

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.

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 Hong Kong business environment is/are correct?
- (1) Hong Kong is a member of the Asia-Pacific Economic Cooperation and the World Trade Organization.
 - (2) The secondary industry contributes to a major part of the Gross Domestic Product of Hong Kong.
 - (3) Businesses which make profits in Hong Kong are subject to salary tax.
- A. (1) only
B. (2) only
C. (3) only
D. (1) and (2) only
2. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong is/are correct?
- (1) Most of them are engaging in the import/export trade and wholesale industries.
 - (2) An enterprise with total asset value under \$1 million is an SME.
 - (3) SMEs employ about 90% of the working population.
- A. (1) only
B. (2) only
C. (1) and (3) only
D. (2) and (3) only
3. An accounts clerk at a firm is preparing the trial balance and the financial statements, he will then submit relevant information to the manager.
- Which accounting function(s) is/are performed in the situation above?
- (1) communicating
 - (2) recording
 - (3) summarising
- A. (1) only
B. (2) only
C. (1) and (3) only
D. (2) and (3) only
4. Assume that the closing inventory of a firm decreases and its carriage outwards increases. How will this affect the gross profit and net profit of the firm?
- | | <u>Gross profit</u> | <u>Net profit</u> |
|----|---------------------|-------------------|
| A. | increases | increases |
| B. | increases | unchanged |
| C. | decreases | decreases |
| D. | decreases | unchanged |
5. David deposited \$300 000 into a bank account on 1 April 2021. The deposit interest rate was 4% per annum, compounded quarterly. The total interest that David could get on 31 December 2021 was:
- A. \$8 000
B. \$8 080
C. \$9 000
D. \$9 090

6. Which of the following statements about a joint venture is/are correct?
- (1) A joint venture is required to disclose its financial statements to the public.
 - (2) A joint venture is an entity separate from the joint venture partners.
 - (3) The joint venture partner who invested the most capital has the right to make the final decisions of the business operations.
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (2) and (3) only
7. Which of the following are advantages of adopting 'management by objectives'?
- (1) It reduces the workload of subordinates.
 - (2) It facilitates the monitoring of the progress of subordinates' work.
 - (3) It motivates subordinates to achieve the company's goals.
- 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 is/are function(s) of a trial balance?
- (1) errors in the ledger accounts can be detected
 - (2) facilitate the preparation of the books of original entries
 - (3) the arithmetical accuracy of the financial statements can be checked
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
9. Which of the following statements about the Hang Seng Index is/are correct?
- (1) It is computed by taking into account all stocks listed on the Stock Exchange of Hong Kong.
 - (2) It serves as a benchmark to assess the price trend of a listed stock to facilitate investment decisions.
 - (3) It reflects the general price level of the stocks listed on the Main Board of the Stock Exchange of Hong Kong.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
10. Which of the following double entries are correct?
- | | <u>Transaction</u> | <u>Account to be debited</u> | <u>Account to be credited</u> |
|-----|---|------------------------------|-------------------------------|
| (1) | Received cash refund for goods returned to a supplier | Cash | Returns outwards |
| (2) | Paid freight charges for delivering goods to a customer by cheque | Carriage outwards | Bank |
| (3) | Office equipment bought on credit was returned to the seller | Accounts payables | Office equipment |
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

11. A foreign firm has established retail shops in Hong Kong. Which of the following is/are economic factor(s) that might affect this firm?
- (1) customers' preference for international brands
 - (2) foreign exchange rate
 - (3) employment level of Hong Kong
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (2) and (3) only

12. On 1 January 2022, the total asset value of Wong's firm was \$100 000. On 3 January, the firm purchased goods on credit at a cost of \$30 000. On 31 January, goods costing \$8 000 were sold on credit at a price of \$12 000.

Based on the above information, calculate the total asset value of Wong's firm as at 31 January 2022.

- A. \$122 000
 - B. \$126 000
 - C. \$134 000
 - D. \$142 000
13. Ignoring other factors, which of the following government policies will lead to an increase in the share price of a fast food chain?
- (1) disbursement of electronic consumption vouchers to citizens
 - (2) raise the stamp duty rate on stock transactions
 - (3) release of social distancing measures imposed during the COVID-19 pandemic
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)
14. Chan's firm sells goods at a list price of \$80 each. On 10 March 2022, it sold 1 200 units of goods to a customer. The following account was extracted from the books of Chan's firm:

Sales		
2022		\$
Mar 10	Trade receivables	84 000

Based on the above information, which of the following statements are correct?

- (1) The goods were sold on credit.
 - (2) A discount of \$10 per unit was given to the customer.
 - (3) The discount given to the customer was recorded in the discounts allowed account.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
15. Which of the following statements about line authority and staff authority is/are correct?
- (1) The operations manager has line authority over sales assistants.
 - (2) The information manager has staff authority to support the marketing manager.
 - (3) The human resources manager has line authority over all staff.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

16. Which of the following should be shown on the credit side of the capital account?
- (1) losses made by the firm
 - (2) office expenses paid by the owner out of his own pocket
 - (3) a loan borrowed by the firm from the owner's friend
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
17. Macy has a poor personal credit rating. Which of the following would be caused by her poor personal credit rating?
- (1) bankruptcy will be filed by the creditors
 - (2) higher loan interest is likely to be paid
 - (3) her application for a credit card may not be approved
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
18. Susan is the General Manager of a trading company. There are two Assistant General Managers supervising three and four department managers respectively. Each department manager supervises more than ten front-line staff.
- Based on the above information, which of the following statements about the company is correct?
- A. The span of control of Susan is nine.
 - B. It is a small and medium enterprise.
 - C. It is a flat organisation as compared with a company of three layers.
 - D. Its decision-making process is relatively slower than that of a company of similar size with three layers.

Based on the following information, answer Questions 19 and 20:

Some of the account balances for Yip's firm as at 31 December 2021 are as follows:

	\$
Capital, 1 January 2021	420 000
Bank overdraft	18 000
Inventory	71 000
Trade payables	86 000
Trade receivables	162 000
Net profit for 2021	155 000
Drawings	11 000

19. The quick ratio as at 31 December 2021 is:
- A. 1.56:1
 - B. 2.09:1
 - C. 2.24:1
 - D. 2.71:1
20. The return on capital employed for 2021 is:
- A. 26.96%
 - B. 31.16%
 - C. 31.50%
 - D. 36.90%

21. Which of the following companies is/are multinational corporation(s)?
- (1) A Hong Kong company which purchases raw materials from Thailand.
 - (2) A Mainland company which issued bonds in Hong Kong to raise funds.
 - (3) A Hong Kong company which established a branch in Singapore.
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (2) and (3) only
22. A large company has different functional departments. Which of the following tasks are performed by the finance department of the company?
- (1) monitoring the cash flows of the company
 - (2) reviewing the budgets for upgrading the information management system
 - (3) determining the salary level of accounts clerks
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
23. Ken is a senior designer at a firm which designs games and applications for mobile phones. Most of the staff of the firm are creative, experienced and self-disciplined. Ken provides guidance to the designers and reviews their programme design drafts. He then discusses the review results with the designers and invites them to participate in the selection of the programme designs.
- Based on the above information, Ken is adopting:
- A. unity of command
 - B. unity of direction
 - C. laissez-faire leadership
 - D. democratic leadership
24. Which of the following is/are right(s) of a share investor?
- (1) to receive investment transaction statements
 - (2) to receive stable dividend income
 - (3) to be involved in the daily operations of the company
- A. (1) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
25. Which of the following statements about a franchise business is/are correct?
- (1) A franchisee is not required to pay royalties to the franchisor when his franchise business incurs a loss.
 - (2) The franchisor and all its franchisees operate the business in the same country.
 - (3) With the franchisor's approval, a franchisee could have a mode of operations different from other franchisees.
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (2) and (3) only

26. Both (1) and (2) may have capital gain or loss, whereas the latter offers interest as a return to investors.
- | | <u>(1)</u> | <u>(2)</u> |
|----|------------|---------------|
| A. | stocks | term deposits |
| B. | stocks | bonds |
| C. | bonds | term deposits |
| D. | bonds | stocks |
27. Which of the following statements about the Mandatory Provident Fund (MPF) System is correct?
- A. Employees, self-employed persons and employers may choose to make voluntary contributions on top of their mandatory contributions.
- B. Employees can withdraw their MPF immediately if they retire before the age of 60.
- C. Part-time staff are exempted from joining the MPF Scheme.
- D. An employee with a monthly income of \$40 000 is required to contribute \$2 000 each month.
28. Which of the following descriptions about the 'Closer Economic Partnership Arrangement' (CEPA) is correct?
- A. All professional qualifications are mutually recognised between Hong Kong and the Mainland.
- B. All Mainland businesses can apply to list their stocks on the Main Board of the Stock Exchange of Hong Kong.
- C. Hong Kong businesses can apply for interest-free loans from the Mainland government if they relocate the headquarters to the Mainland.
- D. All goods of Hong Kong origin can enjoy zero tariff preference upon importation into the Mainland.

Based on the following information, answer Questions 29 and 30.

The bookkeeper prepared a trial balance as below, but some account balances were put on the wrong side:

Trial balance as at 31 December 2021		
	Dr	Cr
	\$	\$
Sales	102 000	
Purchases	56 500	
Inventory, 1 January 2021	21 100	
Motor vans		86 000
Discounts received	2 500	
Operating expenses		7 800
Bank	3 500	
Bank loan	40 000	
Capital, 1 January 2021		(Y)
	?	?

Inventory as at 31 December 2021 was \$14 000.

29. What is the net profit for the year ended 31 December 2021?
- A. \$28 100
- B. \$33 100
- C. \$19 100
- D. \$30 600
30. After correctly arranging the account balances in the trial balance, the figure for (Y) is:
- A. \$14 800
- B. \$30 400
- C. \$35 400
- D. \$121 400

END OF SECTION A

SECTION B (30 marks)

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

1. Tim is a sole trader operating a shop selling organic skincare products. Candy invited him to be a partner of her business, which sells olive oil skincare products imported from Italy.

Candy provided the following financial information for the year 2021 for Tim's consideration:

	<u>Candy's firm</u>	<u>Industry average</u>
Annual sales	\$800 000	/
Gross profit ratio	27.2%	28.5%
Net profit ratio	17.9%	10.5%
Return on capital employed	12.5%	5.1%

- (a) Explain to Tim two advantages of forming a partnership with Candy, rather than operating his business on his own. (2 marks)
- (b) Comment on the profitability of Candy's firm based on the financial information above. (4 marks)
2. Chris and his wife, Helen, are planning to renovate their flat to provide a room for their new-born baby. Chris is thinking to take out a personal loan for that purpose. Helen reminds him that his personal credit record is unfavourable and therefore he has a lower credit rating.
- (a) State two financial needs that Chris has in his present life stage based on the information above. (2 marks)
- (b) Suggest two ways to Chris to improve his personal credit rating. (2 marks)

After careful consideration, Chris has borrowed a personal loan of \$200 000.

Chris will receive a bonus of \$100 000 from his employer later. He wants to invest the money in the stocks listed on the GEM. Helen suggests investing in iBond instead.

- (c) Give two reasons to justify Helen's suggestion of investing in iBond instead of the stocks listed on the GEM. (2 marks)
- (d) Assume that Chris decides to repay part of the personal loan rather than investing with the bonus. Give one reason to support his decision. (2 marks)

3. Below is a dialogue which appeared in a meeting between three department managers of a business selling luxury jewellery:

Marketing Manager: Our department goal next year is to expand the customer base of the young lady sector significantly. In line with this, we are going to invite a hit boy band to serve as our brand ambassador.

Risk Manager: Can young ladies afford our luxury products? Will the boy band appeal to our mature and loyal customers?

Information Manager: Don't worry! We can conduct marketing research. My department will give full support for this!

- (a) Explain one characteristic of an effective goal that the Marketing Manager may have overlooked in setting the above goal. (2 marks)
- (b) How could the Risk Management Department and the Information Management Department help the Marketing Department to achieve its department goal? Explain one way for each department how they could help. (4 marks)

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

4. Ben runs a small food and grocery shop in Mongkok. The following are some account balances extracted from the books of his firm as at 31 December 2021:

	\$
Sales	440 000
Office furniture	195 100
Bank loan (maturing on 31 August 2023)	80 000
Purchases	180 000
Bank	54 400
Capital, 1 January 2021	265 000
Rental deposit	30 000
Trade receivables	13 500
Trade payables	11 600
Equipment	35 500

The inventory as at 31 December 2021 was valued at \$27 000.

The rental deposit for the shop was paid on 1 January 2021. It will be refunded upon the end of the tenancy agreement on 30 June 2022, if the terms of the rental contract are not violated. During the year 2021, Ben withdrew \$5 000 from the bank account each month for his personal use.

- (a) Prepare a statement of financial position as at 31 December 2021. (6 marks)

To fulfill social responsibilities, the firm sells food and necessities at prices below cost to the elderly living alone in the neighbourhood.

- (b) Explain why the above action is fulfilling social responsibilities. (2 marks)
- (c) State two reasons why Ben's firm is willing to fulfill its social responsibilities. (2 marks)

(Total: 10 marks)

5. On 1 January 2022, Cherry commenced a business selling health supplements. She also works as the General Manager of the business. There are three departments in the business: the Sales and Marketing Department; the Purchasing and Storing Department; and the Administration and Finance Department. Two branches are under the charge of the Sales and Marketing Department: wholesale and retail.
- (a) Draw an organisation chart to show the organisation structure of Cherry's business. (2 marks)
- (b) Entrepreneurs, like Cherry, are important to the business development of Hong Kong. Give two reasons why they are important. (2 marks)

The following information for the quarter ended 31 March 2022 is extracted from the books of Cherry's business:

Movement of inventory:	<u>kg</u>	<u>List price per kg</u>	<u>Trade discount</u>
		\$	
Purchases	4 000	66.5	
Damaged goods returned to suppliers	200	66.5	
Sales (wholesale)	2 000	180	25%
Sales (retail)	1 100	180	/
Other information:		\$	
Wages and salaries		125 800	
Printing and packaging expenses		10 150	
Discounts given by suppliers for early settlement		9 825	

- (c) Prepare an income statement for the quarter ended 31 March 2022. (6 marks)

(Total: 10 marks)

END OF PAPER