



福建中學

FUKIEN SECONDARY SCHOOL

S6 Mock Examination (2021-2022)
Business, Accounting and Financial Studies Paper 1
(1 hour 15 minutes)

Date: 25th January 2022
Time: 8:30a.m. - 9:45a.m.

Name: _____
Class: _____ No.: _____

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. After the announcement of the start of the examination, you should first insert the information required in the spaces provided. No extra time will be given to insert information after the 'Time is up' announcement.
- (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. Which of the following statements about a joint venture are correct?
 - (1) This can be a way for firms to enter a new market.
 - (2) The entity formed by a joint venture has a separate legal status.
 - (3) A joint venture can be terminated with the consent of one of the parties involved.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2. Which of the following statements about the Asia-Pacific Economic Cooperation (APEC) is/are correct?
 - (1) Hong Kong is a founding member of APEC.
 - (2) APEC provides loans to developing countries in the Asia-Pacific region.
 - (3) APEC supports sustainable economic growth in the Asia-Pacific region.
 - A. (1) only
 - B. (3) only
 - C. (1) and (2) only
 - D. (2) and (3) only

3. Which of the following statements about tertiary production is **not** correct?
 - A. Tertiary production includes agriculture and fishing.
 - B. Tertiary production has contributed most of Hong Kong's GDP in recent years.
 - C. Tertiary production has been more significant than primary production and secondary production in terms of employment in recent years.
 - D. As Hong Kong is transforming into a knowledge-based economy, tertiary production has been relatively more important.

4. Which of the following statements about lines of credit and overdrafts are **not** correct?
 - (1) The interest on overdrafts is always lower than that on lines of credit.
 - (2) Lines of credit could create a debt trap for consumers, while overdrafts would not.
 - (3) Both lines of credit and overdrafts offer repayment flexibility.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

5. The following account balances as at 31 December 2021 were extracted from the books of a firm:

	\$
Inventory	15 000
Cash at bank	35 000
Trade receivables	18 000
Trade payables	30 000
Loan from owner (repayable in 2022)	5 000
Six-month bank loan	3 000
Loan to employee (collectible in 2025)	10 000

What is the current ratio of the firm?

- A. 1.39 : 1
 - B. 1.42 : 1
 - C. 1.79 : 1
 - D. 2.10 : 1
6. Which of the following statements regarding the contributions of small and medium enterprises (SMEs) to Hong Kong are correct?
- (1) SMEs produce all of the goods and services that society needs.
 - (2) SMEs offer job opportunities to unskilled and inexperienced labour.
 - (3) SMEs bring keen competition to the market which encourages innovation.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
7. The following tasks are to be performed in an accounting cycle:
- (1) Balancing off the accounts
 - (2) Recording transactions in the books of original entry
 - (3) Preparing a statement of financial position
 - (4) Posting entries to the ledgers

Which of the following is the correct sequence of carrying out the above tasks?

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

8. On 1 May 2021, the firm's bank account and cash in hand account had debit balances of \$5 000 and \$500 respectively. Cash sales during the month were \$11 000. After paying a \$2 000 management fee, the firm banked all of its cash in hand except for \$8 000 left in the cash box at the end of the month. During the month, the owner withdrew \$7 000 from the bank account for personal use.

The bank account had a _____ on 31 May 2021.

- A. credit balance of \$1 000
 - B. credit balance of \$500
 - C. debit balance of \$6 000
 - D. debit balance of \$8 000
9. York invested in a three-year savings plan which guarantees a return of 5% per year, compounded annually. At the beginning of each year for the next three years, he deposited \$6 000, \$3 000 and \$4 000 into the plan respectively. Suppose York withdraws all his money from the plan after three years. Calculate (to 2 decimal place) the amount he will receive at the end of the third year.
- A. \$13 650.25
 - B. \$14 453.25
 - C. \$15 049.13
 - D. \$16 250.13
10. Which of the following accounts must carry a credit balance in a trial balance?
- A. Electricity expense
 - B. Sales returns
 - C. Trade receivables
 - D. Loan from bank
11. Which of the following is a macro-economic factor which leads a company's stock price to drop?
- A. The cost of borrowing decreases due to a reduction in interest rates.
 - B. People become less willing to invest due to an economic downturn.
 - C. There is unexpected bad news about the company.
 - D. The company decides to reduce its dividend due to a decrease in net profit.
12. Which of the following statements about entrepreneurship and entrepreneurs is correct?
- A. Entrepreneurship benefits society by encouraging innovation.
 - B. Any person who operates a business is called an entrepreneur.
 - C. Entrepreneurs benefit the government by providing public services.

- D. An entrepreneur must only start a business in the form of sole proprietorship or limited company.

13. The following account was extracted from the books of Leeds Company:

Poole						
2021			\$	2021		\$
Nov 1	Balance b/d	30 000		Nov 15	Bank	95 500
Nov 10	Sales	100 000		Nov 15	Discounts allowed	4 500
				Nov 20	Returns inwards	5 000
				Nov 30	Balance c/d	25 000
		<hr/>				<hr/>
		130 000				130 000

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

- A. Poole purchased goods costing \$95 500 from Leeds Company on 10 November 2021.
- B. Leeds Company returned goods costing \$5 000 to Poole on 20 November 2021.
- C. Leeds Company received \$95 500 in cash from Poole on 15 November 2021.
- D. Poole owed Leeds Company \$25 000 on 30 November 2021.
14. The Hang Seng Index (HSI) has fallen 10% in a week. This implies that
- A. all investors in the stock market have lost 10% of their money in that week.
- B. the market prices of all of the HSI constituents have dropped in that week.
- C. stock prices in Hong Kong have decreased in general in that week.
- D. other stock market indices will drop in the next few days.
15. On 1 November 2021, the firm bought a set of machines with a list price of \$300 000. Half the payment was made through the owner's personal bank account and the remaining amount was settled by cheque from the business bank account. Before acquiring the machines, the firm's bank account had a debit balance of \$100 000. Which of the following are the net effects of the above transaction on the accounting equation?
- | <u>Assets</u> | <u>Liabilities</u> | <u>Capital</u> |
|---------------|--------------------|----------------|
| A. Increase | Increase | Increase |
| B. Increase | Unchanged | Unchanged |
| C. Increase | Increase | Unchanged |
| D. Increase | Unchanged | Increase |
16. During the COVID-19 pandemic, people wear masks to protect themselves. Which risk management strategy has been used?
- A. Risk avoidance
- B. Risk assumption

- C. Risk reduction
- D. Risk transfer

17. Which of the following statements about the Main Board and the GEM is correct?
- A. A company needs to have at least HK\$500 million in revenue for the most recent audited financial year to be listed on the Main Board, while GEM does not have any requirement.
 - B. A company must have been in operation for at least two years to be listed on the Main Board or the GEM.
 - C. It is usually riskier to invest in stocks on the Main Board than the GEM.
 - D. The companies on the Main Board are usually larger and have less history.
18. Which of the following transaction(s) should **not** be recorded by debiting to the purchases account of the company?
- (1) Goods bought for the owner's private consumption through the company's bank account
 - (2) Goods returned from customers
 - (3) Goods received from a supplier as free samples
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
19. Dundee wants to purchase a computer which costs \$6 000. He expects the computer can generate a net cash inflow of \$3 000 at the end of each year for the next two years and that the computer can be sold for \$2 000 at the end of the second year. Assume the cost of Dundee's capital is 10% per annum. Calculate (to 2 decimal places) the net present value of the computer.
- A. \$859.50
 - B. \$1 009.24
 - C. \$1 380.17
 - D. \$1 545.45
20. Which of the following statements about accounting principles and conventions is correct?
- A. Accounting policies and methods should never be changed in any situation.
 - B. Transactions of two independent firms should be recorded in one accounting book when the firms are owned by the same person.
 - C. The value of non-current assets should be recorded at the cost of purchase when the firm is going into liquidation.
 - D. The value of assets should be recorded at the net realisable value when the firm is going into liquidation.

21. Which of the following characteristics is common to both sole proprietorships and private limited companies?
- A. The tax rate of a sole proprietorship and a private limited company is the same.
 - B. Owners bear unlimited liability.
 - C. It is possible for each to have only one owner.
 - D. They can issue shares to raise capital.
22. A firm bought two pieces of equipment on credit from a supplier for resale, and a 30% trade discount was given. Which of the following double entries should be recorded at the date of purchase?
- A. *Dr* Equipment; *Cr* Accounts payable
 - B. *Dr* Purchases; *Cr* Trade payables; *Cr* Discounts received
 - C. *Dr* Equipment; *Cr* Accounts payable; *Cr* Discounts received
 - D. *Dr* Purchases; *Cr* Trade payables
23. The following are the duties of a finance manager except for
- A. obtaining loans from banks.
 - B. monitoring a company's cash flow.
 - C. advising top management on financial matters.
 - D. devising a compensation system to pay the staff.
24. The following were the account balances of a service firm as at 31 March 2021:

	\$
Interest revenue	7 500
Wages	4 000
Rent and rates	3 700
Services income	52 200
Equipment	5 000
Cash	50 000
Capital	25 000
Drawings	22 000

What was the net profit for the year?

- A. \$30 000
- B. \$52 000
- C. \$52 200
- D. \$57 000

25. Which of the following statements correctly describes the difference between ordinary shareholders and preference shareholders?
- A. Preference shareholders must earn more dividends than ordinary shareholders when the company earns more profit.
 - B. Preference shareholders have voting rights while ordinary shareholders do not.
 - C. Preference shareholders are entitled to receive dividends prior ordinary shareholders.
 - D. Preference shareholders are entitled to special dividend shares while ordinary shareholders are not.
26. The advantages of a flat structure over a tall structure are
- (1) better communication
 - (2) lower administration cost
 - (3) division of labour
 - (4) flexible operation
- A. (2) and (3) only
 - B. (1), (2) and (4) only
 - C. (1), (3) and (4) only
 - D. (1), (2), (3) and (4)
27. Cardiff's business bought a motor van on credit on the last day of the financial year. This transaction would affect
- A. the income statement only.
 - B. the statement of financial position only.
 - C. both the income statement and the statement of financial position.
 - D. neither the income statement nor the statement of financial position.
28. Which of the following are the reasons for firms to adhere to business ethics?
- (1) Unethical actions may damage a firm's image and reputation.
 - (2) Firms may be punished by the government if they do not adhere to business ethics.
 - (3) Creditors may not lend money to the firm anymore.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

29. Which of the following job positions would usually be more suitable for a laissez-faire leader than an autocratic leader?
- (1) Poster designer at a logistics company
 - (2) Crisis management leader at a scientific research centre
 - (3) Writer at a newspaper publisher
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
30. Which of the following is/are the example(s) of a nominal account?
- (1) Purchases
 - (2) Inventory
 - (3) Drawings
- A. (1) only
 - B. (1) and (2) only
 - C. (1) 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. Bath is the owner of a well-known restaurant located in Japan. He plans to expand his business to Hong Kong in a year. A consultant has suggested to him that he can operate a firm in the form of franchising.
 - (a) From Bath's point of view, explain two advantages of operating a firm in the form of franchising.
(4 marks)
 - (b) Explain one political factor and one cultural factor that Bath should consider when setting up a firm in Hong Kong. (4 marks)
2. The Airport Authority Hong Kong is responsible for the operation and management of the Hong Kong International Airport.
 - (a) Which form of business ownership does The Airport Authority Hong Kong belong to? (1 mark)
 - (b) List two characteristics for the form of business ownership mentioned in part (a). (2 marks)
 - (c) Compare with other form of ownership, explain the major disadvantages of the form of ownership of the Airport Authority Hong Kong. (4 marks)
3. In order to revamp its brand, a fashion retailer hires a marketing specialist to coordinate the launch of its new products. Both the marketing specialist and the shop managers at the retail shops can give instructions to the salespeople. All of the salespeople are required to report to both the marketing specialist and the shop managers.
 - (a) What principle of effective management has been violated in the above case? (1 mark)
 - (b) Suggest two problems that might arise when the principle in (a) is violated. (4 marks)

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

4. Derby is the sole owner of a firm that sells dried seafood. The following balances were extracted from the books of her business as at 28 February 2021, the last day of the financial year:

	\$
Inventory, 1 March 2020	58 300
Sales	1 218 840
Purchases	698 543
Returns inwards	32 209
Returns outwards	3 765
Wages and salaries	249 319
Rent and rates	362 212

Inventory as at 28 February 2021 was valued at \$102 500.

- (a) Prepare for Derby's business an income statement for the year ended 28 February 2021.

(5 marks)

Derby's firm has been socially responsible to all of its stakeholders, such as its customers, employees and suppliers.

- (b) (i) Apart from the stakeholders mentioned above, identify another stakeholder of Derby's firm.

(1 mark)

- (ii) Illustrate with two examples how Derby's firm can be socially responsible to its customers.

(4 marks)

5. Ely runs a convenience store. The account balances as at 31 March 2021 extracted from its books are as follows:

	\$
Inventory as at 31 March 2021	250 000
Capital, 1 April 2020	1 000 000
Drawings	220 000
Cash	800 000
Net profit for the year	150 000

Additional information:

- (i) Sales and returns inwards for the year ended 31 March 2021 were \$2 000 000 and \$30 000 respectively.
 - (ii) Gross profit for the year ended 31 March 2021 was \$900 000.
- (a) Calculate (to two decimal places) the following ratios for the year for Ely's store:
- (i) Gross profit ratio (1 mark)
 - (ii) Net profit ratio (1 mark)
 - (iii) Return on capital employed (1 mark)
- (b) Luton runs another convenience store in the same district. Its gross profit ratio, net profit ratio and return on capital employed for the same financial year were 30%, 15% and 20%, respectively. Briefly comment on the profitability of Ely's convenience store for the year as compared with

Ely set the following goals for the next year:

‘Boost sales substantially in the next year.’

- (c) Briefly explain two characteristics of a SMART goal that are missing from the above goal. (4 marks)

END OF PAPER