

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

PRACTICE PAPER
BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

(1 hour 30 minutes)

This paper must be answered in English

GENERAL INSTRUCTIONS

- (1) There are TWO sections, A and B, in this Paper.
- (2) Section A consists of multiple-choice questions in this question paper. Section B contains short 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.**

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)

1. Mike wants to set up a yoghurt shop in Mongkok. Which of the following factors is he considering if he conducts a survey on the tastes and preferences of his target customers?
 - A. technological factors
 - B. physical factors
 - C. economic factors
 - D. social and cultural factors

2. Effective management can
 - (1) improve staff morale.
 - (2) guarantee company profits.
 - (3) enhance operational efficiency.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

3. Arrange the following procedures of Management by Objectives.
 - (1) formulate the action plan
 - (2) evaluate the result of the action plan
 - (3) set objectives for the action plan
 - (4) implement the action plan
 - A. (1) 、 (2) 、 (3) 、 (4)
 - B. (1) 、 (4) 、 (3) 、 (2)
 - C. (3) 、 (1) 、 (4) 、 (2)
 - D. (3) 、 (2) 、 (1) 、 (4)

4. For products traded on the Hong Kong Exchanges and Clearing Limited, if an investor suffers financial losses on investment due to default of an authorised intermediary, from which of the following institutions should a remedy be sought?
 - A. Investor Compensation Company Limited
 - B. Hong Kong Deposit Protection Board
 - C. Hong Kong Exchanges and Clearing Limited
 - D. Securities and Futures Commission

5. Rank the following competences that a top manager should possess in descending order according to importance.
 - (1) job-relevant knowledge
 - (2) ability to create a vision and solve problems
 - (3) ability to communicate with others
 - A. (1) 、 (2) 、 (3)
 - B. (2) 、 (3) 、 (1)
 - C. (1) 、 (3) 、 (2)
 - D. (3) 、 (2) 、 (1)

6. Which of the following double entries are correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	goods purchased in cash	<i>Purchases</i>	<i>Cash</i>
(2)	goods returned by a customer	<i>Returns inwards</i>	<i>Trade payables</i>
(3)	cash deposited into the bank account	<i>Bank</i>	<i>Cash</i>
(4)	inventories withdrawn for owner's private use	<i>Drawings</i>	<i>Capital</i>

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

7. Which of the following is least useful for promoting corporate governance?

- A. develop a code of ethics for managers and employees
- B. appoint professionals with high academic qualification as directors
- C. set up an internal audit committee
- D. ensure an appropriate mix of executive directors and non-executive directors

8. A well-planned personal budget can help to avoid

- (1) overspending.
- (2) misuse of consumer credit.
- (3) losses in stock investments.

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

9. Which of the following transactions would have the same effect on the balances of asset and liability of a firm?

- A. receiving a cheque of \$1200 from a customer
- B. receiving a loan of \$2500 in cash, of which \$500 is used to pay rent on the proprietor's residence
- C. paying office expenses of \$2000 in cash
- D. buying office equipment for \$1000 and paying the vendor 3 months later

10. Which of the following accounting concepts cannot be applied in the situation listed to its right?

	<u>Accounting concept</u>	<u>Situation</u>
A.	<i>Historical cost</i>	The market price of an asset is not shown on the statement of financial position.
B.	<i>Business entity</i>	The vehicle used by the owner and his family is not recorded as an asset of his firm.
C.	<i>Consistency</i>	The same method is used to record the same type of transaction in different companies.
D.	<i>Accrual</i>	The expenses prepaid in the previous year have been recorded in the financial statements of the current year.

11. _____ is / are a set of principles, values and beliefs, which govern business behaviour, decisions or actions that conforms to generally accepted norms.
- A. Business ethics
 - B. Social responsibility
 - C. Company law
 - D. Accounting principles
12. Workers in which of the following industries are required to join the Mandatory Provident Fund scheme even when their working period is less than 60 days?
- (1) retailing
 - (2) catering
 - (3) construction
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

Based on the following information, answer Questions 13 to 14:

Ms Cheung is working in a long-established grocery store. She plans to resign to establish her own grocery store. Mr Sze, aged 62, is the employer of Ms Cheung. He wants to retire and invites Ms Cheung to take over his store.

13. In the life-cycle context, which of the following is the major financial need of retired people, such as Mr Sze?
- A. create and accumulate wealth
 - B. insure on earning ability
 - C. arrange for children's educational fees
 - D. plan for medical expenses
14. Compared with establishing a new store, which of the following is the benefit to Ms Cheung of taking over Mr Sze's store?
- A. enjoy economies of scale
 - B. acquire existing customer source
 - C. lower operational costs
 - D. lower initial investment
15. The planning process includes
- (1) deciding the objectives of the enterprise.
 - (2) maximising the profitability of the enterprise.
 - (3) completing different tasks in order to achieve the objectives of the enterprise.
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

16. Which of the following are the roles of small and medium enterprises in Hong Kong's economy?
- (1) create employment
 - (2) widen the variety of products offered
 - (3) promote competition
- 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 / are the benefit(s) of buying a company's ordinary shares over buying its debentures?
- (1) avoid total loss of investment
 - (2) have voting rights in the annual general meeting
 - (3) guarantee higher returns
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
18. Which of the following are performance indicators for property agents?
- (1) number of customer complaints
 - (2) volume of transactions
 - (3) appreciation of property values
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
19. Rank the following investment instruments in descending order according to the level of risk to investors who would like to have a stable return.
- (1) government bonds
 - (2) warrants of a public utility
 - (3) shares of a listed company
- A. (1) 、 (3) 、 (2)
 - B. (2) 、 (3) 、 (1)
 - C. (3) 、 (1) 、 (2)
 - D. (3) 、 (2) 、 (1)
20. Which of the following descriptions of business ownership is correct?
- A. A limited company distributes dividends to ordinary shareholders before preference shareholders.
 - B. A franchise is formed by two or more business entities to develop, produce or sell products.
 - C. A sole proprietorship does not have a separate legal entity status.
 - D. Public enterprises are wholly owned by large multinational corporations to provide essential goods and services to the public.

21. Which of the following are functions of insurance in businesses?
- (1) reduce operational risks of businesses
 - (2) help businesses to transfer risks
 - (3) provide source of capital for businesses
- 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 statements is correct?
- A. Trade discounts are recorded as discounts allowed in the books.
 - B. Cash discounts are enjoyed when a large quantity of goods is purchased.
 - C. Cash discounts are given to encourage customers to settle debt within the credit period.
 - D. Trade discounts are not entered in the sales journal.
23. The main function of the _____ is to provide financial and technical assistance to developing countries.
- A. World Trade Organisation
 - B. International Monetary Fund
 - C. World Bank
 - D. Asia-Pacific Economic Cooperation
24. A bookshop plans to hire sales assistants. Which of the following management functions contribute to deciding their salary?
- (1) human resources management
 - (2) financial management
 - (3) information management
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
25. The Board of Directors announces a new company policy to its employees by email. This is an example of
- A. formal and one-way communication.
 - B. formal and two-way communication.
 - C. informal and one-way communication.
 - D. informal and two-way communication.
26. Which of the following is the difference between small and medium enterprises (SMEs) and multinational corporations (MNCs) in Hong Kong?
- A. SMEs have limited sources of financing while MNCs have more sources of financing.
 - B. SMEs operate locally while MNCs operate beyond their national boundaries.
 - C. SMEs are reluctant to respond to market change while MNCs are responsive to market change.
 - D. SMEs are capital intensive and use relatively simple technology while MNCs are labour intensive and use relatively high technology.

27. Which of the following is not a necessary characteristic of entrepreneurs?
- A. ready to receive innovative ideas
 - B. possess good academic qualifications
 - C. persist in order to actualise goals
 - D. ambitious to initiate change

Based on the following information, answer Questions 28 and 29:

The following are the account balances of Lily Ltd as at 31 December 2011:

	\$
Sales	20 000
Purchases	8 000
Discounts allowed	400
Discounts received	1 200
Rental income	1 600
Electricity expenses	3 700
Cash and bank	3 000
Accounts receivables	2 900
Accounts payables	4 000
Office equipment	15 000
Inventory (1 January 2011)	3 500
Capital (1 January 2011)	?

Inventory as at 31 December 2011 amounted to \$4200.

28. The amount of capital of Lily Ltd as at 1 January 2011 is:
- A. \$8 300
 - B. \$9 700
 - C. \$19 800
 - D. \$33 700
29. The gross profit ratio of Lily Ltd for 2011 is:
- A. 42.5%
 - B. 56.5%
 - C. 60%
 - D. 63.5%
30. The current assets shown in the statement of financial position are arranged in order of
- A. significance, with the most important assets coming first and the least important assets coming last.
 - B. value, with the most valuable assets coming first and the least valuable assets coming last.
 - C. liquidity, with the least liquid assets coming first and the most liquid assets coming last.
 - D. acquisition time, with the earliest acquired assets coming first and the latest acquired assets coming last.

END OF SECTION A

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PRACTICE PAPER
BUSINESS, ACCOUNTING AND FINANCIAL STUDIES
PAPER 1
SECTION B : Question-Answer Book B

This paper must be answered in English.

INSTRUCTIONS

- (1) After the announcement of the start of the examination, you should first write your Candidate Number in the space provided on Page 1.
- (2) Stick barcode labels in the spaces provided on Pages 1 and 3.
- (3) Refer to the general instructions on the cover of the Question Paper for Section A.
- (4) 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 supplied on request. Write your candidate number, mark the question number box and stick a barcode label on each sheet, and fasten them with string **INSIDE** this book.
- (7) No extra time will be given to candidates for sticking on the barcode labels or filling in the question number boxes after the 'Time is up' announcement.

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Please stick the barcode label here.

Candidate Number



SECTION B (40 marks)

1. A business should be responsible to various stakeholders. List three types of stakeholders in a construction company and explain how the company can fulfill its social responsibilities to each of them. (6 marks)

2. Glassy Ltd and Pearl Ltd are competitors in the same industry. Based on the following information, comment on the liquidity of Glassy Ltd in 2011. (6 marks)

	Glassy Ltd	Pearl Ltd	Industrial Average
Current ratio	2.8:1	2.0:1	1.9:1
Quick ratio	1.0:1	1.1:1	1.0:1

Answers written in the margins will not be marked.

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Answers written in the margins will not be marked.

Please stick the barcode label here.

3. Ms Li is considering purchasing a mobile phone at a price of \$4800, using instalment plan. The following instalment plans are available:

Plan A: 12-month interest-free instalments with a handling fee of 5% on the price of the mobile phone. The handling fee is spread equally over the instalment period and payable at the end of each month with the instalment.

Plan B: 12-month equal instalments with an interest of 1% per month on the outstanding principal payable at the end of each month. (The present value of an annuity of \$1 for 12 periods is 11.255.)

(a) Calculate (to two decimal places) the respective amount of monthly instalment to be paid under Plan A and Plan B. Show your workings. (4 marks)

(b) Which instalment plan should Ms Li adopt? Explain. (2 marks)

Answers written in the margins will not be marked.

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4. Mr Lam plans to use all of his savings to buy 'third-liners' listed on the Growth Enterprise Market. His friend suggests him to diversify risk by switching some of his investment to 'blue-chips' listed on the Main Board.

(a) Give two differences between 'third-liners' and 'blue-chips' from the investors' perspective. (4 marks)

(b) Which type of financial risk cannot be avoided even if Mr Lam shifts part of his investment to 'blue-chips'? Explain. (2 marks)

5. (a) Give two reasons why businesses have to prepare financial statements. (2 marks)

Answers written in the margins will not be marked.

5. (b) Mr Cheung has a retailing firm. He knows little about book-keeping and has trouble preparing the financial statements for the firm. Based on the following information, prepare for his business the income statement for the year ended 31 December 2011. (6 marks)

	\$
Rent and rates	22 000
Salaries	31 000
Inventory (1 January 2011)	45 000
Inventory (31 December 2011)	38 000
Sales	188 000
Purchases	92 100
Returns inwards	5 500
Returns outwards	4 400
Carriage outwards	1 900
Discounts allowed	2 700

Answers written in the margins will not be marked.

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6. Ms Lo owns three small boutiques. In order to enhance the operations and internal communication of her company, she seeks advice from a management consultant. The consultant recommends Ms Lo to adopt a 'flat-type' organisational structure and use electronic means of communication to improve the situation.

(a) Compare the difference between a 'tall-type' and a 'flat-type' organisational structure in terms of

(1) organisational layers (1 mark)

(2) span of control (1 mark)

(b) Give two reasons why Ms Lo should adopt a 'flat-type' organisational structure. (4 marks)

(c) List two advantages of using electronic means of communication in the internal communication of the boutiques. (2 marks)

END OF PAPER

Answers written in the margins will not be marked.