

FUKIEN SECONDARY SCHOOL  
S6 First Term Uniform Test (2020-2021)  
Business, Accounting and Financial Studies  
(2 hours)

Date: 20<sup>th</sup> October 2020  
Time: 10:30a.m. – 12:30p.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 is a benefit of using credit cards?
  - A. Cardholders can purchase goods and services with a credit card at any shops.
  - B. Cardholders do not need to pay interest as long as they have settled the monthly minimum payment.
  - C. There is no upper spending limit when using a credit card.
  - D. Cardholders do not need to settle the outstanding balance in full at the end of each month.
  
2. Which of the following statements about partners is/are correct?
  - (1) A nominal partner is an owner of the partnership.
  - (2) A limited partner can take part in the management of the partnership.
  - (3) A general partner bears unlimited liability.
  - A. (1) only
  - B. (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
3. Which of the following savings plans offers the highest return in six months for a \$20 000 deposit?
  - A. Plan A: Offers an annual interest rate of 6.5%, compounded annually
  - B. Plan B: Offers an interest rate of 6.5% per annum, compounded semi-annually
  - C. Plan C: Offers a nominal interest rate of 6.5% per year, compounded quarterly
  - D. Plan D: Offers a lump sum of \$20 630 in six months, including the principal
  
4. Which of the following statements about business ownership is/are correct?
  - (1) A joint venture has lower operational risk compared to a sole proprietorship.
  - (2) A partnership can have more than 10 partners.
  - (3) A limited company can issue shares to the general public to raise capital.
  - A. (2) only
  - B. (3) only
  - C. (1) and (2) only
  - D. (1) and (3) only
  
5. Which of the following statements about division of work is correct?
  - (1) It facilitates automation of production.
  - (2) Even if a worker makes mistakes, the entire production process will not be affected.
  - (3) Workers can find it easier to master the production process for which they are responsible.
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

6. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong are correct?
- (1) The majority of businesses in Hong Kong are SMEs.
  - (2) SMEs can enjoy tax concessions in Hong Kong.
  - (3) SMEs provide goods and services to large businesses.
- 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 employees is/are required to contribute to the Mandatory Provident Fund scheme?
- (1) A part-time boutique staff member who works for 40 days.
  - (2) A construction worker who works for a week.
  - (3) A self-employed person, aged 68, who drives a taxi.
- A. (1) only
  - B. (2) only
  - C. (3) only
  - D. (1), (2) and (3)
8. Which of the following statements about the Hang Seng Index (HSI) is **not** correct?
- A. Its constituent stocks are adjusted from time to time.
  - B. It reflects the general price movements of stocks listed on the Hong Kong stock market.
  - C. 'Properties' is one of the sub-indexes of the HSI.
  - D. Its constituent stocks include H-shares, red chips and foreign companies.
9. Which of the following statements about the basic requirements for new applicants of listing on the GEM (previously known as Growth Enterprise Market) are correct?
- (1) Applicants must have at least two years of trading records.
  - (2) Applicants must be public limited companies.
  - (3) Applicants must fulfill the requirement of a profit test.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
10. Which of the following descriptions about the Hong Kong economy is/are correct?
- (1) 50% of the working population are in the secondary sector
  - (2) rely heavily on external trade
  - (3) quota is implemented on all goods imported from other Asian countries except the Mainland
- A. (2) only
  - B. (3) only
  - C. (1) and (2) only
  - D. (2) and (3) only

11. On 1 January 2019, Jenny started a business and contributed equipment of \$350 000 to her business. The business also took out a bank loan of \$90 000 as at the same date to purchase inventory. Net profit during the first year amounted to \$128 000. During the year, Jenny withdrew \$2 000 each month from the business bank account for personal use.

Capital of the business as at 31 December 2019 amounted to \_\_\_\_\_.

- A. \$220 000
- B. \$350 000
- C. \$454 000
- D. \$476 000

12. Which of the following should be credited to the purchases account of a firm?

- (1) goods returned to the suppliers
- (2) goods withdrawn by the owners for personal use
- (3) goods donated to a retirement home

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

13. The following is a list of the account balances in the trial balance of a firm as at 31 December 2018:

|                           |         |
|---------------------------|---------|
|                           | \$      |
| Sales                     | 185 000 |
| Inventory, 1 January 2018 | 28 500  |
| Office equipment          | 36 000  |
| Short-term bank loan      | 30 000  |
| Trade receivables         | 17 000  |
| Purchases                 | 75 400  |
| Operating expenses        | 25 590  |
| Drawings                  | 5 000   |
| Cash at bank              | 111 510 |
| Capital, 1 January 2018   | ?       |

What was the amount of capital as at 1 January 2018?

- A. \$74 000
- B. \$84 000
- C. \$293 200
- D. \$303 200

14. Which of the following statements about Management by Objectives are **not** correct?

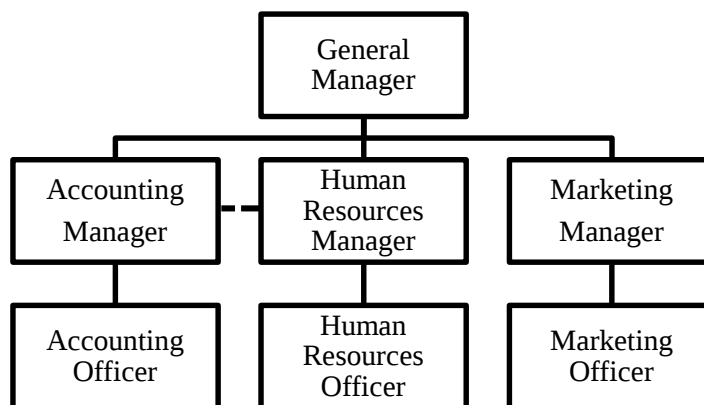
- (1) Managers set objectives themselves for employees.
- (2) Regular meetings are held by managers to review the work progress of employees.
- (3) It can enhance the motivation of managers as their workload is shared by employees.

- 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 are the advantages of becoming a franchisee?

- (1) The risk of launching new products can be shared.
  - (2) Franchisors provide a wide range of support to franchisees.
  - (3) Franchisees can enjoy the benefits of a large shop such as bulk sales discounts.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

16. Based on the following organisational chart, which of the statements are correct?



- (1) It applies the principle of unity of command.
  - (2) The Human Resources Manager has staff authority over the Accounting Manager.
  - (3) The span of control of the General Manager is three.
- 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 about income statement is correct?

- A. The statement shows the arithmetical accuracy of bookkeeping entries.
- B. The statement applies the accrual concept in its preparation.
- C. The statement forecasts the sales revenue for the next accounting year.
- D. The statement shows the balances of real accounts of the business.

18. Which of the following about the risks and returns of investments is/are correct?

- (1) Investing in high risk financial products may earn a high return.
  - (2) Investors may earn capital gains and interest as returns for investing in bonds.
  - (3) Investing in government bonds is risk free.
- A. (1) only
  - B. (2) only
  - C. (1) and (2) only
  - D. (1), (2) and (3)

19. Which of the following descriptions about entrepreneurs is **not** correct?

- A. They take risk to set up businesses.
- B. They provide innovative products.
- C. They promote economic growth by driving away competition.
- D. They organise production for goods and services.

20. Given the gross profit margin is 25%, calculate the amount of closing inventory based on the following data:

|                   |        |
|-------------------|--------|
|                   | \$     |
| Sales             | 76 000 |
| Closing inventory | ?      |
| Opening inventory | 10 000 |
| Carriage outwards | 11 400 |
| Purchases         | 51 000 |

- A. \$3 000
- B. \$4 000
- C. \$5 000
- D. \$6 000

21. Which of the following are the duties of middle management in a supermarket chain?

- (1) resolving operational problems and improving the company's performance
  - (2) acting as a bridge between top managers and first-line managers
  - (3) resolving conflicts among front-line workers of the shop
- 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 tasks are performed by the operations management department of a restaurant?

- (1) design an effective process to shortening customers' waiting time
  - (2) minimise wastage of produce items due to overstocking
  - (3) plan menu item to satisfy customers' wants
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

23. According to the accounting assumptions, principles and conventions, which of the following accounting treatments is correct?

- A. The owner of a business treated his spending of family dinners as a business expense.
- B. When a business is to be liquidated soon, its assets should be valued at historical cost.
- C. A firm changes the accounting methods it adopts to show a more accurate view of business.
- D. A Chan owns two separate firms. To save time, he puts the financial records of the two firms in one book.

24. On 30 June 2020, the acid-test ratio of a firm was 0.6:1. On that date, the account balances of the firm were as follows:

|                                       | \$     |
|---------------------------------------|--------|
| Inventory                             | 45 000 |
| Bank overdraft                        | 2 000  |
| Loan from Ken (repayable in May 2021) | 13 000 |
| Cash                                  | 10 000 |
| Trade receivables                     | 80 000 |

Based on the above information, calculate the amount of trade payables as at 30 June 2020.

- A. \$135 000  
 B. \$148 000  
 C. \$150 000  
 D. \$210 000
25. The following account was extracted from the books of Alex's firm:

| Kim  |    |             |               |      |    |                   |               |
|------|----|-------------|---------------|------|----|-------------------|---------------|
| 2020 |    |             | \$            | 2020 |    |                   | \$            |
| Jan  | 1  | Balance b/d | 18 200        | Jan  | 19 | Bank              | 15 200        |
| Jan  | 16 | Sales       | 3 500         | Jan  | 19 | Discounts allowed | 800           |
|      |    |             |               | Jan  | 31 | Balance c/d       | 5 700         |
|      |    |             | <u>21 700</u> |      |    |                   | <u>21 700</u> |

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

- A. Alex's firm owed Kim \$18 200 on 1 January 2020.  
 B. Alex sold goods for a cheque of \$15 200 to Kim's firm on 19 January 2020.  
 C. Alex allowed a trade discount of \$800 to Kim on 19 January 2020.  
 D. The account has a debit balance as at 31 January 2020.
26. A firm received cash from a credit customer to settle its account. The amount received was used to repay a loan and rental expenses of the proprietor's residence. Which of the following are the effects of this transaction on the accounting equation?

- | <u>Assets</u> | <u>Capital</u> | <u>Liabilities</u> |
|---------------|----------------|--------------------|
| A. unchanged  | unchanged      | unchanged          |
| B. decrease   | unchanged      | unchanged          |
| C. increase   | decreases      | decrease           |
| D. decrease   | decreases      | decrease           |
27. Which of the following statements about economic and business relationship between Hong Kong and the Mainland are correct?
- (1) Most products of Hong Kong origin are eligible for zero tariff when entering into the Mainland market.  
 (2) Hong Kong is the largest source of overseas direct investment in the Mainland.  
 (3) Hong Kong is the largest trading partner of the Mainland.
- A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)

28. Which of the following statements about business ethics is/are correct?

- (1) It is the moral principles, values and beliefs which govern the behaviours of a business.
- (2) Business actions that are unethical must be legally unacceptable.
- (3) Ethical behaviour in business may decrease the operating costs of a business in the long run.

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

29. John is 70 and retired last year. According to his life stage, which of the following are the main concerns of his financial planning?

- (1) arrange his estate properly
- (2) pay daily expenses to maintain his living
- (3) create and accumulate wealth

- 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 a real account?

- A. drawings account
- B. returns inwards account
- C. purchases account
- D. rental deposit account

**End of Section A**

**Section B** (55 marks)

1. The aim of Peter Company this year is to increase sales. However, the finances manager wants to decrease the marketing promotion budget by 80%.
  - (a) State the principle of effective management that has been violated in the case above. (1 mark)
  - (b) Explain two disadvantages of violating the principle of effective management in (a) above. (4 marks)
  - (c) Explain how each of the following business functions can help the marketing manager to increase sales of the company:
    - (i) information management (2 marks)
    - (ii) human resources management (2 marks)
2. Hong Kong has two theme parks, Ocean Park Corporation, a public corporation, and Hong Kong Disneyland.
  - (a) Apart from wholly owned by the government, state two features of a public corporation. (2 marks)
  - (b) For each of the following stakeholders, illustrate with one example how Hong Kong Disneyland can ensure that its operation is socially responsible:
    - (i) society (2 marks)
    - (ii) customers of the firm (2 marks)
3. The following figures are extracted from the books of Jacky Mo's business for the year ended 31 December 2019:

|                                              | \$        |
|----------------------------------------------|-----------|
| Office equipment                             | 2 000 000 |
| 5-year bank loan (repayable on 30 June 2020) | 50 000    |
| Cash at bank                                 | 53 590    |
| Inventory, 31 December 2019                  | 158 005   |
| Trade receivables                            | 45 660    |
| Trade payables                               | 39 110    |
| Capital, 1 January 2019                      | 1 558 650 |
| Motor vehicles                               | 100 000   |
| Drawings                                     | 10 000    |
| Net profit/(loss) for the year               | ?         |

As at 31 December 2018, the working capital ratio of Jacky Mo's firm was 2.20:1.

- (a) Prepare the statement of financial position as at 31 December 2019. (6 marks)
- (b) Based on the working capital ratio (to two decimal places), briefly comment on the liquidity of Jacky Mo's business as at 31 December 2019. (3 marks)

4. Dickson is interested in investing shares. His broker recommends him to invest in Skyline Airways Limited, a long-established listed company based in Hong Kong. This airline company has a wide network serving travellers all over the world.

- (a) As an investor, what rights does Dickson have? List any two. (2 marks)
- (b) Ignoring other factors, explain how each of the following two policies may affect the share price of Skyline Airways Limited:
- (i) travel restrictions due to COVID-19 (2 marks)
- (ii) decrease of interest rate (2 marks)

5. Rachel Company produces mobile phones. It has three different models: X1, X2 and X3 respectively. The budgeted financial results for the year ended 31 December 2021 are as follows:

|                         | X1               | X2                 | X3                 | Total              |
|-------------------------|------------------|--------------------|--------------------|--------------------|
|                         | \$               | \$                 | \$                 | \$                 |
| Sales                   | 2 000 000        | 4 000 000          | 1 200 000          | 7 200 000          |
| Variable cost           | <u>(800 000)</u> | <u>(2 800 000)</u> | <u>(1 080 000)</u> | <u>(4 680 000)</u> |
| Contribution margin     | 1 200 000        | 1 200 000          | 120 000            | 2 520 000          |
| Fixed cost:             |                  |                    |                    |                    |
| Share of factory rental | (120 000)        | (240 000)          | (72 000)           | (432 000)          |
| Rent of equipment       | (45 000)         | (60 000)           | (30 000)           | (135 000)          |
| Administrative expenses | <u>(60 000)</u>  | <u>(40 000)</u>    | <u>(40 000)</u>    | <u>(140 000)</u>   |
|                         | <u>975 000</u>   | <u>860 000</u>     | <u>(22 000)</u>    | <u>1 813 000</u>   |

Model X3 is not profitable and the management is considering eliminating this product. Relevant information is as follows:

- (i) Some customers of Model X3 will purchase Model X1 instead. It is estimated that the sales of Model X1 will increase by 5%.
- (ii) A long-term lease contract is signed for the factory and cannot be terminated. After eliminating Model X3, the idle factory space will have no alternative use.
- (iii) Equipment rented to produce Model X3 can be sub-let to another factory at full cost.
- (iv) Administrative expenses are allocated to the products based on their usage of the administrative resources. Three-fifth of the administrative cost originally allocated to Model X3 will still have to be paid.

**REQUIRED:**

- (a) Assuming Model X3 will be dropped from 1 January 2021, prepare an overall budgeted income statement for Rachel Company for the year ended 31 December 2021. (4 marks)
- (b) Based on your answer in (a), briefly explain whether Rachel Company should drop Model X3. (1 mark)

6. Kelly Company produces and sells two types of products: A and B. The budgeted information about the two products for 2021 is as follows:

|                                        | <b>Product A</b> | <b>Product B</b> |
|----------------------------------------|------------------|------------------|
| Production and sales volume (in units) | 500              | 1 000            |
| Unit selling price                     | \$600            | \$250            |
| Unit production costs:                 |                  |                  |
| Direct material                        | \$280            | \$93             |
| Direct labour                          | \$60             | \$50             |
| Variable production overheads          | \$26             | \$13             |
| Fixed production overheads             | ?                | ?                |

Additional information:

- (i) Fixed production overheads is \$4 per machine hour used by the product. Product A requires 2 machine hours and Product B requires 1.5 hours. Kelly Company is currently operating at its full production capacity as total machine hour capacity is fully utilised.
- (ii) Selling expenses for the year 2021 is budgeted at \$51 000, including sales commission of the two products. Sales commission is calculated at 2% of the sales for both products. The sales commission is the only variable cost in the selling expenses.
- (iii) Administrative expenses of \$30 000 are all fixed.

**REQUIRED:**

- (a) Calculate the budgeted total fixed cost of Kelly Company for the year 2021. (3 marks)
- (b) Calculate the breakeven sales revenue as a whole for 2021, assuming that the sales volume (in units) of Product A and Product B is maintained at a ratio of 1:2. (4 marks)

7. Alex and Gilbert had been in a partnership for a number of years, sharing profits and losses in the ratio of 3:2. The partnership used a fluctuating capital system. The capital account balances of Alex and Gilbert as at 1 January 2020 were \$325 000 and \$268 000 respectively.

On 1 January 2020, Alex retired and Cherry was admitted into the partnership with the following arrangements:

- (i) Goodwill was to be valued at \$120 000. It was decided that no goodwill account was to be kept in the books.
- (ii) The profit and loss sharing ratio is: Gilbert 70% and Cherry 30%. Gilbert is entitled to a salary of \$18 000 per quarter. Interest is allowed on capital at 3% per annum.
- (iii) Except for equipment which were revalued upward by \$30 000 to \$200 000, the fair value of other assets of the partnership at 1 January 2020 were ascertained to be equal to their book value.
- (iv) The new partnership would maintain a total fixed capital of \$400 000, contributed by the partners in their new profit and loss sharing ratio. Gilbert will transfer any surplus or deficiency in fixed capital to or from the current account to be set up.
- (v) \$200 000 of the amount due to Alex would be left as a loan to the partnership, with an annual interest rate of 4%. The balance was to be paid on his retirement date.

**REQUIRED:**

- (a) Prepare the capital accounts in columnar from the partners at 1 January 2020 to record the admission of Cherry and retirement of Alex. (6 marks)
- (b) If the net profit before interest for the year ended 31 December 2020 was \$250 000, prepare the appropriation account for the year ended 31 December 2020. (4 marks)
- (c) Prepare the partners' current accounts of Gilbert and Cherry in columnar form. (3 marks)

**END OF PAPER**