

## 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.

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### 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. Ken and Tracy plan to establish and operate a restaurant together, in which the withdrawal of either side would not lead to its closure. Which form of business ownership should they adopt?

- A. partnership
- B. public corporation
- C. private limited company
- D. listed company

2. What is the importance of management to a business?

- (1) optimise utilisation of organisational resources
- (2) establish sound organisational structure
- (3) achieve organisational goals effectively

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

3. Which of the following descriptions of 'debit' and 'credit' in accounting is/are correct?

- (1) 'Debit' means an increase and 'credit' means a decrease in the amount of an account
- (2) 'Debit' side refers to the left-hand side and 'credit' side refers to the right-hand side of an account.
- (3) 'Debit' balance is positive and 'credit' balance is negative.

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

4. Which of the following descriptions of the Hang Seng Index is/are correct?

- (1) 'Utilities' is a sub-index of the Hang Seng Index.
- (2) It indicates the dividend policies of the companies of the constituent stocks.
- (3) It is a platform for businesses to raise capital.

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

5. Which of the following effects on the assets, capital and liabilities brought about by the respective transaction is correct?

	Transaction	Asset	Capital	Liability
A.	Owner injected his own motor van to the firm.	increases	increases	increases
B.	Received cash from a customer as settlement of his account.	increases	unchanged	decreases
C.	Owner repaid a bank loan for the firm by his personal cheque.	unchanged	increases	decreases
D.	Paid rent of the firm for the current month in cash.	decreases	unchanged	decreases

6. Which of the following descriptions of a SMART goal are correct?

- (1) It should be quantified.
  - (2) There should be an expected completion time.
  - (3) The methods of achieving the goal should be stated clearly.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

7.

There are different departments in a company. One of the goals of the company is to improve the service quality of its salespersons. For this reason, the human resources manager of the company assigned her subordinate, Tim, to design training programmes for the salespersons. Tim reports to the human resources manager only. Which of the following principles of effective management are illustrated in this scenario?

- (1) Unity of direction
  - (2) Unity of command
  - (3) Division of work
- (1) and (2) only
  - (1) and (3) only
  - (2) and (3) only
  - (1), (2) and (3)

8. The following information is related to an investment project:

Initial cost: \$15 000

Discount rate: 10%

Investment period: 3 years

The project will generate cash flows of \$6 000 at the end of both Year 1 and Year 2. If the cash flow at the end of Year 3 is \_\_\_\_\_, the net present value of the project is close to zero.

- A. 4 587
- B. 5 083
- C. 6 105
- D. 7 965

9. A firm's current ratio is 1.8:1 and the acid-test ratio is 0.9:1. Which of the following statements is correct?

- A. The amount of working capital of the firm is negative.
- B. Half of the current assets of the firm are inventory.
- C. The liquidity and profitability of the firm are poor.
- D. The firm has sufficient liquid assets to settle its current liabilities.

10.

Which of the following is/are feature(s) of Hong Kong's economy?

- (1) Most businesses in Hong Kong are small and medium enterprises.
  - (2) Hong Kong is a net exporter of raw materials.
  - (3) Hong Kong does not maintain trade barriers on imports.
- (1) only
  - (2) only
  - (1) and (3) only
  - (2) and (3) only

11. Which of the following is/are limitation(s) of using financial statements?
- (1) The financial statements mainly record past transactions, which may not reflect the future.  
(2) The inter-period comparison of the firm's performance is difficult as the assets in financial statements are generally reported at their market values, which fluctuate over time.  
(3) It is difficult to compare the performance of different firms in the same industry as different firms would adopt different accounting methods.
- A. (1) only  
B. (2) only  
C. (1) and (3) only  
D. (1), (2) and (3)
12. A bank has the following departments: deposit, loan, credit card, investment and personal financial planning. Under the personal financial planning department, there are Hong Kong Island, Kowloon and New Territories divisions. State the forms of departmentalisation adopted by the bank.
- (1) by product  
(2) by function  
(3) by location
- 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 descriptions of the flow of the accounting cycle is/are correct?
- (1) Right after the posting of entries to ledgers, period-end adjustments are made.  
(2) Right after the preparation of trial balance, financial statements are prepared.  
(3) Right after the confirmation of business transactions, books of original entry are recorded.
- A. (1) only  
B. (3) only  
C. (1) and (2) only  
D. (2) and (3) only
14. A trading firm earned an interest income of \$8 000. How will the firm's gross profit and net profit for the year be affected?
- |    | <u>Gross profit</u> | <u>Net profit</u> |
|----|---------------------|-------------------|
| A. | unchanged           | increases         |
| B. | increases           | unchanged         |
| C. | unchanged           | unchanged         |
| D. | increases           | increases         |
15. Ignore other factors, which of the following will lead to a decrease in the share price of a listed airline company?
- (1) a rise in interest rate  
(2) a rise in fuel price  
(3) the airline company issued a profit warning
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

16. The following are the differences in characteristics of two partners in a partnership:

	<u>Partner A</u>	<u>Partner B</u>
bearing of liabilities	<u>not required</u>	<u>required</u>
introduction of capital	<u>not required</u>	<u>required</u>
involvement in daily operations	<u>not required</u>	<u>not required</u>

Partner A is a (1) partner, while Partner B is a (2) partner.

- |    | (1)     | (2)     |
|----|---------|---------|
| A. | nominal | limited |
| B. | nominal | general |
| C. | general | limited |
| D. | limited | nominal |

17. Which of the following statements about authority and responsibility are correct?

- (1) For a job position, responsibility should be balanced with authority.  
(2) Authority and responsibility of managers increase progressively from low-level to top-level.  
(3) Delegation is the assigning of authority and responsibility of work from the superior to the subordinates.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

18. Which of the following transactions should be recorded in the purchases account of a supermarket?

- (1) purchased a freezer for storing ice-cream  
(2) owner took some canned food from the warehouse for his family use  
(3) received a discount from a supplier for bulk purchase of goods
- A. (1) only  
B. (2) only  
C. (2) and (3) only  
D. (1), (2) and (3)

19. Which of the following are the rights of an investor in debentures?

- (1) can lodge a complaint if there is a misconduct by the investment agent  
(2) can ask for the rationale behind an investment recommendation  
(3) can cancel the investment transaction in the cooling off period
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

20. Jeffery is the owner of two firms. For the sake of convenience, he records all the purchases of the two firms in the same book. Which of the following accounting assumptions, principles or conventions has been violated in this case?

- A. Accrual  
B. Historical cost  
C. Going concern  
D. Business entity

21. Which of the following statements is not correct?

- A. The human resources department recruits an accounting clerk according to the requirements set by the finance department.
- B. The information management department uses data collected by the marketing department to set the product price.
- C. The risk management department assesses the risks of using tools and machinery for the operations department.
- D. The finance department obtains a loan for the operations department to expand production capacity.

22. Which of the following companies does not fulfill its social responsibility towards its stakeholders?

- A. A company adopts a strict credit policy for its customers.
- B. A company does not distribute dividend to ordinary shareholders.
- C. A company charges a higher price than its competitors selling the same type of product.
- D. A company does not provide training and development opportunities for its employees.

23. The following balances as at 31 December 2019 were extracted from the accounts of a firm:

	\$
Inventory	17 500
Bank	27 000
Trade payables	30 800
Trade receivables	16 400
Short term loan to employees	8 000
Bank loan (repayable in 2022)	13 000

What is the liquid ratio of the firm?

- 1.12:1
- 1.57:1
- 1.67:1
- 2.24:1

24. Which of the following are the benefits brought about by globalisation to Hong Kong businesses?

- (1) more sources of capital
  - (2) introduction of new technology
  - (3) lower production cost
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

25. Which of the following statements about the Mandatory Provident Fund (MPF) System is/are correct?

- (1) Employees can transfer the accrued benefits in their contribution accounts to an MPF scheme of their own choice once a year.
  - (2) Self-employed hawkers are not required to join an MPF scheme.
  - (3) If the income of an employee is below the minimum relevant income level, both the employee and the employer are not required to make mandatory contributions.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

26. The number of staff in Firm A and Firm B are the same. Firm A has a flat organisational structure while Firm B has a tall organisational structure. Which of the following statements is/are correct?

- (1) Firm A is more responsive to market changes.
- (2) There are more levels of management in Firm A.
- (3) There are more managers in Firm A.

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

27. Which of the following statements about multinational corporations is/are correct?

- (1) Multinational corporations are public limited companies.
- (2) Multinational corporations operate in different countries.
- (3) A local company becomes a multinational corporation by raising capital in other countries.

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

28. Which of the following descriptions of the Main Board and GEM (previously known as Growth Enterprise Market) are correct?

- (1) More companies are listed on the Main Board than on GEM.
- (2) 'Management continuity for at least the three preceding financial years' is one of the basic listing requirements for applicants to list on the Main Board.
- (3) The Main Board was set up for large and established companies.

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

29. Under which of the following circumstances should laissez-faire leadership be adopted by a superior?

- (1) the work requires a high level of creativity
- (2) subordinates are young and energetic
- (3) superior-subordinate relationship is good

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

30. On 8 April, Tin Ming purchased goods for \$60 000 on credit from Walter with a trade discount of 2%. Another 3% discount would be received by Tin Ming if settlement was made within 10 days. If Tin Ming makes the settlement on 21 April, he has to repay \_\_\_\_\_.

- A. \$57 036
- B. \$58 200
- C. \$58 800
- D. \$60 000

END OF SECTION A

## SECTION B (30 marks)

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

1. High-Tech Company is a small and medium enterprise (SME), which specialises in developing data processing systems for businesses in Hong Kong. At the commencement of each quarter, the project manager and the programmers discuss and decide on the work plan of the quarter. Throughout the quarter, they review the work progress regularly and identify the difficulties encountered. Support is provided to the programmers based on their feedback.

- (a) Apart from providing job opportunities, state two contributions SMEs make to the economy of Hong Kong. (2 marks)
- (b) (i) State the principle of effective management adopted by High-Tech Company in the above scenario. (1 mark)
- (ii) Explain two advantages for High-Tech Company of adopting the principle of effective management in (b)(i) above. (4 marks)

① Integrity.  
② Commitment.

2. To finance the expansion of the business, Chan's firm is applying for a bank loan. The bank requested Chan's firm to submit its financial statements of the past three years for its consideration.

- (a) Explain how the bank will use the financial statements to decide whether to approve the loan. (2 marks)

Based on the General Manager's suggestion, Chan's firm is considering changing the valuation method of its non-current assets this year.

- (b) State an accounting principle or concept that can be applied to this case, and use this principle or concept to explain whether or not Chan's firm should change the valuation method of its non-current assets. (3 marks)

3. David is 30 years old and single. He is a professional accountant working in an international accounting firm. He has just acquired a residential flat and paid a down payment on the price of the flat. To buy furniture for his new home, he is considering using his credit card, applying for a personal loan or a bank overdraft.

- (a) What is a 'bank overdraft'? (2 marks)
- (b) Suppose David has decided to use a credit card to pay for the furniture. Give two reasons for using his credit card instead of applying for a personal loan. (4 marks)
- (c) List two financial needs that David has in his present life stage. (2 marks)

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

4.

- (A) Warmer is a famous company in Canada, selling thick coats and wool products. It is planning to set up a branch in Hong Kong.

- (a) State one social factor and one physical factor that Warmer should consider when setting up a branch in Hong Kong and explain how each factor might affect its business. (4 marks)

- (B) Wendy set up a firm on 1 March 2020. All the transactions of the firm for its first month of operation have been recorded in the following accounts:

Bank			
2020	\$	2020	
March 1 Capital	10 000	March 2 Rent	4 000
March 16 Sales	3 500	March 5 Equipment	3 000
		March 11 Purchases	2 000
		March 20 Purchases	4 700

  

Equipment		
2020	\$	2020
March 5 Bank	3 000	

  

Rent		
2020	\$	2020
March 2 Bank	4 000	

  

Sales			
2020	\$	2020	
		March 16 Bank	3 500
		March 25 Trade receivables	4 500

  

Purchases		
2020	\$	2020
March 11 Bank	2 000	
March 20 Bank	4 700	

  

Trade receivables		
2020	\$	2020
March 25 Sales	4 500	

  

Capital		
2020	\$	2020
	?	?

- (b) (i) Prepare the capital account and balance off the account as at 31 March 2020. (1 mark)

- (ii) Prepare a trial balance as at 31 March 2020. (5 marks)

(Total: 10 marks)

5.

- (A) Company A and Company B specialise in designing and building large shopping malls in Hong Kong. They plan to set up a new business together to carry out a construction project — building a shopping mall in Causeway Bay. The project will last for five years and the new business will be dissolved upon the completion of the project.

- (a) Identify the form of ownership of the new business to be set up by Company A and Company B. (1 mark)
- (b) Explain one advantage of operating in the form of business ownership in (a) above. (2 marks)
- (c) Explain one difference between a partnership and the form of business ownership in (a) above. (2 marks)

- (B) Lucy has been operating a trading firm since 2017. The following account balances were extracted from the books of the firm as at 31 December 2019:

	\$
Capital, 1 January 2019	100 000
Returns inwards	4 000 ✓
Inventory, 1 January 2019	10 000 ✓
Carriage inwards	8 000 ✓
Machinery	145 000
Purchases	400 000 ✓
Other operating expenses	87 500 ✓
Discounts allowed	9 000 ✓
Carriage outwards	32 000 ✓
Bank	199 000
Returns outwards	4 500 ✓
Sales	790 000 ✓

There was no closing inventory at the end of 2019.

- (d) Prepare an income statement for the year ended 31 December 2019. (5 marks)
- (Total: 10 marks)

**END OF PAPER**