

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1**

9.00 am – 10.15 am (1 hour 15 minutes)

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.



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

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Not to be taken away before the  
end of the examination session

**SECTION A** (60 marks)

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

1. Mr. Wong is a financial accountant of Global Limited. Which of the following is **not** a duty performed by Mr. Wong?
  - A. prepare budgets
  - B. prepare financial reports
  - C. monitor inventory levels
  - D. liaise with auditors
  
2. The Airport Authority Hong Kong is responsible for the running and management of Hong Kong International Airport and is an example of \_\_\_\_\_ .
  - A. public corporation
  - B. joint venture
  - C. listed company
  - D. franchise
  
3. \_\_\_\_\_ is the process of setting organisational goals, and devising policies and strategies to attain the goals.
  - A. planning
  - B. organising
  - C. leading
  - D. controlling
  
4. Which of the following is regulated by legislation in Hong Kong?
  - A. corporate social responsibility
  - B. compensation for work injuries
  - C. standard working hours
  - D. staff training
  
5. “Five new branches will be opened next year”. This is an example of \_\_\_\_\_ .
  - A. mission
  - B. vision
  - C. long-term goal
  - D. short-term goal
  
6. Peter is the Chief Executive Officer of a company. He always delegates his authority to subordinates and allows them to make their own decisions. Which kind of leadership style does Peter belong to?
  - A. autocratic
  - B. democratic
  - C. free-rein / laissez-faire
  - D. participative

7. Annie and Cathy set up a business in a form of a general partnership. Annie bears unlimited liability and takes part in daily management. However, Cathy does not invest capital and only acts as consultant. Which of the following description is correct?
- Annie is a general partner and Cathy is a limited partner.
  - Annie is a general partner and Cathy is a nominal partner.
  - Annie is a limited partner and Cathy is a nominal partner.
  - Both Annie and Cathy are general partners.
8. Which of the following statement(s) about business ethics is/are **not** correct?
- A business needs to make profits at the expense of the workers' benefit.
  - A business with good business ethics can help build up a positive image.
  - Business ethics have no real benefit to the economic development of the company.
- (1) only
  - (2) only
  - (1) and (3) only
  - (1), (2) and (3)
9. Which of the following statement about delegation is **not** correct?
- When assigning tasks to the subordinates, managers should ensure the subordinates understand the requirements of the tasks.
  - Delegation can enhance subordinates' job satisfaction.
  - Delegation can reduce subordinates' workload.
  - Managers should monitor subordinates' work progress.
10. Mr. Chan has set up a private company, MC Limited, and he is the only shareholder. There are only three employees in MC Limited and none of them has the authority to make business decisions. MC Limited is a \_\_\_\_\_.
- partnership
  - small and medium enterprise
  - listed company
  - public company
11. If Mary wants to set up a private company in Hong Kong, which of the following organisation should she go to?
- Company Registry
  - Inland Revenue Department
  - Hong Kong Monetary Authority
  - Hong Kong Exchanges and Clearing Limited
12. Which of the following is the correct match between different levels and tasks of management?
- | <u>Management level</u>  | <u>Management task</u>                     |
|--------------------------|--|
| L1 top management        | T1 oversee daily operation                 |
| L2 middle management     | T2 formulate company plans                 |
| L3 first-line management | T3 decide the company's vision and mission |
- L1-T3; L2-T1; L3-T2
  - L1-T2; L2-T3; L3-T1
  - L1-T1; L2-T2; L3-T3
  - None of the above

13. Which of the following is **not** the basic listing requirements of the Main Board in Hong Kong?
- market capitalisation
  - cash flow
  - dividend payout
  - profit attributable to shareholders
14. Which of the following is **not** a circumstance stating which a Mandatory Provident Fund scheme member can withdraw their money before the age of 65?
- permanent departure from Hong Kong
  - having an account balance of less than \$6 000
  - total incapacity
  - early retirement at the age of 60
15. Which of the following statement about the functions of accounting is **not** correct?
- Bookkeeping consists of recording, classifying and summarising.
  - Accounting is not equal to bookkeeping.
  - Accounting information is provided to the management for decision-making.
  - Accounting information is business secrets which would not be disclosed to external parties.
16. Which of the following classification is correct?
- |    | <u>Assets</u>    | <u>Liabilities</u> |
|----|------------------|--------------------|
| A. | cash             | rental expenses    |
| B. | sales            | loan from Mr. Wong |
| C. | motor van        | bank overdraft     |
| D. | office equipment | capital            |
17. Marble Company rented a property to Mr. Chan for \$144 000 per year. For the year ended 31 December 2015, \$120 000 was received from Mr. Chan and Marble Company only recorded this amount in the income statement. Which of the following accounting principle or concept has been violated?
- accrual basis
  - business entity
  - consistency
  - going concern
18. Which of the following is **not** the characteristic of small and medium enterprises in Hong Kong?
- lower capital requirements
  - lower tax rate
  - closer customer relationship
  - simple organisational structure
19. Which of the following account has a normal balance on the debit side?
- sales
  - bank loan
  - trade receivables
  - capital

20. As at 31 December 2015, Butterfly Company had net sales amounting to \$400 000 and its gross profit ratio was 50% and net profit ratio was 37.5%. What was the amount of its operating expenses on that date?
- A. \$20 000
  - B. \$50 000
  - C. \$150 000
  - D. \$200 000
21. Which of the following item would not be shown on the income statement?
- A. rental expenses
  - B. opening inventory
  - C. inventory loss
  - D. drawings
22. If credit sales of \$200 were wrongly recorded in the sales account as \$2 000, \_\_\_\_\_ .
- A. the total of credit balances will be \$2 000 larger than the total of debit balances in the trial balance
  - B. the total of credit balances will be \$1 800 larger than the total of debit balances in the trial balance
  - C. the total of debit balances will be \$2 000 larger than the total of credit balances in the trial balance
  - D. the total of debit balances will be \$1 800 larger than the total of credit balances in the trial balance
23. Which of the following is/are the limitation(s) of financial statements?
- (1) report past results only
  - (2) provide quantitative information only
  - (3) end at the same financial year-end dates for many firms
- A. (1) only
  - B. (2) only
  - C. (1) and (2) only
  - D. (1), (2) and (3)
24. \_\_\_\_\_ refers to a person who runs and manages a business, and bears all the risks and takes the rewards of the business.
- A. Manager
  - B. Shareholder
  - C. Entrepreneur
  - D. None of the above
25. Perry has made an investment which provides him with voting right at the annual general meeting of the company, but he may not receive dividends if the company does not perform well. What kind of investment did Perry make?
- A. common stock / ordinary shares
  - B. preferred stock / preference shares
  - C. bonds / debentures
  - D. term deposits

Based on the following information, answer Questions 26 and 27.

Andy has the following financial information for the year ended 31 December 2015:

	\$
Inventory, 1 January 2015	25 000
Inventory, 31 December 2015	38 000
Returns outwards	5 000
Returns inwards	13 000
Carriage inwards	18 000
Carriage outwards	50 000
Sales	350 000
Purchases	280 000

26. The net sales for the year 2015 was?
- A. \$332 000
  - B. \$337 000
  - C. \$350 000
  - D. \$368 000
27. The cost of goods sold for the year 2015 was?
- A. \$235 000
  - B. \$262 000
  - C. \$267 000
  - D. \$280 000
28. Which of the following investment generates the lowest return?
- A. Principal \$12 000; 20% interest per annum; compounded semi-annually
  - B. Principal \$12 000; 21% interest per annum; compounded annually
  - C. Principal \$10 000; 22% interest per annum; compounded semi-annually
  - D. Principal \$10 000; 23% interest per annum; compounded annually
29. Which of the following about risk and return in investment decisions is **not** correct?
- A. Bond is a risk-free investment tool.
  - B. Expected return on an investment depends on its risk level.
  - C. Diversification reduces risk by holding a variety of assets.
  - D. Inflation risk is comparatively lower during a period of deflation.
30. Which of the following can help an individual maintain a good credit record?
- (1) plan for consumption
  - (2) prepare a budget
  - (3) apply more credit cards
- A. (1) only
  - B. (1) and (2) only
  - C. (2) 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. (a) What are multinational corporations (MNCs)? List two characteristics of MNCs. (3 marks)
- (b) How do MNCs contribute to Hong Kong's economy? List three ways. (3 marks)

2. Silver City Limited has four departments, namely human resources department, sales and marketing department, purchasing department and accounting department. Employees of these departments have their own duties.

- (a) Which method of forming departments is adopted by Silver City Limited? (1 mark)
- (b) State two tasks within human resources department. (2 marks)
- (c) Explain two advantages of division of work. (2 marks)

3. Complete the following double-entries for a sole proprietorship, Jennifer Supermarket:

	Transactions	Account to be debited	Account to be credited
(a)	Bought a motor vehicle from Mr. Lee on credit.		
(b)	Cash sales to Lily.		
(c)	Jennifer, the owner, took a printer for her own use.		
(d)	Obtained a loan of from Mr. Chan for business use. Jennifer deposited the amount in the company's bank account.		

(4 marks)

4. Eva is considering purchasing a new motor vehicle for her business. The list price of the motor vehicle is \$60 000. She expects that the motor vehicle will be used for three years and that it will be sold for \$5 000 at the end of Year 3.

- (a) Suppose the estimated future cash inflows generated by the motor vehicle is \$20 000 each year and the cost of capital is 10%, calculate the net present value. Should Eva purchase the motor vehicle? (Note: Correct all amounts to the nearest dollar.) (3 marks)
- (b) What is the difference between nominal rate of return and effective rate of return? (2 marks)

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**Go to page 9 for Part 2 of Section B.**



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

**Based on the following information, answer either Question 5 or 6.**

Good Taste Company is an established corporation running five bakeries in Hong Kong. The following balances were obtained from the books of accounts as at 31 December 2015:

	\$
Inventory, 1 January 2015	174 000
Inventory, 31 December 2015	135 000
Cash	100 000
Furniture and fixtures (net)	350 000
Accounts receivable	50 000
Accounts payable	120 000
Drawings	22 000
Sales for the year 2015	150 000
Gross profit for the year 2015	85 000
Net profit for the year 2015	?
Capital, 1 January 2015	500 000

**Answer ONE question.**

5. (a) Prepare for Good Taste Company the statement of financial position as at 31 December 2015. (5 marks)
- (b) In order to boost the sales, Good Taste Company is going to adopt an e-commerce model which the customers can make orders through its company website. A new information manager is recruited and he is responsible for collecting the data and information from the online ordering system.
- (i) State any two issues of concern related to the online ordering system. (2 marks)
- (ii) State three functions of information management. (3 marks)
- (Total: 10 marks)
6. (a) Calculate (to two decimal places) the following ratios for the year 2015 for Good Taste Company:
- (i) Current ratio
- (ii) Quick ratio
- (iii) Gross profit ratio (as a percentage) (3 marks)
- (b) State two functions of accounting ratios. (2 marks)
- (c) The Executive Director of Good Taste Company is going to set the goal of boosting sales. Describe the characteristics of an effective goal. (5 marks)
- (Total: 10 marks)

**END OF PAPER**