

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

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.

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.

Not to be taken away before the
end of the examination session

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 statements about limited companies in Hong Kong is/are correct?
 - (1) A limited company is a separate legal entity.
 - (2) Limited companies enjoy a lower profits tax rate than sole proprietorships.
 - (3) Limited companies are required to publish their financial statements in a newspaper.

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

2. If an investor wants to complain about the misconduct of his broker in a share transaction, which of the following organisations should he turn to?

A. Hong Kong Monetary Authority
B. Securities and Futures Commission
C. Hong Kong Exchanges and Clearing Limited
D. Investor Compensation Company Limited

3. Which of the following are benefits of being a socially responsible business?
 - (1) lower production costs
 - (2) better business reputation
 - (3) attraction of customers who are also concerned about social responsibility

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 the Mandatory Provident Fund (MPF) system is correct?

A. Self-employed persons are not required to enrol in an MPF scheme.
B. Employees covered by the MPF system are required to contribute 5% of their income.
C. Employees can choose to make extra voluntary contributions in addition to the regular mandatory contributions.
D. MPF scheme members can withdraw their accrued benefits when they reach the age of 60.

5. It is a firm's practice to record free samples given to customers as promotion expenses. At the year end, the owner of the firm took some free samples for his personal use. According to the _____ concept, these free samples should be treated as _____.

A. business entity promotion expenses
B. business entity drawings
C. consistency promotion expenses
D. consistency drawings

6. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong are correct?
- (1) An SME employs fewer than 50 persons.
 - (2) SMEs contribute a majority of employment opportunities in Hong Kong.
 - (3) SMEs often provide products and services that complement large companies.
- 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 are participants in the financial market?
- (1) listed companies
 - (2) commercial banks
 - (3) securities brokers
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
8. Which of the following statements about credit cards are correct?
- (1) A credit limit is set.
 - (2) A minimum payment is set for the outstanding balance.
 - (3) Interest will not be charged on the remaining balance if the minimum payment is made before the due date.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
9. As at 31 December 2013, Quinton Company had current liabilities amounting to \$60 000 and its current ratio was 3:1 and quick ratio was 2:1. What was the amount of its inventory on that date?
- A. \$60 000
 - B. \$120 000
 - C. \$180 000
 - D. \$240 000
10. In the trial balance, if the total of debit balances is larger than the total of credit balances, it means that _____.
- A. there is a loss for the year
 - B. there is an error in the double entries
 - C. there is insufficient capital to run the business
 - D. the amount of total assets is larger than the total liabilities

11. A business earns a gross profit margin of 25%. Calculate its sales amount based on the following data:

Item	\$
Opening inventory	10 000
Closing inventory	4 000
Purchases	51 000
Selling expenses	1 500

- A. \$69 375
B. \$71 250
C. \$74 000
D. \$76 000
12. Which of the following statements about the securities market is/are correct?
- (1) Investors can buy and sell securities in the primary market.
(2) The secondary market comprises the listed exchanges and the over-the-counter market.
(3) A listed company may issue new shares to raise funds through the securities market.
- A. (1) only
B. (2) only
C. (2) and (3) only
D. (1), (2) and (3)
13. Elsa plans to use the net present value to decide whether to buy a piece of office equipment. Which of the following pieces of information does she need to make the decision?
- (1) cost of capital
(2) cashflows arising from the acquisition and use of the office equipment
(3) scrap value of the office equipment at the end of its useful life
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
14. What is the flow of an accounting cycle after the books of original entry?
- (1) balancing day adjustments
(2) financial statements
(3) ledgers
(4) trial balance
- A. (1) → (2) → (3) → (4)
B. (2) → (3) → (4) → (1)
C. (3) → (4) → (1) → (2)
D. (4) → (3) → (1) → (2)

15. Which of the following is/are the example(s) of economic factors that might affect the business of a jewellery shop in Hong Kong?
- (1) There is an increase in the income and consumption power of mainland tourists.
 - (2) The mainland government allows residents of more cities to come to Hong Kong for individual visits.
 - (3) The cross-border transport facilities are improved.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
16. On 30 December 2013, a firm bought a motor van and made a payment of \$150 000 by cheque. The van's list price was \$243 000 and a trade discount of \$15 000 was given. As at 31 December 2013, its market value had fallen to \$200 000. The van should be recorded at _____ in the statement of financial position as at 31 December 2013.
- A. \$150 000
 - B. \$200 000
 - C. \$228 000
 - D. \$243 000
17. Mr Chan is the general manager of a large supermarket chain. He sets a target for the chain: "We will increase the sales volume of the Kowloon area by 10% as soon as possible." Which of the following criteria for setting good objectives is/are **NOT** met in this target?
- (1) specific
 - (2) time-bound
 - (3) measurable
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
18. How will an increase in discounts received affect the gross profit and net profit?
- | | <u>Gross profit</u> | <u>Net profit</u> |
|----|---------------------|-------------------|
| A. | unchanged | unchanged |
| B. | unchanged | increases |
| C. | increases | unchanged |
| D. | increases | increases |
19. Which of the following accounting ratios can be calculated when only the income statement is provided?
- (1) net profit ratio
 - (2) quick ratio
 - (3) return on capital employed
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1) and (3) only

20. _____ are external users of financial statements who focus on the liquidity and solvency of the firm.
- A. Managers
 - B. Customers
 - C. Competitors
 - D. Lenders
21. Which of the following are advantages of management by objectives (MBO)?
- (1) It reduces paper work.
 - (2) It enables better control of subordinates' work progress.
 - (3) It helps to enhance coordination between different levels.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

Consider the following case and answer Questions 22-23:

Horace worked in an information technology firm for a number of years. Last year, he resigned and set up his own business providing computer repair services. His service is highly appreciated by customers but some of them comment that Horace often uses technical jargon, which they find hard to understand.

22. Which of the following are the entrepreneurial characteristics demonstrated by Horace?
- (1) seek new opportunities
 - (2) desire for independence
 - (3) receptive to innovative ideas
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
23. According to the comments of Horace's customers, Horace has violated the _____ principle of effective communication.
- A. clarity
 - B. completeness
 - C. concreteness
 - D. conciseness
24. Which of the following is an example of using quality business information to make a decision?
- A. buying shares based on the comments of a bank teller
 - B. buying foreign currencies according to the recommendations of a financial newspaper published the previous week
 - C. buying a mobile phone after reading users' reviews on the internet
 - D. buying air tickets after reading the relevant terms and conditions on the airline's webpage

25. Conducting questionnaire surveys to understand customers' needs is a part of _____.
- operations management
 - marketing management
 - information management
 - risk management
26. An asset is classified as a current asset on the statement of financial position if it _____.
- was purchased on credit more than 12 months ago
 - was purchased in cash in the last 12 months
 - is to be sold within 12 months
 - is to be used for over 12 months
27. Which of the following financial products carries the highest investment risk?
- savings deposits
 - time deposits
 - preference shares
 - ordinary shares
28. Maintaining a good personal credit record is important because it will _____.
- lower the cost of loans
 - increase the chance of getting loans
 - increase the upper limit of 70% on mortgage loans from banks
- (1) and (2) only
 - (1) and (3) only
 - (2) and (3) only
 - (1), (2) and (3)
29. Miss Lee drew a personal cheque to pay an electricity bill for her business. Which of the following double entries for the business is correct?
- | | <u>Debit</u> | <u>Credit</u> |
|----|----------------------|---------------|
| A. | drawings | cash at bank |
| B. | drawings | capital |
| C. | electricity expenses | cash at bank |
| D. | electricity expenses | capital |
30. Which of the following statements about Asia-Pacific Economic Cooperation is correct?
- It provides loans to developing countries in the Asia-Pacific region.
 - It supports sustainable economic growth in the Asia-Pacific region.
 - It settles trade disputes among countries in the Asia-Pacific region.
 - It issues certificates of origin for products manufactured in the Asia-Pacific region.

END OF SECTION A

SECTION B (30 marks)

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

1. Patrick, Queenie and Ronald jointly set up a business in the form of a limited partnership. The partnership agreement contains the following terms:
 - Only Queenie and Ronald will contribute capital.
 - Patrick and Ronald have no involvement in the daily operations of the partnership.
 - If the partnership is liquidated, only Queenie has to pay the outstanding debts of the partnership, using her personal funds.
 - (a) Identify the nominal partner in this partnership. (1 mark)
 - (b) Suggest two contributions that a nominal partner could make to a partnership. (4 marks)

2. Superfast Company provides software and system development services and has about 100 employees. Daniel, the owner and general manager of the firm, is a computer specialist and has involved himself heavily in the software and system development work. A business consultant advised him that as the general manager of the company, he should be aware of the relative importance of technical, conceptual and interpersonal skills. Also the company should set up a marketing department to help reduce his workload.
 - (a) Which of the three types of management skills mentioned above is the most important for Daniel as the general manager of Superfast Company? Explain why. (3 marks)
 - (b) State the two functions of a marketing department in Superfast Company. (2 marks)

3. (a) Tony is the sole owner of a toy trading business. State the book of original entry for the recording of each of the following transactions of Tony's business:
 - (i) Sold toys to customers on credit.
 - (ii) Received a credit note for toys returned.
 - (iii) Paid salaries to office clerks by autopay. (3 marks)
 - (b) From the accounts for recording the transactions in (a), identify one example for each of the following types of ledger accounts:
 - (i) Real account
 - (ii) Nominal account (2 marks)

4. Tom plans to get married and buy a flat three years later. The budgeted price of the flat is \$3 000 000. The down payment will be 30% of the flat's price. To save up for the down payment, Tom decides to make a time deposit in a bank.
- (a) If the bank offers an annual interest rate of 2% for the time deposits, how much money does Tom have to deposit today? (Note: Interest is compounded annually. Correct all amounts to the nearest dollar.) (2 marks)
- (b) A friend of Tom advises him to invest the sum of money in securities for a higher return. Given that Tom needs the amount three years later for the down payment on the flat, would you advise him to invest in government bonds or ordinary shares? Explain why. (3 marks)

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

5. Mike sells imported tableware to restaurants. The following balances were obtained from the books of accounts as at 31 December 2013:

	\$
Accounts payables	15 000
Accounts receivables	27 000
Bank loan (repayable in March 2015)	22 000
Bank overdraft	11 000
Capital, 1 January 2013	?
Furniture and fixtures	63 000
Inventory	7 000
Net profit for the year	3 800
Rental deposit	20 000

- (a) Prepare for Mike the statement of financial position as at 31 December 2013. (5 marks)

Mike learns from a report that the materials of some of his inventory may be harmful to people's health. He plans to give away these items as free gifts to his customers, without mentioning the potential health hazards. His wife warns him that this is an unethical practice and will adversely affect his business.

- (b) If Mike decides to give away those items as planned, explain two possible impacts on his business. (4 marks)
- (c) Apart from customers, identify another stakeholder of Mike's business. (1 mark)

6. Sunshine Department Store had the following financial information for the year ended 31 December 2013.

	\$
Carriage inwards	9 000
Inventory, 1 January 2013	80 000
Inventory, 31 December 2013	60 000
Purchases	120 000
Rent and rates	48 000
Return inwards	2 000
Sales	268 000
Sundry expenses	30 000

- (a) Prepare an income statement for Sunshine Department Store for the year ended 31 December 2013. (5 marks)

Two managers of the same rank, David and Ellen, together supervise all the shop assistants. One day, an assistant in the sportswear section took sick leave and David assigned a newly employed assistant to take her place. He asked her to serve customer in the section for the rest of the day. At noon, Ellen asked this assistant to deliver a document to a supplier.

- (b)(i) What principle of effective management has been violated in the above case? (1 mark)
(ii) Suggest two problems that might arise when the principle in (i) is violated. (4 marks)

END OF PAPER