

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS &
HONG KONG ASSOCIATION FOR BUSINESS EDUCATION
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2018/19
BUSINESS, ACCOUNTING AND FINANCIAL STUDIES
MOCK EXAMINATION
PAPER 1

Time allowed: 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. Write your English name, examination centre and seat number in the space provided.
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 should use an HB pencil to mark all your answers on the Answer Sheet. Wrong marks must be completely erased.
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.

The following information was extracted from the books of Mabel Company for the year ended 31 December 2018.

	\$
Drawing of goods by Mabel	7,000
Inventory as at 1 January 2018	36,500
Inventory as at 31 December 2018	47,890
Capital as at 1 January 2018	100,000
Capital as at 31 December 2018	120,000
Cash purchases	50,550
Cash sales	62,160
Operating expenses	3,000

1. The net profit / (net loss) of Mabel Company is:
 - A. (\$13,000)
 - B. \$8,610
 - C. \$20,000
 - D. \$27,000

2. When the going concern concept does not hold, which of the following concepts will no longer be valid?
 - (1) Consistency concept
 - (2) Historical cost concept
 - (3) Business entity concept
 - A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (2) and (3) only

3. Which of the following descriptions about risk management is correct?
- A. A firm uses risk assumption only when there are no other ways to deal with risks.
 - B. Risk management is only responsible for assisting a company to estimate and identify different types of risks.
 - C. Risk avoidance is the only way to deal with risks which may lead to significant loss.
 - D. Some risks are not accepted by insurance companies due to legal restrictions.
4. A bank offers Investment Plan A and B. They have the same annual nominal rate of return. Which of the following statements is NOT correct?
- A. The actual returns of these two plans are the same when interests of both plans are compounded once a year.
 - B. If the compounding frequencies of Plan A and Plan B are monthly and quarterly respectively, actual return of Plan B will be higher.
 - C. The plan in which the interest is compounded more frequently will have a higher actual return.
 - D. When the interest is compounded less frequently, effective rate of return is lower.
5. Which of the following are unethical behaviour in the workplace?
- (1) Hiring staff according to sexual preference
 - (2) Requiring employees to work overtime
 - (3) Requiring an existing employee to become a self-employed owner
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
6. A credit in the account will lead to an increase in the balance of _____ account.
- A. Drawings
 - B. Returns inwards
 - C. Trade deposits to suppliers
 - D. Trade deposits from customers

7. Which of the following descriptions about Hong Kong business environment is / are correct?
- (1) Hong Kong upholds the rule of law and promotes judicial independence which is a favorable political factor attracting multinational corporations.
 - (2) A wide coverage of Wi-Fi in Hong Kong is a favorable technological factor for online shops.
 - (3) Long coastlines and a natural seaport are the favourable physical factors that result in fast development of primary industry in Hong Kong.
- A. (2) only
B. (3) only
C. (1) and (2) only
D. (1) and (3) only
8. Which of the following persons cannot be exempt from Mandatory Provident Fund (MPF) System?
- A. Persons from overseas who work in Hong Kong for not more than 13 months
B. Persons who have joined recognized occupational retirement schemes
C. Persons who have a monthly relevant income less than \$7,100
D. Persons who are self-employed hawkers
9. Which of the following ways an individual should do to maintain a good personal credit record?
- (1) keep one credit card only
 - (2) settle the outstanding amount on or before the payment due date ✓
 - (3) keep the minimal outstanding loan amount
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3) only

10. Which of the following statements about financial products is correct?

- A. Dividends of ordinary shares are variable and guaranteed.
- B. The risk of saving money in a bank is low because of deposit protection in Hong Kong.
- C. Preference shareholders have the highest priority in getting back monies invested when their company is liquidated.
- D. The shorter the period to maturity, the higher the risk involved in investing bonds.

11. 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) Repaying trade payables by owner's motor car	Trade payables	Drawings
(2) Cash discounts received from trade payables	Trade payables	Discounts received
(3) Recording closing inventory at the year end	Inventory	Trading and profit and loss

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

12. Which of the following descriptions is correct?

- A. All public corporations have legal existence separate from their owners while government departments do not.
- B. A manufacturing sole proprietorship can only hire less than 100 employees.
- C. All multinational corporations in Hong Kong are public limited companies.
- D. All public limited companies are listed companies.

13. Which of the following statements is correct?

- A. Trial balance is a tool to detect all errors in double entries.
- B. The purpose of preparing a trial balance is to ensure that all entries made into the ledgers are correctly entered.
- C. Trial balance is an account showing all debit and credit balances of ledger accounts.
- D. Trial balance is used to test the arithmetical accuracy of double entries made in ledger accounts.

14. Mr. Chan has just received a pension of \$100,000 and is considering an investment in one of the following 2-year plans. Any dividends/interests received could be put into a bank savings account. The bank pays semi-annual interest to all savings accounts at a rate of 10% p.a. Which of the following plans will give him the highest future value?
- A. Invest in the company's ordinary shares without any dividends. He will be able to sell all the shares for \$123,000 after two years.
 - B. Invest in the company's preference shares (at par value) with annual dividend of 8%. He will be able to sell all the shares for \$106,500 after two years.
 - C. Deposit into a bank savings account for two years' time.
 - D. Invest in the company's 11% bonds (at par value) with interest payable every six months. The bonds will be matured after two years.
15. Which of the following statements about effective management principles are NOT correct?
- (1) Division of work is the most important principle of effective management.
 - (2) All companies must adopt the five effective management principles.
 - (3) Management by objectives can facilitate controlling management functions.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
16. Which of the following situations has violated the accrual concept?
- A. A tutorial school received monthly tuition fees for 8 lessons and its accounting clerk recognised the related income after each lesson had been conducted.
 - B. When an employee received a phone call for ordering take-away lunch boxes, he recognised it as income.
 - C. A company ordered a cake for annual dinner to be held three months later and paid immediately. The payment was recorded as an expense on the date of annual dinner.
 - D. A company ordered goods on the internet by credit card and recorded it as purchases only when the goods are received.

17. Which of the following statements are correct?
- (1) A statement of financial position is a statement of account balances on a particular date.
 - (2) The balance of an expense account is transferred to an income statement at the end of the month.
 - (3) The flow concept should be applied in the preparation of a statement of financial position.
 - (4) The flow concept should be applied in the preparation of an income statement.
- A. (1) and (3) only
B. (2) and (3) only
C. (1) and (4) only
D. (1), (2) and (4) only
18. Which of the following are the reasons for implementing a flat organisational structure?
- (1) To speed up decision-making
 - (2) To improve communication
 - (3) To reduce the number of workers
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
19. The management of a company negotiates working policy with its labour union in order to reduce the likelihood of accidents. Which of the following business function(s) is/are involved?
- (1) Human resources management
 - (2) Financial management
 - (3) Risk management
- A. (1) only
B. (3) only
C. (1) and (3) only
D. (2) and (3) only

20. Which of the following are limitations of financial statements?

- (1) Past performance of a company may not be used to predict the future.
- (2) Estimates and personal judgements may be made by shareholders.
- (3) Only quantitative information is provided in financial statements.

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

21. Which of the following statements is correct?

- A. A nominal partner can share a small portion of his partnership's profit.
- B. Sole proprietorship is not a legal entity and a business entity.
- C. Financial statements are prepared based on past, current and future data.
- D. Most of the qualitative factors cannot be measured in terms of money.

22. Which of the following is correct?

<u>Situation</u>	<u>Effect on</u> <u>Stock Prices</u>	<u>Reason</u>
A. An increase in interest rate	Share prices increase	The potential return on investing share will increase.
B. A reduction in profits tax rate	Share prices increase	The supply of shares will increase.
C. An unexpected bad news about the company	Share prices decrease	The dividend payouts will definitely decrease.
D. An economic downturn	Share prices decrease	Drops in customer demands for goods and services will affect performance of companies.

23. Which of the following descriptions about joint venture are correct?

- (1) A joint venture is formed to create synergy among different companies.
- (2) A joint venture can be in such forms of business ownership as a sole proprietorship or a limited company.
- (3) International joint venture is common as local companies help foreign companies meet the requirements for doing business in local markets.
- (4) A joint venture fails because its venturers may have disputes on management of its business.

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

24. Which of the following companies is/are NOT practicing corporate social responsibility voluntarily?

- (1) A gambling company does not allow local residents to bet in its casino under the laws.
- (2) To promote as a new choice of transport, a car sharing company decides to offer free riding for all citizens in a week.
- (3) A bleaching and dyeing company relocates its production plant to another less polluted country.

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

25. An online store sets the following goal for its employees:

“In 2019, we reply emails from our customers faster.”

Which characteristic of a SMART goal has been violated in the above goal setting?

- (1) Relevance
- (2) Specific
- (3) Measurable

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

26. _____ is _____ liquid than accounts receivables while bank current account is _____ liquid than bank deposit account.

- A. Trade receivables... less...more
- B. Trade receivables...more...less
- C. Inventory...less...more
- D. Inventory...more...less

27. The following are account balances of ABC Company on 31 December 2018:

	\$
Property, plant and equipment	180,000
Bank overdraft	2,700
Rental deposit (refundable on 31 December 2020)	3,800
Inventory	4,000
Trade receivables	5,500
Trade payables	3,000
3-year bank loan (repayable in 2019)	1,000

The net current assets of ABC Company is

- A. \$2,800.
- B. \$6,600.
- C. \$7,600.
- D. \$13,000.

28. Which of the following statements are correct?

- (1) Revolving personal loan allows consumer to repay by a lump-sum payment at any time.
- (2) Credit limit of bank overdraft can be changed by a client at any time.
- (3) Compared with revolving loan, interest charged on installment loan is lower.
- (4) Credit cardholders can choose to repay minimum payment on or before due date.

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

29. Arrange the following procedures of an accounting cycle in the correct order:

- (1) Balancing off ledger accounts
- (2) Posting transactions to ledgers
- (3) Preparing a statement of financial position
- (4) Making period-end adjusting entries

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

30. Which of the following descriptions about the World Trade Organization (WTO) are correct?

- (1) The WTO is the largest international trade organization in the world.
- (2) The WTO agreements contain special provisions for developing countries, including longer time periods to implement agreements and commitments.
- (3) The WTO discourages 'unfair' practices, such as export subsidies and dumping products at lower cost to gain market share.

- 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.*command
command people*

1. Ben and Jerry are the regional marketing managers of a film production company, Wonderful Ltd. Both of them are responsible for sales and marketing activities in their regions. Katy is a direct subordinate of both Ben and Jerry.

In 2018, Wonderful Ltd is going to start producing 3D horror movies. The CEO of the company asked the marketing department to conduct market research and identify the external factors that may affect the prospect of the project.

- (a) Explain one social factor that may affect Wonderful Ltd's decision to produce a 3D horror movie. (2 marks)
- (b) What principle of effective management has been violated in the above case? (1 mark)
- (c) State one possible problem arising from the violation of principle named in (b) and suggest one method to fix the problem. (2 marks)
2. Peter is going to retire next year and then get back his accrued benefits in the Mandatory Provident Fund (MPF) scheme. His son advises him to invest a large part of his accrued benefits in blue chips and the remaining to be deposited in banks.

- (a) Identify the life stage of Peter and suggest one of his financial needs. (2 marks)
- (b) Identify one type of risks which cannot be avoided even if Peter takes his son's advice and explain a possible cause of this risk. (2 marks)

3. An antique fanatic, David Cheung, established a store selling history books two years ago. In this year, he discovered a beautiful antique vase at a quoted market price of \$120,000. He personally admired it very much and booked a cash drawing of \$120,000 in the records of the book store. Finally, he purchased the vase at a discounted price of \$100,000 and put the vase at the book store for display to attract more customers. No other accounting entries have been made.

(a) State and explain what accounting principle or concept has been violated in the above situation. (2 marks)

(b) Prepare correct double entries to record the acquisition of vase. (1 mark)

Recently, David has received many complaints from his customers. In order to reduce complaints, the store manager, Paul, believed that it is important to maintain control on operations in the book store.

(c) List four steps that David should adopt to maintain control on operations in the book store. Explain each with an example. (4 marks)

4. Martin Toy Corporation is one of the most famous toy shops in Hong Kong. Since the government is encouraging STEM education, the company is evaluating a large scale project which leads to an innovation of new smart robots for children.

Use two examples to explain the interrelationship between financial management and marketing management in this case. (4 marks)

budget → R&D →

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

5. Under a franchise agreement, Alibee operates a shop selling well-known brand of healthy organic foods. Every year, the franchisor collects a royalty fee (including the promotion expenses) for the brand from Alibee. Recently, the franchisor launched a large-scale advertising and price reduction campaign to boost the sales. Alibee complained that her profit dropped due to excessive advertising expenses and a rise in operating expenses.

The following information was extracted from the books of Alibee:

For year ended:	31.12.2017	31.12.2018
	\$'000	\$'000
Sales	5,100	8,200
Cost of goods sold	1,800	4,000
Returns inwards	100	200
Royalty fee	1,200	1,920
Other operating expenses	600	880

- (a) Calculate the gross profit percentage and net profit percentage for both years. Comment on the complaints from Alibee and suggest her one recommendation to improve the situation. (5 marks)
- (b) Define nominal accounts and identify one example from the above information. (1 mark)

Alibee is now considering opening another shop to sell healthy organic foods. She is choosing between joining the present franchise and establishing an independent shop.

- (c) Based on her above experience, state two arguments for and two against Alibee to join the present franchise. (4 marks)

(Total: 10 marks)

6. Kingsley started to operate a boutique as a sole proprietor on 1 January 2018. On 1 July 2018, Kingsley started to expand his business under a franchise arrangement and royalty fees would be collected from franchisees. The following information is related to the year ended 31 December 2018:

	\$'000
Turnover	1,500
Cash purchases	130
Credit purchases	?
Closing inventory on 31 December 2018	?
Cost of sales	888
Carriage inwards	15
Discounts received	3
Royalty fees	100
Operating expenses	450

Other information:

- (i) Kingsley withdrew \$20,000 inventory from the business for his personal use.
 - (ii) On 31 December 2018, the balance of trade payables was \$30,000.
 - (iii) During 2018, payment to suppliers for credit purchases was \$770,000.
- (a) Prepare the trade payables account and then an income statement showing clearly the components of cost of sales for Kingsley's business for the year ended 31 December 2018. (5 marks)
 - (b) Define real accounts and identify one example from the above information. (1 mark)

Kingsley has decided to expand his business to mainland China. However, he does not have enough money to further develop the current franchise system to cater for the mainland China market. He is going to ask his best friend, John, to become a new partner of the business.

- (c) Except the reason mentioned above, state two arguments for and two against Kingsley to change the form of business ownership. (4 marks)

(Total: 10 marks)

END OF PAPER