

**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 is/are the characteristic(s) of multinational corporations located in Hong Kong?  
(1) Their operations also take place outside Hong Kong.  
(2) They are listed on the stock exchange of Hong Kong.  
(3) They have more than 100 employees.
- A. (1) only  
B. (1) and (2) only  
C. (2) and (3) only  
D. (1), (2) and (3)
2. Which of the following are the characteristic of a flat organisation as opposed to a tall organisation?  
(1) wider span of control  
(2) fewer levels of management  
(3) shorter decision-making process
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
3. In a company with departmentalisation by geographical location,  
A. departmental offices are set up in the regions which the department oversees.  
B. departmental managers are responsible for business operations in the regions which the department oversees.  
C. departmental outlets only sell goods produced in the regions which the department oversees.  
D. departmental staff is only recruited from the regions which the department oversees.
4. Anna has just retired at the age 65 and has received a substantial amount from a provident fund. She plans to invest the money to get some return but she is not willing to take high risks. Which of the following financial instruments is the **least** suitable for her?  
A. term deposits  
B. saving deposits  
C. iBond  
D. shares
5. Sunny, who maintains a good credit record, is a customer of Mary's business. For the year ended 31 December 2015, Mary sold goods for \$8000 on credit to Sunny. Sunny fully settled the debt in January 2016. According to \_\_\_\_\_(1)\_\_\_\_\_, Mary should record this transaction as sales for the year \_\_\_\_\_(2)\_\_\_\_\_.
- |    |                          |      |
|----|--------------------------|------|
|    | (1)                      | (2)  |
| A. | accrual concept          | 2015 |
| B. | accrual concept          | 2016 |
| C. | going concern assumption | 2015 |
| D. | going concern assumption | 2016 |

6. Which of the following descriptions of joint ventures in Hong Kong is correct?
- A. Partners of a joint venture usually share the profits of the joint venture equally.
  - B. A joint venture must be formed by one local company and one foreign company.
  - C. A joint venture is an entity independent from all its partners.
  - D. A joint venture enjoys a lower profits tax rate than a general partnership.
7. Under which of the following circumstances should autocratic leadership be adopted by management?
- (1) Subordinates are only responsible for repetitive and simple jobs.
  - (2) Subordinates are willing to take responsibility.
  - (3) The company always needs to make quick decisions.
- A. (1) only
  - B. (1) and (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
8. The front-line manager is responsible for
- (1) making strategic decisions.
  - (2) monitoring the daily operations of the business.
  - (3) formulating corporate policies and directions.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
9. A credit card user
- (1) can buy goods and services overseas with a credit card issued in Hong Kong.
  - (2) can settle the whole outstanding balance of the statement by the due date in order to avoid interest charges.
  - (3) Can enjoy a lower interest rate to settle the overdue credit card balance than for a personal loan.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
10. Which of the following statements about “division of work” are correct?
- (1) It facilitates automation of production.
  - (2) It makes it easier for managers to supervise the production process.
  - (3) It makes it easier for workers to master the production process they are responsible for.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

11. Which of the following accounts must have balances on the debit side of a trial balance?

- (1) bank charges
- (2) bank loan
- (3) bank

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

12. Which of the following would affect the calculation of cost of goods sold?

- A. rental expenses for the office
- B. carriage expenses for the delivery of goods to customers
- C. discounts given by suppliers for purchasing a large quantity of goods
- D. discounts given by suppliers for early settlement of outstanding balances

13. Which of the following statements about non-current assets is correct?

- A. Their cost of purchases exceeds \$100 000.
- B. They are used for the operations of the business.
- C. Their balances are presented in the income statement.
- D. Accounts receivable is a non-current asset.

14. A bank offers a saving plan which requires an initial deposit of \$100 000. The plan generates the following cash flows at the end of subsequent years:

	\$
Year 1	20 000
Year 2	35 000
Year 3	55 000

Given a discount rate of 5% p.a., what is the net present value of the saving plan?

- A. \$10 000
- B. \$9523.81
- C. \$4761.90
- D. -\$1695.28

15. Which of the following companies is/are socially responsible?

- (1) A power company which develops new technology to help reduce gas emissions.
- (2) A printing company which accepts many orders from social welfare organisations.
- (3) A trading company which encourages employees to participate in voluntary work to serve the community.

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

16. Which of the following statements about business ownership are correct?

- (1) Public corporations are wholly owned by the Government.
  - (2) The minimum number of shareholders of a limited company is 2.
  - (3) A nominal partner is not the owner of the partnership.
- 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 is a benefit brought about by the “Closer Economic Partnership Arrangement”(CEPA) for the businesses in Hong Kong?

- A. Companies owned by Hong Kong residents are not taxed on the Mainland.
- B. There is free flow of capital between Hong Kong and the Mainland.
- C. Tariffs are not levied on goods originating in Hong Kong exported to the Mainland.
- D. Hong Kong is allowed to enter the World Trade Organisation as an independent economy.

18. Which of the following double entries are correct?

<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1) Returned goods to suppliers	Purchases	Returns outwards
(2) Deposited cash into the bank account	Bank	Cash
(3) Sold goods to customers on credit	Trade receivables	Sales

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

19. Peter wants to deposit \$500 000 in a bank for half a year. The bank offers him the following saving plans. Which plan offers the highest return?

- A. a lump sum interest of \$6000 at the end of half a year.
- B. an interest rate of 2.4% p.a., compounding quarterly.
- C. an interest rate of 2.4% p.a., compounding half-yearly.
- D. an interest rate of 2.4% p.a., compounding annually.

20. Which of the following are the importance of small and medium enterprises to the local economy?

- (1) They provide materials and services to large businesses.
  - (2) They provide unique products to satisfy the needs of the Hong Kong market.
  - (3) They provide the major source of tax income for Hong Kong.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

21. Which of the following should be recorded on the credit side of the respective accounts?

	<u>Account</u>
(1) Decrease in capital	Capital
(2) Increase in trade payables	Trade payables
(3) Decrease in cash at bank	Bank

- 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 the benefits of defining the goal of a project?

- (1) provide clear directions to employees
- (2) help control the progress of work and monitor the performance of employees
- (3) reduce employees' workload

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

23. On 1 January 2015, Mr Lee set up a firm with cash \$100 000. On the same day, the firm took out a loan of \$200 000 from a bank. At the end of that year, total assets and total liabilities of the firm were \$980 000 and \$560 000 respectively. During the year, Mr Lee made regular cash drawings of \$5000 per month.

What is the net profit of the firm for the year 2015?

- A. \$180 000
- B. \$260 000
- C. \$325 000
- D. \$380 000

24. Which of the following statements about “unity of command” is correct?

- A. Each manager takes up one project only.
- B. Each subordinate directly reports to one supervisor only.
- C. All employees are working towards the same goals.
- D. All employees receive the same instructions when assigned the same tasks.

25. Simon is a self-employed fashion designer. He

- (1) has the right not to enrol into an Mandatory Provident Fund (MPF) scheme.
- (2) has the right to make voluntary contributions to the MPF scheme.
- (3) has the right to withdraw his accrued benefits from the MPF scheme before reaching the age 65 if he migrates to another country.

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

26. Which of the following is not the main use of a company's financial statements for the respective users?

	<u>User</u>	<u>Main use</u>
A.	managers	to formulate company's development strategies
B.	employees	to assess their remuneration level and job security
C.	government	to assess company's ability to repay tax
D.	trade creditors	to decide whether to sell goods to the company on credit

27. Compared with the Main Board's basic listing requirements,

- the operating history requirement for Growth Enterprise Market applicants is \_\_\_\_\_ (1) \_\_\_\_\_ °
- the market capitalisation requirement for Growth Enterprise Market applicants is \_\_\_\_\_ (2) \_\_\_\_\_ °

	<u>(1)</u>	<u>(2)</u>
A.	looser	stricter
B.	stricter	looser
C.	stricter	stricter
D.	looser	looser

28. A \_\_\_\_\_ is easier to set up and enjoy a relatively low tax rate in Hong Kong. All owners are liable for the business decisions of one another in this entity.

- A. partnership
- B. sole proprietorship
- C. private limited company
- D. public limited company

**Based on the following information, answer Question 29 and 30.**

The following account balances as at 31 December 2015 were extracted from the books of a firm:

	Dr	Cr
	\$	\$
Purchases	75 000	
Returns inwards and returns outwards	5 000	3 000
Discounts allowed and discounts received	3 500	2 000
Inventory as at 1 January 2015	15 000	
Electricity	10 000	
Wages and salaries	36 500	

29. Given that the inventory as at 31 December 2015 was \$27 000, what was the cost of goods sold for the year ended 31 December 2015?

- A. \$54 500
- B. \$58 000
- C. \$60 000
- D. \$63 000

30. Given that the net profit for the year ended 31 December 2015 was \$9000, what was the gross profit for the year?

- A. \$59 000
- B. \$57 000
- C. \$54 000
- D. \$53 500

**END OF SECTION A**

**SECTION B** (30marks)

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

1. Annie runs a shop selling bicycles. One day, Annie took one of the bicycles home for her son's use. The cost and selling price of the bicycle are \$500 and \$980 respectively.
  - (a) Prepare the journal entry to record the above event. Narration is not required. (2 marks)
  - (b) Explain, with a relevant accounting principle or concept, why records have to be made in the accounts, as in (a) above. (3 marks)
  
2.
  - (a) Explain how the share price of a property development company in Hong Kong changes in a booming local economy. (3 marks)
  - (b) Suggest two ways in which investors can use the Hang Seng Index to make investment decisions. (4 marks)
  
3. Carlo operates a reputable restaurant chain in Italy with customers from all over the world. He is planning to establish branches in Hong Kong. A business consultant suggests him to operate the branches in the form of franchising.
  - (a) Give two reasons why Carlo should establish the branches in the form of franchising instead of setting up his own restaurants in Hong Kong (4 marks)
  - (b) Explain one legal and one cultural factor that Carlo should consider when setting up branches in Hong Kong. (4 marks)

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

**Based on the following information, answer either Question 4 or 5.**

John runs a small supermarket. Its financial statements for the year 2015 are given below:

Income statement for the year ended 31 December 2015

	\$	
Sales		100 000
Less: Cost of goods sold		60 000
Gross profit		<u>40 000</u>
Less: General expenses		30 000
Net profit		<u>10 000</u>

Statement of financial position as at 31 December 2015

	\$	\$
<b>Non-current assets</b>		20 000
<b>Current assets</b>		
Inventory	34 000	
Cash	6 000	
	<u>40 000</u>	
<b>Less: Current Liabilities</b>		
Trade payables	30 000	10 000
		<u>30 000</u>
Capital, 1 January 2015		37 000
Add: Net profit		10 000
		<u>47 000</u>
Less: Drawings		17 000
		<u>30 000</u>

**Answer ONE question.**

- 4(a) Calculate (to two decimal places) the following ratios for the year 2015 for John's supermarket:
- (i) Gross profit ratio
  - (ii) Net profit ratio
  - (iii) Return on capital employed
- (3 marks)
- (b) Man Kee is another small supermarket in the same district. Its gross profit ratio and net profit ratio for the year 2015 are 35% and 15% respectively. Briefly comment on the profitability of John's supermarket for the year 2015 as compared with Man Kee.
- (2 marks)
- A business consultant advises John to adopt Management by Objectives in his supermarket.
- (c)(i) How are objectives set under Management by Objectives in John's supermarket? (1 mark)
- (ii) Explain one advantage and one disadvantage of adopting Management by Objectives in John's supermarket. (4 marks)
- (Total: 10marks)

- 5(a) Calculate (to two decimal places) the following for the year 2015 for John's supermarket:
- (i) Working capital
  - (ii) Current ratio
  - (iii) Liquid ratio
- (3 marks)
- (b) Briefly comment on the liquidity of John's supermarket as at 31 December 2015.
- (2 marks)
- A business consultant advises John to improve the controlling functions of his supermarket.
- (c)(i) What is the purpose of controlling in management? (1 mark)
- (ii) List the steps in the controlling process. (4 marks)
- (總 marks : 10marks)