

FUKIEN SECONDARY SCHOOL
S6 First Term Uniform Test (2021-2022)
Business, Accounting and Financial Studies
(2 hours)

Date: 10th November 2021
Time: 11:00a.m. – 1:00p.m.

Name: _____
Class: _____ No.: _____

This paper must be answered in English

GENERAL INSTRUCTIONS

- (1) There are TWO sections, A and B, in this paper.
 - (2) Section A consists of multiple-choice questions in this question paper. Section B contains structured questions.
 - (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 provided. **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 (45 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 financial statements is **not** correct?
 - A. Time value of money is ignored.
 - B. Employees can use financial statements to assess job security.
 - C. Accounting information is mostly quantitative.
 - D. Its preparation does not involve personal judgments.
2. Which of the following statements about the effective rate of return is/are correct?
 - (1) It is higher than the nominal rate of return when the interest is compounded annually.
 - (2) It will increase if the amount of the principal increases and the nominal rate of return remains unchanged.
 - (3) It will increase if the frequency of compounding increases and the nominal rate of return remains unchanged.
 - A. (2) only
 - B. (3) only
 - C. (1) and (3) only
 - D. (2) and (3) only
3. The information of Beard Company for the two years ended 31 December is shown below:

	2019	2020
Gross profit ratio	30%	30%
Net profit ratio	8%	4%

Which of the following statements is correct?

 - A. The amount of cost of goods sold in 2019 and 2020 were the same.
 - B. The profitability of the company improved.
 - C. The control of operating expenses is less effective.
 - D. The amount of net profit decreased.
4. Jimmy and Roy plan to establish a firm together. Only Jimmy can participate in the daily operation of the firm. Moreover, only Roy bears limited liabilities. Which form of business ownership should they adopt?
 - A. private limited company
 - B. general partnership
 - C. public limited company
 - D. limited partnership
5. Which of the following is/are the main function(s) of a company's marketing department?
 - (1) plan marketing research
 - (2) formulate pricing strategies for products
 - (3) control product quality
 - A. (1) only
 - B. (3) only
 - C. (1) and (2) only
 - D. (2) and (3) only

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

- (1) When changing jobs, MPF scheme members can transfer their accrued benefits to another MPF trustee.
- (2) MPF scheme members can apply for early withdrawal of the accrued benefits from the MPF scheme if they are unemployed for more than one year.
- (3) An employee can withdraw their accrued benefits if they depart Hong Kong permanently.

- 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 statements about the risks and returns of investments are correct?

- (1) Investing in shares of companies from different industries can diversify firm-specific risk.
- (2) Risk-averse investors usually prefer investing in bonds to making term deposits.
- (3) Investors can earn interest at a fixed rate as returns for investing in bonds.

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

8. Which of the statements about credit cards is/are correct?

- (1) The credit card holder can choose to make a partial repayment without a penalty.
- (2) No interest is charged if the minimum payment on the credit cards is made.
- (3) Collateral is normally required when applying for credit cards.

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

9. Which of the following statements about business ethics is correct?

- A. Employees are required to follow code of ethics by law.
- B. Unethical business practices must be illegal.
- C. Business ethics are a set of unclearly-defined moral principles and standards that a business should follow.
- D. Violation of business ethics must be punished.

10. Which of the following are features of Hong Kong's economy?

- (1) The tertiary sector contributes the largest proportion of Hong Kong's Gross Domestic Product (GDP).
- (2) Hong Kong lacks natural resources and needs to import raw material from other countries.
- (3) Closer Economic Partnership Arrangement (CEPA) ensures free movement of labour between the Mainland and Hong Kong.

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

11. Rupert, the owner of a firm, plans to close the firm in 2022 as losses have been incurred for several years. All assets are still valued at their cost in the statement of financial position as at 31 December 2021. Which of the following accounting assumptions, principles or conventions has been violated in this case?

- A. Consistency
- B. Going concern
- C. Accrual
- D. Historical cost

12. Which of the following descriptions of the Hang Seng Index is correct?

- A. A rising Hang Seng Index means all constituent companies make a profit.
- B. Companies listed on the Main Board or GEM in Hong Kong are eligible to be constituent stocks.
- C. There are four sub-indexes: commerce and industry, finance, properties and information technology.
- D. It reflects the shares price movements of major industry sectors of the market.

13. Which of the following statements about bank overdrafts is/are correct?

- (1) Interest rates are usually higher than personal loans.
- (2) The repayment schedule is not fixed.
- (3) The interest on a bank overdraft is usually charged on a monthly basis.

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

14. Which of the following statements are correct?

- (1) The unity of command principle is violated if an employee reports to two departmental managers.
- (2) Under the unity of direction principle, each manager is responsible for one plan at a time.
- (3) Management by objectives improves the communication between managers and employees.

- 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 double entries is/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) stationery purchased in cash	<i>Stationery expenses</i>	<i>Cash</i>
(3) cash withdrawn from owner's private savings account for business's use	<i>Cash</i>	<i>Bank</i>

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

16. A company plans to acquire a new plant in mainland China. Its Financial Manager is responsible for _____.

- (1) deciding on methods to obtain funds
- (2) recruiting an accounting clerk to work in the finance department
- (3) monitoring cash inflow and outflow of the project

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

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

- A. SMEs cannot be listed on the stock market.
- B. SMEs only serve the demand in narrow markets.
- C. A firm which employs 60 employees can be an SME.
- D. SMEs only operate locally.

18. How will an increase in carriage outwards affect gross profit and net profit?

- | | <u>Gross profit</u> | <u>Net profit</u> |
|----|---------------------|-------------------|
| A. | unchanged | decreases |
| B. | unchanged | increases |
| C. | decreases | increases |
| D. | decreases | decreases |

19. Which of the following statements about franchising are correct?

- (1) The franchisor can control the operations of the franchisee.
- (2) The franchisee does not need to carry out market research for the franchisor's products.
- (3) The franchisee pays the franchise fees to the franchisor only when a profit is made.

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

20. Which of the following about the importance of the planning process is/are correct?

- (1) employees can clearly understand the direction of the company
- (2) appropriate employees are assigned to perform tasks
- (3) ensure all risks are anticipated and eliminated

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

21. Which of the following statements about authority and responsibility are correct?

- (1) The higher the position, the more the authority.
- (2) The Human Resources Manager of a company has staff authority over the Marketing Manager.
- (3) Delegation of authority and responsibility may fail if the tasks are too demanding.

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

22. Which of following statements about real accounts are correct?

- (1) Rental deposit is a real account.
- (2) Their account balances will be carried forward to the next financial year.
- (3) Their balances will be shown in the statement of financial position.

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

23. Company A is a public corporation and Company B is a public limited company. Which of the following statements about the two companies are correct?

- (1) Both companies are listed on the stock exchange.
- (2) Both companies may appoint a board of directors to manage the company.
- (3) Both companies operate on a commercial basis.

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

24. A manager finds out why the defective rate of his company's products was higher than the acceptable level. He then takes remedial action to reduce the defective rate. Which of the following management functions do these tasks belong to?

- A. planning
- B. organising
- C. leading
- D. controlling

25. Which of the following companies is/are socially responsible?

- (1) a bank which allows its employees to work from home during a pandemic
- (2) a pharmaceutical company which specialises in medicines for the elderly
- (3) a supermarket which sells expired products at a lower price

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

26. On 1 April 2020, Leslie set up a firm with cash of \$300 000. The firm borrowed \$18 000 from Leslie's friend to buy inventory on the same date. On 31 March 2021, total assets and total liabilities of the firm were \$750 000 and \$226 000 respectively. During the year, Leslie made regular cash injection of \$10 000 per month to the firm.

What is the net profit of the firm for the year ended 31 March 2021?

- A. \$104 000
B. \$122 000
C. \$184 000
D. \$344 000
27. Which of the following statements about trial balance is/are correct?
- (1) The cash at bank account must have a debit balance on a trial balance.
(2) If the balance carried down appears on the left-hand side of an account, its balance will appear on the credit side of a trial balance.
(3) Trial balance facilitates the preparation of financial statements.
- A. (1) only
B. (3) only
C. (1) and (2) only
D. (2) and (3) only
28. A company sells motor vehicles. Which of the following statements about its statement of financial position as at 31 December 2020 is correct?
- A. Motor vehicles for resale would be classified as non-current asset.
B. Bank loan that would be repaid on 31 May 2021 would be classified as non-current liabilities.
C. It is a statement of the outstanding balances after the preparation of closing entries.
D. It shows the financial status of the business for the year ended 31 December 2020.
29. Sam plans to invest in a boutique in the form of sole proprietorship with an initial investment \$250 000. The cash flow from the first to the third year are estimated as follows:

Year	Cash flow (\$)
1	-10 000
2	150 000
3	350 000

If the annual discount rate is 8%, what is the net present value of the above plan?

- A. \$120 138
B. \$147 183
C. \$150 134
D. \$165 701
30. Which of the following statements about rights and responsibility of investors is correct?
- A. Investors have the responsibility to operate the company they invested in.
B. Investors have the responsibility to invest in financial products with low risk.
C. Investors have the right to complain broker who did not perform his duty.
D. Investors have the right to withdraw the investment amount at any time.

End of Section A

Section B (55 marks)

1. Nathan wants to invest in the ordinary shares of an IT company in Hong Kong. As he does not have enough money, he plans to take out a personal loan from a bank. However, his friend advises him against it as it may lead to a poor personal credit record.
 - (a) Describe two benefits that Nathan can gain from the investment. (4 marks)
 - (b) Explain two drawbacks of a poor personal credit record for Nathan. (4 marks)

2. Ted commenced a firm selling grocery and household products to local customers. As Ted believes that his employees are all very experienced and capable, he encourages them to take part in the decision-making process. He takes their opinions into consideration when making decisions.
 - (a) State the leadership style adopted by Ted. (1 mark)
 - (b) Explain two advantages of the leadership style adopted by Ted. (4 marks)

3. The following relates to Welton Company, a sole proprietorship, for the year ended 31 March 2021:

	\$
Trade receivables	40 000
Inventory	28 000
Bank loan (due in February 2022)	22 000
Bank	86 000
Trade payables	23 000
Capital as at 31 March 2020	45 000
Capital as at 31 March 2021	68 000
Net profit for the year	14 000
Motor vehicles	29 000

As at 31 March 2021, the industry average of the acid test ratio and return on capital employed were 1.2:1 and 29% respectively.

- (a) Calculate (to two decimal places) the following ratios for Welton Company:
 - (i) acid test ratio (2 marks)
 - (ii) return on capital employed (2 marks)

- (b) Based on the acid test ratio, briefly comment on the liquidity of Welton Company as at 31 March 2021. (2 marks)

- (c) Based on the return on capital employed, briefly comment on the profitability of Welton Company for the year ended 31 March 2021. (1 mark)

4. Lasso Company is an American automobile manufacturer. Each worker is responsible for one of the automobile production processes, such as stamping, welding, painting and assembly.
- (a) (i) State the principle of effective management that Lasso Company adopts. (1 mark)
 - (ii) From the viewpoint of Lasso Company, explain one advantage and disadvantage of adopting the principle of effective management in (a) (i) above. (4 marks)

In order to enter into the United Kingdom market, Lasso Company plans to form a new company with a British automobile company, Richmond Company.

- (b) (i) State the form of ownership of the new company to be set up by Lasso Company and Richmond Company. (1 mark)
 - (ii) Outline two disadvantages of operating a business in the form of business ownership in (b) (i) above. (4 marks)
5. Jones Company manufactures and sells its only product, Product A, at \$300 per unit. It adopts marginal costing system. The following information for the year ended 31 December 2020 is available:
- (i) Each unit of Product A required 2 kg of direct material at \$60 per kg, and 20 minutes of direct labour at \$45 per hour.
 - (ii) The amount of fixed production overheads incurred was \$400 000.
 - (iii) 20 000 units of Product A was produced and 19 500 units were sold during the year. There was no opening inventory.
 - (iv) The amount of administrative expenses was \$322 500. They were all fixed.
 - (v) Selling and distribution expenses totalling \$325 000 consist of a sales commission of \$10 per unit and a fixed distribution cost.

REQUIRED:

- (a) Prepare an income statement for the year ended 31 December 2020 under marginal costing. (5 marks)
- (b) Calculate the break-even point (in units of Product A). (2 marks)
- (c) Calculate the margin of safety (in percentage to two decimal places). (2 marks)

In 2021, an offer is received from an outside supplier for the supply of a component for Product A at a price of \$60 per unit. The company estimates that if the supplier's offer is accepted, direct labour cost will be reduced by 20% and direct material cost will be reduced by \$55 per unit. However, carriage inwards will be incurred for the purchased component at \$5 per unit.

REQUIRED:

- (d) Explain, with supporting calculations, whether Jones Company should continue to manufacture the component or purchase it from the supplier. (3 marks)

6. Below is the trial balance of Kent Limited as at 31 December 2020:

	Dr. \$	Cr. \$
Purchases and Sales	444 000	891 000
2019 Final dividend	48 000	
Inventory, 1 January 2020	280 000	
Motor vehicles	289 000	
Accumulated depreciation - motor vehicles, 1 January 2020		134 000
Retained profit, 1 January 2020		248 000
Administrative expenses	101 000	
5% Debentures (Issued on 1 September 2020)		600 000
Selling and distribution expenses	103 300	
Ordinary share capital		980 000
Cash at bank	1 587 700	
	<u>2 853 000</u>	<u>2 853 000</u>

Additional information:

- (i) Inventory as at 31 December 2020 had a cost of \$320 000. 20% of those goods were damaged and could only be sold at \$36 000 after repair costing \$4 600.
- (ii) A payment of interim dividend of \$22 000 for 2020 was wrongly recorded as a payment of administrative expenses.
- (iii) Estimated profits tax of \$28 000 for the year 2020 had not been recorded. Besides, administrative expenses of \$15 000 for 2021 was paid on 31 December 2020.
- (iv) Cash purchases of \$12 000 had been recorded as a cash sale of \$26 000.
- (v) On 31 December 2020, the board of directors resolved to transfer \$50 000 to general reserve. On 1 March 2021, the board declared final dividend for 2020 amounting \$68 000.
- (vi) On 1 September 2020, a motor vehicle bought on 1 January 2017 at a cost of \$60 000 was traded in for a new model at an allowance of \$12 000. Kent Limited settled the amount due of \$54 000 by cheque. The accountant only debited the motor vehicle account and credited the cash at bank account with the amount of \$54 000.

It is the company's policy to depreciate motor vehicle at 20% per annum using the reducing balance method. A full year's depreciation is provided in the year of acquisition and none in the year of disposal. All expenses related to motor vehicles are classified as selling and distribution expenses.

REQUIRED:

- (a) Prepare an income statement for the year ended 31 December 2020. (10 marks)
- (b) Prepare a statement to calculate the retained profits as at 31 December 2020. (3 marks)

END OF PAPER