

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 rich in natural resources and is self-sufficient.
 - (2) Most of the goods imported into Hong Kong come from the Mainland.
 - (3) Hong Kong government does not impose sales tax on the retailing of goods.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
2. Which of the following statements about authority and responsibility is/are correct?
- (1) Delegation is the assigning of authority and responsibility to the subordinates.
 - (2) Front-line managers require authority to carry out their responsibilities.
 - (3) Managers with a wider span of control possess more authority.
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
3. Which of the following is/are major function(s) of accounting?
- (1) classifying transactions according to their profitability
 - (2) communicating the financial performance of the business to the stakeholders
 - (3) summarising all information of the business for users' decision-making
- A. (1) only
 - B. (2) only
 - C. (1) and (2) only
 - D. (2) and (3) only
4. A bank offers an investment plan which requires an initial deposit of \$180 000. An investor can get a \$2 000 cash rebate upon joining the plan. Cash inflows of \$70 000 and \$150 000 will be generated at the beginning of Year 2 and Year 3 respectively. What is the net present value of the investment plan if the discount rate is 5% per annum?
- A. \$14 973
 - B. \$22 721
 - C. \$24 721
 - D. \$31 429
5. Which of the following is the flow of the accounting cycle?
- (1) Make period-end adjustments
 - (2) Prepare financial statements
 - (3) Record transactions in the books of original entry
 - (4) Prepare a trial balance
 - (5) Post entries to the ledger accounts
- A. (3) → (5) → (4) → (1) → (2)
 - B. (3) → (5) → (1) → (4) → (2)
 - C. (5) → (1) → (3) → (2) → (4)
 - D. (5) → (3) → (1) → (4) → (2)

6. Ken is the owner of a sole proprietorship. Recently, he has decided to turn the firm into a private limited company. Which of the following is/are possible reason(s) for the change?
- (1) The company is a separate legal entity.
 - (2) There is no limit to the number of shareholders of the company.
 - (3) The company is not required to disclose its financial statements to the public.
- A. (1) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
7. Which of the following transactions will reduce the net profit of a firm?
- (1) Repaid trade payables by cheque.
 - (2) Bought stationery for office use.
 - (3) Returned goods to suppliers.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
8. Compared to an autocratic leadership, which of the following is/are advantage(s) of adopting democratic leadership in an organisation?
- (1) It increases efficiency in making decisions.
 - (2) It facilitates communication between superiors and subordinates.
 - (3) It induces subordinates' work initiative.
- A. (1) only
 - B. (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
9. Which of the following statements about credit cards is/are correct?
- (1) The issuing bank can check the personal credit record of an applicant before approving the credit card application.
 - (2) Collateral is required when applying for a credit card.
 - (3) The annual fee is waived if the cardholder settles the monthly credit card balance punctually.
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1) and (3) only
10. Which of the following transactions will lead to the same effect to the assets and capital in the accounting equation?
- (1) Received rental income by cheque.
 - (2) Repaid a bank loan by the owner's personal cheque.
 - (3) Paid expenses for the current month in cash.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)

11. Jeff and Simon are partners of a trading firm. If Simon is a limited partner, which of the following statements about the partnership is/are correct?
- (1) If Jeff withdraws from the partnership, then the firm will be closed down.
 - (2) Simon does not participate in the management of the partnership.
 - (3) The maximum loss of both partners is the amount they invested in the partnership.
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
12. Ignoring other factors, which of the following will lead to an increase in the share price of a listed company selling electric vehicles?
- (1) More electric charging stations are available.
 - (2) The government announces the first registration tax concession arrangement for electric vehicles.
 - (3) A technology breakthrough which enhances the energy efficiency of electric vehicles.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
13. Which of the following statements about 'unity of direction' is/are correct?
- (1) It helps build up team spirit.
 - (2) It avoids conflicting instructions given by two superiors.
 - (3) It involves extra administrative work as managers need to conduct a periodic review of work progress of their subordinates.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
14. Which of the following transactions could enhance the liquidity of a firm?
- (1) The owner introduces cash into the firm.
 - (2) The firm obtains cash by bank overdraft.
 - (3) The firm takes out a five-year bank loan to repay trade payables.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
15. Which of the following statements about the rights and responsibilities of an investor is/are correct?
- (1) The responsibility to understand the terms of an investment contract before signing it.
 - (2) The right to decide whether to follow a broker's investment recommendations.
 - (3) The right to claim compensation if there are frequent losses in the investment.
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

16. Which of the following is a benefit brought about by the 'Closer Economic Partnership Arrangement' (CEPA) to Hong Kong?
- No tariffs are imposed on goods imported from the Mainland to Hong Kong.
 - There is a free flow of labour between the Mainland and Hong Kong.
 - Hong Kong service suppliers enjoy preferential treatment when setting up business in the Southeast Asian countries.
 - Hong Kong professionals may enter the Mainland market by taking the Mainland professional qualification examinations.
17. A firm signed a contract to rent an office at a monthly rental of \$10 000 starting from 1 August 2022. The firm paid the rent for the first six months on the first day of the rental period.
- According to the _____ (1) _____, the rental expenses for the year ended 31 December 2022 amounted to _____ (2) _____.
- | | (1) | (2) |
|----|--------------------------|----------|
| A. | accrual concept | \$50 000 |
| B. | accrual concept | \$60 000 |
| C. | going concern assumption | \$50 000 |
| D. | going concern assumption | \$60 000 |
18. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong is/are correct?
- They provide complementary services and support to large enterprises.
 - They serve narrow markets which are not covered by large enterprises.
 - More than 90% of businesses in Hong Kong are SMEs.
- (1) only
 - (1) and (2) only
 - (2) and (3) only
 - (1), (2) and (3)
19. Which of the following persons is **not** required to make contributions to the Mandatory Provident Fund?
- An 18-year-old DSE candidate with a monthly income of \$9 000 for 3 months from a summer job in a fast food restaurant.
 - A 35-year-old part-time office clerk with a monthly income of \$7 000.
 - A 63-year-old full-time shopping mall cleaner with a monthly income of \$8 500.
 - A 40-year-old self-employed basketball coach with a monthly income of \$18 000.
20. Chan's Computer issued the following invoice to a customer on 3 April 2023. The customer settled the debt by cheque on 20 April 2023.

Chan's Computer			
Invoice			
Date: 3 April 2023			
<u>Description</u>	<u>Quantity</u>	<u>Unit price (\$)</u>	<u>Amount (\$)</u>
Web camera	3	600	1 800
Printer	4	2 100	8 400
			10 200
		Trade discount	500
		Total	9 700
<i>To be paid within 30 days. 10% discount if paid within 15 days.</i>			

From the perspective of Chan's Computer, which of the following accounting entries relating to the above transactions is correct?

- The sales account should be credited by \$10 200.
- The discounts allowed account should be debited by \$970.
- A trade discount of \$500 should be credited to the trade receivables account.
- The bank account should be debited by \$9 700.

21. Which of the following statements about multinational corporations in Hong Kong is/are correct?
- (1) They also operate in other country/countries. ✓
 - (2) There must be employees recruited from overseas in their Hong Kong office.
 - (3) They can be joint ventures.
- A. (1) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

22. Which of the following statements about the contribution of entrepreneurs is/are correct?
- (1) help implement government economic policies
 - (2) help promote economic growth
 - (3) widen the variety of products in the market
- A. (1) only
 - B. (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

23. The following is the information related to a firm for the year ended 31 March 2023:

	\$
Capital account balance, 1 April 2022	270 000
Gross profit for the year	7 500
Cash injection by the owner	20 000
Drawings	9 000
Net loss for the year	84 000

What is the balance of the capital account as at 31 March 2023?

- A. \$157 000
 - B. \$197 000
 - C. \$204 500
 - D. \$207 500
24. Mary has made a 1-year term deposit for \$100 000 at an annual interest rate of 4%. Which of the following statements about this term deposit is/are correct?
- (1) The annual effective interest rate is same as the annual nominal interest rate.
 - (2) If the market interest rate increases six months later, the interest rate of the deposit will increase.
 - (3) If Mary withdraws the money three months after making the deposit, she will get an interest income of \$1 000.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
25. A firm was established on 1 January 2022. Calculate the amount of purchases for 2022 based on the following information:

Sales for 2022	\$1 200 000
Inventory as at 31 December 2022	\$115 000
Gross profit ratio for 2022	40%

- A. \$365 000
- B. \$595 000
- C. \$605 000
- D. \$835 000

26. Which of the following is **not** a basic listing requirement of the Main Board of the Stock Exchange of Hong Kong?

A. market capitalisation
 B. the qualification of the Chief Executive Officer
 C. operating history
 D. cash flow

27. Which of the following is/are example(s) of a supermarket fulfilling its social responsibilities?

(1) Offering consumption reward schemes to customers.
 (2) Reducing packaging for goods.
 (3) Providing free food coupons to senior citizens.

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

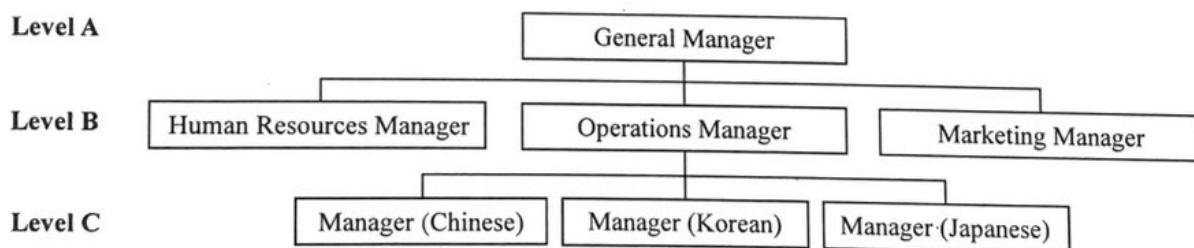
28. Which of the following double entries of a garment trading firm is correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
A.	A customer returned goods which were purchased in cash two weeks ago.	Sales	Cash
B.	The firm paid a delivery charge for goods purchased.	Carriage inwards	Purchases
C.	The firm sold an office computer on credit.	Accounts receivables	Sales
D.	The firm bought ink for office printers in cash.	Sundry expenses	Cash

29. Which of the following statements about a bondholder of a company is correct?

- A. A bondholder has voting rights in the annual general meeting of the company.
 B. A bondholder has the right to share the profits of the company.
 C. If the company is liquidated, a bondholder can get back the principal after the company has repaid the shareholders' investment.
 D. A bondholder receives periodic fixed interest even when the company makes a loss.

30. Yummy Group is a local restaurant chain which offers Chinese cuisine, Korean cuisine and Japanese cuisine to customers in different restaurants. Its organisation chart is shown as below:



The Human Resources Manager has (1) authority over the Operations Manager.

Level C is departmentalised by (2).

- A. (1) staff (2) product
 B. staff location
 C. line product
 D. line location

END OF SECTION A

SECTION B (30 marks)

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

1. Cheerful Dance Studio is a dance school established in Korea specialising in teaching K-pop dance. To reap the benefits of globalisation, it is planning to enter the Hong Kong market by setting up branch schools in the form of franchising. The following advertisement is posted on a website to invite franchisees:

<p>Cheerful Dance Studio <i>Come and join our franchise!</i></p> <ul style="list-style-type: none">◇ We have more than ten years' experience in dance teaching.◇ We provide a wide range of support: dance instructors, promotion strategies, operations...◇ Franchise fee: \$200 000 per year◇ Contract term: Five years

- (a) Explain two problems that may arise if Cheerful Dance Studio sets up its branch schools by franchising. (4 marks)
- (b) Explain one cultural factor that Cheerful Dance Studio should consider when setting up its branch schools in Hong Kong. (2 marks)
- (c) Explain one benefit brought about by globalisation to Cheerful Dance Studio. (2 marks)
2. Ray set up his trading firm on 16 April 2023. He brought office equipment \$20 000 and cash \$10 000 into the firm. During the first two weeks of operations, there were only two transactions as follows:
- | | |
|----------|--|
| April 17 | Bought goods for \$8 000 in cash. |
| April 28 | Received \$1 000 cash refund for goods returned to the supplier. |
- (a) Prepare the cash account and balance off the account as at 30 April 2023. (2 marks)
- (b) Prepare a trial balance as at 30 April 2023. (3 marks)
- (c) State the major function of the trial balance. (1 mark)

3. A firm produces packaged dumplings. Below is an extract of the minutes of a monthly meeting:

Review of last quarter's production data:

- The general manager pointed out that the actual total output of last quarter was significantly lower than expected.
- The production manager responded: To increase productivity, the production department started assigning workers to different teams last week. Each team is only responsible for one particular production task.

- (a) (i) Which management function was performed by the managers in the above scenario?
(1 mark)
- (ii) With reference to the management function in (a)(i), state the respective step taken by the general manager and the production manager.
(2 marks)
- (b) (i) Identify the principle of effective management adopted by the production manager.
(1 mark)
- (ii) List two reasons why the principle of effective management in (b)(i) could increase productivity.
(2 marks)

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

4. Henry's firm produces bottled juices and sells them via online channels. The following is the financial information related to the firm for the year ended 31 December 2022:

	\$
Sales	567 000
Gross profit	350 000
Net profit	285 000
Returns inwards	18 000
Opening balance of capital account	790 000
Closing balance of capital account	850 000

- (a) Calculate the following ratios for 2022 (to two decimal places):
- (i) net profit ratio (2 marks)
 - (ii) return on capital employed (2 marks)
- (b) Explain one use of the statement of financial position of Henry's firm for its suppliers. (2 marks)

Henry's firm received a report that a high bacteria level was found in its bottled juices. Henry decided to recall the bottled juices and offer refunds to the customers. He urged the Operations Department to find ways to deal with this problem.

- (c) With reference to the functions of the Operations Department, explain two ways that Henry's firm could deal with the above problem. (4 marks)

(Total: 10 marks)

5. Kelly is the sole owner of a firm providing real estate agency services, which was established on 1 January 2021. The firm specialises in leasing private car parking space. The following are all the account balances of the firm as at 31 December 2022:

	\$
Agency commission revenue	306 040
Office equipment	49 920
Bank overdraft	14 630
Agent salaries	224 890
Bank loan (repayable in July 2023)	29 080
Capital, 1 January 2022	2 990
Administrative expenses	19 430
Drawings	5 000
Cash	53 500

- (a) Prepare an income statement for the year ended 31 December 2022. (2 marks)
- (b) Prepare a statement of financial position as at 31 December 2022. (4 marks)

Kelly is considering buying a parking space for her own car, but she does not have enough cash. She is thinking of borrowing \$500 000 by a personal loan or a bank overdraft. Her friend advises her to take out a personal loan.

- (c) Give two reasons why Kelly should borrow \$500 000 by a personal loan rather than a bank overdraft. (4 marks)

(Total: 10 marks)

END OF PAPER