

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 Asia-Pacific Economic Cooperation is/are correct?

- (1) It settles trade disputes in the Asia-Pacific region.
(2) It promotes sustainable economic growth in the Asia-Pacific region.
(3) It encourages cooperation on trade and investment in the Asia-Pacific region through high-level government-to-government dialogues.

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

2. Assume that no account balance is missing from a trial balance. If the total of the debit balances and the total of the credit balances of the trial balance are not equal, it means that _____.

- (1) one or more ledger balance(s) in the trial balance is/are wrong
(2) the statement of financial position will not balance
(3) the net profit in the income statement will be wrong

- 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 statements about the Hang Seng Index is **not** correct?

- A. Its sub-indexes are: Finance, Utilities, Properties, and Commerce and Industry.
B. It measures the performance of the largest and most liquid companies listed in Hong Kong.
C. It includes 50 stocks listed on the Growth Enterprise Market.
D. It serves as a benchmark of the general performance of the Hong Kong stock market.

4. Which of the following statements about business management are correct?

- (1) Under the unity of command principle, each employee only receives orders from one superior.
(2) A tall organisation has more layers than a flat organisation.
(3) Communication between superiors and subordinates can be improved by adopting Management by Objectives.

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

5. In the accounting cycle, which of the following steps comes immediately after the preparation of a trial balance?

- A. preparing financial statements
B. making period-end adjustments
C. posting entries to the ledgers
D. recording transactions in the books of original entry

6. Which of the following statements about the trade relationship between Hong Kong and the Mainland are correct?
- (1) Hong Kong is the largest trading partner of the Mainland.
(2) In terms of the value of goods, the Mainland is the largest re-export destination of Hong Kong.
(3) Many goods originating in Hong Kong exported to the Mainland are tariff-free.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
7. Anna is 62 years old and works as a part-time consultant in a firm, with a monthly salary of \$40 000. Under the Mandatory Provident Fund System, what will be the amount Anna contributes each month?
- A. \$4000
B. \$2000
C. \$1500
D. \$0
8. Which of the following tasks is/are performed by the information management department of a company?
- (1) designing a file storage system for the training records of the human resources department
(2) assisting the marketing department to process market research data
(3) preparing the budget for the finance department
- A. (1) only
B. (1) and (2) only
C. (2) and (3) only
D. (1), (2) and (3)
9. If an account has a debit balance, which of the following statements about the account is correct?
- A. The total amount of the debit side in the account is higher than the total amount of the credit side.
B. The balance carried down appears on the debit side of the account.
C. The balance brought down appears on the right hand side of the account.
D. The account is an asset account.
10. Mr Lee is going to deposit an amount into a savings account with interest of 7% per year, compounded annually. He wants to receive a sum of \$150 000 from the account after 3 years. How much should he put into the savings account now?
- A. \$120 654
B. \$122 445
C. \$131 016
D. \$183 756

11. Compared to a sole proprietorship, which of the following is/are the advantage(s) of a limited company?

- (1) the business will not be closed upon withdrawal or death of the owner(s)
- (2) the setup cost is lower
- (3) the profits tax rate is lower

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

12. Chan Kee and Yip Kee are trading firms in the same industry. Their gross profit ratios and net profit ratios for the year 2016 are shown below:

	Chan Kee	Yip Kee
Gross profit ratio	39%	45%
Net profit ratio	24%	20%

Based on the above ratios, which of the following can be concluded?

- A. Yip Kee has a higher sales amount.
- B. Yip Kee has a higher cost of goods sold.
- C. Chan Kee has a higher net profit.
- D. Chan Kee has better control over operating expenses.

13. If the nominal rate of return remains unchanged, which of the following statements about the effective rate of return are correct?

- (1) Effective rate of return reflects the actual return on an investment.
- (2) Effective rate of return will be higher if the amount of the principal increases.
- (3) Effective rate of return will be higher if the frequency of compounding increases.

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

14. Which of the following illustrate the importance of entrepreneurship in business development?

- (1) reduce business risks
- (2) promote economic growth
- (3) encourage innovation

- 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 is not a use of financial statements?

- A. assist different users in making decisions
- B. provide information about the financial position of a business
- C. provide information to employees for assessing their job security
- D. provide qualitative information regarding the performance of a business

16. Which of the following is/are physical factor(s) that might affect businesses in Hong Kong?

- (1) climatic condition
- (2) air quality
- (3) population structure

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

17. The following are the basic listing requirements for new applicants to list their stocks on the Main Board of the Stock Exchange of Hong Kong except _____.

- A. size of workforce
- B. amount of cash flow
- C. history of operation
- D. profit attributable to shareholders

18. From the point of view of a franchisor, which of the following is/are the shortcoming(s) of running a business in the form of franchising?

- (1) Franchisee may set up his own business to become a competitor.
 - (2) It is difficult to wholly control the operation style of franchisee(s).
 - (3) If a franchisee manages his business poorly, the reputation of the whole franchise business will be affected.
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

19. Mr Wong set up a firm on 1 January 2017. He introduced his motor van of \$40 000 into the firm. The firm borrowed \$200 000 from Mr Wong's relatives to purchase office equipment and \$100 000 from bank for the business operation.

What are the amounts of the firm's assets, liabilities and capital on 1 January 2017?

	<u>Assets</u> \$	<u>Liabilities</u> \$	<u>Capital</u> \$
A.	240 000	200 000	40 000
B.	40 000	300 000	340 000
C.	340 000	100 000	240 000
D.	340 000	300 000	40 000

20. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong are correct?

- (1) The majority of businesses in Hong Kong are SMEs.
 - (2) The forms of business ownership of SMEs are either sole proprietorship or partnership.
 - (3) SMEs are usually managed by their owners.
- 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 21 and 22.

As at 31 December 2016, Wong's firm had the following assets and liabilities:

	\$
Non-current assets	280 000
Bank	18 000
Cash	58 000
Inventory	71 000
Trade payables	86 000
Trade receivables	162 000
Long term bank loan	120 000

21. What is the quick ratio of Wong's firm for 2016?
- A. 1.16 : 1
B. 2.77 : 1
C. 3.59 : 1
D. 6.02 : 1
22. What is the amount of working capital in Wong's firm as at 31 December 2016?
- A. \$103 000
B. \$152 000
C. \$223 000
D. \$503 000
23. Which of the following are the benefits for a borrower of maintaining a good personal credit record?
- (1) lower interest rate on personal loan
(2) higher credit limit
(3) better terms when opening a term deposit account
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
24. Which of the following statements about 'unity of direction' is correct?
- A. Each supervisor is responsible for one project at a time.
B. Each employee works towards one goal in each period.
C. Employees working on the same project have the same goal.
D. The goals of a business should be accomplished within a reasonable timeframe.
25. Which of the following descriptions about accounting assumptions, principles and conventions is correct?
- A. Historical cost: all business transactions should be recorded in the books
B. Business entity: a sole proprietor can record his personal spending in the books of his business
C. Consistency: the accounting policies and methods cannot be changed once adopted
D. Going concern: a business will continue in operation for the foreseeable future

26. Which of the following will affect the share price of a listed company selling motorcars?

- (1) fuel price
- (2) interest rate
- (3) dividend policy of the company

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

27. Which of the following is not an advantage of adopting democratic leadership for a business?

- A. enhance operational efficiency
- B. widen managers' exposure
- C. strengthen staff support for business policies
- D. improve mutual understanding between management and staff

28. 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)	Settled a trade debt by cheque	Trade payables	Bank
(2)	Sold the office furniture of the firm on credit	Trade receivables	Sales
(3)	Paid carriage expenses for delivering goods to customers in cash	Carriage outwards	Cash
A.	(1) only		
B.	(1) and (3) only		
C.	(2) and (3) only		
D.	(1), (2) and (3)		

29. Which of the following statements about accounting ratios is/are correct?

- (1) They are used to evaluate the financial results of a business.
- (2) For the calculations of all profitability ratios, the denominator is 'Sales'.
- (3) The acid-test ratio of a firm is higher than its current ratio.

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

30. Which of the following statements about a nominal partner is/are correct?

- (1) He is liable for the debts of the partnership.
- (2) He takes part in the operation of the partnership.
- (3) His reputation helps promote the partnership's businesses.

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

END OF SECTION A

SECTION B (30 marks)

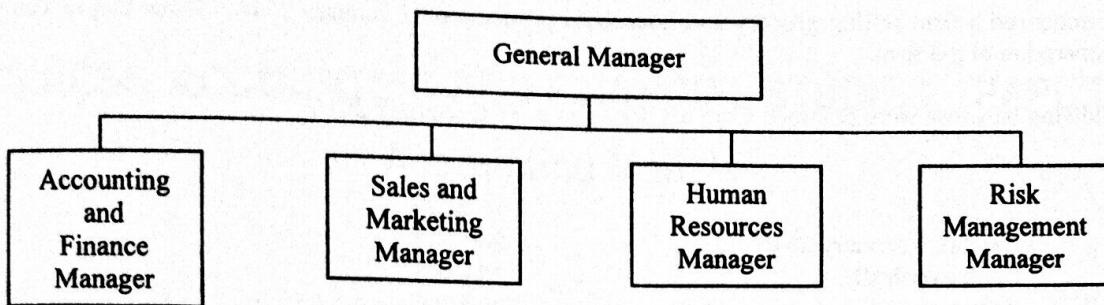
Part 1 (20 marks) Answer ALL questions in this part.

1. (a) What is a joint venture? (1 mark)
(b) Outline two advantages of running a business in the form of a joint venture. (4 marks)

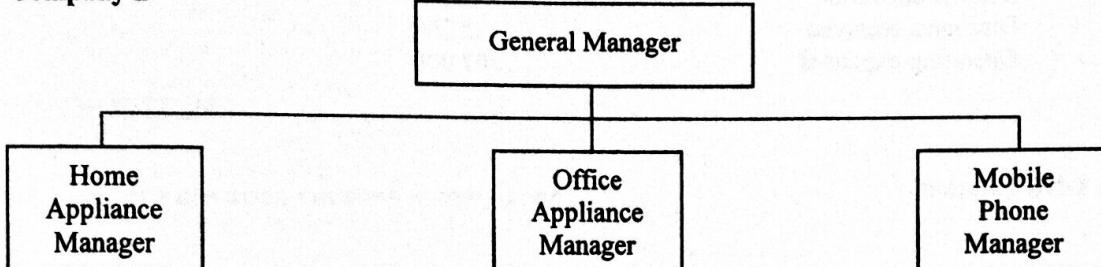
2. Mary has just retired and received her retirement fund. A financial planner advised her to invest the retirement fund in various financial instruments.
(a) Explain two of Mary's financial needs after her retirement. (4 marks)
(b) As an investor, what responsibilities does Mary have? List any two. (2 marks)

3. Company A and Company B are retail businesses selling electrical appliances. Their organisation charts are as follows:

Company A



Company B



- (a) State the form of departmentalisation adopted by the two companies:
 (i) Company A
 (ii) Company B (2 marks)
- (b) Which of the General Managers of the two companies above has a wider span of control? (1 mark)

Recently, the warehouse of Company A caught fire, which led to substantial losses.

- (c) Which department of Company A should be responsible for claiming insurance compensation?
 Explain one main role of this department in the company. (3 marks)

The financial year of Company B ends on 31 December. On 4 January 2017, Company B received an electricity bill for December 2016 of \$9500. It then settled the bill on 29 January 2017.

- (d) Explain, with a relevant accounting principle or concept, in which year the electricity of \$9500 should be recorded as an expense. (3 marks)

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

Based on the following information, answer either Question 4 or 5.

John commenced a firm selling grocery and household products on 1 January 2016. Three employees were hired for the operation of the firm.

The following balances were obtained from his books as at 31 December 2016:

	\$
Capital, 1 January 2016	240 000
Bank overdraft	173 400
Furniture	204 000
Sales	796 200
Purchases	500 400
Returns inwards	1 800
Returns outwards	1 500
Discounts received	2 100
Operating expenses	507 000

Answer ONE question.

4. (a) Prepare for John's firm a trial balance as at 31 December 2016. (5 marks)
- (b) What is business ethics? (1 mark)
- (c) For each of the following stakeholders, illustrate with one example how John can ensure that the operation of his firm is socially responsible:
- (i) employees of the firm (2 marks)
- (ii) residents living around the firm (2 marks)
- (Total: 10 marks)

5. The inventory as at 31 December 2016 was valued at \$195 000.

- (a) Prepare for John's firm an income statement for the year ended 31 December 2016. (5 marks)

A business consultant advised John to set goals for his firm.

- (b) State the management function that the task of setting goals for John's firm belongs to. (1 mark)
- (c) Explain two reasons why John should set goals for his firm. (4 marks)

(Total: 10 marks)

END OF PAPER