

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

(Sample Paper)

Time allowed: 1 hour 30 minutes

This paper must be answered in English.

GENERAL INSTRUCTIONS

1. There are TWO sections, A and B, in this Paper. Section A carries 60 marks and Section B carries 40 marks. You are advised to finish Section A in about 45 minutes.
 2. Section A consists of multiple-choice questions in this question book. Section B contains conventional questions printed separately in Question-Answer Book B.
 3. Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the spaces provided in Question-Answer Book B. **The Answer Sheet for Section A and the Question-Answer Book for Section B must be handed in separately at the end of the examination.**
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SECTION A (MULTIPLE-CHOICE QUESTIONS)

INSTRUCTIONS

1. Read the instructions on the Answer Sheet carefully. Stick a barcode label and insert 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 should use an HB pencil to mark all your answers on the Answer Sheet. Wrong marks must be completely erased.
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

1. Which of the following are common arguments for social responsibility?
- (1) Profit maximization
 - (2) Lower product price
 - (3) Meet public expectation
 - (4) Improve company image
- A. (1) and (2) only
 - B. (2) and (3) only
 - C. (3) and (4) only
 - D. (1), (2), (3) and (4)
2. Which of the following statements are correct descriptions of the differences between bondholders and shareholders?
- (1) Shareholders have voting rights and bondholders do not.
 - (2) Shareholders are the owners of a company and bondholders are creditors.
 - (3) Shareholders are repaid prior to bondholders when the company is liquidated.
 - (4) Shareholders receive variable interest income whereas bondholders receive fixed amounts of interest at regular intervals.
- A. (1) and (2) only
 - B. (3) and (4) only
 - C. (1), (2) and (3) only
 - D. (1), (2) and (4) only
3. If you set up a business with your friend as a partnership, which of the following benefits would you enjoy?
- (1) You may bear limited liability.
 - (2) The company would exist as a separate legal entity.
 - (3) Management expertise offered by a board of directors.
 - (4) Company information needs not be disclosed to the public.
- A. (1) and (2) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (3) and (4) only
4. The process of allocating work and arranging a company's human resources for contributing to its objectives is known as:
- A. controlling
 - B. directing
 - C. organizing
 - D. planning
5. Which of the following managerial skills is relatively less important for top management?
- A. people skills
 - B. technical skills
 - C. conceptual skills
 - D. decision-making skills

6. Which of the following are the common arguments for globalization?
- (1) It promotes free trade
 - (2) It facilitates specialization
 - (3) It fulfils world responsibility and solves poverty problems
 - (4) It enables people to enjoy a wider variety of goods and services
- A. (1) and (2) only
 - B. (3) and (4) only
 - C. (1), (2) and (3) only
 - D. (1), (2) and (4) only
7. In which of the following financial markets will the initial public offering (IPO) of a limited company be launched?
- A. bond market
 - B. futures market
 - C. money market
 - D. securities market

Refer to the following case for Questions 8 – 9:

The board of directors of NSS Limited held a meeting to consider the acquisition of a boutique in Singapore as a way to expand its garment business internationally. Anna, the finance director, provided a series of financial analyses. However, the marketing director could not understand the information and asked, ‘Why don’t you simply give us the conclusion: Acquire or not to acquire?’

8. What kind of communication barrier has occurred in the above situation?
- A. use of jargon
 - B. time pressure
 - C. conflicting goals
 - D. different perception
9. Which of the following non-financial factors would also be relevant to the acquisition decision?
- (1) Political stability
 - (2) Market size and potential
 - (3) Cultural difference of target customers
 - (4) Communication and transportation infrastructure
- A. (1) and (4) only
 - B. (2) and (3) only
 - C. (2), (3) and (4) only
 - D. (1), (2), (3) and (4)
10. Which of the following statement(s) about entrepreneurs is(are) correct?
- (1) Entrepreneurs prefer to take high risks.
 - (2) Entrepreneurs are quick at identifying the sources of finance.
 - (3) Entrepreneurs accept failures as an integral part of business success.
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1), (2) and (3)

11. Which of the following is NOT a feature of good corporate governance for a listed company?
- A. setting up of an audit committee
 - B. appointment of independent directors
 - C. establishment of a good security system
 - D. appointment of two persons to take up the positions of CEO and board chairman

Refer to the following case for Questions 12 – 13:

A number of banks from the Mainland launch their initial public offerings in Hong Kong to raise funds. Mr Lee has always wanted to take advantage of this new trend to make quick money. At the new share issue of Tai Lee Bank, a bank based on the Mainland, he subscribed for 80 000 shares on margin from a broker firm, incurring an interest charge of \$300. At last, he was allotted 5000 shares and the brokerage fee and stamp duty amounted to \$20.

The information relating to the shares of Tai Lee Bank was given below:

	<u>Par value</u>	<u>Issue price</u>	<u>Closing price on the first day of trading</u>
300 billion ordinary shares, issued and fully paid	\$1.00	\$1.28	\$1.30

12. Which of the following statements about margin trading is INCORRECT?
- A. Rate of loss will be magnified.
 - B. Rate of return will be magnified.
 - C. Purchase cost of shares will increase.
 - D. The chance of making a profit will increase.
13. What is Mr Lee's profit or loss if he sells his shares at the closing price on the first day of trading?
- A. profit of \$1600
 - B. profit of \$100
 - C. loss of \$80
 - D. loss of \$220

Refer to the following case for Questions 14 – 16:

Mr Wong has some investment in mutual funds. He had also subscribed for the bonds of Victory Ltd at a premium of 5%. One year later, he received by mail from Victory Ltd a cheque for the 5% interest. As he tried to calculate the rate of return, he found that it was lower than 5%.

14. Which of the following descriptions about Victory Ltd's bonds is correct?
- A. The issue price is net of interest.
 - B. The issue price is equal to its par value.
 - C. The issue price is lower than its par value.
 - D. The issue price is higher than its par value.
15. For the protection of the investors, all trust funds are legally required to be authorized by _____.
- A. The Hong Kong Monetary Authority
 - B. The Securities and Futures Commission
 - C. The Hong Kong Management Association
 - D. The Hong Kong Exchange and Clearing Limited

16. Mr Wong found that the effective rate of return of the bonds was lower than 5%. Which of the following is the best possible explanation for it?
- The par value of the bonds is higher than the purchase price.
 - The par value of the bonds is lower than the purchase price.
 - The market value of the bonds is higher than the purchase price.
 - The market value of the bonds is lower than the purchase price.
17. Which of the following are required to join a Mandatory Provident Fund (MPF) scheme in Hong Kong?
- Self-employed hawkers
 - A sole proprietor, or partner of a partnership type business
 - People from overseas who work for a 2-year contract as domestic helpers
 - People aged between 18 and 65 and working under an employment contract for a continuous period of not less than 60 days on a part-time basis
- (1) and (3) only
 - (2) and (3) only
 - (2) and (4) only
 - (4) only
18. Which of the following should NOT be classified as 'Purchases' by a motor van dealer?
- A motor van bought for showroom display
 - A motor van bought for trial use by customers
 - A motor van bought for use by the managing director
 - A motor van bought to be used for staff transportation but finally put into the warehouse for resale
19. A statement of financial position is _____ .
- a list of debits and credits
 - one of the accounts in the ledger
 - prepared to find out how much profit or loss was made during a period
 - a statement of the outstanding balances after the preparation of the profit and loss account
20. Which of the following incidents relating to a toy trader should NOT be recorded in the General Journal?
- The sale of an office desk on credit
 - A credit note received from a supplier
 - The exchange of a fax machine for a copier of equal value
 - Correction of a credit transfer from a customer credited to a wrong personal account
21. Which of the following statements about accounting equation is INCORRECT?
- $\text{Assets} - \text{Liabilities} = \text{Capital}$
 - $\text{Assets} - \text{Liabilities} = \text{Capital} + \text{Revenues} - \text{Expenses}$
 - $\text{Non-current assets} + \text{Working capital} = \text{Capital} + \text{Non-current liabilities}$
 - $\text{Non-current assets} + \text{Current assets} = \text{Capital} + \text{Non-current liabilities} - \text{Current liabilities}$

22. Which of the following accounts of BAFS Limited will be credited when there is an increase in amount?

- (1) Electricity expense
- (2) Loan from XYZ Company
- (3) Loan to ABC Company
- (4) Purchases returns
- (5) Rent received
- (6) Sales returns

- A. (1), (2) and (4) only
- B. (1), (3) and (6) only
- C. (2), (4) and (5) only
- D. (3), (5) and (6) only

23. The proprietor of a business draws cash from his private savings account to settle the amount owed to a creditor of the business. The ledger entries should be:

- A. Dr Accounts Payable account Cr Bank account
- B. Dr Accounts Payable account Cr Capital account
- C. Dr Drawings account Cr Accounts Payable account
- D. Dr Drawings account Cr Bank account

24. On 14 February 20X7, Biz Company issued a sales invoice to Tsang Ltd for 40 units of goods at \$100 each, less 25% trade discount. Cash discount of 5% would be allowed for settlement within 7 days. Biz Company finally received the payment on 20 February 20X7.

Which of the following are the correct journal entries to be made in the books of Tsang Ltd for the above?

	Debit \$	Credit \$															
A.	<table border="1" style="width: 100%;"> <tr> <td style="width: 60%;">Biz Company</td> <td style="text-align: right;">3 000</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Sales</td> <td></td> <td style="text-align: right;">3 000</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">2 850</td> <td></td> </tr> <tr> <td>Discounts allowed</td> <td style="text-align: right;">150</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Biz Company</td> <td></td> <td style="text-align: right;">3 000</td> </tr> </table>	Biz Company	3 000		Sales		3 000	Bank	2 850		Discounts allowed	150		Biz Company		3 000	
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25. The following is an extract from the trial balance of ACCT Company at the year end 31 December 20X6:

	Dr	Cr
	\$	\$
Beginning inventories	5 500	
Carriage inwards	440	
Carriage outwards	660	
Purchases	73 000	
Returns	5 860	3 490
Sales		113 500

Given that the amount of ending inventories was twice of the opening inventories, the cost of sales for 20X6 was _____ .

- A. \$62 080
- B. \$64 010
- C. \$64 450
- D. \$64 670

Refer to the following information for Questions 26 – 28:

The following information relates to Island Company for the year ended 31 December 20X6:

	\$
Accounts payable	5 000
Accounts receivable	6 000
Bank loan (repayable in December 20X7)	11 500
Capital as at 31 December 20X5	36 200
Capital as at 31 December 20X6	44 200
Cash	1 000
Drawings of goods by the owner	6 400
Ending inventories	12 500
Introduction of capital during 20X6	20 000
Mortgage loan (repayable in 20Y1)	60 000
Net profit for the year	15 600
Plant and machinery	80 000

26. Island Company's working capital at 31 December 20X6 amounted to _____ .

- A. \$1000
- B. \$3000
- C. \$12 500
- D. \$14 500

27. Island Company's return on capital employed for 20X6 was _____ .

- A. 19.40%
- B. 35.29%
- C. 38.81%
- D. 43.09%

28. The cash drawings by the owner during 20X6 amounted to _____ .
- A. \$1200
 - B. \$21 200
 - C. \$27 600
 - D. \$37 200
29. The going concern concept means that when preparing accounts, a firm is assumed to continue in operational existence for the foreseeable future _____.
- A. and will not cease trading
 - B. and has no intention to liquidate
 - C. but at a level of activity significantly less than the current level of activity
 - D. and has no intention to liquidate or reduce significantly the scale of operation
30. Mr Chan, a sole trader, purchased a specialized machine for the business and paid the purchase invoice by a personal cheque. The machine was listed on the statement of financial position at its original cost of \$3 000 000 although it could only be realized for \$800 000 if the business was discontinued.
- Which of the following accounting concepts is NOT applicable to the above situation?
- A. accrual
 - B. business entity
 - C. going concern
 - D. historical cost

END OF SECTION A

Go on to Question-Answer Book B for questions in Section B

B

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1 SECTION B: Question-Answer Book B (Sample Paper)

This paper must be answered in English.

INSTRUCTIONS

- (1) Write your Candidate Number in the space provided on Page 1.
- (2) Stick barcode labels in the spaces provided on Pages 1, 3 and 5.
- (3) Refer to the general instructions on the cover of the Question Book for Section A.
- (4) The questions in this Question-Answer Book carry 40 marks. Answer **ALL** questions.
- (5) Write your answers to Section B in the spaces provided in this Question-Answer Book. Do not write in the margins. Answers written in the margins will not be marked.
- (6) Supplementary answer sheets will be provided on request. Write your candidate number, fill in the question number and stick a barcode label on each sheet. Tie them loosely but securely with a string **INSIDE** this Question-Answer Book.

Please stick the barcode label here.

Candidate Number

	Marker's Use Only	Examiner's Use Only
	Marker No.	Examiner No.
Question No.	Marks	Marks
1		
2		
3		
4		
5		
6		
Total		

Please stick the barcode label here.

3. In deciding whether to join a fashion retail chain or not, suggest two criteria for assessing the franchisor. (4 marks)

4. Mr Lee retired two years ago and has kept the \$1 000 000 retirement fund in the form of a fixed deposit at an interest rate of 4.5% per annum. His friend suggests that investment in other financial products may yield a higher return.

(i) Name three types of financial products available in the Hong Kong securities market that Mr Chan might consider. (3 marks)

(ii) Explain two factors Mr Lee should consider in deciding whether to invest in other financial products instead of keeping the entire amount in a fixed deposit. (4 marks)

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Please stick the barcode label here.

6. Mr Chan is the owner of a furniture manufacturing and trading business. Most of the furniture was manufactured by his own factory in Hong Kong and the rest was purchased from several manufacturers in Shenzhen.

The following are the financial ratios of the business for the year ended 31 December 20X6:

	<u>Business</u>	<u>Industry average</u>
Turnover	\$1 250 000	\$1 300 000
Gross profit ratio	38%	60%
Net profit ratio	6%	42%
Current ratio	2.8:1	2.3:1
Liquid ratio	0.8:1	1.2:1

(a) Suggest two reasons why the gross profit ratio and net profit ratio of Mr Chan's business are much lower than the industry averages. (4 marks)

(b) Comment on the liquidity of Mr Chan's business in 20X6. (4 marks)

Answers written in the margins will not be marked.

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(c) In early 20X7, Mr Chan plans to close the factory in Hong Kong and form a new business in Shenzhen. All the workers of the Hong Kong factory will then be laid off.

Propose two measures that Mr Chan could adopt to minimize the workers' dissatisfaction with their layoffs. (4 marks)

END OF PAPER

Answers written in the margins will not be marked.

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