

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 the Hong Kong economy is **not** correct?
- A. The Hong Kong Government does not control the inflows and outflows of capital.
 - B. Hong Kong is a founding member of the World Trade Organization.
 - C. Most businesses in Hong Kong are multinational corporations.
 - D. Under the Closer Economic Partnership Arrangement (CEPA), service suppliers in Hong Kong enjoy preferential treatment when setting up business in most service sectors on the Mainland.

2. Which of the following accounts must carry a debit balance in a trial balance?

- A. Rental income
- B. Purchases returns
- C. Discounts received
- D. Loans to employees

3. If the Hang Seng Index (HSI) rose by 10% during the past month, it means that _____ during the past month.

- (1) the 'HSI-Commerce & Industry' rose by 10%
- (2) the turnover of the HSI constituent stocks increased by 10%
- (3) the market prices of the HSI constituent stocks rose in general

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

4. Which of the following double entries is/are correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	Received interest on bank deposit.	Interest income	Bank
(2)	Purchased stationery for office use on credit.	Stationery expenses	Accounts payable
(3)	The owner brought in his motor van for the firm's use.	Motor van	Drawings

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

5. The following are the tasks required for quality control:

- (1) measure the actual rate of defective items by sampling
- (2) find reasons and take follow up measures if the actual rate of defective items is higher than the acceptable level
- (3) set the acceptable rate of defective items
- (4) compare the actual rate of defective items with the acceptable rate

The sequence of the quality control procedure should be:

- A. (1) → (3) → (2) → (4)
- B. (1) → (4) → (3) → (2)
- C. (3) → (1) → (2) → (4)
- D. (3) → (1) → (4) → (2)

6. Which of the following should be recorded as an expense of a firm?
- (1) wages paid to the part-time workers of the firm in cash
 - (2) insurance paid for owner's private apartment by the firm's cheque
 - (3) rent paid for the firm's warehouse by owner's personal cheque
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
7. Ethical behaviour in business will _____.
- (1) enhance the public image of a business
 - (2) increase the operating costs of a business in the long run
 - (3) enable a business to be subject to a lower profits tax rate
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
8. Which of the following should be credited to the purchases account of a firm?
- (1) goods withdrawn by owners for personal use
 - (2) goods returned to a supplier
 - (3) goods donated to a non-profit making organisation
- A. (1) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
9. Which of the following are the main functions of a marketing department of a company?
- (1) plan marketing research
 - (2) formulate pricing strategy for the products
 - (3) control product quality
- 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 is/are the example(s) of a real account?
- (1) Sales account
 - (2) Bank loan account
 - (3) Equipment account
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (2) and (3) only

11. A trading firm is departmentalised by function. At the beginning of every year, the General Manager and the department managers discuss and formulate the departmental objectives together so as to achieve the overall target of the firm. Regular reviews are conducted by them to see whether the departmental objectives have been achieved as planned.

Based on the above information, which of the following principles of effective management are used by the firm?

- (1) balancing authority and responsibility
(2) management by objectives
(3) division of work
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
12. On 1 March 2018, the cash at bank account and the cash in hand account of a firm carried debit balances of \$15 000 and \$12 000 respectively. Cash sales for the month were \$13 000, of which \$5 000 was kept in the safe and the remaining cash from sales was deposited into the bank before the month end. During the month, \$9 000 was paid for expenses in cash and \$26 000 was paid to acquire equipment by cheque.
- The cash at bank account carried a _____ on 31 March 2018.
- A. credit balance of \$3 000
B. credit balance of \$6 000
C. debit balance of \$5 000
D. debit balance of \$8 000
13. Which of the following statements about a bank overdraft is/are correct?
- (1) There is no fixed repayment schedule.
(2) Its interest is usually charged on a monthly basis.
(3) Collateral is usually not required.
- A. (1) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
14. For a toy company, which of the following is **not** regarded as an example of fulfilling its social responsibility?
- A. using recycled materials to produce toys
B. donating toys to orphanages
C. offering 20% discount to customers during Christmas
D. improving the working environment of its employees
15. Mr Lee wants to buy a car 3 years later. Its price is \$500 000 now and is expected to increase by 3% per annum. To pay for the car after 3 years, he is considering investing in a fund with a return of 5% per annum, compounded annually. How much should he invest in the fund now?
- A. \$471 969
B. \$490 476
C. \$509 709
D. \$529 695

16. Which of the following are the advantages of adopting 'management by objectives' by a business?
- (1) enhance the subordinates' job satisfaction
 - (2) lower the administrative cost
 - (3) reduce work delays
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

17. The following information relates to Mr Chan's firm in 2017:

	\$
Capital, as at 1 January 2017	443 800
Capital, as at 31 December 2017	425 000
Total revenue for the year 2017	97 000
Total expenses for the year 2017	108 500

Based on the above information, Mr Chan _____ the firm during the year 2017.

- A. withdrew \$7 300 from
 - B. withdrew \$30 300 from
 - C. introduced \$7 300 into
 - D. introduced \$30 300 into
18. Which of the following statements about the Ocean Park Corporation, a public corporation in Hong Kong, are correct?
- (1) It is listed on the Hong Kong Stock Exchange.
 - (2) Its board of directors is appointed by the government.
 - (3) It is self-sufficient financially.
- 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 required in the calculation of the net present value of investing in a machine?
- (1) initial cost of the machine
 - (2) scrap value of the machine
 - (3) useful life of the machine
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
20. Which of the following would increase the gross profit of a trading firm?
- A. decrease in returns outwards
 - B. decrease in carriage outwards
 - C. increase in trade discounts offered by the supplier
 - D. increase in cash discounts offered by the supplier

21. Ming Kee and Chan Kee are trading firms in the same industry. Their financial information for the year 2017 is shown below:

	Ming Kee	Chan Kee
Current assets	\$900 000	\$600 000
Current ratio	6:1	2.5:1
Acid test ratio	2:1	1.5:1

Based on the above information, Ming Kee has _____.

- (1) less current liabilities
(2) greater ability to meet short-term obligations
(3) less inventory
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
22. In the basic listing requirements of the Growth Enterprise Market for new applicants, there is no minimum requirement relating to _____.
- A. cash flow
B. profit
C. operating history
D. market capitalisation
23. Which of the following is **not** a function of accounting?
- A. summarising business transactions
B. monitoring the performance of the accounting staff
C. communicating the performance of the business to different stakeholders
D. classifying business transactions
24. Which of the following statements about a partnership is/are correct?
- (1) There is no limited partner in a general partnership.
(2) Limited partnership is a legal entity separate from its owners.
(3) All partners in a limited partnership only have limited liability.
- A. (1) only
B. (1) and (2) only
C. (2) and (3) only
D. (1), (2) and (3)
25. Which of the following statements about risk and return is correct?
- A. Market risk can be diversified.
B. High-risk financial products must have high returns.
C. Risk-averse investors usually prefer investing in bonds to making term deposits.
D. Conservative retired persons usually prefer investing in bonds to stocks.

26. A car retailer sets the following sales target for its new car model:
- '50% of Hong Kong drivers will buy our new car model in 2019.'**
- Which of the following criteria for setting good objectives is/are fulfilled in this sales target?
- (1) specific
 - (2) measurable
 - (3) attainable
- A. (2) only
 - B. (3) only
 - C. (1) and (2) only
 - D. (1) and (3) only
27. Which of the following statements about 'authority' is/are correct?
- (1) An operations manager has staff authority over his/her subordinates.
 - (2) A human resources manager has line authority over the plant manager.
 - (3) An accounting manager has line authority over his/her subordinates.
- A. (2) only
 - B. (3) only
 - C. (1) and (2) only
 - D. (1), (2) and (3)
28. Compared to a public limited company, which of the following is/are the advantage(s) of a private limited company?
- (1) is subject to less government supervision
 - (2) does not need to distribute dividends to shareholders
 - (3) obtains financing more easily
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1) and (2) only
29. Which of the following about an income statement is **not** correct?
- A. Information is mostly quantitative.
 - B. Information mainly reflects past events.
 - C. Its preparation involves professional judgements.
 - D. Its preparation is based on cash receipts and cash payments only.
30. Which of the following statements about the Mandatory Provident Fund (MPF) System is correct?
- A. Self-employed persons aged between 16 and 65 are required to join the MPF Scheme.
 - B. Construction workers are exempted from the MPF Scheme.
 - C. MPF scheme members can apply for early withdrawal of the accrued benefits from the MPF Scheme if they are unemployed for more than two years.
 - D. When changing jobs, MPF scheme members can transfer their accrued benefits to another MPF trustee.

END OF SECTION A

SECTION B (30 marks)

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

1. Nick Limited is a private limited company, manufacturing and selling electrical appliances locally. Facing international competition, the company is planning to set up an online store to sell worldwide. To lower costs and increase sales, the company is analysing the effects of globalisation in order to formulate new business strategies.
- (a) Explain one technological factor and one economic factor that Nick Limited should consider when planning to set up the online store. (4 marks)
- (b) Suggest two strategies to Nick Limited that may lower its production cost under globalisation. (4 marks)

(Total: 8 marks)

2. Calvin set up a supermarket selling Korean food. To attract customers and enhance competitiveness, the supermarket continually introduces new products. Some of these cannot be found in big local supermarkets. With its thriving business, the supermarket has been recently selected as an outstanding small and medium enterprise. Calvin has also been praised by the media as an outstanding entrepreneur.
- (a) Apart from the number of employees, state two other characteristics of small and medium enterprises. (2 marks)
- (b) With reference to the case above, explain two contributions of entrepreneurship to the development of business. (4 marks)

(Total: 6 marks)

3. Darwin Limited is a listed company, running a department store business with five stores of a similar size in Hong Kong.
- (a) Ignoring other factors, explain how each of the following two policies may affect the share price of Darwin Limited: (4 marks)
- (i) the generous dividend policy of the company
- (ii) the mainland government limits the number of visits to Hong Kong per week by its residents

The performance of Darwin Limited was poor during the past few years. In February 2018, the company had to liquidate within six months as it was unable to repay its debts. Therefore, the financial statements as at 31 March 2018 were not prepared based on the going concern assumption.

- (b) Explain the going concern assumption. How should the non-current assets of Darwin Limited be valued as at 31 March 2018? (2 marks)

(Total: 6 marks)

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

4. On 1 January 2017, Mandy commenced a sole proprietorship firm to design and sell computer software. The following balances were extracted from the books of the firm as at 31 December 2017:

	\$
Trade receivables	13 000
Motor van	48 000
Bank loan (to be matured in July 2018)	30 000
Sales	220 000
Trade payables	8 000
Purchases	98 000
Equipment	166 000
Operating expenses	105 600
Cash at bank	16 000
Capital, 1 January 2017	?

- (a) On 31 December 2017, the inventory of the firm was valued at \$26 000. Prepare a statement of financial position of Mandy's firm as at 31 December 2017. (5 marks)

The staff of the research and development department in the firm may freely design different computer software products, but the selection of the new product designs is done by Mandy alone, without involving any other staff.

- (b) State the leadership style adopted by Mandy. (1 mark)
- (c) Explain two disadvantages of the leadership style adopted by Mandy. (4 marks)

(Total: 10 marks)

5. On 1 January 2018, the cash at bank account of Vincent's firm carried a debit balance of \$20 000. The following transactions took place in January 2018:

2018	
Jan	3 Purchased goods on credit with a list price of \$10 000. The supplier offers a trade discount of 2% for purchase orders over \$5 000 and a cash discount of 3% for settlements within 10 days after purchase.
	7 Repaid the supplier for the purchase made on 3 January 2018 by cheque.
	10 Paid rent by cheque for \$7 000.
	25 Sold goods on credit for \$12 000.

- (a) Prepare the T-accounts in the books of Vincent's firm to record the above transactions. (5 marks)

During the year, Vincent's firm aims to reduce costs. However, the marketing manager wants to launch a large-scale sales promotion campaign. The budgeted cost of the campaign is 50% of last year's sales.

- (b) State the principle of effective management that has been violated in the above case. (1 mark)
- (c) Explain two reasons for adopting the principle of effective management in (b) above. (4 marks)

(Total: 10 marks)

END OF PAPER