

2013

ECON SCHOOL OF THE HONG KONG ECONOMIC TIMES
DIPLOMA OF SECONDARY EDUCATION MOCK EXAMINATION

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

Mock Paper

Time allowed: 1 Hour 30 Minutes

This paper must be answered in English.

GENERAL INSTRUCTIONS

1. This paper consists of TWO sections, A and B. Section A carries 60 marks and Section B carries 40 marks.
2. Section A consists of multiple-choice questions. Section B contains conventional questions.
3. Answers to Section A should be submitted online before 20 Jan 2013 (www.econschool.com/mock1213) while answers to Section B should be written in the spaces provided in Answer Book or your own paper.

SECTION A (MULTIPLE-CHOICE QUESTIONS)

INSTRUCTIONS

1. There are 30 questions in this paper. "END of SECTION A" will be printed after the last question.
2. All questions in this section carry equal marks.
3. ANSWER ALL QUESTIONS.
4. You should choose only ONE answer for each question.
5. No marks will be deducted for incorrect answers.

There are 30 questions in this paper. Choose the BEST answer for each question.

1. Mr. Lee is a successful entrepreneur. Which of the following characteristics should he possess?
 - (1) Being visionary
 - (2) Having a high academic qualification
 - (3) Being flexible
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2. Mr. Lee is considering an investment project. Its initial investment cost is \$50,000, and the cash inflows in first, second and third year are \$10,000, \$20,000 and \$30,000 respectively. If the discount rate is 12%, Mr. Lee _____ choose the project because _____.
 - A. should ... the total of income inflows is larger than cost
 - B. should ... the net present value is larger than zero
 - C. should not ... the discount rate is higher than the actual rate of return
 - D. should not ... the net present value is smaller than zero

3. The role of Hong Kong Exchanges and Clearing Limited (HKEx) in the financial market is _____.
 - (1) a regulator
 - (2) a listed company
 - (3) a stock exchange
 - A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)

4. Which of the following is a social factor supporting Hong Kong enterprises to provide medical services in the Mainland?
 - A. The Chinese government allows Hong Kong enterprises to provide medical services in the Mainland.
 - B. The distance between the Mainland and Hong Kong is close.
 - C. The income of the Mainland people increases.
 - D. The elderly population in the Mainland increases.

5. Which of the following is/ are the driving force(s) behind globalisation?
- (1) The usage of the Internet becomes more popular.
 - (2) More and more international trade organisations are established.
 - (3) More and more countries subsidise their domestic industries.
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
6. Which of the following transactions will reduce the total amount of current asset of a business?
- A. Cash sales of goods.
 - B. Purchased office equipments on credit.
 - C. Owner injected capital into bank account.
 - D. Repaid creditor by cheque.
7. The bank informed an enterprise that its cheque from its debtor was rejected. Which of the following is the CORRECT double entry for canceling the cheque?
- A. Debit accounts payable; Credit cash in bank
 - B. Debit cash in bank; Credit accounts payable
 - C. Debit cash; Credit cash in bank
 - D. Debit cash in bank; Credit cash
8. Which of the following descriptions about financial statements are CORRECT?
- (1) It can predict the future performance of the company.
 - (2) It can act as a reference for the lender to consider to loan or not.
 - (3) It can assist the management to make new policies.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
9. Chan's Enterprise purchased 10 pieces of goods of \$200 each from the supplier. It got 2% trade discount and 5% cash discount. The amount that Chan's Enterprise should record in the purchases journal is _____.
- A. \$138
 - B. \$1,862
 - C. \$1,960
 - D. \$2,000

10. A departmental manager discusses the work arrangements for rainstorms and typhoons with the staff in a meeting. It is a
- formal and one-way communication.
 - formal and two-way communication.
 - informal and one-way communication.
 - informal and two-way communication.
11. In a chained fast food shop, which of the following job duties is more suitable to the Chief Executive Officer (CEO)?
- To change a new brand name.
 - To arrange the roster table for the chefs.
 - To monitor the salespersons' performance.
 - To train a new shop assistant to operate the cash register.
12. Autocratic leadership is suitable for leading _____ while free-rein leadership is suitable for leading _____ .
- staff with less experience ... experienced staff
 - projects without fixed deadline ... projects which is urgent
 - staff engaged in simple tasks ... staff engaged in complicated tasks
- (1) and (2) only
 - (1) and (3) only
 - (2) and (3) only
 - (1), (2) and (3)

Refer to the following information for Questions 13-14:

Ming Fai Company is a private limited company. It is discovered that two senior executives of that company rented the properties of each other and defrauded the rental allowance with the amount of a few hundreds thousand dollars. The two senior executives took the blame and resigned eventually.

13. Which of the following principles of corporate governance could prevent the occurrence of the above incident of Ming Fai Company?
- Maintain the independence of the board of directors.
 - Fulfill social responsibility.
 - Promote ethical and responsible acts by means of code of conduct.
 - All of the above.
14. Which of the following is/ are the possible consequence(s) faced by Ming Fai Company due to the above incident?
- The corporate image of the company would be harmed.
 - The public would sell the stocks of the company in bulk.
 - The resign of the senior executives must lead to the termination of the company business.
- (1) only
 - (1) and (2) only
 - (2) and (3) only
 - (1), (2) and (3)

15. Risk and return are _____ , because _____ .
- A. positively related ... people are risk-loving
 - B. positively related ... investors will ask for higher return when the investment is more risky
 - C. inversely related ... people are risk-averse
 - D. inversely related ... high risk reduces investment return
16. Compared with listed exchange, the financial products traded in over-the-counter-market are _____ .
- A. more standardised
 - B. more transparent in pricing
 - C. more risky
 - D. None of the above.
17. Compared with large enterprises, which of the following methods will small enterprises tend to use to retain staff?
- A. To provide opportunity of promotion.
 - B. To provide higher salaries and benefits.
 - C. To build up a high team spirit.
 - D. To reduce the workloads.
18. Operations management does NOT include
- A. the design of production process.
 - B. the control of production cost.
 - C. the management of materials inventory.
 - D. the analysis of market needs.
19. "There are 3 general managers and 12 departmental managers in a company originally. The general managers are responsible for managing the departmental managers. After the restructure, the number of general managers and departmental managers increase to 5 and 14 respectively."

According to the above example, which of the following statements is CORRECT?

- A. The average workload of general managers will decrease.
- B. The general manager needs a longer time to understand the problems in department.
- C. The span of control of the departmental manager will expand.
- D. The restructure violates the principles of effective management.

20. Current asset of Enterprise A as at 31 March 2012 was \$72,000, and the current ratio was 1: 0.8. The net current assets of Enterprise A on that date was _____ .
- A. -\$18,000
 - B. \$14,400
 - C. \$57,600
 - D. \$90,000
21. Ms. Wong purchased a machinery of \$50,000 for the enterprise last year. Since the producer will no longer produce that type of machinery this year, the market value of the machinery increased to \$65,000. Ms. Wong decided to adjust upwards the price of the machinery in the books. Which accounting concept or principle did she violate?
- A. Accrual concept
 - B. Consistency principle
 - C. Business entity concept
 - D. Historical cost principle
22. Which of the following descriptions about personal financial planning is CORRECT?
- A. Only rich people need personal financial planning.
 - B. Personal financial planning should only begin after reaching adulthood.
 - C. The purpose of personal financial planning is to turn people into millionaires.
 - D. Personal financial planning can help people to prevent financial difficulties.
23. Many Hong Kong enterprises in the Mainland call back their franchises and change to run the business directly in the form of sole proprietorship. Which of the following are the possible motives of the above change of these Hong Kong enterprises?
- (1) Acquire more sources of capital.
 - (2) Raise the confidentiality of the production information.
 - (3) To ensure product quality.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

24. The restaurant manager authorised the chef to design the dinner dishes. Which of the following is NOT a reason of the authorisation?
- The restaurant manager is also a chef.
 - The restaurant manager is very busy.
 - The restaurant manager hopes the chef to create more delicious dishes.
 - All of the above are reasons of the authorisation.
25. Dora is a trade debtor of Enterprise B. The account of Dora in Enterprise B belongs to _____ and _____.
- personal account ... real account
 - personal account ... nominal account
 - impersonal account ... real account
 - impersonal account ... nominal account
26. What functions does trial balance have?
- Detect errors in records.
 - Act as the financial statements of the enterprise.
 - Check whether the totals of debit and credit balances are equal.
- (1) and (2) only
 - (1) and (3) only
 - (2) and (3) only
 - (1), (2) and (3)
27. Which of the following is NOT the reason that the government should support small and medium enterprises (SMEs)?
- SMEs create numerous job opportunities.
 - The development of SMEs can stimulate the economic growth.
 - The amount of assistance for SMEs is very small.
 - SMEs is more able to develop new products.
28. Which of the following information should be included in a business plan?
- Information of the company
 - Information of the raw materials suppliers
 - Information of competitors
- (1) and (2) only
 - (1) and (3) only
 - (2) and (3) only
 - (1), (2) and (3)

Refer to the following information for Questions 29-30:

The following are some of the account balances of Pacific Company as at 31 December 2012.

	\$
Inventory (as at 1 January 2012)	5,830
Purchases	37,350
Sales	71,530
Purchases return	490
Sales return	820

The amount of inventory as at 31 December 2012 was \$6,200.

29. The cost of goods sold of Pacific Company for the year 2012 was _____ .
- A. \$34,220
 - B. \$35,040
 - C. \$36,490
 - D. \$36,980
30. Which of the following items would appear on the balance sheet of Pacific Company as at 31 December 2012?
- (1) Inventory \$6,200
 - (2) Inventory \$5,830
 - (3) Purchases \$37,350
 - (4) Sales \$71,530
- A. (1) only
 - B. (1) and (2) only
 - C. (3) and (4) only
 - D. (1), (3) and (4) only

END OF SECTION A

1. Two airlines plan to establish a budget airline in the form of joint venture. List TWO advantages for the two airlines to form joint venture. (4 marks)

2. A foreign bookstore plans to set up a branch in Hong Kong. List TWO environmental factors affecting the decision of the bookstore. (4 marks)

Answer written in the margins will not be marked.

Answer written in the margins will not be marked.

Answer written in the margins will not be marked.

3. Mr. Chan is the Chief Executive Officer of a fashion brand in Hong Kong. He decides to expand the branch network to the Mainland. List TWO reasons that he needs planning. (4 marks)

4. "There are two managers in a cake shop. One of them orders the baker to design the high-class cake. It is because the higher price can increase the total revenue. However, the other manager asks the baker to make more bread. He believes that market share is more important and the bread with lower price can increase the sales."

According to the above example, explain which TWO principles of effective management the cake shop violates. (4 marks)

Answer written in the margins will not be marked.

5. "In the past, a weekly magazine held a focus group every six months. 10 readers were invited to participate and give their comments. Starting from this year, the magazine changes to use phone interview. Comments of 100 readers can be collected every week."

List TWO characteristics of quality business information that will be improved under the new method of comment collection. (4 marks)

Answer written in the margins will not be marked.

Answer written in the margins will not be marked.

6. Ms. Chan is an investor of traditional bonds. She worries that inflation may lower her investment return. Her friend suggests her to purchase the iBond issued by the Hong Kong government, so as to reduce the inflation risk.

(a) (i) Explain why the traditional bonds investment involves inflation risk. (2 marks)

(ii) The interest rate of iBond is linked to the inflation rate. The higher the inflation rate, the higher the interest rate will be. Explain how this characteristic reduces the inflation risk of bonds. (2 marks)

(b) Besides inflation risk, list TWO risks that may involve in bond investments. (4 marks)

Answer written in the margins will not be marked.

Answer written in the margins will not be marked.

Answer written in the margins will not be marked.

Answer written in the margins will not be marked.

7. Bright Company operates a stationery store. In July 2012, Bright Company had the following credit purchases transactions:

2012

Jul 4 Purchased from Mr. Chu 10 dictionaries of \$100 each, receiving a 2% trade discount.

Jul 8 Purchased from Ms. Ma 5 boxes of memo pad of \$200 each, receiving a 5% trade discount.

Jul 11 Purchased from Hung's Enterprise 20 files of \$15 each, and there was no trade discount.

Jul 17 Purchased from Mr. Yu 8 accessories of \$85 each, receiving a 5% trade discount.

Jul 25 Purchased from Ms. Yeung 12 boxes of pencil of \$30 each, there was no trade discount.

(a) Record the transactions of Bright Company of July in the Purchases Journal. (5 marks)

Blank lined area for recording transactions in the Purchases Journal.

(b) Bright Company traded with Hung's Enterprise for the first time and discovered that its product quality was not good. On July 28, the company returned 2 files to Hung's Enterprise and paid the remaining debt by cheque. It received a 5% cash discount.

Record the transaction of Hung's Enterprise in the personal account of Bright Company. (3 marks)

Blank lined area for recording the transaction in the personal account of Bright Company.

8. The following items are extracted from the Income Statement of Innovative Enterprise for the year ended 31 December 2012.

	\$
Sales	86,800
Cost of goods sold	35,700
Gross profit	51,100
Other revenues	2,300
Expenditures	30,100
Net profit	23,300

(a) Calculate the gross profit ratio and net profit ratio of Innovative Enterprise for the year 2012. (2 marks)

(b) The net profit ratio for the enterprise in 2011 was 30%. Explain with ONE reason for the change. (2 marks)

END OF PAPER 1

Answer written in the margins will not be marked.

Answer written in the margins will not be marked.

Section A

Question No.	Key	Question No.	Key
1.	B	16.	C
2.	D	17.	C
3.	D	18.	D
4.	D	19.	A
5.	B	20.	B
6.	D	21.	D
7.	A	22.	D
8.	C	23.	C
9.	C	24.	A
10.	B	25.	A
11.	A	26.	B
12.	B	27.	C
13.	C	28.	D
14.	A	29.	C
15.	B	30.	A

Section B

1.

Advantages:

- The two airlines can leverage their respective strengths. This can raise the efficiency and lower the production cost, so as to achieve the economies of scale.
- Each party needs to inject part of the capital into the joint venture only, so the risk of each party can be reduced.

(2 marks for each relevant advantage, max. 4 marks)

2.

Environmental factors:

- Economic factor: The bookstore should consider the purchasing power of the consumers in Hong Kong and the operating costs of bookstore, including salaries, rent, inventory cost, etc.
- Cultural factor: The bookstore should consider whether the level of education and reading culture of Hong Kong people can support the operation of bookstore.

(2 marks for each relevant factor, max. 4 marks)

3.

Reasons:

- Planning includes the set up of objectives, such as to achieve specific market share or revenue. It can be used as the direction or guidelines of the development, for example, assisting Mr. Chan to determine the number of branches in the Mainland, in order to achieve the objectives.
- One of the processes in planning is to examine the environmental factors. Hence, Mr. Chan can understand the economic situation and the consumers' need in the Mainland, so as to select the most suitable location for the new branches and thus maximise the benefit.
- Planning will set the criteria of evaluation and strategy. When there is any change in the Mainland market or the actual situation is different from the prediction, Mr. Chan can adopt the contingency plan promptly, so as to reduce the loss or grasp the opportunity.

(2 marks for each relevant reason, max. 4 marks)

4.

Principles of effective management:

- Unity of command: As the baker receives orders from the two managers, he will not know what to do and cannot accomplish the tasks when the commands from the two managers contradict each other.

- Unity of direction: The objectives of the two managers are inconsistent. The cake shop will lose its direction. It cannot develop the markets of high-class cake and bread simultaneously.

(2 marks for each relevant principle, max. 4 marks)

5.

Characteristics of quality business information

- Timely: The magazine increases the frequency of comments collection from twice a year to once per week. Editors can understand the need and change of the readers. Hence, they can improve their content as soon as possible.
- Accurate / comprehensive: The magazine increases the number of interviewees from 10 to 100. Editors can collect more accurate and comprehensive comments from readers, and will not be misled by the views of a small group of readers.

(2 marks for each relevant characteristic, max. 4 marks)

6.

(a)(i)

The interest rate of traditional bonds is fixed (1 mark). In times of inflation, the purchasing power of the interest and principal of the bonds decreases, reducing the real return of bonds (1 mark). So inflation risk is involved in bond investments.

(ii)

The interest rate of iBond is floating and is linked to the inflation rate (1 mark). In times of inflation, the interest rate of iBond will increase, so as to compensate the loss in the purchasing power of the interest and principal. This reduces the inflation risk involved in bond investments (1 mark).

7.

(a)

Purchases Journal			Marks
Date	Details	Amount	
2012		\$	
Jul 4	Mr. Chu [$\$100 \times 10 \times (1 - 2\%)$]	980	1 mark
Jul 8	Ms. Ma [$\$200 \times 5 \times (1 - 5\%)$]	950	1 mark
Jul 11	Hung's Enterprise ($\$15 \times 20$)	300	1 mark
Jul 17	Mr. Yu [$\$85 \times 8 \times (1 - 5\%)$]	646	1 mark
Jul 25	Ms. Yeung ($\$30 \times 12$)	360	1 mark
		<u>3,236</u>	

(b)

Marks	Hung's Enterprise				Marks	
	2012		\$	2012	\$	
1 mark	Jul 28	Returns outwards (\$15 x 2)	30	Jul 11	Purchases	300
1/2 mark	Jul 28	Bank	256.5			
		(\$270 x 95%)				
1 mark	Jul 28	Discount received	13.5			
		(\$270 x 5%)				
			300			300

8.

(a)

Gross profit ratio

$$= (\text{Gross profit} / \text{Sales}) \times 100\%$$

$$= (51,100 / 86,800) \times 100\%$$

$$= 58.87\% \text{ (1 mark)}$$

Net profit ratio

$$= (\text{Net profit} / \text{Sales}) \times 100\%$$

$$= (23,300 / 86,800) \times 100\%$$

$$= 26.84\% \text{ (1 mark)}$$

(b)

The net profit ratio for the year 2012 of Innovative Enterprise was 26.84%, which is lower than the 30% of the year 2011. The possible reasons are:

- Cost of goods sold increased leading to a decrease in the gross profit ratio
- The increase in expenditures was higher than that of the gross profit
- The enterprise carried out price reduction
- Other reasonable reasons

(2 marks for each relevant reason, max. 2 marks)