

## 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.

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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.

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. A limited partner \_\_\_\_\_.
- A. is a nominal partner
  - B. is not liable for the debts of a partnership
  - C. does not need to invest money into a partnership
  - D. does not take part in the management of a partnership
2. Which of the following statements about stakeholders of a company is correct?
- A. Competitors are not stakeholders of a company.
  - B. Stakeholders of a company would be affected by the decisions made by the company.
  - C. All stakeholders can share the assets of the company upon its liquidation.
  - D. A client becomes a company's stakeholder only after he/she has settled his/her outstanding debts to the company.
3. Susan is the supervisor of a group of fashion designers in a garment firm. She only gives broad directions to the designers, allowing them to complete the assigned tasks in their own ways.
- Susan is adopting the \_\_\_\_\_ style of leadership.
- A. autocratic
  - B. centralised
  - C. laissez faire
  - D. participative
4. In October 2014, a firm had the following purchases and returns:
- Oct 2 Purchased goods on credit from Mr Yu for \$2500  
9 Purchased goods in cash for \$2000  
17 Returned goods to Mr Yu for \$300  
26 Purchased goods on credit from Miss Lui for \$3200 with a cash discount of 10% if payment is made within 30 days
- Based on the above information, what should be the total amount of purchases recorded for the month of October 2014 in the Purchases Journal?
- A. \$5380
  - B. \$5700
  - C. \$7400
  - D. \$7700
5. In 2011, the HKSAR Government issued a 3-year iBond. It is a \_\_\_\_\_ (I) \_\_\_\_\_ market instrument and was issued in the \_\_\_\_\_ (II) \_\_\_\_\_ market.
- |    |         |           |
|----|---------|-----------|
|    | (I)     | (II)      |
| A. | money   | primary   |
| B. | money   | secondary |
| C. | capital | primary   |
| D. | capital | secondary |

6. Which of the following show the importance of management?
- (1) enhance the efficient use of resources of the business
  - (2) help staff achieve the goal of the business effectively
  - (3) prevent the business from being affected by external factors
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
7. What is/are the main purpose(s) of preparing a trial balance?
- (1) record the daily transactions of the business
  - (2) reflect the financial performance of the business
  - (3) check the arithmetical accuracy of bookkeeping entries
- A. (1) only
  - B. (3) only
  - C. (1) and (2) only
  - D. (2) and (3) only
8. Mr Cheung plans to buy a residential property. Which of the following types of credit arrangement is most appropriate for him?
- A. credit card
  - B. personal loan
  - C. mortgage loan
  - D. bank overdraft
9. In which of the following area(s) can mobile phone applications that deliver real-time stock data help enhance the quality of information?
- (1) accuracy
  - (2) timeliness
  - (3) understandability
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (1), (2) and (3)
10. Which of the following is not a nominal account?
- A. salaries account
  - B. purchases account
  - C. returns inwards account
  - D. cash at bank account

11. Which of the following is/are the characteristic(s) of small and medium enterprises (SMEs) in Hong Kong?
- (1) They are responsive to market changes.
  - (2) They have a tall-type organisational structure.
  - (3) Their tax rate is different from that of large companies.
- A. (1) only
  - B. (2) only
  - C. (1) and (2) only
  - D. (2) and (3) only
12. Which of the following organisations is responsible for managing the Exchange Fund of Hong Kong?
- A. Mandatory Provident Fund Schemes Authority
  - B. Hong Kong Exchanges and Clearing Limited
  - C. Securities and Futures Commission
  - D. Hong Kong Monetary Authority
13. Which of the following tasks are performed by the finance department of a company?
- (1) make investment decisions for the company
  - (2) formulate debt collection policy of the company
  - (3) set up staff's compensation system of the company
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
14. A firm sells goods to a customer on credit. Which of the following are the effects of this transaction on the statement of financial position?
- |    | <u>Total current assets</u> | <u>Total current liabilities</u> |
|----|-----------------------------|----------------------------------|
| A. | decrease                    | increase                         |
| B. | decrease                    | decrease                         |
| C. | increase                    | unchanged                        |
| D. | unchanged                   | unchanged                        |
15. Investors will use the accounting information provided in financial statements to evaluate \_\_\_\_\_.
- (1) whether it is worth investing in the business
  - (2) whether the organisational structure of the business is appropriate
  - (3) whether the business has adequate capital to carry out its projects
- 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 are the characteristics of the Hong Kong economy?
- (1) simple taxation
  - (2) reliance on external trade
  - (3) concentration on secondary industry
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
17. On 1 January 2014, Mr Wong deposited \$500 000 into a saving plan which offers a return of 5% per year, compounded annually. The total amount of money Mr Wong will get from the plan after 3 years is \_\_\_\_\_ (to the nearest dollar).
- A. \$431 919  
B. \$525 000  
C. \$551 250  
D. \$578 813
18. Which of the following descriptions of cash discounts offered to customers are correct?
- (1) They are expenses.
  - (2) They must be recorded in the books.
  - (3) They are used to encourage customers to purchase in cash.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
19. Which of the following are the advantages to a company of using email for internal communication?
- (1) Any feedback can be received instantly.
  - (2) Both textual and audio-visual messages can be sent.
  - (3) A message can be sent to many recipients at the same time.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
20. Under which of the following circumstances can a scheme member withdraw the accrued benefits from the Mandatory Provident Fund scheme?
- (1) early retirement at the age 60
  - (2) unemployed for more than 6 months
  - (3) permanent departure from Hong Kong
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

21. An operations manager of a company is responsible for \_\_\_\_\_ .
- (1) assigning jobs to the factory workers
  - (2) projecting the demand for the products
  - (3) setting up the assembly lines for the plant
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (1), (2) and (3)
22. Which of the following statements regarding the World Trade Organisation (WTO) are correct?
- (1) WTO settles trade disputes among members.
  - (2) Decisions made by WTO are binding on all members.
  - (3) WTO helps developing countries develop the infrastructure needed to expand their trade.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
23. On 1 January 2014, Mary started her business by depositing her own cash \$300 000 into the firm's bank account and introducing her motor van costing \$80 000 into the firm. In addition, the firm borrowed \$40 000 from Mary's friends to buy goods for the business. Total revenues and total expenditures of the firm for the year ended 31 December 2014 amounted to \$120 000 and \$45 000 respectively.

What is the amount of Mary's capital as at 31 December 2014?

- A. \$305 000
  - B. \$335 000
  - C. \$455 000
  - D. \$485 000
24. David joined a manufacturing company as an engineer some years ago and will be promoted to the post of the General Manager soon. After his promotion, \_\_\_\_\_ (I) \_\_\_\_\_ skills will become most important to his work while \_\_\_\_\_ (II) \_\_\_\_\_ skills will become least important.
- |    |               |               |
|----|---------------|---------------|
|    | (I)           | (II)          |
| A. | technical     | interpersonal |
| B. | interpersonal | conceptual    |
| C. | conceptual    | interpersonal |
| D. | conceptual    | technical     |

25. Which of the following double entries are correct?

	<u>Transactions</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	Purchased a file cabinet for office use in cash	Purchases	Cash
(2)	The owner introduced cash into the business	Cash	Capital
(3)	A debtor paid his debts by cheque	Cash at bank	Accounts receivables

- 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 are the impacts of globalisation on business?
- (1) reduce information cost
  - (2) reduce competition among businesses
  - (3) facilitate transfer of technology between different countries
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
27. Which of the following is/are the characteristic(s) of a public corporation?
- (1) Its losses are borne by taxpayers.
  - (2) It is operated on a commercial basis.
  - (3) The government is involved in its daily operations.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
28. Which of the following are the responsibilities of an individual investor?
- (1) understand the terms before signing a contract
  - (2) check account statements from time to time
  - (3) attend the Annual General Meetings of the company invested in
- 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 29 and 30.**

Nelson established his firm on 1 January 2014. Its sales and purchases for the year ended 31 December 2014 were \$540 000 and \$230 000 respectively. The gross profit ratio for 2014 was 60% while the net profit margin was 35%.

29. What is the amount of inventory of the firm as at 31 December 2014?
- A. \$10 000
  - B. \$12 000
  - C. \$14 000
  - D. \$18 000
30. What is the amount of expenses of the firm for 2014?
- A. \$135 000
  - B. \$189 000
  - C. \$216 000
  - D. \$324 000

**END OF SECTION A**

**SECTION B** (30 marks)

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

1. Annie operates a small guest house on Lamma Island for foreign travellers. She sets up an Internet booking system for the guest house, with the following goal:

*“To increase the number of Internet bookings substantially in the near future”*

- (a) Briefly explain two characteristics of a SMART goal that are missing from the above goal. (4 marks)
- (b) Explain one political factor and one legal factor that may affect Annie’s business. (4 marks)

2. (a) Explain the consistency principle in accounting. (2 marks)
- (b) A firm bought a motor van for business use and paid \$175 000 from its bank account. The list price of the motor van was \$200 000 and a discount of \$25 000 was given by the vendor.

State the amount to be recorded for the motor van in the books of the firm. Explain your answer with a relevant accounting principle or concept. (3 marks)

3. Calvin is a retail investor. He invested \$200 000 to buy shares listed on the Hong Kong Stock Exchange through a licensed stockbroker in Hong Kong. As the broker defaulted, Calvin was not able to get back his investment. He therefore applied to the Investor Compensation Fund to claim the loss.

- (a) Explain two ways in which investing in shares might benefit an investor. (4 marks)
- (b) (i) In the above case, Calvin has fulfilled the conditions to receive compensation from the Investor Compensation Fund. Give any two of them. (2 marks)
- (ii) What is the maximum amount of compensation that Calvin can get from the Investor Compensation Fund? (1 mark)

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

4. Peter is the sole owner of a garment firm. The following balances as at 31 December 2014 were obtained from the firm:

	\$
Bank loan (repayable in September 2015)	430 000
Capital, 1 January 2014	?
Cash at bank	398 000
Fixed deposit (6-month)	180 000
Inventory	210 000
Motor vehicles	986 000
Net profit for the year	82 000
Trade payables	383 000
Trade receivables	320 000

- (a) Prepare a statement of financial position for Peter's business as at 31 December 2014. (5 marks)

Peter plans to expand the business and set up three departments to take care of the garment business in Hong Kong, Macau and Shenzhen respectively. A business consultant reminds him that other forms of departmentalisation may also be considered.

- (b) State the form of departmentalisation planned by Peter. (1 mark)
- (c) Briefly describe two other forms of departmentalisation that could be adopted by Peter's business. (4 marks)

5. John commenced a trading firm on 1 January 2014 as the sole owner. The financial information of the firm for the year ended 31 December 2014 is as follows:

	\$
Carriage inwards	25 500
Carriage outwards	23 600
Inventory, 31 December 2014	88 000
Purchases	227 500
Rental expenses	128 000
Returns outwards	9 230
Sales	492 000
Salaries	120 000

- (a) Prepare an income statement for John's business for the year ended 31 December 2014. (5 marks)

To raise money for expansion, John wants to change the form of business ownership of the firm. He plans to invite five people to invest in and join the business as owners. After expansion, all owners shall have limited liability for the firm. Their ownership cannot be freely transferred.

- (b) According to the above information, which form of business ownership will John adopt for the expansion? (1 mark)
- (c) Apart from the restriction in ownership transfer, suggest two other disadvantages for the form of business ownership mentioned in (b), as compared to a sole proprietorship. (4 marks)

**END OF PAPER**

