

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 the World Trade Organization is/are correct?

- (1) It enforces the rules of international trade among members.
 - (2) It helps developing countries increase their trading opportunities.
 - (3) It eliminates trade barriers among members.
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2. Product departmentalisation means _____.

- A. different departments serve customers of different countries
- B. different product lines are developed for different markets
- C. workers are divided according to the stage of production
- D. the production, marketing and other related tasks of a product are grouped under a manager

3. At the end of the year, the bookkeeper of a retail store balanced off the accounts, listed the account balances and prepared a trial balance. Which of the following accounting functions did the bookkeeper perform?

- A. recording
- B. classifying
- C. summarising
- D. communicating

4. Mandy is considering investing in a 3-year project with the following details:

	<u>Cash inflows/(outflows)</u>
	\$
Beginning of Year 1	(70 000)
Beginning of Year 2	25 000
Beginning of Year 3	35 000

The scrap value at the end of the project is \$20 000. The discount rate is 5% per annum. What is the net present value of the project?

- A. -\$14 445
- B. \$187
- C. \$2 832
- D. \$3 520

5. Which of the following is **not** a benefit of delegation?

- A. increases subordinates' job satisfaction
- B. improves the relationship between superior and subordinates
- C. provides training opportunities for subordinates
- D. allows superiors to focus on important tasks

6. On 1 February 2021, Mr Lee set up a retail firm selling computers. On the same day, the firm purchased ten sets of computers on credit from a supplier at a cost of \$4 500 each. During February, two sets of damaged computers were returned to the supplier and three sets of computers were sold at a selling price of \$7 000 each.

What is the balance of the purchases account of the firm as at 28 February 2021?

- A. \$22 500
- B. \$31 500
- C. \$36 000
- D. \$45 000

7. Which of the following is/are legal factor(s) affecting the operations of a restaurant in Hong Kong?

- (1) There is an increase in the minimum wage rate.
 - (2) The number of people participating in group gatherings in any public places is restricted because of the spread of COVID-19.
 - (3) There is a decrease in the Consumer Price Index.
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1) and (2) only

8. Which of the following is a benefit brought about by the respective principle of effective management?

	<u>Principle</u>	<u>Benefit</u>
A.	balancing authority and responsibility	improve communication between employees
B.	division of work	reduce production delays
C.	unity of command	less confusions in work
D.	management by objectives	reduce administrative work

9. The following is a list of all account balances of Lee's firm as at 31 December 2020:

	\$
Accounts receivables	55 000
Bank overdraft	2 500
Inventory	21 200
Loan to Mr Chan	18 000
Cash	23 000
Accounts payables	42 300
Equipment	121 000
Capital	?

What is the balance of the capital account as at 31 December 2020?

- A. \$157 400
- B. \$162 400
- C. \$193 400
- D. \$198 400

10. Which of the following is a difference between a bank overdraft and a personal loan?

	<u>Bank overdraft</u>	<u>Personal loan</u>
A.	interest rate	lower
B.	repayment arrangement	flexible
C.	pre-approved credit limit	no
D.	monthly minimum payment	yes

11. Which of the following will reduce the gross profit of a firm?

- (1) drawing of goods
 - (2) increase in carriage inwards
 - (3) increase in electricity expenses
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1) and (2) only

12. Which of the following are the characteristics of a public corporation?

- (1) The government participates in its daily operations.
 - (2) The chairperson of the board of directors is appointed by the government.
 - (3) It is a separate legal entity.
- 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 a trial balance is/are correct?

- (1) If the trial balance agrees, there are no errors in the account balances.
 - (2) The trial balance shows all the account balances of a firm.
 - (3) If the total of the debit side of an account is smaller than the credit side, the account balance is shown in the credit column of a trial balance.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

14. Which of the following will have an adverse impact on the credit rating of a person?

- (1) A person has a bankruptcy record.
 - (2) A person failed to meet the loan repayment schedule before.
 - (3) A person has been unemployed for more than 1 year.
- 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 about the statement of financial position is/are correct?

- (1) It reveals the liquidity of a firm.
 - (2) Non-current assets are listed according to their total amounts in descending order.
 - (3) It reveals the financial status of a firm for a period of time.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

16. Which of the following firms are fulfilling their social responsibility towards stakeholders during the spread of COVID-19?

- (1) An interior design company which allows its employees to work from home.
- (2) A restaurant which offers discounts to dine-in customers.
- (3) A publisher which allows the public to read its books online free of charge.

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

17. A newly-established electric car manufacturer sets the following target:

'We shall become the leader in the electric car market next year.'

Which of the following criteria for good objectives is/are fulfilled in the target?

- (1) specific
- (2) time-bound
- (3) measurable

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

18. On 31 December 2020, Sunview Company decided to close the business three months later. On that date, its non-current assets were recorded at \$3 800 000 and its liquidation value was \$2 098 000.

According to the _____, the value of the non-current assets shown in the statement of financial position of Sunview Company as at 31 December 2020 should be _____.

- A. going concern assumption \$2 098 000
- B. going concern assumption \$3 800 000
- C. historical cost concept \$2 098 000
- D. historical cost concept \$3 800 000

19. What is the main reason for a business to compile a code of ethics?

- A. This is required by law.
- B. This could reduce the cost of production.
- C. This could improve the firm's image and maximise its profit.
- D. This provides rules and standards for employees.

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

- (1) Employees can make voluntary contributions in addition to mandatory contributions to the MPF scheme.
 - (2) Mr Lam is a 68-year-old taxi driver with a monthly income of \$10 000. He is required to contribute \$500 each month to the MPF scheme.
 - (3) Mr Chan is a self-employed hawker who earned a net income of \$120 000 last year. He was required to contribute \$6 000 to the MPF scheme.
- A. (1) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

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

- A. The scale of an SME is so small that it cannot practise division of work.
- B. The owners enjoy limited liability.
- C. Most of them are engaged in secondary industries.
- D. Enterprises in the non-manufacturing sector with fewer than 50 employees are SMEs.

22. Information about Shun Kee and Kam Kee for the year ended 31 December 2020 is shown below:

	Shun Kee \$000'	Kam Kee \$000'
Sales	8 800	15 000
Cost of goods sold	2 400	2 600
Operating expenses	2 800	9 800

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

- A. Kam Kee had a lower gross profit.
- B. Kam Kee had a higher return on capital employed.
- C. Kam Kee had better control over operating expenses.
- D. Kam Kee had a lower net profit ratio.

23. Which of the following statements about debentures are correct?

- (1) Investors with lower risk tolerance level usually prefer investing in debentures to stocks.
 - (2) Debenture holders will receive higher interest if the market interest rate increases.
 - (3) Repayment of principal is made to debenture holders on the maturity date.
- 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 is/are benefit(s) to Hong Kong brought about by globalisation?

- (1) easier to recruit experts from overseas
 - (2) cheaper supplies of materials
 - (3) reduce competition among firms
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1) and (2) only

25. The production manager of a factory decided to produce 1 000 units of products by the end of 2021. He has arranged the production schedule and deployed the necessary resources and manpower. Which step in the planning process will be undergone next?

- A. evaluate alternatives
- B. formulate the action plan
- C. implement the action plan
- D. set the goal

26. 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)	Purchased a motor van by cheque from Silver Company	Motor vans	Silver Company
(2)	Received commission by cheque from Mr Leung	Bank	Commission income
(3)	The owner paid the rental expenses of the firm with his personal cheque	Rental expenses	Capital

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

27. Ben has just retired. He wants to invest his provident fund to earn a stable income. Which of the following financial instruments is most suitable to him?

- A. constituent stocks of the Hang Seng Index
- B. stocks listed on GEM
- C. term deposits
- D. savings deposits

28. A Mainland frozen food company plans to establish a branch in Hong Kong. Which of the following is/are the support provided by the company's information manager to the marketing manager?

- (1) process data about the frozen food market in Hong Kong
 - (2) collect information about suppliers of freezing systems
 - (3) set up a salary scheme for the salespersons
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

29. Which of the following is an example of a real account?

- A. purchases account
- B. trade receivables account
- C. discounts allowed account
- D. electricity expenses account

30. Assuming the interest on an investment project is compounded semi-annually, which of the following statements about its nominal rate of return and effective rate of return are correct?

- (1) The effective rate of return of the project is higher than its nominal rate of return.
 - (2) The effective rate of return of the project will be higher if its interest is compounded quarterly instead.
 - (3) The effective rate of return of the project will be lower if the investment amount is lower.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

END OF SECTION A

SECTION B (30 marks)

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

1. David and Raymond operate a media service business with offices in Hong Kong and other Asian countries. If a shareholder wants to transfer his shares to new investors, approval must be obtained from the board of directors. To help with expansion, David suggests changing the form of business ownership so that more funds can be raised from issuing shares to the public. However, Raymond worries that the new form of business ownership will have some disadvantages for the business, as compared with the existing form.
 - (a) Explain whether the above business is a multinational corporation. (2 marks)
 - (b) (i) Identify the current form of ownership of the media service business. (1 mark)
(ii) Explain two disadvantages of the new form of business ownership, as compared with the existing form. (4 marks)
2. Jenny is an inexperienced investor. Recently, her friend recommended buying the shares of a real estate development company. The company operates shopping malls and hotels in Hong Kong. Its shares is one of the constituent stocks of the Hang Seng Index.
 - (a) (i) What does the Hang Seng Index reflect? (1 mark)
(ii) Give one way that Jenny can use the Hang Seng Index to make investment decisions. (1 mark)
 - (b) Ignoring other factors, explain how the following situation may affect the share price of the real estate development company:
When the epidemic eased, the government removed the entry restriction for non-local residents implemented during the spread of COVID-19. (3 marks)
 - (c) List two Jenny's rights as a share investor. (2 marks)

3. Jeffery commenced a firm as a sole trader on 1 April 2021 with \$80 000. The following is the bank account of the firm for April:

Bank					
2021		\$	2021		\$
Apr 1	Capital	80 000	Apr 5	Rental expenses	37 000
Apr 18	Sales	15 000	Apr 19	Equipment	62 000

- (a) Based on the above account, prepare two relevant nominal accounts to complete the double entries. Balancing off the accounts is not required. (2 marks)
- (b) Prepare an extract of the statement of financial position for Jeffery as at 30 April 2021 to present the bank account balance and its classification. (2 marks)

On 1 May 2021, Jeffery purchased a second-hand motor car on credit at \$50 000 for his personal use. The bookkeeper of the firm recorded the transaction as follows:

Other payables					
			2021		\$
			May 1	Motor cars	50 000
Motor cars					
2021		\$			
May 1	Other payables	50 000			

- (c) Explain the accounting principle or concept that has been violated in the above case. (2 marks)

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

4.

- (A) Chan Kee is a shop selling household products. The account balances as at 31 December 2020 extracted from its books were as follows:

	\$
Bank loan (due in March 2021)	30 000
Bank	20 000
Fixed deposit (for 6 months)	50 000
Inventory	180 000
Trade payables	100 000
Trade receivables	120 000

In 2020, the industry averages of the working capital ratio and acid test ratio were 1.9:1 and 1.0:1 respectively.

- (a) Calculate (to two decimal places) the following ratios for 2020 for Chan Kee:
- (i) working capital ratio
 - (ii) acid test ratio (2 marks)
- (b) Briefly comment on the liquidity of Chan Kee on 31 December 2020. (3 marks)

- (B) Fancy Company sells computers and accessories. At the beginning of 2021, the General Manager of the company announced its goal to cut its overall costs by 30% in one year. To achieve the goal, the marketing department reduced the budgeted promotion expenses by 25%; the operations department sourced cheaper suppliers in order to reduce the total purchase cost by 15%; and the human resources department planned to streamline the company's structure to save 20% of the labour costs.

- (c) (i) Apart from division of work, state the principle of effective management that has been applied in the above case. (1 mark)
- (ii) Explain two advantages for Fancy Company of applying the principle of effective management in (c)(i) above. (4 marks)

(Total: 10 marks)

5.

- (A) Mr Wong started a garment firm on 1 April 2021. The following balances were obtained from the books as at 30 April 2021:

	\$
Carriage outwards	1 300
Discounts received	800
Purchases	80 000
Sundry expenses	23 475
Returns inwards	1 500
Sales	103 500

The inventory as at 30 April 2021 was valued at \$18 000.

- (a) Prepare an income statement for the month ended 30 April 2021. (5 marks)
- (b) Explain one use to the government of the income statement of a business. (1 mark)
- (B) Lucky Company is a small and medium enterprise with three departments: human resources department, marketing department and production department.
- (c) Draw an organisation chart to show the departmentalisation of Lucky Company. (1 mark)
- (d) (i) Which department manager in Lucky Company possesses both line authority and staff authority? (1 mark)
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- (ii) Explain how the manager mentioned in (d)(i) above exercises line authority and staff authority. (2 marks)

(Total: 10 marks)

END OF PAPER