

FUKIEN SECONDARY SCHOOL
S5 Final Examination (2020-2021)
Business, Accounting and Financial Studies Paper 1
(1 hour 15 minutes)

Date: 15th June 2021

Time: 8:30a.m. - 9:45a.m.

Name: _____

Class: _____ No.: _____

GENERAL INSTRUCTIONS

- (1) This paper must be answered in English.
 - (2) There are **TWO** sections, A and B, in this Paper. Section A consists of multiple-choice questions and Section B contains short questions.
 - (3) Answer **ALL** questions in Section A and Section B.
 - (4) 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.
 - (5) 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 insert the information required in the spaces 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 are advised to use an HB pencil to mark all your 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. What is/are the purpose(s) to prepare a trial balance for a business?
 - (1) check the arithmetical accuracy of accounting entries
 - (2) report the financial position of the business
 - (3) record the business transactions of the business
 - A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
2. Which of the following is a nominal account?
 - A. cash at bank account
 - B. bank interest account
 - C. office equipment account
 - D. trade payables account
3. Bessie started a trading business on 1 October 2019 by depositing cash of \$500 000 into the firm's bank account. She also introduced her own furniture costing \$50 000 into the firm. The firm also borrowed \$20 000 from Bessie's mother to purchase office equipment for the business. Total revenues and expenses for the year ended 30 September 2020 were \$135 000 and \$40 000, respectively.

What is the amount of Bessie's capital as at 30 September 2020?

- A. \$455 000
 - B. \$515 000
 - C. \$535 000
 - D. \$645 000
4. Which of the following statements about the non-current assets of a firm selling equipment is/are correct?
 - (1) They are used for business operations.
 - (2) They would be presented in income statement.
 - (3) Equipment held for resale would be classified as non-current assets.
 - A. (1) only
 - B. (3) only
 - C. (1) and (3) only
 - D. (2) and (3) only
5. Which of the following statements about accounting ratios are correct?
 - (1) The quick ratio of a firm is usually lower than its current ratio.
 - (2) They are used to evaluate the financial performance and financial position of a firm.
 - (3) They are affected by professional judgements.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

6. If an account has a debit balance, which of the following statements about the account are correct?

- (1) The account must be an asset account.
- (2) The balance carried down must appear on the right-hand side of the account.
- (3) The total of the debit entries in the account must be greater than the total of the credit entries.

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

7. Which of the following descriptions of cash discounts given to customers are correct?

- (1) They are given to encourage customers to pay by cash.
- (2) They will not affect the calculation of cost of goods sold.
- (3) They should be treated as business expenses.

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

8. Which of the following about real accounts are correct?

- (1) They would be shown in the trial balance.
- (2) They would be shown in the statement of financial position.
- (3) Their balances would be brought forward to next accounting period.

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

9. Which step in the accounting cycle comes immediately after preparing a trial balance?

- A. recording transactions
- B. preparing financial statements
- C. reporting financial results to users
- D. making period-end adjustments

10. Which of the following about the limitations of financial statements are correct?

- (1) Time value of money is ignored.
- (2) Accounting information mainly reflects past transactions and events.
- (3) Accounting information is mostly qualitative.

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

11. With other figures remaining unchanged, which of the following will cause a fall in the gross profit?

- A. an increase in carriage outwards
- B. an increase in purchases returns
- C. a decrease in cash discount received from suppliers
- D. an increase in trade discount given to customers

12. Which of the following transaction(s) should be recorded in the purchases account of a grocery store?

- (1) canned foods close to their expiry date were donated to a charitable organisation
- (2) some noodles were taken by the owner from the grocery as his breakfast
- (3) a freezer was purchased for storing drinks

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

13. On 15 March, Mr Chan purchased goods for \$40 000 on credit from Wilson Company with a trade discount of 2%. Another 4% discount would be given by Wilson Company if settlement was made within 14 days. If Wilson Company received the settlement on 31 March, it could receive _____.

- A. \$37 632
- B. \$38 400
- C. \$39 200
- D. \$40 000

Based on the following information, answer Questions 14 and 15.

The following balances as at 31 December 2020 were extracted from the accounts of a firm:

	\$
Inventory	23 000
Cash at bank	56 000
Trade receivables	41 500
Short-term loan to employees	20 000
Motor vehicles	50 000
Bank loan (repayable in October 2021)	60 000
Trade payables	22 400

14. What is the liquid ratio of the firm?

- A. 1.18:1
- B. 1.43:1
- C. 2.07:1
- D. 2.31:1

15. What is the amount of working capital of the firm as at 31 December 2020?

- A. \$35 100
- B. \$58 100
- C. \$108 100
- D. \$118 100

16. Which of the following statements about the “going concern assumption” in accounting are correct?

- (1) The net realisable value of a non-current asset is shown on the statement of financial position when the company has to liquidate within one month.
- (2) Businesses are assumed to continue in operation for the foreseeable future.
- (3) This assumption is not applicable if the company incurs a loss in the current accounting year.

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

17. Given the gross profit margin is 30%, calculate the amount of purchases based on the following data:

Items	\$
Sales	90 000
Purchases	?
Returns inwards	5 000
Opening inventory	8 000
Closing inventory	12 000
Carriage inwards	3 000

- A. \$58 500
- B. \$60 500
- C. \$68 500
- D. \$70 000

18. Which of the following are the main uses of the financial statements for the respective users?

User	Main use
(1) Employees	to assess job security
(2) Trade creditors	to evaluate the company's repayment ability
(3) Potential investors	to evaluate the company's profitability

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

19. The following account was extracted from the books of Alex's firm.

Dickson					
2020		\$	2020		\$
Dec 1	Balance b/d	16 500	Dec 15	Cash	11 760
Dec 28	Sales	22 000	Dec 15	Discounts allowed	240
			Dec 31	Balance c/d	26 500
		<u>38 500</u>			<u>38 500</u>

Based on the information in the above account, which of following statements is **not** correct?

- A. Dickson owed Alex's firm \$16 500 on 1 December 2020.
- B. Alex's firm gave a trade discount of \$240 to Dickson on 15 December 2020.
- C. Alex's firm sold goods of \$22 000 on credit to Dickson on 28 December 2020.
- D. The account has a debit balance as at 31 December 2020.

20. On 1 October 2020, the cash at bank account and the cash in hand account of Jacky's firm carried debit balances of \$44 000 and \$40 000 respectively. On 15 October 2020, Jacky received \$40 000 cash from a customer in settlement of his account of \$42 000. Jacky banked the remaining sum after withholding \$10 000 for private use. During the month, \$60 000 was paid for wages by cheque and \$13 000 was paid in cash to settle the account of a supplier.

The cash at bank account carried a _____ on 31 October 2020.

- A. credit balance of \$4 000
- B. credit balance of \$17 000
- C. debit balance of \$27 000
- D. debit balance of \$14 000

21. Which of the following should be recorded on the debit side of the respective accounts?

	<u>Account</u>
(1) Increase in rental deposit	Rental deposit
(2) Increase in discounts received	Discounts received
(3) Increase in drawings	Drawings
A. (1) and (2) only	
B. (1) and (3) only	
C. (2) and (3) only	
D. (1), (2) and (3)	

22. Which of the following double entries are correct?

<u>Transactions</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1) Goods returned to a credit supplier	<i>Trade payables</i>	<i>Purchases</i>
(2) Purchase of stationery for office use in cash	<i>Stationery expenses</i>	<i>Cash</i>
(3) Cash withdrew from bank for business use	<i>Cash</i>	<i>Cash at bank</i>
A. (1) and (2) only		
B. (1) and (3) only		
C. (2) and (3) only		
D. (1), (2) and (3)		

23. Which of the following are tasks of accounting?

- (1) reporting the performance of the sales and marketing department regularly
 - (2) recording the amount spent on buying office equipment
 - (3) planning the strategies to increase market shares
- 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 the consistency principle in accounting is/are correct?

- (1) It states that same accounting method should be used to record similar items.
 - (2) It states that it is wrong for different companies to adopt different accounting policies.
 - (3) Once an accounting treatment is adopted, it cannot be changed in subsequent accounting periods.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

25. Which of the following accounting ratios can be calculated when only the statement of financial position is provided?

- (1) gross profit ratio
 - (2) net profit ratio
 - (3) acid-test ratio
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1) and (3) only

26. Sales of Kim Company for the year 2020 amounted to \$360 000. Its gross profit ratio for 2020 was 30% while the net profit ratio is 20%. What is the amount of expenses of Kim Company for 2020?

- A. \$30 000
- B. \$36 000
- C. \$72 000
- D. \$108 000

27. Which of the following statements about accounting equation is **not** correct?

- A. Liabilities = Assets – Capital
- B. Capital + Revenues – Expenses = Assets – Liabilities
- C. Non-current assets – Working Capital – Non-current liabilities = Capital
- D. Non-current asset + Current assets = Non-current liabilities + Current liabilities + Capital

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

<u>Transaction</u>	<u>Asset</u>	<u>Capital</u>	<u>Liability</u>
A. Owner withdrew inventory for personal use.	decreases	decreases	decreases
B. Earned interest income for the current month.	increases	increases	unchanged
C. Owner repaid trade payables for the firm by his personal cheque.	decreases	unchanged	decreases
D. Made a loan to an employee by cheque.	increases	unchanged	increases

29. Which of the following descriptions of ‘debit’ and ‘credit’ in accounting is/are correct?

- (1) A bank account can have a ‘credit’ balance.
- (2) ‘Debit’ refers to a decrease and ‘credit’ refers to an increase in the amount of an account.
- (3) ‘Debit’ side refers to the right-hand side and ‘credit’ side refers to the left-hand side of an account.

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

30. The financial information of Leung Kee and Chung Kee for the year ended 31 December 2020 is shown below:

	Leung Kee	Chung Kee
Turnover	\$80 000 000	\$62 000 000
Average capital	\$157 000 000	\$90 000 000
Gross profit ratio	71%	79%
Net profit ratio	18%	14%

Which of the following comments on the financial performance of Leung Kee as compared with Chung Kee are correct?

- (1) Leung Kee has higher gross profit.
- (2) Leung Kee has a higher cost of goods sold.
- (3) Leung Kee has a higher return on capital employed.

- 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) Short QuestionsAnswer **ALL** questions in this part.

1. The following are the financial ratios of Gilbert Company, a sole proprietorship, in 2019 and 2020:

	2019	2020
Gross profit ratio	22%	20%
Net profit ratio	10%	12%
Current ratio	1.5:1	3.3:1
Liquid ratio	0.9:1	1.1:1

- (a) Briefly comment on the profitability of Gilbert Company for the year 2020. (2 marks)
- (b) Briefly comment on the liquidity of Gilbert Company for the year 2020. (2 marks)
2. Molly Tang is a sole trader engaged in the trading of watches. She sold watches with a list price of \$34 000 to D Chau on credit on 2 May 2020, offering a 5% trade discount. D Chau settled the amount in cash on 16 May 2020, receiving a 2% discount because of prompt payment. On 28 May 2020, Molly bought office equipment for \$2 600 in cash.

- (a) Prepare appropriate T-accounts to record the above transactions for Molly's firm. Balancing off the accounts is not required. (4 marks)

The financial year of Molly's firm ends on 31 December. Molly paid \$6 000 for an annual insurance premium on 15 December 2020. The commencement date of the insurance policy was 1 January 2021.

- (b) Explain, with a relevant accounting principle or concept, in which year the insurance premium of \$6 000 should be recorded as an expense. (3 marks)
3. The following trial balance as at 31 March 2021 was prepared by an inexperienced accountant:

Frank		
Trial Balance for the year ended 31 March 2021		
	Dr.	Cr.
	\$	\$
Sales	427 500	
Purchases		164 700
Discounts allowed	1 560	
Rental income		120 030
Premises		928 000
Capital	1 780 000	
Drawings		23 400
Accounts receivable	186 900	
Returns inwards	7 500	
Cash	456 700	
General expenses	558 770	
	<u>3 418 930</u>	<u>1 236 130</u>

- (a) Prepare a corrected trial balance as at 31 March 2021 for Frank. (6 marks)
- (b) State one limitation of a trial balance. (1 mark)
- (c) Frank's firm bought a delivery truck in April 2021 and paid \$12 000 from its bank account. The delivery truck had a list price of \$20 000 and the firm was able to buy it with a 20% trade discount after negotiations. Frank heard from the dealer that its market price was \$26 000.

State the amount to be recorded for the delivery truck in the books of the firm. Explain your answer with an accounting principle or concept. (3 marks)

4. Terry set up a business on 1 January 2020. The following account balances were extracted from the books of Terry's firm as at 31 December 2020:

	\$
Office equipment	130 000
Sales	180 000
Trade payables	23 000
Trade receivables	81 100
Purchases	87 900
Bank overdraft	4 300
Bank loan (repayable on 31 January 2021)	27 600
Cash	3 000
Operating expenses	50 000
Capital, 1 January 2020	178 000
Drawings	?

- (a) On 31 December 2020, inventory was valued at \$20 900. Prepare a statement of financial position as at 31 December 2020. (6 marks)

Terry wishes to include his private premise as part of the non-current assets of the company, since the company bank overdraft is secured on the premise.

- (b) Advise Terry and explain it with a specific accounting concept or principle. (3 marks)

END OF PAPER