A. The joint venture does not have a separate legal entity.  
B. Each partner in the joint venture can make business decisions on his/her own.  
C. Tiffany can terminate the joint venture with the consent of the partner.  
D. The joint venture should be operated as a limited company.
- 5 BAFS Limited received five packs of trade samples from Star Supplies Company, a supplier. The ledger entries in the books of BAFS Limited should be:

A. Dr Purchases      Cr Bank  
B. Dr Purchases      Cr Star Supplies Limited  
C. Dr Inventory      Cr Star Supplies Limited  
D. No entry is required
- 6 Which of the following is an effective goal of a small restaurant in Hong Kong?

A. Satisfying the needs of all customers in Hong Kong.  
B. Delivering food to customers who live nearby within half an hour.  
C. Providing the best pizzas in Hong Kong.  
D. Becoming the market leader.
- 7 Which of the following statements about the trial balance are correct?
  - (1) The trial balance is a list of account balances.
  - (2) The trial balance can detect all kinds of errors.
  - (3) The trial balance is a basis on which financial statements are prepared.

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

- 8 The major tasks of planning include
- (1) formulating implementation strategies and policies to coordinate the use of human and financial resources
  - (2) setting goals and objectives
  - (3) analysing the strengths and weaknesses of the organisation to seek opportunities and deal with threats
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
- 9 Which of the following statements about credit cards are correct?
- (1) When the payment date is due, the credit card user must repay the entire amount.
  - (2) Master Card is a credit card operator which issues credit cards.
  - (3) If the credit card holder makes only a partial repayment by the due date, a high interest rate will be charged.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
- 10 With line authority,
- (1) the marketing manager guides and supervises staff in the production department.
  - (2) the risk manager supports the operations manager by making use of his/her professional skills.
  - (3) managers contribute to the basic goods and services of the company directly.
- A. (3) only  
B. (1) and (2) only  
C. (2) and (3) only  
D. (1), (2) and (3)
- 11 Which of the following statements is correct?
- A. Potential investors can communicate with a company by reading its financial statements.  
B. The income statement is part of the double entry system.  
C. The gross profit will eventually be transferred to the capital account.  
D. Rental income is shown in the statement of financial position.
- 12 A company department that is going to define and identify potential crises and losses from warehouse damage is \_\_\_\_\_.
- A. information management  
B. operations management  
C. risk management  
D. financial management
- 13 The owner of the company took goods with an invoice price of \$5,000 from the company for private use. The company has a gross profit ratio of 25%. What should the double entry be?
- A. Dr Drawings account \$5,000 ..... Cr Sales account \$5,000  
B. Dr Drawings account \$3,750 ..... Cr Purchases account \$3,750  
C. Dr Drawings account \$4,000 ..... Cr Purchases account \$4,000  
D. Dr Drawings account \$3,750 ..... Cr Inventory account \$3,750

- 14 Which of the following statements violate accounting concepts?
- (1) Only cash taken by the owner for personal use should be recorded as drawings.
  - (2) The transaction involving a customer who pays a deposit for goods which will be delivered in the next financial year is included in the sales of the current financial year.
  - (3) An investment should never be recorded at market value in the statement of financial position.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 15 Which of the following statements concerning key business functions is incorrect?
- A. The marketing manager is responsible for conducting market research to find out what customers need.
  - B. The finance manager is responsible for deciding how funds can be best used to finance the company's growth.
  - C. The information manager is responsible for setting up the computer network between the plant in Shenzhen and the headquarters in Hong Kong.
  - D. The human resources manager is responsible for choosing the location of the factory which is near the target market.
- 16 Which of the following behaviours shows that a firm is not being socially responsible to its employees?
- A. A firm allows disabled employees to work at home.
  - B. A firm organises cooking classes for employees to help them relax.
  - C. A firm does not allow its employees to work at home in the event of severe flooding.
  - D. A firm sets up an in-house canteen and allows employees to have lunch at discounted prices.
- 17 Vickie is a restaurant waiter who has been employed for a continuous period of 60 days. Which of the following statements are correct?
- (1) She has to join the Mandatory Provident Fund (MPF) scheme.
  - (2) She has the right to change her investment portfolio under the chosen scheme.
  - (3) She has the right to transfer all accrued benefits only if she changes her job.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- 18 The following information relates to Best Buy Company for the year ended 31 December 2023:
- |  |           |
|--|-----------|
| Capital as at 31 December 2023                       | \$216,000 |
| 7% Bank Loan (from 1 March 2023 to 31 December 2024) | \$120,000 |
| Working capital                                      | \$184,280 |
| Capital as at 31 December 2022                       | \$192,000 |
| Introduction of Capital during 2023                  | \$56,000  |
| Return on capital employed                           | 13%       |
- What is the net profit for the year ended 31 December 2023?
- A. \$26,520
  - B. \$28,080
  - C. \$34,320
  - D. \$42,120
- 19 Which of the following are the limitations of financial statements to users?
- (1) Financial statements cannot provide non-quantitative information, such as employee quality.
  - (2) The profits of different companies are different, which makes cross-company comparison more difficult.
  - (3) Financial statements do not take the time value of money into account, making it difficult for users to make cross-year comparisons.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

- 20 The following information is an extract from the trial balance of DSE Company at 31 December 2023:

	Dr \$	Cr \$
Opening inventories	60,000	
Returns	10,000	12,000
Sales		240,000
Purchases	90,000	
Carriage inwards	6,000	
Discounts	4,000	6,000
Carriage outwards		10,000

Given that the amount of closing inventories was half of the opening inventories, what was the gross profit for 2023?

- A. \$114,000  
B. \$116,000  
C. \$118,000  
D. \$126,000
- 21 Betty has graduated from university and started working for an accounting firm. She plans to invest half of her monthly salary to obtain a return that will allow her to buy her own property within 10 years. She is willing to take a high risk in her investments. Which of the following financial instruments is the most suitable for Betty?
- A. Government bonds  
B. Term deposits  
C. Ordinary shares  
D. Preference shares
- 22 Which of the following cannot enhance awareness of a firm's business ethics?
- A. An emphasis is put on competition among employees.  
B. The firm provides training courses on business ethics.  
C. The firm compiles a code of ethics for all staff to follow.  
D. Reference checks are done on the firm's workers to ensure that those recruited have not been involved in any unethical practices.
- 23 Which of the following transactions will reduce the balance of a business's bank account?
- (1) A supplier refunded the overpaid amount and directly deposited it into the business's bank account.  
(2) Withdrew cash from the business's bank account to pay the office rent  
(3) Offered discounts to credit customers for prompt payment
- A. (2) only  
B. (1) and (2) only  
C. (1) and (3) only  
D. (2) and (3) only
- 24 What are the characteristics of small and medium enterprises (SMEs) in Hong Kong?
- (1) SMEs can be operated in the form of partnerships.  
(2) Most SMEs hire professionals to compete against large businesses.  
(3) Most SMEs are willing to take risks to introduce new products.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

- 25 The rights and responsibilities of consumers of financial services include:
- (1) filing a complaint for any reason
  - (2) asking for the rationale behind an investment recommendation made by sales representatives
  - (3) seeking compensation when they suffer a loss from an investment
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

- 26 Which of the following statements about limited companies in Hong Kong is correct?
- A. Limited companies do not need to publish their financial statements.
  - B. Limited companies pay a higher profits tax rate than partnerships.
  - C. A limited company can only have a maximum of 200 shareholders.
  - D. A limited company is not a separate legal entity.

- 27 Which of the following statements about listing requirements in the stock market are correct?
- (1) The operating history requirement of the Main Board is stricter than that of GEM.
  - (2) The cash flow requirement of GEM is lower than that of the Main Board.
  - (3) The management continuity requirement of the Main Board is longer than that of GEM.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

- 28 The financial information of two projects is shown below:

	Project A	Project B
Cost	\$10,000	
Cash inflows		
End of Year 1	\$5,000	\$6,300
End of Year 2	\$6,300	\$5,000
Net cash flow	+ \$1,300	+ \$1,300

Given that the discount rate is 9% per annum, which of the following statements is correct?

- A. Invest in Project B only.
  - B. Both projects should be accepted because both net cash flows are positive.
  - C. The net present value of Project A is higher than that of Project B.
  - D. Both projects should be rejected.
- 29 The following are the advantages of management by objectives (MBO) except that
- A. the efforts of all staff are directed towards achieving the same departmental goals.
  - B. communication between managers and subordinates is improved.
  - C. subordinates can better understand the objectives of the organisation.
  - D. subordinates are highly committed to the objectives they set for themselves.
- 30 The total of debit balances exceeds the total of credit balances by \$2,000 in a trial balance. Which of the following may be the reason?
- A. Carriage inwards of \$2,000 was wrongly added to carriage outwards in the trial balance.
  - B. The \$2,000 balance in the drawings account was missing in the trial balance.
  - C. A credit balance of \$1,000 in a trade payable account was not listed in the trial balance.
  - D. A \$1,000 bank overdraft was listed in the wrong column of the trial balance.

## END OF SECTION A

## SECTION B (30 marks)

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

- 1 Jenny is the sole owner of a retail shop that sells healthy food in Tin Hau. She decides to invite Candy, who is a well-known nutritionist in Hong Kong, for her business expansion. Candy only promises to join the business as a nominal partner.
- (a) According to the above information, which form of business ownership has Jenny adopted for expansion?
  - (b) Give one distinctive feature of a nominal partner.
  - (c) Explain one reason for Jenny's decision to invite Candy as a nominal partner for the expansion.
- (4 marks)
- 2 Good Wish Company is a glass recycling company in Hong Kong. The glass waste collected by the company is recycled into construction materials such as eco-bricks. However, due to high operating costs and losses suffered for the past few years, the sustainability of the company is highly uncertain. Without the recycling process, the glass waste has to be disposed of in landfills.
- (a) Some environmentalists have suggested that the recycling business should be operated by public enterprises. State one reason to support the suggestion.
  - (b) Describe two contributions of Good Wish Company to the local economy.
  - (c) In spite of the current operational difficulties, suggest and explain one legal factor to support Good Wish Company continuing its business.
- (8 marks)
- 3 Rachel will get married in two years. She needs to save money for the wedding ceremony and she is risk-conscious. Kelvin, a financial consultant, suggests that she can invest in a three-year corporate bond to earn interest that is higher than that from a time deposit and also reduce her market risk. Suggest two reasons why Rachel may reject Kelvin's advice.
- (4 marks)
- 4 ABC Bakery is a company that provides various cooking lessons in Causeway Bay with two employees. Samantha, the sole owner, wants to expand her business to Yuen Long. However, she does not have enough funds. On 1 January 2023, she admitted Fiona, her roommate, into the business as a partner.
- (a) As Samantha and Fiona lived together in a flat on Hong Kong Island, they want to include the rental charges for their flat into the company's accounts. Advise Samantha in respect of an accounting concept on whether it is appropriate to do so.
  - (b) Explain whether Fiona needs to enroll in an MPF scheme.
- (4 marks)

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

**Refer to the following information for Questions 5 and 6.**

Wendy opened a company which provides housecleaning services three years ago. The company offers training to its full-time and part-time staff.

The following balances as at 31 December 2023 were obtained from the firm:

	\$
Turnover	350,000
Bank overdraft	10,000
Motor vehicles, at cost	196,000
Machinery, at cost	276,000
Trade payables	10,100
Trade receivables	15,200
Cash at bank	27,600
Bank loan (repayable in 2028)	40,000
Capital, 1 January 2023	?
Drawings	15,000
Inventory, 31 December 2023	37,000
Net profit for the year	84,000

- 5 (a) Prepare a statement of financial position for Wendy's business as at 31 December 2023.

Recently, she received a special one-year contract to do housecleaning for a housing estate. Because of this, Wendy needed to provide more training to her existing cleaning workers. Although she has significantly raised their daily wages, she was still understaffed when it came to meeting the needs of the special contract. It usually takes a month to train professional cleaning workers who can work independently. However, Wendy was completely unaware of this situation.

- (b) Which department should be responsible for training the cleaning workers? Except for providing training to existing cleaning workers, explain one task that the department can carry out immediately to ensure that there is enough manpower to meet the needs of the special contract.
- (c) Explain one management function that Wendy should have performed well in the above case.

(10 marks)

- 6 (a) Calculate (to two decimal places) the following for Wendy's company for the year 2023:

- (i) Net profit ratio  
(ii) Current ratio  
(iii) Quick ratio

- (b) Briefly comment on the liquidity of Wendy's company as at 31 December 2023.

Wendy has conducted a survey recently to seek more business opportunities. Then she formulated suitable strategies to deliver the appropriate services to different customers.

- (c) (i) State the business function Wendy has performed in the above case.  
(ii) Explain two strategies that Wendy should include in her business plan for delivering services to her customers.

(10 marks)

**END OF PAPER**