

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

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.
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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 stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label 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 the 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) Multiple-choice Questions

There are 30 questions in this section. Answer ALL questions. Choose the **best** answer for each question.

- 1 Which of the following is a characteristic of SMEs in Hong Kong?
- A. Flexible operation
 - B. Easy to raise capital
 - C. Dominant in the market
 - D. Separate ownership and management
- 2 The following are the interest rates and compounding frequencies of two savings plans:
Plan I: 8% per annum, compounded semi-annually
Plan II: 7.5% per annum, compounded quarterly
- Plan (1) offers a higher return. If one invests \$5,000 in it, the amount received in two years will be (2).
- | | <u>(1)</u> | <u>(2)</u> |
|----|------------|------------|
| A. | I | \$5,408 |
| B. | I | \$5,849 |
| C. | II | \$5,386 |
| D. | II | \$5,801 |
- 3 Which of the following is a favourable physical factor that Hong Kong possesses?
- A. Proximity to the Mainland
 - B. Efficient government
 - C. Sound legal system
 - D. Good communication network
- 4 Under the Mandatory Provident Fund (MPF) System, which of the following employees need(s) to make the greatest mandatory contribution to an MPF scheme this month?
- | Employee | Descriptions |
|----------|---|
| Anita | A secondary school teacher who has worked in the same school for 10 years. She earns \$40,000 per month. |
| Barry | A pilot with a monthly salary of \$50,000. He has been with his current airline for only a month. |
| Charlie | An office clerk who earns \$30,000 per month. He has worked at his current company for 30 years and will retire next month. |
- A. Barry
 - B. Anita and Barry
 - C. Anita and Charlie
 - D. All of them need to make the same mandatory contribution.

- 5 On 1 June 2017, Gary Lee started a trading business. On that date, he contributed to his business \$25,000 in cash and \$30,000 in equipment. The business also obtained a bank loan of \$120,000 on the same date to purchase a motor van.
- As at 1 June 2017, the capital balance at Gary's business was:
- A. \$25,000
 - B. \$30,000
 - C. \$55,000
 - D. \$175,000
- 6 A company can fulfil its social responsibilities to its employees by
- (1) involving them in all the decision-making processes.
 - (2) giving all of them fair remuneration.
 - (3) providing them with fair promotion opportunities.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
- 7 A large toy chain store winds down. Which of the following are the possible adverse consequences to its stakeholders?
- (1) Customers cannot purchase goods at its stores.
 - (2) Banks may not be able to get back the money they loaned to the company.
 - (3) Toy manufacturers may not be able to distribute their toys through the stores.
- 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 statements about personal financial planning is correct?
- A. Personal financial planning aims at maximising one's wealth before marriage.
 - B. One should only save for retirement after 50 years of age.
 - C. People who are single for their entire life do not need personal financial planning.
 - D. Compared with young single adults, people with children have a stronger need for insurance protection.
- 9 Which of the following are assets of a trading business?
- (1) Motor vehicles purchased for goods deliveries
 - (2) Motor vehicles purchased for resale purposes and not yet sold
 - (3) Motor vehicles owned and used solely by the owner of the business
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

- 10 Anna Lam is a sole trader. Which of the following accounts will be debited to record an increase in the amount?
- (1) Bank loans
 - (2) Cash
 - (3) Electricity
 - (4) Drawings
 - (5) Returns inwards
- A. (1) and (5) only
B. (1), (2) and (4) only
C. (2), (3), (4) and (5) only
D. (1), (2), (3), (4) and (5)
- 11 Which of the following accounts would appear in a trial balance?
- (1) Returns outwards
 - (2) Staff employment contracts
 - (3) Wages and salaries
 - (4) Office equipment
- A. (1) and (2) only
B. (1), (3) and (4) only
C. (2), (3) and (4) only
D. (1), (2), (3) and (4)
- 12 Which of the following are advantages of using credit cards in Hong Kong?
- (1) Cardholders can use their cards to make purchases at all shops in Hong Kong.
 - (2) Cardholders can use their cards to buy expensive items even if they do not have money in their bank accounts.
 - (3) Cardholders can enjoy discounts at certain restaurants if they pay with their credit cards.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
- 13 Which of the following statements about the trade relationship between Hong Kong and the Mainland are correct?
- (1) Hong Kong is the Mainland's largest trading partner.
 - (2) Hong Kong is a major funding centre for Mainland enterprises.
 - (3) The Mainland was an important source of direct investment in Hong Kong.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

- 14 Which of the following items would affect the calculation of gross profit?
- (1) Returns inwards
 - (2) Returns outwards
 - (3) Carriage inwards
 - (4) Carriage outwards
- A. (2) and (4) only
 - B. (1), (2) and (3) only
 - C. (1), (3) and (4) only
 - D. (1), (2), (3) and (4)
- 15 The management of a large company has a goal of lowering costs. Which of the following statements is correct?
- A. The information manager plans to adopt a free system which stores files online.
 - B. The operations manager plans to hire fewer employees to cut labour costs.
 - C. The marketing manager plans to source from cheaper suppliers.
 - D. The human resources manager plans to buy fire insurance from another company.
- 16 In a trial balance, discounts _____ would be listed on the credit side. In an income statement, they would be listed under _____.
- A. allowed; expenses
 - B. allowed; other revenues
 - C. received; expenses
 - D. received; other revenues
- 17 Which of the following descriptions about a joint venture is correct?
- A. A joint venture must operate in the form of a limited company.
 - B. A joint venture can enjoy a tax concession when entering new markets.
 - C. Partners in a joint venture usually share the profits and losses of the joint venture equally.
 - D. The joint venture has a separate legal status from the partners in it.
- 18 The following are balances extracted from Jim Co's books for the year ended 30 September 2017:
- | | |
|-------------------|-----------|
| Opening inventory | \$20,000 |
| Sales | \$250,000 |
| Purchases | \$80,000 |
| Carriage inwards | \$5,000 |
| Carriage outwards | \$8,000 |
| Returns inwards | \$3,500 |
- Given that the closing inventory was half that of the opening inventory, gross profit for the year amounted to
- A. \$143,500.
 - B. \$151,500.
 - C. \$161,500.
 - D. \$167,500.

- 19 On 1 January 2016, Jenny Chan started a business. On that date, she provided to the business a cheque of \$30,000 and premises worth \$220,000. The business earned a net profit of \$88,000 in its first year of operation. During that year, Jenny withdrew \$10,000 from the business bank account for her personal use.
- The capital balance of the business as at 31 December 2016 was
- A. \$88,000.
 - B. \$250,000.
 - C. \$328,000.
 - D. \$348,000.
- 20 If a business has been operating at a loss for five consecutive years,
- A. the going concern concept is no longer applicable.
 - B. this means the business has incurred a gross loss for five consecutive years.
 - C. all business transactions should be recorded on a cash basis.
 - D. All of the above statements are incorrect.

Read the information below and answer questions 21 and 22.

BAFS Cleaning Company Number of owners: 1 Liability: Unlimited
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- 21 Which of the following statements are correct?
- (1) BAFS Cleaning Company is an SME.
 - (2) The company engages in tertiary production.
 - (3) The owner must be the company's only employee.
- 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 are the possible sources of capital for BAFS Cleaning company?
- (1) Personal savings
 - (2) Retained profits
 - (3) Issuing shares to new shareholders
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
- 23 Mr X works at a fashion retail company. He predicts that Hong Kong will experience a warm winter. He plans to launch thin down jacket, instead of thick down jacket, for the coming winter. Mr X is a
- A. marketing manager.
 - B. operations manager.
 - C. information manager.
 - D. finance manager.

- 24 Which of the following is part of the planning process of the marketing department of a business?
- (1) Setting sales targets
 - (2) Assigning salespeople to different sales teams
 - (3) Determining how to allocate resources
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
- 25 Which of the following statements about 'unity of command' is correct?
- A. Each subordinate has only one supervisor to whom he directly reports.
 - B. Each manager should work for a single department.
 - C. A company has only one goal toward which employees should be working.
 - D. Each plan is led by one manager who can assign tasks to employees.
- 26 Which of the following accounting ratios would be affected by a change in the amount of discounts received?
- (1) Gross profit ratio
 - (2) Net profit ratio
 - (3) Return on capital employed
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
- 27 Which of the following statements about the listing requirements of the Main Board and Growth Enterprise Market (GEM) is/are correct?
- (1) To list on the Main Board, a company must have a trading record of at least three financial years.
 - (2) To list on the Main Board, a company must have been previously listed on GEM.
 - (3) To list on GEM, a company must meet certain requirements of cash flows and market capitalisation.
- A. (1) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
- 28 Tina has an eight-year-old daughter. She wants to invest \$100,000 for 10 years in order to save for her daughter's university expenses. Tina does not need to use the money for the 10 years, but she wants to avoid a financial loss. Which of the following financial products is the most suitable for Tina?
- A. Saving deposits
 - B. Common stock issued by a large bank
 - C. Bonds issued by a newly established IT company
 - D. Bonds issued by a large property developer

- 29 Andy & Co took out a six-month bank loan of \$100,000. Which of the following statements must be correct?
- (1) The current ratio of the business fell.
 - (2) The quick ratio of the business fell.
 - (3) The total amount of current liabilities increased.
- A. (3) only
B. (1) and (2) only
C. (1) and (3) only
D. (1), (2) and (3)
- 30 Which of the following statements about business management are correct?
- (1) A tall organisation has more layers than a flat organisation.
 - (2) Under the principle of unity of direction, employees working on the same project have the same goal.
 - (3) Management by Objectives helps enhance coordination between different levels.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

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SECTION B (30 marks) Short Questions

Part 1 (20 marks) Answer **ALL** questions in this part.

1. Dave runs a restaurant in Tsuen Wan. He learns that the government has recalled all meat products supplied by a Brazilian factory. If people consume the tainted meat, they might develop health problems. However, he has a lot of frozen meat stock which was supplied by this factory.

REQUIRED:

- (a) Dave plans to cook the frozen meat and offer it in dishes on the menu at a discounted price for his customers. Explain two possible adverse impacts on his business if newspapers uncover the truth.
- (b) Apart from his customers, identify two types of stakeholders of Dave's business.

(6 marks)

2. You are given the following figures for Ruby's business for the year ended 30 June 2017:

	\$
Premises	1,000,000
Five year bank loan (repayable on 31 December 2017)	100,000
Cash at bank	13,590
Inventory, 30 June 2017	128,135
Trade receivables	66,360
Trade payables	29,590
Capital, 1 July 2016	958,650
Drawings	80,000
Net profit/(loss) for the year	?

REQUIRED:

- (a) Prepare a statement of financial position as at 30 June 2017.
- (b) Calculate (to two decimal places) the quick ratio as at 30 June 2017.

(7 marks)

3. When the central bank of Country X increases the benchmark interest rate, banks in the country also increase their loan rates and deposit rates.

REQUIRED:

- (a) Holding other factors constant, explain how the stock price of a hotel group in Country X would be affected by the increase in interest rates.
- (b) Keith is an employee of a hotel group in Country X. One year ago, he deposited \$50,000 into his bank account at 4.5% per annum, compounded annually. If the bank has just increased the deposit rate by 1%, how much can Keith withdraw a year from now? (Calculate to the nearest dollar)

(7 marks)

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

4. Andy runs a restaurant as a sole proprietor. The following figures were extracted from the books and financial statements of his business as at 31 December 2016, the last day of the financial year:

	\$
Total assets, 31 December 2016	2,500,550
Non-current assets, 31 December 2016	1,888,390
Total liabilities, 31 December 2016	675,800
Non-current liabilities, 31 December 2016	200,000
Capital, 1 January 2016	1,500,000
Net profit for the year	324,750

Andy did not make any drawings during the year.

REQUIRED:

- (a) Calculate (to two decimal places) the following accounting ratios for the year:
- (i) Current ratio
 - (ii) Return on capital employed
- (b) Explain two ways in which Andy can use operations management to reduce labour costs. Illustrate your answers with examples.

(10 marks)

5. Leo operates a tutoring business as a sole proprietor. When he prepared his financial statements for the year ended 30 June 2017, he faced the following problems:

- (1) On 25 February 2017, Leo bought furniture costing \$50,000 for business use. As at the year-end date, the furniture had a market value of \$80,000. Leo was not sure of the value of furniture to show in the statement of financial position as at 30 June 2017. (Ignore depreciation.)
- (2) Mary is a tutor at Leo's business and earns a monthly salary of \$20,000. Her salary for June 2017 was paid on 5 July 2017. Leo was not sure whether Mary's salary for June 2017 should be included in the income statement for the year ended 30 June 2017.

REQUIRED:

- (a) State the correct accounting treatments for situations (1) and (2) with regard to generally accepted accounting principles and conventions.
- (b) As Leo's company gains a reputation, he plans to expand his business. His friend Charles suggests that he should change the company to a private limited company. Outline two advantages associated with this practice.

(10 marks)

END OF PAPER