

## 1. SP.MC.Q17

Which of the following are required to join a Mandatory Provident Fund (MPF) scheme in Hong Kong?

- (1) Self-employed hawkers
- (2) A sole proprietor, or partner of a partnership type business
- (3) People from overseas who work for a 2-year contract as domestic helpers
- (4) People aged between 18 and 65 working under an employment contract for a continuous period of not less than 60 days on a part-time basis

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

## 2. PP.MC.Q13 [Modified]

In the life-cycle context, which of the following is the major financial need of retired people?

- A. create and accumulate wealth
- B. insure on earning ability
- C. arrange for children's educational fees
- D. plan for medical expenses

## 3. 2012.MC.Q5

Which of the following types of employee is exempted from joining the Mandatory Provident Fund scheme?

- A. construction workers
- B. security guards
- C. catering workers
- D. domestic employees

## 4. 2012.MC.Q9

On the first day of 2012, Johnny deposited \$6000 into a fixed-interest bank account. Suppose the interest rate on the deposit is 4% per annum compounded annually, find out (to the nearest dollar) the total amount Johnny could withdraw at the end of 2014.

- A. \$6480
- B. \$6720
- C. \$6749
- D. \$7019

## 5. 2012.MC.Q21

Which of the following client information is the least relevant factor for a bank to reject a client's application for a credit card?

- A. record of repayment
- B. degree of loyalty to the bank
- C. level of outstanding debts
- D. record of bankruptcy

## 多項選擇題答案 Answers to Multiple Choice Questions

1.	C	11.	D (58)	21.	B (74)	31.	C (64)	41.	A (70)	51.	
2.	D	12.	D (78)	22.	D (60)	32.	B (30)	42.	B (62)	52.	
3.	D (74)	13.	A (52)	23.	D (66)	33.	A (74)	43.	D (50)	53.	
4.	C (71)	14.	C (70)	24.	C (62)	34.	D (66)	44.	C (61)	54.	
5.	B (84)	15.	D (95)	25.	C (35)	35.	B (30)	45.	A (57)	55.	
6.	A (73)	16.	B (67)	26.	B (90)	36.	D (55)	46.	C (51)	56.	
7.	B (82)	17.	A (59)	27.	B (55)	37.	D (61)	47.	D (48)	57.	
8.	C (63)	18.	D (81)	28.	A (56)	38.	D (38)	48.	A (43)	58.	
9.	C (41)	19.	A (70)	29.	A (60)	39.	C (65)	49.	B (56)	59.	
10.	A (57)	20.	D (58)	30.	D (57)	40.	B (51)	50.	D (19)	60.	

## 6. 2012.MC.Q26

The effective rate of return on a time deposit is raised if

- A. the frequency of compounding is higher.
- B. the principal is larger.
- C. the period of deposit is shorter.
- D. the cost of capital is lower.

## 7. 2013.MC.Q6 [Modified A &amp; D]

Which of the following statements is correct?

- A. Ordinary shareholders have voting right in board of directors' meetings.
- B. An investment instrument with a higher risk may yield a higher return.
- C. Market risk can be avoided by investing in various financial products.
- D. Investment in preference shares is more risky than in the ordinary shares of a company.

## 8. 2013.MC.Q15

A bank launches the following saving plans:

	Plan I	Plan II	Plan III
Interest rate	5% per annum	5.5% per annum	6% per annum
Frequency of interest compounding	quarterly	Half-yearly	yearly

Which plan(s) offer(s) the highest return after two years?

- A. Plan I
- B. Plan II
- C. Plan III
- D. Plan I and Plan III

## 9. 2014.MC.Q4

Which of the following statements about the Mandatory Provident Fund (MPF) system is correct?

- A. Self-employed persons are not required to enrol in an MPF scheme.
- B. Employees covered by the MPF system are required to contribute 5% of their income.
- C. Employees can choose to make extra voluntary contributions in addition to the regular mandatory contributions.
- D. MPF scheme members can withdraw their accrued benefits when they reach the age of 60.

## 10. 2014.MC.Q8

Which of the following statements about credit cards are correct?

- (1) A credit limit is set.
  - (2) A minimum payment is set for the outstanding balance.
  - (3) Interest will not be charged on the remaining balance if the minimum payment is made before the due date.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only

## D. (1), (2) and (3)

## 11. 2014.MC.Q13

Elsa plans to use the net present value to decide whether to buy a piece of office equipment. Which of the following pieces of information does she need to make the decision?

- (1) Cost of capital
  - (2) Cashflows arising from the acquisition and use of the office equipment
  - (3) Scrap value of the office equipment at the end of its useful life
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

## 12. 2014.MC.Q27

Which of the following financial products carries the highest investment risk?

- A. Saving deposits
- B. Time deposits
- C. Preference shares
- D. Ordinary shares

## 13. 2014.MC.Q28

Maintain a good personal credit record is important because it will \_\_\_\_\_.

- (1) Lower the cost of loans
  - (2) Increase the chance of getting loans
  - (3) Increase the upper limit of 70% on mortgage loans from banks.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

## 14. 2015.MC.Q8

Mr Cheung plans to buy a residential property. Which of the following types of credit arrangement is most appropriate for him?

- A. credit card
- B. personal loan
- C. mortgage loan
- D. bank overdraft



## 15. 2015.MC.Q17

On 1 January 2014, Mr Wong deposited \$ 500 000 into a saving plan which offers a return of 5% per year, compounded annually. The total amount of money Mr Wong will get from the plan after 3 years is \_\_\_\_\_ (to the nearest dollar).

- A. \$431 919
- B. \$525 000
- C. \$551 250
- D. \$578 813

## 16. 2015.MC.Q20

Under which of the following circumstances can be a scheme member withdraw the accrued benefits from the Mandatory Provident Fund scheme?

- (1) Early retirement at the age 60
- (2) Unemployed for more than 6 months
- (3) Permanent departure from Hong Kong

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

## 17. 2015.MC.Q28

Which of the following are the responsibilities of an individual investor?

- (1) understand the terms before signing a contract
- (2) check account statements from time to time
- (3) attend the Annual General Meeting of the company invested in

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

## 18. 2016.MC.Q4

Anna has just retired at the age 65 and has received a substantial amount from a provident fund. She plans to invest the money to get some return but she is not willing to take high risks. Which of the following financial instruments is the **least** suitable for her?

- A. term deposits
- B. saving deposits
- C. iBond
- D. shares

## 19. 2016.MC.Q9

A credit card user

- (1) can buy goods and services overseas with a credit card issued in Hong Kong.
- (2) can settle the whole outstanding balance of the statement by the due date in order to avoid interest charges.
- (3) Can enjoy a lower interest rate to settle the overdue credit card balance than for a personal loan.

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

## 20. 2016.MC.Q14

A bank offers a saving plan which requires an initial deposit of \$100 000. The plan generates the following cash flows at the end of subsequent years:

	\$
Year 1	20 000
Year 2	35 000
Year 3	55 000

Given a discount rate of 5% p.a., what is the net present value of the saving plan?

- A. \$10 000
- B. \$9523.81
- C. \$4761.90
- D. -\$1695.28

## 21. 2016.MC.Q19

Peter wants to deposit \$500 000 in a bank for half a year. The bank offers him the following saving plans.

Which plan offers the highest return?

- A. a lump sum interest of \$6000 at the end of half a year.
- B. an interest rate of 2.4% p.a., compounding quarterly.
- C. an interest rate of 2.4% p.a., compounding half-yearly.
- D. an interest rate of 2.4% p.a., compounding annually.

22. 2016.MC.Q25

Simon is a self-employed fashion designer. He

- (1) has the right not to enrol into an Mandatory Provident Fund (MPF) scheme.
  - (2) has the right to make voluntary contributions to the MPF scheme.
  - (3) has the right to withdraw his accrued benefits from the MPF scheme before reaching the age 65 if he migrates to another country.
- A. (1) only  
 B. (2) only  
 C. (3) only  
 D. (2) and (3) only

23. 2016.MC.Q27

Compared with the Main Board's basic listing requirements,

- the operating history requirement for Growth Enterprise Market applicants is (1).
  - the market capitalisation requirement for Growth Enterprise Market applicants is (2).
- |    | (1)      | (2)      |
|----|----------|----------|
| A. | looser   | stricter |
| B. | stricter | looser   |
| C. | stricter | stricter |
| D. | looser   | looser   |

24. 2017.MC.Q3

Which of the following statements about Hang Seng Index is **not** correct?

- A. Its sub-indexes are: Finance, Utilities, Properties, and Commerce and Industry.
- B. It measures the performance of the largest and most liquid companies listed in Hong Kong.
- C. It includes 50 stocks listed on the Growth Enterprise Market.
- D. It serves as a benchmark of the general performance of the Hong Kong stock market

25. 2017.MC.Q7

Anna is 62 years old and works as a part-time consultant in a firm, with a monthly salary of \$40 000. Under the Mandatory Provident Fund System, what will be the amount Anna contributes each month?

- A. \$4000
- B. \$2000
- C. \$1500
- D. \$0

26. 2017.MC.Q10

Mr Lee is going to deposit an amount into a savings account with interest of 7% per year, compounded annually. He wants to receive a sum of \$150 000 from the account after 3 years. How much should he put into the savings account now?

- A. \$120 654
- B. \$122 445
- C. \$131 016
- D. \$183 756

27. 2017.MC.Q13

If the nominal rate of return remains unchanged, which of the following statements about the effective rate of return are correct?

- (1) Effective rate of return reflects the actual return on an investment.
- (2) Effective rate of return will be higher if the amount of the principal increases.
- (3) Effective rate of return will be higher if the frequency of compounding increases.

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

28. 2017.MC.Q17

The following are the basic listing requirements for new applicants to list their stocks on the Main Board of the Stock Exchange of Hong Kong except \_\_\_\_\_.

- A. size of workforce
- B. amount of cash flow
- C. history of operation
- D. profit attributable to shareholders

29. 2017.MC.Q23

Which of the following are the benefits for a borrower of maintain a good personal credit record?

- (1) Lower interest rate on personal loan
  - (2) Higher credit limit
  - (3) Better terms when opening a term deposit account
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

30. 2017.MC.Q26

Which of the following will affect the share price of a listed company selling motorcars?

- (1) fuel price
- (2) interest rate
- (3) dividend policy of the company

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

31. 2018.MC.Q3

If the Hang Seng Index (HSI) rose by 10% during the past month, it means that \_\_\_\_\_ during the past month.

- (1) the HSI-Commerce & Industry rose by 10%
- (2) the turnover of the HIS constituent stock increased by 10%
- (3) the market prices of HSI constituent stocks rose in general

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

32. 2018.MC.Q13

Which of the following statements about a bank overdraft is/are correct?:

- (1) There is no fixed repayment schedule.
- (2) Its interest is usually charged on a monthly basis.
- (3) Collateral is usually not required.

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

33. 2018.MC.Q15

Mr Lee wants to buy a car 3 years later. Its price is \$500 000 now and is expected to increase by 3% per annum. To pay for the car after 3 years, he is considering investing in a fund with a return of 5% per annum, compounded annually. How much should he invest in the fund now?

- A. \$471 969
- B. \$490 476
- C. \$509 709
- D. \$529 695

34. 2018.MC.Q19

Which of the following are required in the calculation of the net present value of investing in a machine?

- (1) initial cost of the machine
- (2) scrap value of the machine
- (3) useful life of the machine

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

35. 2018.MC.Q22

In the basic listing requirements of the Growth Enterprise Market for new applicants, there is no minimum requirements relating to \_\_\_\_\_.

- A. cash flow
- B. profit
- C. operating history
- D. market capitalisation

36. 2018.MC.Q25

Which of the following statements about risk and return is correct?

- A. Market risk can be diversified.
- B. High-risk financial products must have high returns.
- C. Risk-averse investors usually prefer investing in bonds to making term deposits.
- D. Conservative retired persons usually prefer investing in bonds to stocks.

37. 2018.MC.Q30

Which of the following statements about the Mandatory Provident Funds is correct?

- A. Self-employed person aged between 16 and 65 are required to join the MPF scheme.
- B. Construction workers are exempted from the MPF scheme.
- C. MPF scheme members can apply for early withdrawal of the accrued benefits from the MPF Scheme if they are unemployed for more than two years.
- D. When changing jobs, MPF scheme members can transfer their accrued benefits to another MPF trustee.

38. 2019.MC.Q8

Paul has taken out a 3-year personal loan of \$100 000 at an annual interest rate of 12%, compounded monthly. Which of the following statements is/are correct?

- (1) The annual nominal interest rate of the loan is 12%.
- (2) The annual effective interest rate of the loan is higher than 12%.
- (3) In general, the interest rate of a personal loan is lower than that for a credit card.

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

39. 2019.MC.Q15

Which of the following statements about the basic requirements for new applicants of listing on the Main Board is/are correct?

- (1) Applicants must fulfil the requirement in operating history.
- (2) Applicants must be multinational corporations.
- (3) Applicants must meet one of the following criteria: the profit test, the market capitalization/revenue test, or the market capitalisation/revenue/cash flow test.

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

40. 2019.MC.Q18

Tracy, aged 35, set up a dessert shop as a sole proprietor in 2015. Since then, she has employed Betty, aged 30, as a part-time helper at a monthly salary of \$5 000. Which of the following statements about the Mandatory Provident Fund (MPF) Scheme is/are correct?

- (1) Tracy needs to enrol herself into an MPF scheme.
- (2) Tracy needs to enrol Betty into an MPF scheme and make mandatory contribution for her.
- (3) Betty needs to make mandatory contribution to the MPF Scheme.

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

41. 2019.MC.Q20

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

- (1) Investing in stocks of companies from different industries can diversify firm-specific risk.
- (2) Making a deposit into a savings account is risk free.
- (3) Investors can get capital gains and dividends as returns for investing in bonds.

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

42. 2019.MC.Q24

Which of the following statements about the Hang Seng Index is correct?

- A. It is comprised of 60 constituent stocks.
- B. All of its constituent stocks are listed on the Main Board of the Stock Exchange of Hong Kong.
- C. It reflects the performance of the stock market in the Asia-Pacific region.
- D. 'Information technology' is one of the sub-indexes.



43. 2019.MC.Q26

Which of the following statements about credit cards are correct?

- (1) They have a pre-approved credit limit.
- (2) They have a payment due date.
- (3) There is a monthly minimum payment for its outstanding balance

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

44. 2019.MC.Q29

On 1 April 2019, Yan deposited \$3 000 into a savings plan with an interest rate of 1% per year, compounded annually. If Yan deposits the same amount into the savings plan on 1 April every year, what is the account balance of Yan's savings plan as at 31 March 2022?

- A. \$3 901
- B. \$9 090
- C. \$9 181
- D. \$9 273

45. 2020.MC.Q4

Which of the following descriptions of the Hang Seng Index is/are correct?

- (1) 'Utilities' is a sub-index of the Hang Seng Index.
- (2) It indicates the dividend policies of the companies of the constituent stocks.
- (3) It is a platform for businesses to raise capital.

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

46. 2020.MC.Q8

The following information is related to an investment project:

- Initial cost: \$15 000
- Discount rate: 10%
- Investment period: 3 years

The project will generate cash flows of \$6 000 at the end of both Year 1 and Year 2. If the cash flow at the end of Year 3 is \_\_\_\_\_, the net present value of the project is close to zero.

- A. 4 587
- B. 5 083
- C. 6 105
- D. 7 965

47. 2020.MC.Q15

Ignore other factors, which of the following will lead to a decrease in the share price of a listed airline company?

- (1) A rise in interest rate
- (2) A rise in fuel price
- (3) The airline company issued a profit warning

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

48. 2020.MC.Q19

Which of the following are the rights of an investor in debentures?

- (1) Can lodge a complaint if there is a misconduct by the investment agent
- (2) Can ask for the rationale behind an investment recommendation
- (3) Can cancel the investment transaction in the cooling off period

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

49. 2020.MC.Q25

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

- (1) Employees can transfer the accrued benefits in their contribution accounts to an MPF scheme of their own choice once a year.
- (2) Self-employed hawkers are not required to join an MPF scheme.
- (3) If the income of an employee is below the minimum relevant income level, both the employee and the employer are not required to make mandatory contribution.

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

50. 2020.MC.Q28

Which of the following descriptions of the Main Board and GEM (previously known as Growth Enterprise Market) are correct?

- (1) More companies are listed on the Main Board than on GEM.
- (2) 'Management continuity for at least the three preceding fiscal years' is one of the basic listing requirements for applicants to list on the Main Board.
- (3) The Main Board was set up for large and established companies.

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

51. 2021.MC.Q4

Mandy is considering investing in a 3-year project with the following details:

	<u>Cash inflows/(outflows)</u>
Beginning of Year 1	(70 000)
Beginning of Year 2	25 000
Beginning of Year 3	35 000

The scrap value at the end of the project is \$20 000. The discount rate is 5% per annum. What is the net present value of the project?

- A. -\$14 445
- B. \$187
- C. \$2 832
- D. \$3 520

52. 2021.MC.Q10

Which of the following is a difference between a bank overdraft and a personal loan?

	<u>Bank overdraft</u>	<u>Personal loan</u>
A. Interest rate	lower	higher
B. Repayment arrangement	flexible	fixed
C. Pre-approved credit limit	no	yes
D. Monthly minimum payment	yes	no

53. 2021.MC.Q14

Which of the following will have an adverse impact on the credit rating of a person?

- (1) A person has a bankruptcy record.
- (2) A person failed to meet the loan repayment schedule before.
- (3) A person has been unemployed for more than 1 year.

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

54. 2021.MC.Q20

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

- (1) Employees can make voluntary contributions in addition to Mandatory contributions to the MPF scheme.
- (2) Mr Lam is a 68-year old taxi driver with a monthly income of \$10 000. He is required to contribute \$500 each month to the MPF scheme.
- (3) Mr Chan is a self-employed hawker who earned a net income of \$120 000 last year. He was required to contribute \$6 000 to the MPF scheme.

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

55. 2021.MC.Q23

Which of the following statements about debentures are correct?

- (1) Investors with lower risk tolerance level usually prefer investing in debentures to stocks.
- (2) Debenture holders will receive higher interest if the market interest rate increases.
- (3) Repayment of principal is made to debenture holders on the maturity date.

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

56. 2021.MC.Q27

Ben has just retired. He wants to invest his provident fund to earn a stable income. Which of the following financial instruments is most suitable to him?

- A. constituent stock of the Hang Seng Index
- B. stocks listed on GEM
- C. term deposits
- D. savings deposits

57. 2021.MC.Q30

Assuming the interest on an investment project is compounded semi-annually, which of the following statements about its nominal rate of return and effective rate of return are correct?

- (1) The effective rate of return of the project is higher than its nominal rate of return.
- (2) The effective rate of return of the project will be higher if its interest is compounded quarterly instead.
- (3) The effective rate of return of the project will be lower if the investment amount is lower.

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

The following questions are out-of-syllabus:

- PP.Q3 – TVM Annuity
- PP.Q4(a) – Third-liner vs. blue-chips
- 2015.Q3(b) – Investment compensation fund

1. SP.Q4(i)(ii)

Mr Lee retired two years ago and has kept the \$1 000 000 retirement fund in the form of a fixed deposit at an interest rate of 4.5% per annum. His friend suggests that investment in other financial products may yield a higher return.

- (i) Name three types of financial products available in the Hong Kong securities market (3 marks) that Mr Chan might consider.
- (ii) Explain two factors Mr Lee should consider in deciding whether to invest in other (4 marks) financial products instead of keeping the entire amount in a fixed deposit.

2. SP.Q5

Mr Wong is going to buy a flat for residential purpose. The cash price for the flat is \$1 380 000. The following are two of the financing proposals:

Proposal 1 Borrow a personal loan of \$1 380 000 from a bank on 1 January 20X7, repayable by a lump sum of \$2 000 000 at the end of 20X9.

Proposal 2 Purchase the property from the developer by instalments as follows:

Deposit, payable on 1 January 20X7	\$600 000
Instalments, payable at end of 20X7	500 000
end of 20X8	400 000
end of 20X9	<u>300 000</u>
	<u>\$1 800 000</u>

The cost of capital is 10% per annum.

(a) Based on the financial information given, calculate (to the nearest dollar) the present value of Proposal 1 and Proposal 2. (5 marks)

(b) Advise Mr. Wong which financing proposal he should adopt.

(2 marks)



3. PP.Q4(b) [Modified]

Mr Lam plans to use all of his savings to buy shares listed on the Hong Kong Stock Exchange. His friend suggests him to diversify risk by switching some of his investment to shares listed on the Tokyo Stock Exchange.

- (c) Which type of financial risk cannot be avoided even if Mr Lam shifts part of his investment to shares listed on the Tokyo Stock Exchange? Explain.

(2 marks)

4. 2012.Q3(a)(b)

Mr Au is an inexperienced investor and majority of his investments are in the shares of a single company. His son suggests that he should switch part of his investments to a mutual fund or other less risky financial instruments with stable returns.

- (a) Briefly explain one purpose that Mr Au could achieve through investing in a mutual fund. (2 marks)
- (b) List two less risky financial instruments with stable returns for Mr Au. (2 marks)

5. 2013.Q1

- (a) Many people are using credit card to purchase goods and services. Explain two benefits for customers of using credit card.

(4 marks)

- (b) Explain one reason why credit card companies are more willing to issue credit cards to applicants with good personal credit records.

(2 marks)

6. 2014.Q4(a)(b)

Tom plans to get married and buy a flat three years later. The budgeted price of the flat is \$3 000 000. The down payment will be 30% of the flat's price. To save up for the down payment, Tom decides to make a time deposit in a bank.

- (a) If the bank offers an annual interest rate of 2% for the time deposits, how much money does Tom have to deposit today? (Note: Interest is compounded annually. Correct all amounts to the nearest dollar.) (2 marks)
- (b) A friend of Tom advises him to invest the sum of money in securities for higher return. Given that Tom needs the amount three years later for the down payment on the flat, would you advise him to invest in government bonds or ordinary shares? Explain why. (3 marks)

7. 2015.Q3(a)

Calvin is a retail investor. He invested \$200 000 to buy shares listed on the Hong Kong Stock Exchange through a licensed stockbroker in Hong Kong.

- (a) Explain two ways in which investing in shares might benefit an investor. (4 marks)

8. 2016.Q2

- (a) Explain how the share price of a property development company in Hong Kong changes in a booming local economy. (3 marks)
- (b) Suggest two ways in which investors can use the Hang Seng Index to make investment decisions. (4 marks)

9. 2017.Q2

Mary has just retired and received her retirement fund. A financial planner advised her to invest the retirement fund in various financial instruments.

- (a) Explain two of Mary's financial needs after her retirements. (4 marks)
- (b) As an investor, what responsibilities does Mary have? List any two. (2 marks)

10. 2018.Q3(a)

Darwin Limited is a listed company, running a department store business with five stores of a similar size in Hong Kong.

- (a) Ignoring other factors, explain how each of the following two policies may affect the share price of Darwin Limited: (4 marks)
- (i) The generous dividend policy of the company
- (ii) The mainland government limits the number of visits to Hong Kong per week by its residents

11. 2019.Q2(a)

- (a) Johnny has just graduated from university. His teacher reminded him to maintain a good personal credit record.

Give two factors which could affect Johnny's personal credit record. Explain how each of the factors would affect his personal credit record. (4 marks)

12. 2020.Q3

David is 30 years old and single. He is a professional accountant working in an international accounting firm. He has just acquired a residential flat and paid a down payment on the price of the flat. To buy furniture for his new home, he is considering using his credit card, applying for a personal loan or a bank overdraft.

- (a) What is a 'bank overdraft'? (2 marks)
- (b) Suppose David has decided to use a credit card to pay for the furniture. Give two reasons for using his credit card instead of applying a personal loan. (4 marks)
- (c) List two financial needs that David has in his present life stage. (2 marks)

## BAFS Compulsory Part

### Personal Financial Management – Past exam papers Answers

1. SP.Q4(i)(ii)

(i)

Types

- Shares
- Bonds
- Commercial papers or other notes
- Derivatives, e.g. futures, warrants and options
- Funds

(1 mark for each relevant type, max. 3 marks)

(ii)

Factors:

- Expected return, e.g. dividend or coupon rate of the financial product(s)
- Risk-bearing ability, e.g. ability to suffer capital loss
- Liquidity of the financial product(s)
- Time and effort involved in monitoring the investment

(2 marks for each relevant factor, max. 4 marks)

2. SP.Q5

(a) PV of Proposal 1

$$\$2\,000\,000 \div (1.1)^3 = \$1\,502\,630$$

2

PV of Proposal 2

<u>Year</u>	<u>Calculation (\$)</u>	<u>PV (\$)</u>	
Beginning of 20X7	600 000	600 000	
End of 20X7	$500\,000 \div (1.1)$	454 545	
End of 20X8	$400\,000 \div (1.1)^2$	330 579	
End of 20X9	$300\,000 \div (1.1)^3$	225 394	
		<u>1 610 518</u>	3
(b) Mr Wong should adopt Proposal 1 because its time-weighted cost is lower than that of Proposal 2.			2
			<u>Total: 7 marks</u>

3. PP.Q4(b) [Modified]

market risk

affected by overall financial market which is uncontrollable

4. 2012.Q3(a)

(a)

Purposes:

- Risk diversified
- Simplified assets management

(2 marks for each relevant purpose, max. 2 marks)

(b)

Suggestions:

- Fixed time deposit
- Government bonds
- Exchange fund bills

(1 mark for each relevant suggestion, max. 2 marks)

5. 2013.Q1

(a) Benefits:

- Defer payment: e.g. can purchase goods or services without paying cash instantly
- Safety: e.g. do not need to carry large amounts of cash
- Convenience: e.g. worldwide acceptance
- Privileges: e.g. can enjoy discounts or special gifts

(2 marks for each relevant benefit, max. 4 marks)

(b) Reasons:

- Higher chance of collecting debt on time
- Lower default risk

(2 marks for each relevant reason, max. 2 marks)

6. 2014.Q4(a)(b)

(a)

Present value =  $(\$3\,000\,000 \times 30\%) / (1.02)^3 = \underline{\underline{\$848\,090}}$ 

2

(b)

Government bonds

1

Lower investment risk with higher certainty of achieving the required amount

1

- Tom will receive fixed income during the 3 years to achieve the target return

Max. 1

- Tom will get back the principal if he buys a bond that will mature in 3 years

- Dividends of ordinary shares are not obligatory not may vary between years and hence the target return cannot be guaranteed

- Share prices fluctuate and Tom may incur capital loss when the shares are sold three years later

(1 mark for each relevant point, max. 1 mark)

7. 2015.Q3(a)

Benefits:

- Capital gain through the price appreciation of the shares
- Investment income through share dividend
- Voting rights that can affect company management

(2 marks for each relevant benefit, max. 4 marks)

8. 2016.Q2

(a) Its share price will increase

because

- personal income increases
- people are more willing to buy/invest in property
- the profitability of the property development company increases

(1 mark for each relevant elaboration, maximum 2 marks)

(b) Ways:

- assess the general performance of shares listed in Hong Kong
- compare performance of the Hong Kong stock market over time
- compare performance among different stock markets

(2 mark for each relevant way, maximum 4 marks)

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6 marks

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9. 2017.Q2

(a) Financial needs:

- Paying daily expenses to maintain her living
- Meeting contingencies, e.g. urgent medical expenses
- Estate planning, e.g. funeral expenses

(2 marks for each relevant need, maximum 4 marks)

4

(b) Responsibilities:

- Understanding the terms of the investment contract before signing it
- Checking account statements and transaction documents
- Understanding the characteristics and the risks of the investment instruments involved

2

(1 mark for each relevant responsibility, maximum 2 marks)

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6 marks

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10. 2018.Q3(a)

- (a)(i) Generous dividend policy: 2
- shareholders could have higher returns/ are more optimistic regarding the prospects of the company. This would attract more people to buy the company shares, which would lead to an increase in the share price
- (ii) Limit the number of visits to Hong Kong: 2
- sales to visitors will be reduced, the profitability of the company will be lowered, shareholders will sell the shares of the company which will lead to a drop in the share price.

**(a)(i) Generous dividend policy**

- Higher returns / more optimistic / higher confident
  - Attract more investment / More people want to buy the shares of Darwin Limited.
- (Any 1 of the above elements).**
- +
- Share price will increase → 1 mark

1. Describing any change of the share price of Darwin Limited WITHOUT explanation → "0"
2. Share price **will increase** because:
- 2.1 the company is willing to pay dividend. (No further explanation) → "0"
  - 2.2 it can protect the benefit of the shareholders → "0"
  - 2.3 the investors can get more dividend → "0"
  - 2.4 the company will have a better reputation when it pays more dividend / interest rate. → "0"

**(ii) Limit the number of visits to Hong Kong**

- Number of customers will decrease / sales to customers / revenue will decrease
  - Lower profitability / more pessimistic / shareholders sell the shares
- (Any 1 of the above elements).**
- +
- Share price will decrease → 1 mark

1. Describing any change of the share price of Darwin Limited WITHOUT explanation → "0"
2. Share price **will decrease** because:
- 2.1 Less visitors → less shopping → business is worsen → "2"
  - 2.2 Less visitors → revenue may decrease → "1"

11. 2019.Q2(a)

- (a) Factors: 4
- repayment history / delinquency record: e.g. if Johnny had repaid past loans on time, his personal credit record would be better
  - record of bankruptcy: e.g. if Johnny had been bankrupt at an earlier time, his personal credit record would be worse
  - credit history: e.g. if Johnny had applied for credit successfully in the past and his usage of credit was appropriate, his personal credit record would be better
  - financial situations: e.g. if Johnny's current outstanding debt amount is low, his personal credit record would be better
- (2 marks for each relevant factor, max. 4 marks)

- should state the relevant **factor** and make **relevant explanation** 1+1
- should explain **how** the factor affect his personal credit record
- ✓ Credit history 信貸紀錄: 一次或短時間內申請了多張信用卡
- × income level 工作收入
- × economic ability 經濟能力
- × personal characters 個人品格
- × owns many credit cards 擁有多張信用卡
- × poor record 不良紀錄

12. 2020.Q3

- (a) Bank overdraft: 1
- a kind of short-term loan 1
  - the amount withdrawn from bank account is higher than the account balance
- (b) Reasons: 4
- readily available: no need to apply every time
  - flexible repayment arrangements: payment can be made according to his financial position
  - no interest charge if the amount is repaid before the payment due date
- (2 marks for each relevant reason, max. 4 marks)
- (c) Financial needs: 2
- savings for marriage
  - savings for education / training
  - mortgage loan repayment
- (1 mark for each relevant financial need, max. 2 marks)

8 marks



營商環境 答案 Business Environment Answers

1.	C	11.	C (66%)	21.	D (37%)	31.	A (76%)	41.	C (41%)	51.	C (63%)
2.	A	12.	D (62%)	22.	B (80%)	32.	C (42%)	42.	A (48%)	52.	A (72%)
3.	B	13.	A (89%)	23.	**	33.	C (54%)	43.	A (61%)	53.	D (66%)
4.	D	14.	D (67%)	24.	D(25%)	34.	A (82%)	44.	A (76%)	54.	D (75%)
5.	D	15.	C (85%)	25.	B (89%)	35.	B (61%)	45.	D (67%)	55.	
6.	D	16.	A (49%)	26.	B (39%)	36.	D (61%)	46.	A (48%)	56.	
7.	B	17.	A (83%)	27.	C (62%)	37.	C (82%)	47.	D (75%)	57.	
8.	C	18.	C (91%)	28.	B (51%)	38.	C (47%)	48.	A (55%)	58.	
9.	B (out-syl)	19.	A (71%)	29.	B (50%)	39.	A (93%)	49.	A (54%)	59.	
10.	D (78%)	20.	B (54%)	30.	C (41%)	40.	C (79%)	50.	C (63%)	60.	

\*\*Deleted.

1. SP.MC.Q1

Which of the following are common arguments for social responsibility?

- (1) Profit maximization
- (2) Lower product price
- (3) Meet public expectation
- (4) Improve company image
- A. (1) and (2) only
- B. (2) and (3) only
- C. (3) and (4) only
- D. (1), (2), (3) and (4)

2. SP.MC.Q2

Which of the following statements are correct descriptions of the differences between bondholders and shareholders?

- (1) Shareholders have voting rights and bondholders do not.
- (2) Shareholders are the owners of a company and bondholders are creditors.
- (3) Shareholders are repaid prior to bondholders when the company is liquidated.
- (4) Shareholders receive variable interest income whereas bondholders receive fixed amounts of interest at regular intervals.
- A. (1) and (2) only
- B. (3) and (4) only
- C. (1), (2) and (3) only
- D. (1), (2) and (4) only

3. SP.MC.Q3

If you set up a business with your friend as a partnership, which of the following benefits would you enjoy?

- (1) You may bear limited liability.
- (2) The company would exist as a separate legal entity.
- (3) Management expertise offered by a board of directors.
- (4) Company information needs not be disclosed to the public.
- A. (1) and (2) only
- B. (1) and (4) only
- C. (2) and (3) only
- D. (3) and (4) only

4. SP.MC.Q6

Which of the following are the common arguments for globalization?

- (1) It promotes free trade
  - (2) It facilitates specialization
  - (3) It fulfils world responsibility and solves poverty problems
  - (4) It enables people to enjoy a wider variety of goods and services
- A. (1) and (2) only  
B. (3) and (4) only  
C. (1), (2) and (3) only  
D. (1), (2) and (4) only

5. SP.MC.Q9

Which of the following non-financial factors would also be relevant to the acquisition decision?

- (1) Political stability
  - (2) Market size and potential
  - (3) Cultural difference of target customers
  - (4) Communication and transportation infrastructure
- A. (1) and (4) only  
B. (2) and (3) only  
C. (2), (3) and (4) only  
D. (1), (2), (3) and (4)

6. PP.MC.Q1

Mike wants to set up a yoghurt shop in Mongkok. Which of the following factors is he considering if he conducts a survey on the tastes and preferences of his target customers?

- A. technological factors
- B. physical factors
- C. economic factors
- D. social and cultural factors

7. PP.MC.Q14

Ms Cheung is working in a long-established grocery store. She plans to resign to establish her own grocery store.

Mr Sze, aged 62, is the employer of Ms Cheung. He wants to retire and invites Ms Cheung to take over his store.

Compared with establishing a new store, which of the following is the benefit to Ms Cheung of taking over Mr Sze's store?

- A. enjoy economies of scale
- B. acquire existing customer source
- C. lower operational costs
- D. lower initial investment

8. PP.MC.Q20

Which of the following descriptions of business ownership is correct?

- A. A limited company distributes dividends to ordinary shareholders before preference shareholders.
- B. A franchise is formed by two or more business entities to develop, produce or sell products.
- C. A sole proprietorship does not have a separate legal entity status.
- D. Public enterprises are wholly owned by large multinational corporations to provide essential goods and services to the public.

9. PP.MC.Q23 [Out of syllabus]

10. 2012.MC.Q10

Which of the following are the impacts of globalization on the business sector?

- (1) Increased international trade
  - (2) Reduced production cost of goods
  - (3) Intensified global competition
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

11. 2012.MC.Q11

Which of the following is not a purpose of the Closer Economic Partnership Arrangement (CEPA)?

- A. Reduce barriers on the trade of goods between Hong Kong and the Mainland
- B. Promote free trade in services between Hong Kong and the Mainland
- C. Ensure free flow of information between Hong Kong and the Mainland
- D. Facilitate cross-border business investment between Hong Kong and the Mainland

12. 2012.MC.Q12

Which of the following statements is correct?

- A. All partners in a limited partnership enjoy limited liability.
- B. All shareholders of a limited company have voting rights in the board of directors' meeting.
- C. A limited company needs to disclose its financial statements to the public.
- D. A public corporation is owned by the government.

13. 2013.MC.Q1

Which of the following descriptions about a franchised shop is correct?

- A. Operates under the authorization of franchisor
- B. Has full control over its promotion strategies
- C. Must be registered as a limited company
- D. Only applicable to retail and catering businesses

14. 2013.MC.Q12

Which of the following is not a function of World Trade Organisation?

- A. Provide a forum for negotiation aimed at reducing obstacles to international trade.
- B. Settle disputes among its members regarding the interpretation of trade agreements
- C. Monitor and review the trade policies of its members
- D. Provide loans and subsidies to developing countries for trade development

15. 2013.MC.Q16

Which of the following would encourage a multi-national trading company to move its headquarters to Hong Kong?

- (1) Larger number of multi-national companies than small and medium enterprises in Hong Kong
  - (2) Good transportation network between Hong Kong and other Asian cities
  - (3) Lower profit tax rate in Hong Kong
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

16. 2013.MC.Q22

Which of the following statements are correct?

- (1) Hong Kong is an offshore Renminbi Business Centre of Mainland China
  - (2) The main origin and destination of Hong Kong's re-exports of goods are Mainland China
  - (3) The Closer Economic Partnership Arrangement (CEPA) aims at raising capital in Hong Kong for Mainland enterprises.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

17. 2014.MC.Q1

Which of the following statements about limited companies in Hong Kong is/are correct?

- (1) A limited company is a separate legal entity.
  - (2) Limited companies enjoy a lower profit tax rate than sole proprietorships.
  - (3) Limited companies are required to publish their financial statements in a newspaper.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (1), (2) and (3)

18. 2014.MC.Q3

Which of the following are benefits of being a socially responsible business?

- (1) Lower production costs
  - (2) Better business reputation
  - (3) Attraction of customers who are also concerned about social responsibility
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

19. 2014.MC.Q15

Which of the following is/are example(s) of economic factors that might affect the business of a jewellery shop in Hong Kong?

- (1) There is an increase in the income and consumption power of mainland tourists.
  - (2) The mainland government allows residents of more cities to come to Hong Kong for individual visits.
  - (3) The cross-border transport facilities are improved.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (1), (2) and (3)

20. 2014.MC.Q30

Which of the following statements about Asia-Pacific Economic Cooperation is correct?

- A. It provides loans to developing countries in the Asia-Pacific region.
- B. It supports sustainable economic growth in the Asia-Pacific region.
- C. It settles trade disputes among countries in the Asia-Pacific region.
- D. It issues certificates of origin for products manufactured in the Asia-Pacific region.



21. 2015.MC.Q1

A limited partner \_\_\_\_\_.

- A. is a nominal partner
- B. is not liable for the debts of a partnership
- C. does not need to invest money into a partnership
- D. does not take part in the management of a partnership

22. 2015.MC.Q2

Which of the following statements about stakeholders of a company is correct?

- A. Competitors are not stakeholders of a company.
- B. Stakeholders of a company would be affected by the decisions made by the company.
- C. All stakeholders can share the assets of the company upon its liquidation.
- D. A client becomes a company's stakeholder only after he/she has settled his/her outstanding debts to the company.

23. 2015.MC.Q3 [Deleted]

24. 2015.MC.Q22

Which of the following statements regarding the World Trade Organization (WTO) are correct?

- (1) WTO settles trade disputes among members.
  - (2) Decisions made by WTO are binding on all members.
  - (3) WTO helps developing countries develop the infrastructure needed to expand their trade.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

25. 2015.MC.Q26

Which of the following are the impacts of globalisation on business?

- (1) reduce information cost
- (2) reduce competition among businesses
- (3) facilitate transfer of technology between different countries

A. (1) and (2) only

B. (1) and (3) only

C. (2) and (3) only

D. (1), (2) and (3)

26. 2015.MC.Q27

Which of the following is/are the characteristic(s) of a public corporation?

- (1) Its losses are borne by taxpayers.
- (2) It is operated on a commercial basis.
- (3) The government is involved in its daily operations.

A. (1) only

B. (2) only

C. (1) and (3) only

D. (2) and (3) only

27. 2016.MC.Q6

Which of the following descriptions of joint ventures in Hong Kong is correct?

- A. Partners of a joint venture usually share the profits of the joint venture equally.
- B. A joint venture must be formed by one local company and one foreign company.
- C. A joint venture is an entity independent from all its partners.
- D. A joint venture enjoys a lower profits tax rate than a general partnership.

28. 2016.MC.Q15

Which of the following companies is/are socially responsible?

- (1) A power company which develops new technology to help reduce gas emissions.
- (2) A printing company which accepts many orders from social welfare organisations.
- (3) A trading company which encourages employees to participate in voluntary work to serve the community.

A. (1) only

B. (1) and (3) only

C. (2) and (3) only

D. (1), (2) and (3)

29. 2016.MC.Q16

Which of the following statements about business ownership are correct?

- (1) Public corporations are wholly owned by the Government.
  - (2) The minimum number of shareholders of a limited company is 2.
  - (3) A nominal partner is not the owner of the partnership.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

30. 2016.MC.Q17

Which of the following is a benefit brought about by the “Closer Economic Partnership Arrangement”(CEPA) for the businesses in Hong Kong?

- A. Companies owned by Hong Kong residents are not taxed on the Mainland.
  - B. There is free flow of capital between Hong Kong and the Mainland.
  - C. Tariffs are not levied on goods originating in Hong Kong exported to the Mainland.
- Hong Kong is allowed to enter the World Trade Organisation as an independent economy.

31. 2016.MC.Q28

A \_\_\_\_\_ is easier to set up and enjoy a relatively low tax rate in Hong Kong. All owners are liable for the business decisions of one another in this entity.

- A. partnership
- B. sole proprietorship
- C. private limited company
- D. public limited company

32. 2017.MC.Q1

Which of the following statements about Asia-Pacific Economic Cooperation is/are correct?

- (1) It settles trade disputes in the Asia-Pacific region.
  - (2) It promotes sustainable economic growth in the Asia-Pacific region.
  - (3) It encourages cooperation on trade and investment in the Asia-Pacific region through high-level government-to-government dialogues.
- A. (1) only  
B. (1) and (2) only  
C. (2) and (3) only  
D. (1), (2) and (3)

33. 2017.MC.Q6

Which of the following statements about the trade relationship between Hong Kong and the Mainland are correct?

- (1) Hong Kong is the largest trading partner of the Mainland.
- (2) In terms of the value of goods, the Mainland is the largest re-export destination of Hong Kong.
- (3) Many goods originating in Hong Kong exported to the Mainland are tariff-free.

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

34. 2017.MC.Q11

Compared to a sole proprietorship, which of the following is/are the advantage(s) of a limited company?

- (1) the business will not be closed upon withdrawal or death of the owner(s)
- (2) the setup cost is lower
- (3) the profits tax rate is lower

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

35. 2017.MC.Q16

Which of the following is/are physical factor(s) that might affect business in Hong Kong?

- (1) Climatic condition
  - (2) Air quality
  - (3) Population structure
- A. (1) only  
B. (1) and (2) only  
C. (2) and (3) only  
D. (1), (2) and (3)

BAFS Core Part Business Environment Past Papers (Sample Paper - 2020)

36. 2017.MC.Q18

From the point of view of a franchisor, which of the following is/are the shortcoming(s) of running a business in the form of franchising?

- (1) Franchisee may set up his own business to become a competitor.
- (2) It is difficult to wholly control the operation style of franchisee(s).
- (3) If a franchisee manages his business poorly, the reputation of the whole franchise business will be affected.

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

37. 2017.MC.Q30

Which of the following statements about a nominal partner is/are correct?

- (1) He is liable for the debts of the partnership.
- (2) He takes part in the operation of the partnership.
- (3) His reputation helps promote the partnership's business.

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

38. 2018.MC.Q1

Which of the following statements about the Hong Kong economy is **not** correct?

- A. The Hong Kong Government does not control the inflows and outflows of capital.
- B. Hong Kong is a founding member of the World Trade Organization
- C. Most businesses in Hong Kong are multinational corporations.
- D. Under the Closer Economic Partnership Arrangement (CEPA), service suppliers in Hong Kong enjoy preferential treatment when setting up business in most service sectors on the Mainland

BAFS Core Part Business Environment Past Papers (Sample Paper - 2020)

39. 2018.MC.Q7

Ethical behaviour in business will \_\_\_\_\_.

- (1) enhance the public image of a business
- (2) increase the operating costs of a business in the long run
- (3) enable a business to be subject to a lower profit tax rate

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

40. 2018.MC.Q14

For a toy company, which of the following is **not** regarded as an example of fulfilling its social responsibility?

- A. using recycled materials to produce toys
- B. donating toys to orphanages
- C. offering 20% discount to customer during Christmas
- D. improving the working environment of its employees

41. 2018.MC.Q18

Which of the following statements about the Ocean Park corporation, a public corporation in Hong Kong, are correct?

- (1) It is listed on the Hong Kong Stock Exchange
- (2) Its board of directors is appointed by the government
- (3) It is self-sufficient financially.

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

42. 2018.MC.Q24

Which of the following statements about a partnership is/are correct?

- (1) There is no limited partner in a general partnership.
- (2) Limited partnership is a legal entity separate from its owners.
- (3) All partners in a limited partnership only have limited liability.

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

43. 2018.MC.Q28

Compared to a public limited company, which of the following is/are the advantage(s) of a private limited company?

- (1) is subject to less government supervision
- (2) does not need to distribute dividends to shareholders
- (3) obtains financing more easily

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

44. 2019.MC.Q1

Which of the following is/are difference(s) between a sole proprietorship and a general partnership?

	<u>Sole proprietorship</u>	<u>General partnership</u>
(1) Decision-making process	shorter	longer
(2) Profits tax rate	lower	higher
(3) Liability borne	unlimited	limited

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

45. 2019.MC.Q5

Which of the following descriptions about the Hong Kong economy is/are correct?

- (1) A sales tax is imposed on the retailing of goods
- (2) Most of the working population are in the tertiary sector
- (3) The main destination of exported goods is the Mainland

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

46. 2019.MC.Q9

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

- (1) Business actions that are legally acceptable may be unethical.
- (2) A 'code of ethics' is compiled by the government for businesses.
- (3) Business ethics are a set of clearly-defined moral principles and standards that a business should follow.

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

47. 2019.MC.Q11

Which of the following statements about joint venture is/are correct?

- (1) The business risk is shared by the joint venture partners.
- (2) The joint venture will normally be dissolved when the joint project is completed.
- (3) A joint venture is a new business entity formed by at least two businesses.

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

48. 2019.MC.Q17

Which of the following is/are regarded as example(s) of a hotel fulfilling its social responsibilities?

- (1) allowing clerical staff to work from home when there are adverse weather conditions
- (2) paying the minimum wage to housekeepers
- (3) serving sharks fins if requested by customers

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

49. 2019.MC.Q22

Which of the following statements about the World Trade Organization are correct?

- (1) It settles trade disputes among members.
- (2) It provides forums for trade negotiations among members.
- (3) It provides financial assistance to developing countries for trade development.

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

50. 2020.MC.Q1

Ken and Tracy plan to establish and operate a restaurant together, in which the withdrawal of either side would not lead to its closure. Which form of business ownership should they adopt?

- A. partnership
- B. public corporation
- C. private limited company
- D. listed company

51. 2020.MC.Q10

Which of the following is/are features of Hong Kong's economy?

- (1) Most business in Hong Kong are small and medium enterprises.
- (2) Hong Kong is a net exporter of raw materials.
- (3) Hong Kong does not maintain trade barriers on imports.

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

52. 2020.MC.Q16

The following are the differences in characteristics of two partners in a partnership.

	<u>Partner A</u>	<u>Partner B</u>
bearing of liabilities	not required	required
introduction of capital	not required	required
involvement in daily operations	not required	not required

Partner A is a (1) partner, while Partner B is a (2) partner.

- |    | <u>(1)</u> | <u>(2)</u> |
|----|------------|------------|
| A. | nominal    | limited    |
| B. | nominal    | general    |
| C. | general    | limited    |
| D. | limited    | nominal    |

53. 2020.MC.Q22

Which of the following companies does not fulfill its social responsibility towards its stakeholders?

- A. A company adopts a strict credit policy for its customers.
- B. A company does not distribute dividend to ordinary shareholders.
- C. A company charges a higher price than its competitors selling the same type of product.
- D. A company does not provide training and development opportunities for its employees.



54. 2020.MC.Q24

Which of the following are the benefits brought about by the globalisation to Hong Kong businesses?

- (1) More sources of capital
- (2) Introduction of new technology
- (3) Lower production cost

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

Note: PP.MC.Q3, 2013.MC.Q4, 2012.MC.Q8, 2016.MC.Q8 out of syllabus

/O : Out-syl questions

管理導論 答案 Introduction to Management Answers

1.	C	11.	A/O	21.	B/O	31.	B (74)	41.	C (39)	51.	D (71)	61.	B (60)	71.	B (57)
2.	B/O	12.	A	22.	D/O	32.	C (90)	42.	A (42)	52.	B (79)	62.	A (68)	72.	D (60)
3.	A/O	13.	B/O	23.	A/O	33.	A/O (75)	43.	D (59)	53.	C (77)	63.	C (67)	73.	B (74)
4.	C/O	14.	D (88)	24.	A (81)	34.	A/O (64)	44.	B (66)	54.	B (68)	64.	B (74)	74.	A (74)
5.	B/O	15.	A (21)	25.	B (37)	35.	D/O (72)	45.	C (85)	55.	C (64)	65.	D (70)	75.	B (62)
6.	A	16.	B (45)	26.	A (92)	36.	B (73)	46.	B (85)	56.	A (57)	66.	D (74)	76.	A (59)
7.	D	17.	A/O	27.	C/O	37.	C (78)	47.	D (56)	57.	D (89)	67.	B (68)	77.	
8.	A	18.	A (42)	28.	A/O	38.	A (63)	48.	A (61)	58.	A (81)	68.	D (58)	78.	
9.	C	19.	D (59)	29.	D/O	39.	A (84)	49.	A (80)	59.	B (64)	69.	A (32)	79.	
10.	D	20.	B (69)	30.	C (44)	40.	A (59)	50.	B (71)	60.	C (74)	70.	D (25)	80.	

TBU: To be updated

1. SP.MC.Q4

The process of allocating work and arranging a company's human resources for contributing to its objectives is known as:

- A. controlling
- B. directing
- C. organizing
- D. planning

2. SP.MC.Q5 [out of syllabus]

3. SP.MC.Q8 [out of syllabus]

4. SP.MC.Q10 [out of syllabus]

5. PP.MC.Q5 [out of syllabus]

6. PP.MC.Q15

The planning process includes

- (1) deciding the objectives of the enterprise.
  - (2) maximising the profitability of the enterprise.
  - (3) completing different tasks in order to achieve the objectives of the enterprise.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

7. PP.MC.Q16

Which of the following are the roles of small and medium enterprises in Hong Kong's economy?

- (1) create employment
  - (2) widen the variety of products offered
  - (3) promote competition
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

8. PP.MC.Q18

Which of the following are performance indicators for property agents?

- (1) number of customer complaints
  - (2) volume of transactions
  - (3) appreciation of property values
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

9. PP.MC.Q21

Which of the following are functions of insurance in businesses?

- (1) reduce operational risks of businesses
  - (2) help businesses to transfer risks
  - (3) provide source of capital for businesses
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

10. PP.MC.Q24

A bookshop plans to hire sales assistants. Which of the following management functions contribute to deciding their salary?

- (1) human resources management
  - (2) financial management
  - (3) information management
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

11. PP.MC.Q25 [out of syllabus]

12. PP.MC.Q26

Which of the following is the difference between small and medium enterprises (SMEs) and multinational corporations (MNCs) in Hong Kong?

- A. SMEs have limited sources of financing while MNCs have more sources of financing.
- B. SMEs operate locally while MNCs operate beyond their national boundaries.
- C. SMEs are reluctant to respond to market change while MNCs are responsive to market change.
- D. SMEs are capital intensive and use relatively simple technology while MNCs are labour intensive and use relatively high technology.

13. PP.MC.Q27 [out of syllabus]

14. 2012.MC.Q1

A convenience store chain is looking for a shop supervisor for one of its stores. Which of the following will not be a task for the new supervisor?

- A. Monitor the daily operations of the shop
- B. Coach shop assistants
- C. Handle disputes between staff and customers
- D. Decide on the development strategies for the chain

BAFS Core Part Introduction to Management Past Papers (Sample Paper - 2020)

15. 2012.MC.Q4

The ownership of Small and Medium Enterprises (SMEs) can take different forms. SMEs

- (1) cover market segments which are not served by large companies.
  - (2) Provide more employment opportunities to local workers than large companies.
  - (3) Enjoy a lower tax rate than large companies.
- A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)

16. 2012.MC.Q6

Which of the following is not within the process of controlling in a sales department of a business?

- A. Set sales targets
- B. Assign salespersons to different sales teams
- C. Record sales of each salesperson
- D. Adjust sales targets

17. 2012.MC.Q7 [out of syllabus]

18. 2012.MC.Q15

A human resources manager is responsible for

- (1) designing a performance appraisal system.
  - (2) Developing the skills and talents of staff.
  - (3) Arranging workflow
- A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)

19. 2012.MC.Q19

Which of the following are benefits of applying Management by Objectives in a business?

- (1) Improved communication between management and staff
  - (2) Better staff morale
  - (3) Enhanced monitoring of staff performance
- A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)

BAFS Core Part Introduction to Management Past Papers (Sample Paper - 2020)

20. 2012.MC.Q23

Which of the following are differences between a small firm and a large enterprise?

- |                          | <u>Small firm</u> | <u>Large enterprise</u> |
|--------------------------|-------------------|-------------------------|
| (1) Decision making      | Flexible          | inflexible              |
| (2) Scope of business    | Diversified       | Specialized             |
| (3) Managerial hierarchy | Fewer levels      | More levels             |
- A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)

21. 2012.MC.Q29 [out of syllabus]

22. 2012.MC.Q30 [out of syllabus]

23. 2013.MC.Q4

A company has decided to change its overall business objectives and drafted a business plan for the coming 10 years. This kind of business plan is a

- (1) strategic plan.
  - (2) Long-term plan.
  - (3) Operational plan.
- A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)

24. 2013.MC.Q8

Which of the following statements are correct?

- (1) Authority can be assigned to subordinates.
  - (2) Authority is the right to direct and make decisions.
  - (3) Front-line staff do not need authority to perform their duties.
- A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)

25. 2013.MC.Q11

Which of the following statements regarding Small and Medium Enterprises (SMEs) in Hong Kong is correct?

- A. SMEs enjoy a lower tax rate.
- B. SMEs can be listed on the stock exchange.
- C. SMEs are involved in primary and secondary production only.
- D. SMEs do not hire more than twenty employees.

26. 2013.MC.Q13

Which of the following tasks are performed by the marketing department of a company?

- (1) conducting surveys on customer needs
- (2) deciding the price of the product
- (3) paying bonus to salespersons

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

27. 2013.MC.Q21 [out of syllabus]

28. 2013.MC.Q23 [out of syllabus]

29. 2013.MC.Q29 [out of syllabus]

30. 2014.MC.Q6

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

- (1) An SME employs fewer than 50 persons.
- (2) SMEs contribute a majority of employment opportunities in Hong Kong.
- (3) SMEs often provide products and services that complement large companies.

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

31. 2014.MC.Q17

Mr Chan is the general manager of a large supermarket chain. He sets a target for the chain: "We will increase the sale volume of the Kowloon area by 10% as soon as possible." Which of the following criteria of setting good objectives is/are **NOT** met in this target?

- (1) Specific
- (2) Time-bound
- (3) Measurable

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

32. 2014.MC.Q21

Which of the following are advantages of management by objectives (MBO)?

- (1) It reduces paper work.
- (2) It enables better control of subordinates' work progress.
- (3) It helps to 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)

33. 2014.MC.Q22 [out of syllabus]

34. 2014.MC.Q23 [out of syllabus]

35. 2014.MC.Q24 [out of syllabus]

36. 2014.MC.Q25

Conducting questionnaire surveys to understand customers' needs is a part of \_\_\_\_\_.

- A. Operations management
- B. Marketing management
- C. Information management
- D. Risk management

37. 2015.MC.Q3

Susan is the supervisor of a group of fashion designers in a garment firm. She only gives broad directions to the designers, allowing them to complete the assigned tasks in their own ways.

Susan is adopting the \_\_\_\_\_ style of leadership.

- A. autocratic
- B. centralized
- C. laissez faire
- D. participative

38. 2015.MC.Q6

Which of the following show the importance of management?

- (1) enhance the efficient use of resources of the business
- (2) help staff achieve the goal of the business effectively
- (3) prevent the business from being affected by external factors

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

39. 2015.MC.Q11 [out of syllabus]



40. 2015.MC.Q13

Which of the following tasks are performed by the finance department of a company?

- (1) make investment decisions for the company
- (2) formulate debt collection policy of the company
- (3) set up staff's compensation system of the company

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

41. 2015.MC.Q21

An operations manager of a company is responsible for \_\_\_\_\_.

- (1) assigning jobs to the factory workers
- (2) projecting the demand for the products
- (3) setting up the assemble lines for the plant

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

42. 2016.MC.Q1

Which of the following is/are the characteristic(s) of multinational corporations located in Hong Kong?

- (1) Their operations also take place outside Hong Kong.
- (2) They are listed on the stock exchange of Hong Kong.
- (3) They have more than 100 employees.

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

43. 2016.MC.Q2

Which of the following are the characteristic of a flat organisation as opposed to a tall organisation?

- (1) wider span of control
- (2) fewer levels of management
- (3) shorter decision-making process

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

44. 2016.MC.Q3 [out of syllabus]

45. 2016.MC.Q7

Under which of the following circumstances should autocratic leadership be adopted by management?

- (1) Subordinates are only responsible for repetitive and simple jobs.
- (2) Subordinates are willing to take responsibility.
- (3) The company always needs to make quick decisions.

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

46. 2016.MC.Q8 [out of syllabus]

47. 2016.MC.Q10

Which of the following statements about "division of work" are correct?

- (1) It facilitates automation of production.
- (2) It makes it easier for managers to supervise the production process.
- (3) It makes it easier for workers to master the production process they are responsible for.

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

48. 2016.MC.Q20

Which of the following are the importance of small and medium enterprises to the local economy?

- (1) They provide materials and services to large businesses.
- (2) They provide unique products to satisfy the needs of the Hong Kong market.
- (3) They provide the major source of tax income for Hong Kong.

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

49. 2016.MC.Q22

Which of the following are the benefits of defining the goal of a project?

- (1) provide clear directions to employees
- (2) help control the progress of work and monitor the performance of employees
- (3) reduce employees' workload

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

50. 2016.MC.Q24

Which of the following statements about "unity of command" is correct?

- A. Each manager takes up one project only.
- B. Each subordinate directly reports to one supervisor only.
- C. All employees are working towards the same goals.
- D. All employees receive the same instructions when assigned the same tasks.

51. 2017.MC.Q4

Which of the following statement about business management are correct?

- (1) Under the unity of command principle, each employee only receives order from one superior.
- (2) A tall organisation has more layers than a flat organisation.
- (3) Communications between superiors and subordinates can be improved by adopting Management by Objectives.

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

52. 2017.MC.Q8

Which of the following tasks is/are performed by the information management department of a company?

- (1) designing a file storage system for the training records of the human resources department
- (2) assisting the marketing department to process market research data
- (3) preparing the budget for the finance department

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

53. 2017.MC.Q14

Which of the following illustrate the importance of entrepreneurship in business development?

- (1) reduce business risks
- (2) promote economic growth
- (3) encourage innovation

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

54. 2017.MC.Q20

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

- (1) The majority of business in Hong Kong are SMEs.
- (2) The forms of business ownership of SMEs are either sole proprietorship or partnership.
- (3) SMEs are usually managed by their owners.

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

55. 2017.MC.Q24

Which of the following statements about "unity of direction" is correct?

- A. Each supervisor is responsible for one project at a time.
- B. Each employee works towards one goal in each period.
- C. Employees working on the same project have the same goal.
- D. The goals of a business should be accomplished within a reasonable timeframe.

56. 2017.MC.Q27

Which of the following is **not** an advantage of adopting democratic leadership for a business?

- A. enhance operational efficiency
- B. widen managers' exposure
- C. strengthen staff support for business policies
- D. improve mutual understanding between management and staff

57. 2018.MC.Q5

The following are the tasks required for quality control.

- (1) Measure the actual rate of defective items by sampling.
- (2) Find reasons and take follow-up measures if the actual rate of defective items is higher than the acceptable level.
- (3) Set up the acceptable rate of defective items
- (4) Compare the actual rate of defective items with the acceptable rate

The sequence of the quality control procedure should be

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

58. 2018.MC.Q9

Which of the following are the main functions of a marketing department of a company?

- (1) plan marketing research
- (2) formulate pricing strategy for the products
- (3) control product quality

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

59. 2018.MC.Q16

Which of the following are the advantages of adopting 'management by objectives' by a business?

- (1) enhance the subordinates' job satisfaction
- (2) lower the administrative cost
- (3) reduce work delays

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

60. 2018.MC.Q26

A car retailer sets the following sales target for its new car model:

**'50% of Hong Kong drivers will buy our new car model in 2019.'**

Which of the following criteria for setting good objectives is/are fulfilled in this sales target?

- (1) specific
- (2) measurable
- (3) attainable

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

61. 2018.MC.Q27

Which of the following statements about 'authority' is/are correct?

- (1) An operations manager has staff authority over his/her subordinates.
- (2) A human resources manager has line authority over the plant manager.
- (3) An accounting manager has line authority over his/her subordinates.

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

62. 2019.MC.Q3

Which of the following statements about 'management by objectives' are correct?

- (1) It can enhance staff morale.
- (2) It can facilitate communication between superiors and subordinates.
- (3) It allows superiors to focus on more important tasks.

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

63. 2019.MC.Q7

A company is going to launch a new product in the market. Its Finance Manager is responsible for \_\_\_\_\_.

- (1) setting the price of the new product
- (2) seeking funds to launch the new product
- (3) preparing budgets for the new product

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

64. 2019.MC.Q13

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

- (1) The number of employees accounts for around 80% of total employment (excluding civil service) in Hong Kong.
- (2) They can operate as a limited company.
- (3) The annual sales revenue of a SME must be below \$5 million.

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

65. 2019.MC.Q21

Which of the following statements about entrepreneurs are correct?

- (1) They are willing to take on challenges.
- (2) They promote economic growth by creating job opportunities.
- (3) They promote marketing competition by introducing new products and services.

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

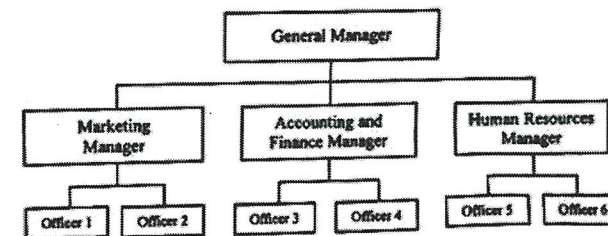
66. 2019.MC.Q27

A manager compares the actual performance of the staff with the performance standard. Which of the following functions does the task belong to?

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

67. 2019.MC.Q30

The organisation chart of a company is as follows:



Which of the following statements are correct?

- (1) The company is departmentalised by function.
- (2) The span of control of the General Manager is nine.
- (3) The General Manager has line authority over the marketing manager.

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

68. 2020.MC.Q2

What is the importance of management to a business?

- (1) optimise utilisation of organisational resources
- (2) establish sound organisational structure
- (3) achieve organisational goals effectively

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

69. 2020.MC.Q6

Which of the following descriptions of a SMART goal are correct?

- (1) It should be quantified.
- (2) There should be an expected completion time.
- (3) The methods of achieving the goal should be stated clearly.

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

70. 2020.MC.Q7

There are different departments in a company. One of the goals of the company is to improve the service quality of its salespersons. For this reason, the human resources manager of the company assigned her subordinate, Tim, to design training programmes for the salespersons. Tim reports to the human resources manager only. Which of the following principles of effective management are illustrated in this scenario?

- (1) Unity of direction
- (2) Unity of command
- (3) Division of work

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

71. 2020.MC.Q12

A bank has the following departments: deposit, loan, credit card, investment and personal financial planning. Under the personal financing planning department, there are Hong Kong Island, Kowloon and New Territories divisions. State the forms of departmentalisation adopted by the bank.

- (1) by product.
- (2) by function.
- (3) by location

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

72. 2020.MC.Q17

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

- (1) For a job position, responsibility should be balanced with authority.
- (2) Authority and responsibility of managers increase progressively from low-level to top-level.
- (3) Delegation is the assigning of authority and responsibility of work from the superior to the subordinates.

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

73. 2020.MC.Q21

Which of the following statement is **not** correct?

- A. The human resources department recruits an accounting clerk according to the requirements set by the finance department.
- B. The information department uses data collected by the marketing department to set the product price.
- C. The risk management department assesses the risks of using tools and machinery for the operations department.
- D. The finance department obtains a loan for the operations departments expand production capacity.



74. 2020.MC.Q26

The number of staff in Firm A and Firm B are the same. Firm A has a flat organisational structure while Firm B has a tall organisational structure. Which of the following statements is/are correct?

- (1) Firm A is more responsible to market changes..
- (2) There are more levels of management in Firm A.
- (3) There are more managers in Firm A.

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

75. 2020.MC.Q27

Which of the following statements about multinational corporations is/are correct?

- (1) Multinational corporations are public limited companies.
- (2) Multinational corporations operate in different countries..
- (3) A local company becomes a multinational corporation by raising capital in other countries.

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

76. 2020.MC.Q29

Under which of the following circumstances should laissez-faire leadership be adopted by a superior?

- (1) the work requires a high level of creativity
- (2) subordinates are young and energetic
- (3) superior-subordinate relationship is good

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

1. SP.Q2

Explain three external environmental factors to be considered in setting up a café. (6 marks)

2. SP.Q3

In deciding whether to join a fashion retail chain or not, suggest two criteria for assessing the franchisor. (4 marks)

3. SP.Q6(c)

In early 20X7, Mr Chan plans to close the factory in Hong Kong and form a new business in Shenzhen. All the workers of the Hong Kong factory will then be laid off. Propose two measures that Mr Chan could adopt to minimize the workers' dissatisfaction with their layoffs. (4 marks)

4. PP.Q1

A business should be responsible to various stakeholders. List three types of stakeholders in a construction company and explain how the company can fulfill its social responsibilities to each of them. (6 marks)

5. PP.Q6(a),(b)

Ms Lo owns three small boutiques. In order to enhance the operations and internal communication of her company, she seeks advice from a management consultant. The consultant recommends Ms Lo to adopt a 'flat-type' organisational structure and use electronic means of communication to improve the situation.

(a) Compare the difference between a 'tall-type' and a 'flat-type' organisational structure in terms of

(1) organisational layers (1 mark)

(2) span of control (1 mark)

(b) Give two reasons why Ms Lo should adopt a 'flat-type' organisational structure. (4 marks)

6. 2012.Q2

Mr Ho is a toy manufacturer. Recently, he has received a number of complaints from his customers about paint peeling off from his toys. A management consultant tells Mr Ho that having good operations management can reduce the number of defective items.

In what ways could operations management help Mr Ho to reduce the number of defective items? Give two ways. (4 marks)

7. 2012.Q6(b)

Peter was a sole proprietor running a small business without any employees. Peter went bankrupt on 31 March 2012 and he decided to close the business.

(a) Give two types of stakeholders in Peter's business and explain the adverse effect of the closure on each of them. (4 marks)

8. 2012.Q7(a)

Mary is an experienced designer who has a wide customer network. She is considering setting up a small interior design firm on her own. At the same time, another designer, Paul, invites her to for a partnership.

(a) Give two reasons why Mary should accept Paul's invitation instead of setting up a firm on her own. (4 marks)

9. 2012.Q7(b)

Mary is an experienced designer who has a wide customer network. She is considering setting up a small interior design firm on her own. At the same time, another designer, Paul, invites her to for a partnership.

(b) Mary finally set up the interior design firm on her own. List two criteria for setting good business goals for her. Explain each with an example. (4 marks)

10. 2013.Q2

Ken owns a fast-food chain business with more than 50 outlets in Hong Kong. He is going to expand his business by offering delivery services all over Hong Kong. Wendy, a business consultant, recommends Ken to establish a telephone hotline centre in the Mainland to take orders from customers in Hong Kong and direct the Hong Kong outlets to deliver the meals.

Explain three types of external factors that would affect Ken's decision on whether to set up a telephone hotline centre in the Mainland. (6 marks)

11. 2013.Q4

Information management can support the human resources department of a company in different ways. List three of them. (3 marks)

12. 2013.Q6

Explain three ways in which division of work could enhance the efficiency of a manufacturing company. (6 marks)

13. 2014.Q1

Patrick, Queenie and Ronald jointly set up a business in the form of a limited partnership. The partnership agreement contains the following terms:

- Only Queenie and Ronald will contribute capital.
- Patrick and Ronald have no involvement in the daily operations of the partnership.
- If the partnership is liquidated, only Queenie has to pay the outstanding debts of the partnership, using her personal funds.

(a) Identify the nominal partner in this partnership. (1 mark)

(b) Suggest two contributions that a nominal partner could make to a partnership. (4 marks)

14. 2014.Q2(b)

Superfast Company provides software and system development services and has about 100 employees. Daniel, the owner and general manager of the firm, is a computer specialist and has involved himself heavily in the software and system development work.

A business consultant advised him that the company should set up a marketing department to help reduce his workload.

(b) State the two functions of a marketing department in Superfast Company. (2 marks)

15. 2014.Q5(b),(c)

Mike learns from a report that the materials of some of his inventory may be harmful to people's health. He plans to give away these items as free gifts to his customers, without mentioning the potential health hazards. His wife warns him that this is an unethical practice and will adversely affect his business.

(b) If Mike decides to give away those items as planned, explain two possible impacts on his business. (4 marks)

(c) Apart from customers, identify another stakeholder of Mike's business. (1 mark)

16. 2014.Q6(b)

Two managers of the same rank, David and Ellen, together supervise all the shop assistants. One day, an assistant in the sportswear section took sick leave and David assigned a newly employed assistant to take her place. He asked her to serve customer in the section for the rest of the day. At noon, Ellen asked this assistant to deliver a document to a supplier.

(b)(i) What principle of effective management has been violated in the above case? (1 mark)

(ii) Suggest two problems that might arise when the principle in (i) is violated. (4 marks)

17. 2015.Q1(a)(b)

Annie operates a small guest house on Lamma Island for foreign travelers. She sets up an Internet booking system for the guest house, with the following goal:

*"To increase the number of Internet bookings substantially in the near future"*

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

(b) Explain one political factor and one legal factor that may affect Annie's business. (4 marks)

18. 2015.Q4(b)(c)

Peter plans to expand the business and set up three departments to take care of the garment business in Hong Kong, Macau and Shenzhen respectively. A business consultant reminds him that other forms of departmentalization may also be considered.

(b) State the form of departmentalization planned by Peter. (1 mark)

(c) Briefly describes two other forms of departmentalization that could be adopted by Peter's business. (4 marks)

19. 2015.Q5(b),(c)

To raise money for expansion, John wants to change the form of business ownership of the firm. He plans

to invite five people to invest in and join the business as owners. After expansion, all owners shall have limited liability for the firm. Their ownership cannot be freely transferred.

- (b) According to the above information, which form of business ownership will John adopt for the expansion? (1 mark)
- (c) Apart from the restriction in ownership transfer, suggest two other disadvantages for the form of business ownership mentioned in (b), as compared to a sole proprietorship. (4 marks)

20. 2016.Q3(a)(b)

Carlo operates a reputable restaurant chain in Italy with customers from all over the world. He is planning to establish branches in Hong Kong. A business consultant suggests him to operate the branches in the form of franchising.

- (a) Give two reasons why Carlo should establish the branches in the form of franchising instead of setting up his own restaurants in Hong Kong (4 marks)
- (b) Explain one legal and one cultural factor that Carlo should consider when setting up branches in Hong Kong. (4 marks)

21. 2016.Q4(c)

John runs a small supermarket.

A business consultant advises John to adopt Management by Objectives in his supermarket.

- (c)(i) How are objectives set under Management by Objectives in John's supermarket? (1 mark)
- (ii) Explain one advantage and one disadvantage of adopting Management by Objectives in John's supermarket. (4 marks)

22. 2016.Q5(c)

John runs a small supermarket.

A business consultant advises John to improve the controlling functions of his supermarket.

- (c)(i) What is the purpose of controlling in management? (1 mark)
- (ii) List the steps in the controlling process. (4 marks)

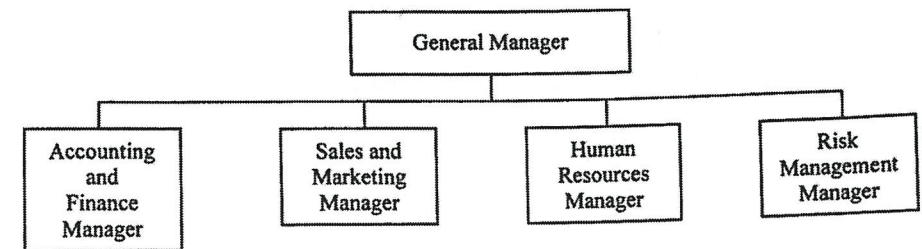
23. 2017.Q1

- (a) What is a joint venture? (1 mark)
- (b) Outline two advantages of running a business in the form of a joint venture. (4 marks)

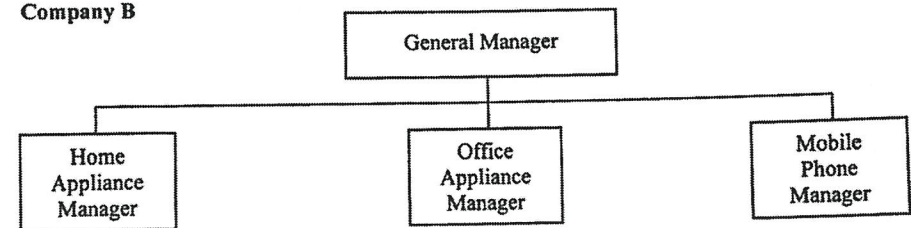
24. 2017.Q3(a)(b)(c)

Company A and Company B are retail business selling electrical appliances. Their organisation chart are as follows:

**Company A**



**Company B**



- (a) State the form of departmentalisation adopted by the two companies: (2 marks)

(i) Company A

(ii) Company B

- (b) Which of the General Managers of the two companies has a wider span of control? (1 mark)

Recently, the warehouse of Company A caught fire, which led to substantial losses.

- (c) Which department of Company A should be responsible for claiming insurance compensation? Explain one main role of this department in the company. (3 marks)

25. 2017.Q4(b)(c)

John commenced a firm selling grocery and household products on 1 January 2016. Three employees were hired for the operation of the firm.

- (b) What is business ethics? (1 mark)

(c) For each of the following stakeholders, illustrate with one example how John can ensure that the operation of his firm is socially responsible:

(i) Employees of the firm (2 marks)

(ii) Residents living around the firm (2 marks)



26. 2017.Q5(b)(c)

John commenced a firm selling grocery and household products on 1 January 2016. Three employees were hired for the operation of the firm.

A business consultant advised John to set goals for his firm.

- (b) State the management function that the task of setting goals for John's firm belongs to. (1 mark)
- (c) Explain two reasons why John should set goals for his firm. (4 marks)

27. 2018.Q1

Nick Limited is a private limited company, manufacturing and selling electrical appliances locally. Facing international competition, the company is planning to set up an online store to sell worldwide. To lower cost and increase sales, the company is analysing the effects of globalisation in order to formulate new business strategies.

- (a) Explain one technological factor and one economic factor that Nick Limited should consider when planning to set up the online store. (4 marks)
- (b) Suggest two strategies to Nick Limited that may lower its production cost under globalisation. (4 marks)

(Total: 8 marks)

28. 2018.Q2

Calvin set up a supermarket selling Korean food. To attract customers and enhance competitiveness, the supermarket continually introduces new products. Some of these cannot be found in big local supermarkets. With its thriving business, the supermarket has been recently selected as an outstanding small and medium enterprise. Calvin has also been praised by the media as an outstanding entrepreneur.

- (a) Apart from the number of employees, state two other characteristics of small and medium enterprises. (2 marks)
- (b) With reference to the case above, explain two contributions of entrepreneurship to the development of business. (4 marks)

(Total: 6 marks)

29. 2018.Q4(b)(c)

On 1 January 2017, Mandy commenced a sole proprietorship firm to design and sell computer software. The staff of the research and development department in the firm may freely design different computer software products, but the selection of the new product designs is done by Mandy alone, without involving any other staff.

- (b) State the leadership style adopted by Mandy. (1 mark)
- (c) Explain two disadvantages of the leadership style adopted by Mandy. (4 marks)

30. 2018.Q5(b)(c)

During the year 2018, Vincent's firm aims to reduce costs. However, the marketing manager wants to launch a large-scale sales promotion campaign. The budgeted cost of the campaign is 50% of last year's sales.

- (b) State the principle of effective management that has been violated in the above case. (1 mark)
- (c) Explain two reasons for adopting the principle of effective management in (b) above. (4 marks)

31. 2019.Q1

Pizza Deli is a multinational corporation founded in Italy and has branches in London and Sydney. It is considering expanding to Asia by setting up its own branch in Hong Kong. A reputable restaurant chain in Hong Kong invited Pizza Deli to join them as a franchisee.

- (a) Describe the main feature of Pizza Deli as a multinational corporation. (2 marks)
- (b) Explain to Pizza Deli two disadvantages of joining the restaurant chain as a franchisee instead of setting up its own branch. (4 marks)

32. 2019.Q2(b)

- (b) In 2019, Johnny established a firm selling cooking utensils in Hong Kong, with the following goal:

**'All Hong Kong people will know our brand name by the end of 2020.'**

The above goal is not a SMART goal. Explain two SMART goal characteristics that are not demonstrated by this goal.

(4 marks)



33. 2019.Q4(c)(d)

Au's firm manufactures and sells garments.

In the production department of Au's firm, the garment manufacturing process involves many tasks, including cutting, sewing and packaging. Each worker is responsible for one task only.

- (c) State the principle of effective management adopted in the production department. (1 mark)
- (d) Explain two advantages for the production department of adopting the principle of effective management in (c) above. (4 marks)

34. 2019.Q5(c)(d)

Au's firm manufactures and sells garments.

Ken is the accountant at Au's firm. One day, he asked an accounting clerk, Ming, to prepare a cost analysis and report to him in the afternoon. At the same time, the office manager instructed Ming to complete a filing index in that afternoon.

- (c) State the principle of effective management violated in the above case. (1 mark)
- (d) If the principle of effective management in (c) above was adopted, explain two advantages for Au's firm. (4 marks)

35. 2020.Q1

High-Tech Company is a small and medium enterprise (SME) which specialises in developing data processing systems for businesses in Hong Kong. At the commencement of each quarter, the project manager and the programmers discuss and decide on the work plan for the quarter. Throughout the quarter, they review the work progress regularly and identify the difficulties encountered. Support is provided to the programmers based on their feedback.

- (a) Apart from providing job opportunities, state two contributions SMEs make to the economy of Hong Kong. (2 marks)
- (b)(i) State the principle of effective management adopted by High-Tech Company in the above scenario. (1 mark)
- (ii) Explain two advantages of High-Tech Company of adopting the principle of effective management in (b)(i) above. (4 marks)

36. 2020.Q4(A)(a)

(A) Warmer is a famous company in Canada, selling thick coats and wool products. It is planning to set up a branch in Hong Kong.

- (a) State one social factor and one physical factor that Warmer should consider when setting up a branch in Hong Kong and explain how each factor might affect its business. (4 marks)

37. 2020.Q5(A)(a)(b)(c)

(A) Company A and Company B specialise in designing and building large shopping malls in Hong Kong. They plan to set up a new business together to carry out a construction project - building a shopping mall in Causeway Bay. The project will last for five years and the new business will be disposed upon the completion of the project.

- (a) Identify the form of ownership of the new business to be set up by Company A and Company B. (1 mark)
- (b) Explain one advantage of operating in the form of business ownership in (a) above. (2 marks)
- (c) Explain one difference between a partnership and the form of business ownership in (a) above. (2 marks)

1. SP.Q2

External factors:

- ✓ Political/legal: government policies about licensing, rules and regulations
- ✓ Economic: economic growth, income level and purchasing power
- ✓ Socio-cultural: cultural values, lifestyle
- ✓ Technological: technological level of café operation, IT applications
- ✓ Competitive: operation of other cafés and competition in the industry

(2 marks for each relevant factor, max. 6 marks)

2. SP.Q3

Criteria:

- ✓ Franchisor's reputation
- ✓ Restrictions and obligations
- ✓ Initial joining fee and royalty
- ✓ Support and assistance offered, e.g. promotion and training
- ✓ Franchisor's positioning and strategies match own expectation and desire

(2 marks for each relevant criterion, max. 4 marks)

3. SP.Q6(c)

Measures

- ✓ Provide more generous compensation (more than statutorily required)
- ✓ Communicate and explain to all workers the reasons for the layoff
- ✓ Help laid off workers look for other jobs / recommend the good workers to other furniture factories

(2 marks for each relevant measure, max. 4 marks)

4. PP.Q1

- employees: e.g. provide a safe and healthy working environment
- customers: e.g. assure property quality
- suppliers: e.g. make payment timely
- creditors: e.g. pay interest and principal on time
- the government: e.g. pay taxes on time

(2 marks for each relevant point, max. 6 marks)

5. PP.Q6(a),(b)

(a)	Tall-type	Flat-type	
(1) layers	more	less	1 mark for this row
(2) span of control	Narrower	Wider	1 mark for this row

(b) Reasons:

- speed up decision-making
- increase management flexibility
- improve communication

(2 marks for each relevant reason, max. 4 marks)

6. 2012.Q2

Ways:

- ✓ Inventory management: ensure a reasonable stock level to avoid wear and tear from over-storage
- ✓ Revision of design of the production process: to locate and correct the problem that leads to the defect
- ✓ Quality control: set standards to ensure goods provided are of high quality

(2 marks for each relevant way, max. 4 marks)

7. 2012.Q6(b)

Adverse effects to

- Lenders: may fail to collect all their money lent to the business
- Customers: may fail to receive products / services they paid for
- Suppliers: may fail to collect all the payments for their goods sold or services provided
- Government: may fail to collect the tax due

(2 marks for each relevant point, max. 4 marks)

8. 2012.Q7(a)

Reasons:

- ☒ Share of risk / workload
- ☒ More sources of capital
- ☒ More expertise / innovative ideas

(2 marks for each relevant reason, max. 4 mark)

9. 2012.Q7(b)

Criteria and its examples:

- ✓ Specific: e.g. earn a definite amount of profit
- ✓ Time-based: e.g. earn a certain amount of profit in the first year of operations
- ✓ Measurable: e.g. achieve a 10% increase in profit
- ✓ Challenging but attainable: e.g. earn a reasonable amount of profit

(2 marks for each relevant point, max. 4 marks)

10. 2013.Q2

External factors:

- ✓ Technological, e.g. reliability of telecommunication system
- ✓ Social, e.g. language use by operators
- ✓ Economic, e.g. wages level, cross-border telephone charge
- ✓ Legal, e.g. labour law, licensing regulations
- ✓ Physical, e.g. geographical dispersion
- ✓ Political, e.g. political stability

(2 marks for each relevant factor, max. 6 marks)

11. 2013.Q4

Ways:

- ✓ Store personnel data
- ✓ Handle payroll
- ✓ Take attendance
- ✓ Facilitate staff placement

(1 mark for each relevant way, max. 3 marks)

12. 2013.Q6

Ways:

- ✓ Facilitate automation: e.g. use of specialized equipment
- ✓ Facilitate supervision: e.g. each worker only concentrates on a specialized task
- ✓ Practice makes perfect: e.g. work faster and make fewer mistakes
- ✓ Save time: e.g. change from one position to another

(2 marks for each relevant way, max. 6 marks)

13. 2014.Q1

(a) Nominal Partner: Patrick

1

(b) Contributions:

Max. 4

- Provide professional advice
- Enhance reputation of the business
- Strengthen business linkages

(2 marks for each relevant contribution, max. 4 marks)

14. 2014.Q2(b)

Functions:

- Identify and/or create market opportunities
- Determine market position
- Select target market
- Formulate and evaluate marketing strategies (4Ps)
- Implement and monitor marketing activities
- Manage customer relationship

(1 mark for each relevant function, max. 2 marks)

15. 2014.Q5(b),(c)

(b) Adverse impacts:

Max. 4

- Unethical practice will harm the reputation of Mike's business
- Customers loss confidence and sales and prospects will be affected
- Affected customers may claim compensation from Mike

(2 marks for each relevant adverse impact, max. 4 marks)

(c) Stakeholder:

Max. 1

- Employees, suppliers/creditors, distributors, government, public
- (1 mark for each relevant stakeholder, max. 1 mark)

16. 2014.Q6(b)

(i) Unity of command

1

(ii) Problems:

Max. 4

- Contradictory instructions will cause confusion to the subordinates
- Unclear chain-of-command / line of authority will cause conflicts between the managers

(2 marks for each relevant problem, max. 4 marks)

17. 2015.Q1(a)(b)

(a) Characteristics:

Max. 4

- measurable: the goal does not specify a quantified amount of increase
- time-bound: the goal does not specify the targeted timeframe
- specific: the number of Internet bookings may refer to the log-in times of customers, successful bookings or the bookings that lead to actual rental
- realistic/attainable: the goal may not be achievable, e.g. due to the shrinking tourism business around the world

(2 marks for each relevant characteristic, max. 4 marks)

(b) Political factor:

Max. 2

- political stability of Hong Kong / travellers' home countries
  - the relationship between Hong Kong/China and the travellers' home countries
- (2 marks for each relevant political factor, max. 2 marks)

Legal factor:

Max. 2

- regulations relating to guest house/hotel licensing
- regulations related to visa requirement

(2 marks for each relevant legal factor, max. 2 marks)

8 marks

18. 2015.Q4(b)(c)

(b) Departmentalisation by location

1

(c) Other forms:

Max. 4

- By product: e.g. set up different departments to take care of the garment business for men's, women's and kids' wears respectively
- By function: e.g. set up different departments to take care of production, marketing, human resource and finance respectively

(2 marks for each relevant form of departmentalisation, max. 4 marks)

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19. 2015.Q5(b),(c)

(b) Private limited company 1

(c) Other disadvantages: Max. 4

- profit tax rate is higher resulting in lower distributable profits
- more requirements in setup procedures/ higher setup cost
- Separation of ownership and management and thus owners may not be able to control daily operations

(2 marks for each relevant disadvantage, max. 4 marks)

20. 2016.Q3(a)(b)

(a) Reasons: Max. 4

- Expansion of the chain in Hong Kong at a lower cost
- stable income: receive franchise fees regularly and share franchisees' profits
- easy access to the Hong Kong market: franchisees are more familiar with the local business environment

(2 marks for each relevant reason, max. 4 marks)

(b) Legal factors Max. 2

- regulation related to restaurant licensing: e.g. Fire Services Ordinance / Building Ordinance
- Other ordinances: e.g. the Minimum Wage Ordinance, the Employment Ordinance, etc.

(2 marks for each relevant legal factor, max. 2 marks)

Cultural factors:

- tastes and preferences of the target customers in Hong Kong
- Demographic structure/ population structure of Hong Kong: e.g. age, gender, race, etc.

(2 marks for each relevant cultural factor, max. 2 marks)

21. 2016.Q4(c)

(i) Management by Objectives: 1

- the superiors and the subordinates set the firm's objectives together

(ii) Advantages Max. 2

- subordinates are more committed as they have better understanding of the firm's objectives
- Facilitates control on subordinates' progress

(2 marks for each relevant advantage, max. 2 marks)

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(ii) Disadvantages Max. 2

- time-consuming
  - increased workloads of superiors and subordinates
- (2 marks for each relevant disadvantage, max. 2 marks)

22. 2016.Q5(c)

(i) Controlling: 1

- ensures that activities are in line with the plan

(ii) Step 1: set performance standards

Step 2: measure actual performance

Step 3: compare actual performance with the standards

Step 4: take corrective actions

(1 mark for each correct step in sequence, max. 4 marks)

23. 2017.Q1

(a) Joint venture: 1

- Two or more business form a new business entity to carry out joint project(s)

(b) Advantages: Max. 4

- More capital/resources can be contributed by joint venture partners
- Business risks can be shared among joint venture partners
- Easier entry into new market: joint venture partners know local market well/ have local connections
- Can bring in expertise/goodwill of different joint partners
- Can enjoy economies of scale

(2 marks for each relevant advantage, maximum 4 marks)

5 marks

24. 2017.Q3(a)(b)

(a)(i) Company A: departmentalisation by function 1

(ii) Company B: departmentalisation by product 1

(b) General Manager of Company A 1

(c) Risk Management Department 1

Main role:

- Identifying the possible risks the business is exposed to 2
- Formulating risk management strategies to manage the risks

(2 marks for each relevant role, maximum 2 marks)



25. 2017.Q4(b)(c)

- (b) Business ethics:
- The moral principles, values and beliefs which govern the behaviours of a business
- (c)(i) Employees of the firm:
- Providing fair and reasonable remuneration
  - Providing a safe and pleasant working environment
- (2 marks for each relevant explanation, maximum 2 marks)
- (ii) Residents living around the firm
- Disposing of litter and waste appropriately
  - Sponsoring community activities
- (2 marks for each relevant explanation, maximum 2 marks)

26. 2017.Q5(b)(c)

- (b) Management function:
- Planning
- (c) Reasons:
- To help capture opportunities and deal with challenges
  - To provide discretion to his staff
  - To provide standards for monitoring work progress
- (2 marks for each relevant reason, maximum 4 marks)

27. 2018.Q1

- (a) Technological factors: payment platform/ network security/ internet coverage
- (2 marks for each relevant factor, max. 2 marks)

Economic factors: exchange rate/ income level/ trade barriers

(2 marks for each relevant factor, max. 2 marks)

- (b) Strategies:
- Global sourcing
  - Outsourcing of production processes
  - Technology transfer/ enhancement of production processes
- (2 marks for each relevant strategy, max. 4 marks)

8 marks

## Supplementary marking notes: Q1

### (a) Technological factor ( External Factor affecting the set-up of the online shop )

- **payment platform / payment gateways 支付網關 (online payment technology)**  
(Electronic payment for online transaction e.g. Credit card, PayPal 貝宝/支付整合, AliPay 支付宝 or related payment methods)
  - **network security and safety / cyber hacking/ leakage of personal information/ etc.**
  - **internet coverage / internet connectivity ( worldwide IT technology level)**  
(e.g. broadband technology and global average connection speed in different countries)  
-concerns on other countries' IT infrastructures availability  
-concerns on global internet usage ( people's IT knowledge)
- \*\*\*[2 marks for answer showing HOW or WHY the Technological factor affects the setting-up of online shop]

### Economic factor ( External )

- **Exchange rate 匯率 / Foreign currency fluctuation**  
(the process of making the payment and transferring money from one currency to another may adversely affect online sales )
- **Income level 收入水平 /unemployment rate**  
(It affects consumers' demand leading to the fluctuation of online sales.)
- **Trade barriers 貿易障礙 / trade tariff**  
It affects the trade relationship among trading partners and hinder the growth of online sales.
- **Inflation Level**  
(It also increases the costs of Nick Limited on electricity , online advertising and maintenance)
- **Interest rate (It affects the cost of borrowing for online shop buyers and sellers )**
- **Overall economic environment /Gross Domestic Product / etc.**

\*\*\*[1+1 marking should show elaboration on HOW or WHY the economic factor affects the business of online shop, e.g. sales, cost and operational efficiency of online shop]

10



(b)

Strategies to reduce the production cost under globalisation :

- **global sourcing** 全球採購: lower transportation and communication cost
- **outsourcing of production processes** 外判生產工序/ **international Division of Labour** 國際分工
  - move the production to low-cost region
  - outsource some production parts to low-cost countries
- **technology transfer** 技術轉移/ greater mobility of factors of production (capital or labour)
  - efficient flow of capital/improve the production techniques and labour productivity
  - greater movement of cheap or skill labour may lower the production cost

28. 2018.Q2

(a) Characteristics:

- Managed by owner
- Limited capital
- Mainly local operations

2

(1 mark for each relevant characteristic, max. 2 marks)

(b) Contributions:

- Promote innovations (new products/new markets)
- Promote market competition/ provide more high-quality products or services to consumers

4

(2 marks for each relevant contribution, max. 4 marks)

6 marks

Supplementary marking notes for Q2(a)

- 以下答案一律 0 分

中文	English
規模較小 (而沒有解釋)	Small scale of company
由一人擁有 / 以獨資或合夥經營	Owned by single individual / sole proprietor or partnership
支援大型企業	Support large enterprises
現金流量較少	Limited cash flow
創新產品及服務	Innovative products and services

Supplementary marking notes for Q2(b)

- 1+1 評分，答案與個案相關→2 分 (Related to case is necessary)

中文	English
推動創新(1) : 引入韓國食品超市/ 產品, 售賣本地超市沒有的產品, 推動市場提供創新發展	<b>Promote innovations:</b> <u>introduce the Korean food supermarket/ products, which cannot be found in the local supermarket, promote market innovation</u>
促進市場競爭(1) : 創立韓國食品超市/ 引入新韓國食品, 使更多本地商店提供更多高質素的新產品及服務, 促進市場競爭	<b>Promote market competitions:</b> <u>introduce the Korean food supermarket/ products, more business will provide high-quality products or services to consumers, it promotes market competitions.</u>

- 其它答案得分

中文	English	得分
推動創意	Promote creativity	1
促進經濟發展	Contribution to economic growth	0
提供就業機會	Providing jobs	0

29. 2018.Q4(b)(c)

- (b) Autocratic leadership 1
- (c) Disadvantages: 4
- Employees' job satisfaction and commitment would be lowered/greater resistance from employees
  - Mandy has a heavier workload/ quality of decision-making depends on Mandy's capabilities
- (2 marks for each relevant disadvantage, max. 4 marks)

10 marks

(b) NO MARK for wrong spelling "autocratic" or 錯別字 "獨裁"

(c) Disadvantages: Choose one from each of the following (alternative answers)

▪ **EMPLOYEES**

- Employees' job satisfaction / commitment / morale would be lowered.  
員工的工作滿足感 / 承擔 / 士氣 較低
- Employees' team work / cooperative spirit / self-motivation / sense of belonging affected. 員工的團隊工作 / 合作精神 / 自我激勵 / 歸屬感 受到影響
- Employees become passive / unwilling to take initiative / lack of enthusiasm.  
員工變得被動 / 不願意主動 / 缺乏積極性 / 缺乏熱誠
- Greater resistance / Resentment / Dissatisfaction from employees / Poor relationship with employees 員工阻力 / 怨恨 / 不滿 較大 / 與員工的關係較差

▪ **OWNER**

- Mandy has heavier burden of work / would be more busy. 文迪工作負擔較重 / 較忙
- Higher chance of committing mistakes. 較易犯錯
- Work pressure increased. 工作壓力增加
- Quality of decision depends on the capability of the owner. 決策質素取決於東主的能力

30. 2018.Q5(b)(c)

- (b) Unity of direction 1
- (c) Reasons: 4
- Create coherence among employees to achieve the same objectives
  - Avoid management confusions/ conflicts among different departments
  - Help to build up team spirit

(2 marks for each relevant reason, max. 4 marks)

10 marks

## Supplementary marking notes: Q5

(a) For each entry in the T account, award mark if both the following are correct:

- amount
- corresponding account name in the 'particulars' column
- ignore dates

(Trade/Accounts Receivables/Payables, Bank/Cash at Bank are accepted)

(c) Overall objective(s) can be achieved effectively because:

- employees share the same objective(s)  
(employees work towards the same targets)  
員工朝著相同的目標工作
- avoid management confusions/conflicts among different departments  
(reduce wastages / better allocation of resources / avoid duplication of efforts)  
減少浪費 / 資源分配更佳 / 避免工作重複
- help to build up team spirit  
(improve staff morale/motivation, reduce staff turnover)  
改善員工士氣 / 動機, 減少員工流失
- help monitoring work progress (0)
- improve communication (0)  
改善溝通
- employees' participation in goal setting (0)  
員工參與訂定目標



58

31. 2019.Q1

- (a) - operates in more than one country 1
- Pizza Deli operates in Italy, London and Sydney respectively 1
- (b) Disadvantages: 4
- Limited autonomy: e.g. need to follow the standards and guidelines stipulated in the franchise agreement
  - Need to pay royalties to the franchisor even when making a loss
  - Subject to the success and failure/reputation of the franchisor
- (2 marks for each relevant disadvantage, max. 4 marks)

6 marks

**ACCEPTABLE definition:**

- operate in two or more countries 在兩個或以上國家營運
- 在不同國家經營業務
- It has branches in different countries, multinational bases, multiple countries, operate outside host country 世界各地、全球、總部國家以外都設有分店
- \* serves different countries / provides services to different countries 於不同國家提供服務
- \* expands the business all over the world 擴展 / 拓展至世界各地
- \* operates in other regions (地區), cities (城市)

- limited autonomy 有限自主

2

**ACCEPTABLE elaboration:**

- follow the franchisor to run the restaurant – unable to be innovative / cannot develop in their own way 要跟隨特許權擁有人方式 – 難以創新 / 失去自己的獨特性
- If they want to introduce a new product, they need to discuss with the franchisor which slows down the decision making time 如果他們想引入新產品，他們需要與特許權擁有人商量，延長了決策的時間

- need to pay royalties to the franchisor even when making a loss 即使經營虧損也需支付特許權使用費予特許權擁有人

2

**ACCEPTABLE elaboration:**

- ✧ royalties increase cost / share profits / reduce profits / increase financial burden 特許權使用費增加成本 / 分攤盈利 / 減少盈利 / 增加財政負擔
- \* need to pay the franchise fees when joining the franchise 加盟時一次過繳交特許權使用費 / pay the upfront fees regularly 定期繳交特許加盟費

- subject to the success and failure / reputation of the franchisor 受到特許權擁有人的成敗/聲譽所影響

2

**ACCEPTABLE elaboration:**

- The negative news affects restaurant chain's business image – decrease sales 負面新聞影響連鎖店企業形象 – 導致收入減少

32. 2019.Q2(b)

(b) Characteristics:

4

- specific: e.g. does not define 'all Hong Kong people' and 'know' clearly
- measurable: e.g. the goal is vague and not expressed in numerical form; there is no means to measure whether 'all Hong Kong people' know the brand name
- realistic / attainable: the goal may not be achievable

**Supplementary marking notes for Q2(b)**

- should state the relevant **characteristic** and make relevant **elaboration** 1+1
- ✓ realistic/attainable/achievable : may not achieve the goal, e.g. 'time too short', 'all Hong Kong people know'

X Spelling mistakes of the characteristic 0+1

X 'relevant 相關' and 'time-bound 有時間' or other irrelevant characteristics, no need to mark explanation 0+0

33. 2019.Q4(c)(d)

(c) Division of work / division of labor 分工

1

(d) Advantages:

- higher productivity and efficiency/practice makes perfect
  - facilitates automation: e.g. use of machines and equipment
  - time saving: e.g. simplified training, saves time in switching from task to task
- (2 marks for each relevant advantage, max. 4 marks)

4

**Marking notes - Q4(c)**

\* Division of work / specialisation 分工合作、分工化、複雜分工 - 0 mark



**Marking notes - Q4(d)**

Ignore the correctness of (c)

Any combination of two of the following if

\* each can show an advantage with reasonable elaboration/example

\* no marks for repeated advantage and/or elaboration/example

Advantage	Elaboration (Example)
- higher productivity and efficiency/ practice makes perfect 生產力和效率更高, 熟能生巧	practice makes perfect, repeated practising, fewer mistakes 熟能生巧、減少錯誤
- facilitate automation 促進自動化	use of machine and equipment 使用機器和設備
- time-saving/ cost saving 節省時間/成本	simplified training, save time to switch from task to task 簡化培訓、節省切換工序所需的時間
- facilitate supervision 有助監督	each worker specialises in only one task 每名員工只專注於一項工序
- easier to recruit workers, facilitate job assignment and placement 容易招聘工人	choose right person for the job 為工作選擇合適的人選, 負責自己擅長的工序

Answers not accepted:

- × enhance job satisfaction 提高工作滿意度
- × avoid conflicts 減少衝突
- × reduce machine cost 減少機器成本
- × clear objectives and instructions 明確的目標和指示
- × electronisation 電子化

34. 2019.Q5(c)(d)

- (c) Unity of command / Unity of command(s) 1
- (d) Advantages: 4
- avoid conflicting instructions causing confusion to subordinates: e.g. avoid work assignments being given by different managers
  - facilitate supervision of subordinates: e.g. clearly define lines of authority, responsibility and accountability to avoid conflicts between managers
- (2 marks for each relevant advantage, max. 4 marks)

**Part (d) Answers not accepted**

- × increase efficiency 提高效率
- × lower workload 工作量較低
- × enhance morale 提升士氣
- × improve communication and relations between superior and subordinates 改善上司與下屬之間的溝通和關係

35. 2020.Q1

- (a) Contributions: 2
- provide innovative products and services
  - provide specialised products and services to cater for customers' needs
  - provide support and services to large enterprises
- (1 mark for each relevant contribution, max. 2 marks)
- (b)(i) Management by objectives 1
- (ii) Advantages: 4
- Subordinates have a better understanding of the objectives
  - Subordinates are motivated and more committed
  - Monitoring and control of work progress are more effective
- (2 marks for each relevant advantage, max. 4 marks)

7 marks

36. 2020.Q4(A)(a)

(A)(a) Social factors:

- population size / structure

2

(2 marks for each relevant social factor with explanation, max. 2 marks)

Physical factors:

- Climate, infrastructure

2

(2 marks for each relevant physical factor with explanation, max. 2 marks)

(4)

37. 2020.Q5(A)(a)(b)(c)

(a) Joint venture

1

(b) Advantages:

2

- More funds and resources can be contributed by joint venturers
- Risk and liabilities can be shared among joint venturers
- More expertise and technology can be pooled

(2 marks for each relevant advantage, max. 2 marks)

(c) Difference

- A partnership operation has no definite time limit while a joint venture is project-based and will be terminated when the project is completed.

2

(2 marks for each relevant difference, max. 2 marks)

(5)



## Part 1 : Accounting cycle 會計循環

### Ch. 1 Accounting equation, basic concepts & double-entry accounting

#### 1. SP.P1A.Q21

Which of the following statements about accounting equation is INCORRECT?

- A. Assets – Liabilities = Capital
- B. Assets – Liabilities = Capital + Revenues – Expenses
- C. Non-current assets + Working capital = Capital + Non-current liabilities
- D. Non-current assets + Current assets = Capital + Non-current liabilities – Current liabilities

#### 2. 2012.P1A.Q17

On 1 January 2012, Mr. Tong set up a firm and brought in motor vehicles of \$2000, premises of \$14 000 and inventory of \$5000 to the business. The firm borrowed \$3000 from the bank to acquire a piece of equipment. Meanwhile, Mr Tong put \$1000 into the firm's cash box and \$8000 into the firm's bank account.

What was the amount of Mr Tong's capital on 1 January 2012?

- A. \$9 000
- B. \$27 000
- C. \$30 000
- D. \$33 000

### Ch.2 Inventories

#### 1. SP.P1A.Q18

Which of the following should NOT be classified as 'Purchases' by a motor van dealer?

- A. A motor van bought for showroom display
- B. A motor van bought for trial use by customers
- C. A motor van bought for use by the managing director
- D. A motor van bought to be used for staff transportation but finally put into the warehouse for resale

### Ch.3 Balance-off accounts

*No relevant question yet*

### Ch.4 Revenue, expenses & drawings

#### 1. SP.P1A.Q23

The proprietor of a business draws cash from his private savings account to settle the amount owed to a creditor of the business. The ledger entries should be:

- A. Dr Accounts Payable account ..... Cr Bank account
- B. Dr Accounts Payable account ..... Cr Capital account
- C. Dr Drawings account ..... Cr Accounts Payable account
- D. Dr Drawings account ..... Cr Bank account

#### 2. 2013.P1A.Q28

Which of the following double entries are correct?

<u>Transactions</u>	<u>Account to be</u>	<u>Account to be</u>
	<u>debited</u>	<u>credited</u>
(1) Withdrew \$20 000 cash from the bank account for business uses.	Drawings	Bank
(2) Paid sundry expenses \$3000 in cash.	Sundry expenses	Cash
(3) Received a bank loan of \$200 000 via the bank account.	Bank	Bank loan

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

Chapter 1-4 Integrated

1. SP.P1A.Q22

Which of the following accounts of BAFS Limited will be credited when there is an increase in amount?

- (1) Electricity expense
- (2) Loan from XYZ Company
- (3) Loan to ABC Company
- (4) Purchases returns
- (5) Rent received
- (6) Sales returns

- A. (1), (2) and (4) only
- B. (1), (3) and (6) only
- C. (2), (4) and (5) only
- D. (3), (5) and (6) only

2. PP.P1A.Q6

Which of the following double entries are correct?

<u>Transaction</u>		<u>Account to be</u> <u>debited</u>	<u>Account to be</u> <u>credited</u>
(1)	goods purchased in cash	<i>Purchases</i>	<i>Cash</i>
(2)	goods returned by a customer	<i>Returns</i> <i>inwards</i>	<i>Trade payables</i>
(3)	cash deposited into the bank account	<i>Bank</i>	<i>Cash</i>
(4)	inventories withdrawn for owners' private use	<i>Drawings</i>	<i>Capital</i>

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

3. PP.P1A.Q9

Which of the following transactions would have the same effect on the balances of asset and liability of a firm?

- A. Receiving a cheque of \$1200 from a customer
- B. Receiving a loan of \$2500 in cash, of which \$500 is used to pay rent on the proprietor's residence
- C. Paying office expenses of \$2000 in cash
- D. Buying office equipment for \$1000 and paying the vendor 3 months later

4. 2012.P1A.Q3

Which of the following accounts must be in debit balances on a trial balance?

- (1) Short term loans
- (2) Inventories
- (3) Bank
- (4) premises

- A. (1) and (3) only
- B. (1) and (4) only
- C. (2) and (4) only
- D. (2), (3) and (4) only

5. 2012.P1A.Q16

Which of the following transactions will affect the total amount of liability of a business?

- A. assets introduced by the owner into the business
- B. goods sold to customers on credit
- C. machinery bought with its price settled two months later
- D. sales proceeds deposited into the business's bank account

6. 2013.P1A.Q9

King Lung Company owed Tin Tin Company \$56 000 on 1 December 2012. On 10 December 2012, Tin Tin Company sold goods costing \$80 000 at a gross profit margin of 50% to King Lung Company. On 15 December 2012, King Lung Company settled the beginning balance of the month with a cash discount of 3%. The balance of King Lung Company's account in Tin Tin Company's books as at 31 December 2012 would be:

- A. \$54 320 (credit balance)
- B. \$104 000 (debit balance)
- C. \$120 000 (credit balance)
- D. \$160 000 (debit balance)

Chapter 1-4 Integrated – Short Questions

7. 2005.Q2(A): (a) & (c)

For each of the following transactions, show the effects on the accounting equation (Assets = Liabilities + Capital) and the double entries required.

	Effects on the accounting equation	Entries required
<b>Example:</b> <i>The proprietor paid \$6000 to a creditor from his own bank account</i>	<i>Increase capital</i> <i>Decrease liabilities</i>	<i>Debit: Creditors \$6000</i> <i>Credit Capital \$6000</i>
(a) The proprietor took from the business \$50 000 cash and a newly acquired motor van at its recorded cost of \$80 000.	?	?
(c) Sold goods for \$6400, for which \$3000 was received in cash and the balance was due in the following month.	?	?

### Ch.5 Trade discounts & cash discounts

#### 1. SP.P1A.Q24

On 14 February 20X7, Biz Company issued a sales invoice to Tsang Ltd for 40 units of goods at \$100 each, less 25% trade discount. Cash discount of 5% would be allowed for settlement within 7 days. Biz Company finally received the payment on 20 February 20X7.

Which of the following are the correct journal entries to be made in the books of Tsang Ltd for the above?

		Debit \$	Credit \$
A.	Biz Company	3 000	
	Sales		3 000
	Bank	2 850	
	Discounts allowed Biz Company	150	3 000
B.	Biz Company	4 000	
	Sales		4 000
	Bank	2 850	
	Discounts allowed Biz Company	1 150	4 000
C.	Purchases	3 000	
	Biz Company		3 000
	Biz Company	3 000	
	Bank		2 850
	Discounts received		150
D.	Purchases	3 000	
	Biz Company		3 000
	Biz Company	3 000	
	Bank		3 000

#### 2. PP.P1A.Q22

Which of the following statements is correct?

- A. Trade discounts are recorded as discounts allowed in the books.
- B. Cash discounts are enjoyed when large quantity of goods is purchased.
- C. Cash discounts are given encourage customers to settle debt within the credit period.
- D. Trade discounts are not entered in the sales journal.

### Ch.6 Trial Balance

#### 1. 2013.P1A.Q18

Based on the following information, answer Questions 2013.P1A.Q18:

The following were the account balances of King Kong Company as at December 2012:

	\$
Capital	199 800
Cash in hand	25 000
Cash at bank	?
Trade receivables	10 500
Trade payables	5 500
Sales	232 000
Purchases	108 000
Inventory as at 1 January 2012	15 000
Discounts allowed	5 600
Office equipment	280 000
Administrative expenses	32 000
Returns outwards	6 800
Commission received	8 700
Carriage inwards	4 500

What was the balance of the cash at bank account as at 31 December 2012?

- A. \$16 600
- B. \$27 800 (overdraft)
- C. \$30 200
- D. \$41 400 (overdraft)



Ch.7 Income Statement / Trading, Profit & Loss account – Multiple Choice

1. SP.P1A.Q25

The following is an extract from the trial balance of ACCT Company at the year ended 31 December 20X6:

	Dr	Cr
	\$	\$
Beginning inventories	5 500	
Carriage inwards	440	
Carriage outwards	660	
Purchases	73 000	
Returns	5 860	3 490
Sales		113 500

Given that the amount of ending inventories was twice the opening inventories, the cost of sales for 20X6 was \_\_\_\_\_.

- A. \$62 080
- B. \$64 010
- C. \$64 450
- D. \$64 670

2. 2013.P1A.Q14

Which of the following items are to be provided in the income statement of a business?

- (1) Profits earned during the accounting period
- (2) Air freight charges for senior managers attending overseas meetings
- (3) Trade discounts allowed to regular customers

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

3. 2013.P1A.Q19

The following were the account balances of King Kong Company as at 31 December 2012:

	\$
Capital	199 800
Cash in hand	25 000
Cash at bank	?
Trade receivables	10 500
Trade payables	5 500
Sales	232 000
Purchases	108 000
Inventory as at 1 January 2012	15 000
Discounts allowed	5 600
Office equipment	280 000
Administrative expenses	32 000
Returns outwards	6 800
Commission received	8 700
Carriage inwards	4 500

If the inventory as at 31 December 2012 was \$13 400, what would be the gross profit for the year?

- A. \$117 900
- B. \$122 400
- C. \$124 700
- D. \$129 200



4. PP.P1B.Q5(b)

Mr Cheung has a retailing firm. He knows little about book-keeping and has trouble preparing the financial statements for the firm. Based on the following information, prepare for his business the income statement for the year ended 31 December 2011.

(6 marks)

	\$
Rent and rates	22 000
Salaries	31 000
Inventory (1 January 2011)	45 000
Inventory (31 December 2011)	38 000
Sales	188 000
Purchases	92 100
Returns inwards	5 500
Returns outwards	4 400
Carriage outwards	1 900
Discounts allowed	2 700

Ch.8 Balance Sheet/Statement of financial position – Multiple Choice

1. SP.P1A.Q19

A statement of financial position is \_\_\_\_\_.

- A. A list of debits and credits
- B. One of the accounts in the ledger
- C. Prepared to find out how much profit or loss was made during a period
- D. A statement of the outstanding balances after the preparation of the profit and loss account

Q2-Q3:

Refer to the following information for SP.Q26 & SP.Q28:

The following information relates to Island Company for the year ended 31 December 20X6:

	\$
Accounts payable	5 000
Accounts receivable	6 000
Bank loan (repayable in December 20X7)	11 500
Capital as at 31 December 20X5	36 200
Capital as at 31 December 20X6	44 200
Cash	1 000
Drawings of goods by the owner	6 400
Ending inventories	12 500
Introduction of capital during 20X6	20 000
Mortgage loan (repayable in 20Y1)	60 000
Net profit for the year	15 600
Plant and machinery	80 000

2. SP.P1A.Q26.

Island Company's working capital at 31 December 20X6 amounted to \_\_\_\_\_.

- A. \$1000
- B. \$3000
- C. \$12 500
- D. \$14 500

3. SP.P1A.Q28

The cash drawings by the owner during 20X6 amounted to \_\_\_\_\_.

- A. \$1200
- B. \$21 200
- C. \$27 600
- D. \$37 200

4. PP.P1A.Q28

The following are the account balances of Lily Ltd as at 31 December 2011:

	\$
Sales	20 000
Purchases	8 000
Discounts allowed	400
Discounts received	1 200
Rental income	1 600
Electricity expenses	3 700
Cash and bank	3 000
Accounts receivables	2 900
Accounts payables	4 000
Office equipment	15 000
Inventory (1 January 2011)	3 500
Capital (1 January 2011)	?

Inventory as at 31 December 2011 amounted to \$4200.

The amount of capital of Lily Ltd as at 1 January 2011 is:

- A. \$8 300
- B. \$9 700
- C. \$19 800
- D. \$33 700

5. PP.P1A.Q30

The current assets shown in the statement of financial position are arranged in order of

- A. significance, with the most important assets coming first and the least important assets coming last.
- B. value, with the most valuable assets coming first and the least valuable assets coming last.
- C. liquidity, with the least liquid assets coming first and the most liquid assets coming last.
- D. acquisition time, with the earliest acquired assets coming first and the latest acquired assets coming last.

6. 2012.P1A.Q22

On 31 December 2011, the amount of total current liabilities of a company is \$120 000 and its current ratio is 3:1. What was the amount of working capital of the company on the same date?

- A. \$40 000
- B. \$80 000
- C. \$240 000
- D. \$360 000

**Ch.8 Balance Sheet/Statement of financial position – Short Questions**

7. 2012.P1B.Q5(a)

The following account information relates to Yip's business for the year ended 31 December 2011:

	\$
Office equipment	220 000
Trade receivables	67 000
Opening inventory	34 000
Closing inventory	42 000
Bank overdraft	17 600
Trade payables	26 300
Loan from Sam's Company (repayable in 2020)	38 000
Opening capital	231 000
Sales	109 000
Purchases	76 100
Rent and rates	12 000
Salaries	9 000
Other operating expenses	7 900
Discounts received	4 100

Prepare the statement of financial position for Yip's business at 31 December 2011.

(5 marks)

### Accounting Cycle - MC

1. 2012.P1A.Q14

Arrange the following tasks in the accounting cycle in sequence.

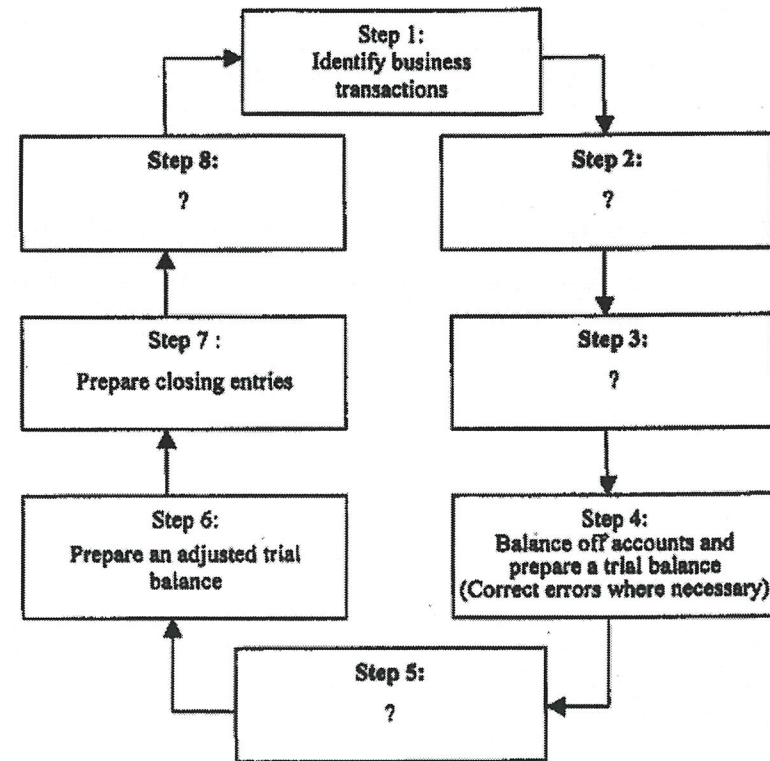
- (1) Prepare a trial balance
- (2) Prepare financial statements
- (3) Record transactions in day books
- (4) Post entries to the ledger accounts

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

### Accounting Cycle – Short Question

2. 2005.Q2B

The steps in the accounting cycle are performed in sequence in each accounting period. Some of the steps of the accounting cycle are shown below:



You are required to:

State the four missing steps in the above accounting cycle.

(4 marks)

Part 1 : Accounting cycle

Ch. 1 Accounting equation, basic concepts & double-entry accounting

1. D
2. C

Ch.2 Inventories

1. C

Ch.4 Revenue, expenses & drawings

1. B      2. C

Chapter 1-4 Integrated - MC

1. C
2. A
3. D
4. C
5. C
6. D

Chapter 1-4 Integrated - SQ

2005.Q2(A):

(a)

Effects		Entries		\$	
Decrease assets	½	Debit:	Capital/Drawings	130 000	½
Decrease capital	½	Credit:	Cash	50 000	½
		Credit:	Motor van	80 000	½

(c)

Increase assets	½	Debit:	Cash	3 000	½
Increase capital	½	Debit:	Debtors	3 400	½
		Credit:	Sales	6 400	½

Ch.5 Trade discounts & cash discounts

1. C
2. D

Ch.6 Trial Balance

1. B

Ch.7 Income Statement / Trading, Profit & Loss account – Multiple Choice

1. C
2. A
3. C
4. PP.P1B.Q5(b)

Mr Cheung Income statement for the year ended 31 December 2011				½
	\$	\$		
Sales		188 000		½
Less: Returns inwards		5 500		½
		182 500		
Less: Cost of goods sold				
Opening inventory	45 000			½
Add: Purchases	92 100			½
	137 100			
Less: Returns outwards	4 400			½
	132 700			
Less: Closing inventory	38 000	94 700		½
Gross Profit		87 800		
Less: Expenses				
Salaries	31 000			½
Rent and rates	22 000			½
Carriage outwards	1 900			½
Discount allowed	2 700	57 600		½
Net Profit		30 200		½



### Ch.8 Balance Sheet/Statement of financial position – MC

1. D    2. B    3.B    4.B    5.C    6.C

### Ch.8 Balance Sheet/Statement of financial position – Short Questions

7. 2012.P1B.Q5(a)

Statement of financial position as at 31 December 2011		
	\$	\$
<b>Non-current assets</b>		
Office equipment		220 000
		½
<b>Current assets</b>		
Inventory	42 000	½
Trade receivables	67 000	½
	<u>109 000</u>	
<b>Less: Current liabilities</b>		
Trade payable	(26 300)	½
Bank overdraft	<u>(17 600)</u>	½
		65 100
<b>Less: Non-current liabilities</b>		
Loan from Sam's Company	<u>(38 000)</u>	½
	<u>247 100</u>	
<b>Financed by</b>		
Capital as at 1 January 2011	231 000	½
Add: Net profit	<u>16 100</u>	1
	<u>247 100</u>	
	(Presentation: ½) (5)	

### Accounting Cycle - MC

1. B

### Accounting Cycle – Short Question

2. 2005.Q2B

Step 2: Prepare journal/day book entries (*books of original entries*)

Step 3: Post to ledger accounts (*ledger entries*)

Step 5: Prepare adjusting entries (*year-end adjustments*)

Step 8: Prepare financial statements (*final accounts*)

Topics covered in Part 2:

Questions from past exam papers (Sample Paper to DSE 2013)

- A. Function of accounting / Use of accounting information
- B. Accounting Principles and concepts
- C. Basic ratio analysis
- D. HKCEE Questions on accounting Principles and concepts

**A: Function of accounting / Use of accounting information**

MC1. 2012.MC.Q20

Which of the following are functions of accounting?

- (1) evaluate business performance
- (2) facilitate business planning
- (3) enhance business competitiveness

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

MC2. 2013.MC.Q30

Which of the following are tasks of accounting?

- (1) classifying and recording business transactions
- (2) equipping the purchasing system with security measures
- (3) summarizing and reporting the performance of the company's sales periodically

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

MC3. 2012.MC.Q25

Which of the following are uses of a company's financial statements to respective users?

<u>Users</u>	<u>Uses</u>
(1) Managers	Help to reallocate the resources of the firm
(2) Debtors	Help to assess the repayment ability of the firm
(3) Potential investors	Help to decide whether the firm is worth investing in

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

QA1. PP.Q5(a)

Give two reasons why businesses have to prepare financial statements. (2 marks)

QA2. 2012.Q1

Explain three limitations on the use of financial statements. (6 marks)

**B. Accounting Principles and concepts**

MC4. SP.MC.Q29

The going concern concept means that when preparing accounts, a firm is assumed to continue in operational existence for the foreseeable future \_\_\_\_\_.

- A. and will not cease trading
- B. and has no intention to liquidate
- C. but at a level of activity significantly less than the current level of activity
- D. and has no intention to liquidate or reduce significantly the scale of operation

MC5. SP.MC.Q30

Mr Chan, a sole trader, purchased a specialized machine for the business and paid the purchase invoice by a personal cheque. The machine was listed on the statement of financial position at its original cost of \$3 000 000 although it could only be realized for \$800 000 if the business was discontinued. Which of the following accounting concepts is NOT applicable to the above situation?

- A. accrual
- B. business entity
- C. going concern
- D. historical cost

MC6. PP.MC.Q10

Which of the following accounting concepts cannot be applied in the situation listed to its right?

<u>Accounting concept</u>	<u>Situation</u>
A. <i>Historical cost</i>	The market price of an asset is not shown on the statement of financial position.
B. <i>Business entity</i>	The vehicle used by the owner and his family is not recorded as an asset of his firm.
C. <i>Consistency</i>	The same method is used to record the same type of transaction in different companies.
D. <i>Accrual</i>	The expenses prepaid in the previous year have been recorded in the financial statements of the current year.

MC7. 2012.MC.Q27

Which of the following accounting principles and conventions has been violated if the owner of a restaurant charges the unpaid bills for meals with his family sometimes to the company's expense accounts but sometimes to his personal expense accounts?

- A. Accrual
- B. Business entity
- C. Consistency
- D. Going concern

## MC8. 2013.MC.Q10

On 1 January 2012, Good Fortune Company signed a tenancy contract to rent an office for two years from 1 February 2012 to 31 January 2014. On the same day, it made a payment of \$208 000 to the landlord for the rent from February to March 2012 and a deposit equal to two month's rent. The rental expense shown in the income statement for the year ended 31 December 2012 was:

- A. \$572 000
- B. \$624 000
- C. \$1 144 000
- D. \$1 248 000

## QA3. 2012.Q6(a)

Peter was a sole proprietor running a small business without any employees. He bought a piece of equipment with a list price of \$56 000 for \$48 000 in February in February 2012. Peter then went bankrupt on 31 March 2012 and he decided to close the business. The market value of the equipment on the same date was \$38 000.

What is the valuation of the equipment as at 31 March 2012? Explain your answer with an appropriate accounting concept. (3 marks)

## QA4. 2013.Q3

For each of the independent situations described below, state the accounting principle or concept that has been violated and give a brief explanation.

- (a) The owner of a firm, Mr Chan, bought a pearl necklace worth \$85 000 for his wife with a firm's cheque. The bookkeeper recorded the transaction as follows:  
(3 marks)

	Dr.	Cr.
	\$	\$
Sundry expenses	85 000	
Bank		85 000

- (b) The owner of a firm, Miss Lee, bought a notebook computer of \$12 000 for office use. She shared from the dealer that its market value at that time was \$14 000. The bookkeeper recorded the transaction as follows:

(3 marks)

	Dr.	Cr.
	\$	\$
Office equipment	14 000	
Bank		12 000
Gain on purchase of office equipment		2 000

## C. Basic ratio analysis

MC9. Refer to the following information for Question SP.MC.Q27

The following information relates to Island Company for the year ended 31 December 20X6:

	\$
Accounts payable	5 000
Accounts receivable	6 000
Bank loan (repayable in December 20X7)	11 500
Capital as at 31 December 20X5	36 200
Capital as at 31 December 20X6	44 200
Cash	1 000
Drawings of goods by the owner	6 400
Ending inventories	12 500
Introduction of capital during 20X6	20 000
Mortgage loan (repayable in 20Y1)	60 000
Net profit for the year	15 600
Plant and machinery	80 000

Island Company's return on capital employed for 20X6 was \_\_\_\_\_.

- A. 19.40%
- B. 35.29%
- C. 38.81%
- D. 43.09%

MC10. PP.MC.Q29

The following are the account balances of Lily Ltd as at 31 December 2011:

	\$
Sales	20 000
Purchases	8 000
Discounts allowed	400
Discounts received	1 200
Rental income	1 600
Electricity expenses	3 700
Cash and bank	3 000
Accounts receivables	2 900
Accounts payables	4 000
Office equipment	15 000
Inventory (1 January 2011)	3 500
Capital (1 January 2011)	?

Inventory as at 31 December 2011 amounted to \$4200.

The gross profit ratio of Lily Ltd for 2011 is:

- A. 42.5%  
 B. 56.5%  
 C. 60%  
 D. 63.5%

Based on the following information, answer 2013.MC.Q26 and 2013.MC.Q27:

	Lung Hing Company	Fat Tat Company
Turnover	\$45 000 000	\$52 000 000
Gross profit ratio	28%	25%
Net profit ratio	19%	22%
Current ratio	1.81 : 1	2.43 : 1
Liquid ratio	0.75 : 1	1.65 : 1

MC11. 2013.MC.Q26

Which of the following comments on the financial performance of Lung Hing Company as compared with Fat Tat Company is correct?

Lung Hing Company has

- A. Higher gross profit.  
 B. Higher net profit.  
 C. Higher cost of good sold.  
 D. Higher operating expenses.

MC12. 2013.MC.Q27

Which of the following comments on the liquidity of Lung Hing Company as compared with Fat Tat Company is correct?

Lung Hing Company has

- A. higher proportion of funds tied up in inventory.  
 B. higher liquidity.  
 C. more current assets to meet short-term obligations  
 D. fewer current liabilities.

QA5. SP.Q6

Mr Chan is the owner of a furniture manufacturing and trading business. Most of the furniture was manufactured by his own factory in Hong Kong and the rest was purchased from several manufacturers in Shenzhen.

The following are the financial ratios of the business for the year ended 31 December 20X6:

	Business	Industry average
Turnover	\$1 250 000	\$1 300 000
Gross Profit ratio	38%	60%
Net profit ratio	6%	42%
Current ratio	2.8:1	2.3:1
Liquid ratio	0.8:1	1.2:1

- (a) Suggest two reasons why the gross profit ratio and net profit ratio of Mr Chan's business are much lower than the industry averages. (4 marks)  
 (b) Comment on the liquidity of Mr Chan's business in 20X6. (4 marks)

QA6. PP.Q2

Glassy Ltd and Pearl Ltd are competitors in the same industry. Based on the following information, comment on the liquidity of Glassy Ltd in 2011. (6 marks)

	<u>Glassy Ltd</u>	<u>Pearl Ltd</u>	<u>Industrial Average</u>
Current ratio	2.8:1	2.0:1	1.9:1
Quick ratio	1.0:1	1.1:1	1.0:1



**D. HKCEE Questions on accounting principles and concepts**

## 1. 2001 Q.1

(A) Explain the following accounting concepts and illustrate each with an example:

(i) Historical cost (2.5 marks)

(b) For each of the independent situations described below, list the accounting principle or concept that has been violated and give your explanation:

(i) Andy Company accrued expense on the personal bank loan of the owner at year end. (2.5 marks)

## 2. 2003 Q.1

(A) Explain the following concepts and illustrate each with an example:

(b) Accrual (3 marks)

(B) For each of the independent situations described below, list the accounting principle or concept that has been violated and give your explanation:

(b) Yick Man Engineering Company entered into an agreement to repair a machine for a customer at an agreed price of \$60,000. Repair work started on 1 December 2002 and was scheduled to end on 31 January 2003. On 31 December 2002, Yick Man Engineering Company received a partial payment of \$30,000 from the customer. The company recorded this amount as revenue for the year ended 31 December 2002. (4 marks)

## 3. 2004 Q.1

(A) Explain the following accounting concepts and illustrate each with an example:

(a) Consistency (3 marks)

(B) For each of the independent situations described below, list the accounting principle or concept that has been violated and give your explanation.

(a) Ivan Lee owns four independent firms that trade in clothing, furniture, leather goods and mobile phones respectively. As he is only interested in the overall performance of his investment instead of the performance of individual firms, Ivan keeps one single set of books to record all transactions of the four firms.

(b) An item of office equipment with an original list price of \$45,000 was acquired by Carlson Limited for \$35,000 in a special sale. Since the office equipment had a market value of \$42,000 on the date of purchase, Carlson Limited recorded this amount in the fixed asset account. (8 marks)

## 4. 2005 Q1

(B) For each of the independent situations below, indicate whether the accounting treatment is correct or incorrect and accordingly state the accounting principle/assumption that is applied or violated:

	Correct or Incorrect	Accounting principle/assumption applied or violated
Example: Ellen Ltd has been adopting different methods to calculate depreciation on its motor vehicles for the past four years.	Incorrect	Consistency
(b) Betty Ltd continued to report its fixed assets at net book value at 31 March 2005 although the company would close down in April 2005.	?	?

(2 marks)

## 5. 2006 Q.1

(A) Explain the following accounting concepts and illustrate each with an example:

(b) Going concern (3 marks)

## 6. 2007 Q.1

(A) Explain the following accounting concepts and illustrate each with an example:

(a) Consistency  
(b) Accrual (6 marks)

(B) For each of the independent situations described below, list the accounting principle or concept that has been violated and provide an explanation:

(a) Thomas Chan bought an antique motor car for his personal use at a cost of \$800,000. As at 31 March 2007, this car was shown as a current assets at the market value of \$830,000 on his company's balance sheet.

(b) Merry Notes Entertainment Company organized two mini concerts which were to be held in February 2007 and April 2007 respectively. The tickets for the two concerts were sold in advance in January 2007. In its profit and loss account for the year ended 31 March 2007, Merry Notes Entertainment Company recorded the revenues for both concerts. However, only the expenses for the February 2007 concert were shown. (8 marks)

## 7. 2009-Q3A

Eiton Lee's business had been running at a loss during the past three years. Since costs of operation had been rising, Eiton decided to close his business on 1 January 2009. In the balance sheet at 31 December 2008, Eiton listed the assets at then-book values.

**REQUIRED:**

State the accounting principle or concept that has been violated and give an explanation. (4 marks)

8. 2002-Q.2A

A sole trader notices that there is an overdraft balance in his business bank account. He wants to include his personal bank balance on the balance sheet of his business. What is your advice and why would you give such advice?

(2 marks)

9. 1990-Q.1A

Briefly define, the historical cost principle. What advantages does historical cost have over asset valuation?

10. 1990-Q.1B(i),(iii),(iv)

Identify the concept, principle or assumption that serves as the basis for each of the following separate accounting practices:

(i) A company implemented a straight line depreciation policy in 1987 for its newly acquired assets. It continued to use straight line depreciation in 1988 and 1989 for these assets.

(iii) The personal transactions of proprietors are not mixed with those of the business.

(iv) A business will continue to operate for an indefinite period of time unless there is strong evidence to the contrary.

End of HKCEE Questions

Answers

MC1-3 A B B

QA1 Reasons:

- for external user: e.g. investors to make investment decision
- for internal users: e.g. managers to formulate financial plans
- to comply with legal requirements

(1 mark for each relevant reason, max. 2 marks)

QA2

**Limitations:**

- **information is mostly quantitative**
- **data relate to past events only**
- **different use of accounting methods and policies makes intra-company comparison difficult**
- **neglect of time value of money hinders users to do inter-period comparison of the company**

(2 marks for each relevant limitation, max. 6 marks)

MC 4-8 D A C B A

QA3

- \$38 000 1
- Going concern 1
- As the business discontinued its operation in the foreseeable future, assets should not be valued at historical cost but current market value 1

QA4

(a)

- Business entity concept
- It assumes a business is separated from its owner
- Private transactions of the owner should not be recorded in the books of the business
- The bookkeeper should record it as drawings in the books

(1 mark for each relevant point, max. 3 marks)

(b)

- Historical cost principle
- Assets should be recorded at their cost of acquisition or production
- Subsequent changes in their market values are to be ignored
- The bookkeeper should record \$12 000 as the cost of the notebook computer in the books (1 mark for each relevant point, max. 3 marks)

MC 9-12 C D D A

QA5(a)

**Reasons:**

- relatively low selling price
  - relatively high production cost
  - operating costs are high / control on operating costs is ineffective
- (2 marks for each relevant reason, max. 4 marks)

(b)

**Comments:**

- the liquidity of the business is worse than the industry average
  - there are not sufficient liquid assets to meet its immediate debts
  - too much capital is tied up in stock
- (2 marks for each relevant comment, max. 4 marks)

QA6 (Total: 6 marks)

Current ratio of Glassy Ltd is higher than that of Pearl Ltd which indicates its greater ability to meet short-term obligations. (1)

Quick ratio of Glassy Ltd is lower than that of Pearl Ltd which means it is less able to pay its immediate debt. (1)

However, as the current ratio of Pearl Ltd is more comparable to the industrial average, the higher current ratio of Glassy Ltd might imply its inability of using available resources to grasp investment opportunity. (2)

Besides, the significant difference between the quick ratio and current ratio of Glassy Ltd as compared with Pearl Ltd might imply Glassy Ltd is tied up with excessive inventories or other repayments. (2)

CE Answers

1. 2001 Q1

(a)(i)

**Historical cost**

- Assets and expenses are entered into the books at their actual cost to the business. Cost is the exchange price agreed upon by the parties to the exchange and changes in market value thereafter are generally ignored.
- For example, a piece of land acquired at a cost of \$1 000 000 would be recorded by this amount in the books. Even though its market value might have gone up to \$1 100 000 in the next year, the historical cost concept suggests that it should still be recorded at its original cost, ie. \$1 000 000.

(b)(i)

**Entity principle**

- The business is considered a separate entity distinguishable from its owner and from all other entities. A separate set of accounting records is maintained for the business and the financial statements represent the financial position and results of operations of the business only.
- The interest expense on the personal loan of the owner should not be recorded as the accrued interest expense of the company.

2. 2003 Q1

Accrual concept.

**Under the accrual concept, incomes and expenses are accrued, i.e. incomes and expenses are recognised and included in profit and loss account when they are earned or incurred, not when they are received or paid in cash.**

Example:

**Insurance premium paid for the first quarter of next accounting period should not be included as expenses in the current accounting period.**



3. 2004 Q1

(A)(a)

**Consistency**

- The accounting treatment of similar items within each accounting period and from one period to the next should be consistent/the same.
- Example: The same method of calculating depreciation on a particular type of fixed asset should be adopted from one year to another unless there are changes in circumstances which warrant another method.

(B)(a)

**Business entity concept**

- A business is considered as a separate entity distinguishable from its owner and from all other entities. A separate set of accounting record should be maintained for each firm and the financial statements represent the financial position and results of operations of that firm only.
- Accounting records should not be kept jointly for the four firms. A separate set of books should be maintained for each firm.

(B)(b)

**Historical cost concept**

- Assets and expenses are entered into the books at their actual cost to the business. Cost is the exchange price agreed upon by the parties to the exchange. Market value and list price are generally ignored.
- The office equipment should not be recorded at its market value. It should be recorded as its purchase cost of \$35 000.

4. 2005 Q1(B)(b)

(b) Incorrect Going concern concept

5. 2006 Q1(A)(b)

A business is assumed to continue to operate in the foreseeable future. In particular, the financial statements have been drawn up on the assumption that there is no intention or necessity to liquidate or curtail significantly the scale of operations. 2

**Example**

Fixed assets are recorded on the balance sheet at cost (less accumulated depreciation), not their realisable values. 1

6. 2007 Q1

(A)(a) 3 marks

**Consistency principle**

The accounting treatment of similar items within each accounting period and from one period to the next should be consistent /the same.

**Example**

The same method of calculating depreciation on a particular type of fixed asset should be adopted from one year to another unless there are changes in circumstances which warrant another method.

(A)(b) 3 marks

**Accrual concept**

Under the accrual concept, revenues and expenses are accrued, i.e. revenues and expenses are recognised and included in the financial statements when they are earned or incurred, not when they are received or paid in cash.

**Example**

Rates prepaid for the first quarter of next accounting period should not be included as expenses in the current accounting period.

(B)(a) 4 marks

**Business entity principle**

- A business is considered as a separate entity distinguishable from its owner. A separate set of accounting records is maintained for the business and the financial statements represent the financial position and results of operations of the business only.
- The antique motor car is a personal asset of Thomas Chan and should not be included in the financial statements of his business.



(B)(b) 4 marks

(Note: Realization principle is also a possible answer)

**Accrual concept**

- Revenues and expenses are accrued, i.e. revenues and expenses are recognised and included in the financial statements when they are earned or incurred, not when they are received or paid in cash.
- The financial statements for the year ended 31 March 2007 should include neither the sales revenue received nor any expenses paid for the concert to be held in April 2007.

7. 2009 Q3(A)

**Going concern principle**

- A business is assumed to continue to operate in the foreseeable future. In particular, the financial statements have been drawn up on the assumption that there is no intention or necessity to liquidate or curtail significantly the scale of operations. 1 1½
- Since the business is going to wind up on 1 January 2009, the assets should be shown at their realisable values in the balance sheet as at 31 December 2008. 1½

8. 2002 Q2(A)

According to the business entity concept, an owner's personal assets should not be shown as assets of his business.  
(2 marks)

9. 1990 Q1(A)

**Historical cost principle**

It defines that assets acquired in business must be recorded at cost which was the purchase price and any related expenses which bring the asset to its present condition and location.

**Advantages of historical cost over asset revaluation**

Using the historical cost method is more objective and verifiable, as the asset value is supported by invoices and other related documents. This method also supports another accounting concept called Going Concern which supposes the business will continue to operate in the foreseeable future. It means that there is no intention or necessity either to liquidate the entity or to curtail significantly its activities. So, historical cost is more relevant and significant for accounting records, but the market value is less important as assets are not assumed to be resold or realized.

10. 1990-Q.1B(i),(iii),(iv)

- (i) Consistency
- (iii) Business Entity
- (iv) Going Concern

## Introduction to Accounting Part 3: Books of Original Entry

### Ch.12 Books of Original Entry and Ledgers

#### 1.2012 P1A Q28

Which of the following statements is not correct?

- A. The amount of total purchases should be posted to the purchases ledger.
- B. The petty cash book is one of the books of original entry.
- C. Only credit sales are recorded in the sales journal.
- D. Purchase of non-current assets on credit should be recorded in the general journal.

#### 2.2010 AL P1 Q5

Suggest three ways in which a manufacturer can adjust his policy on working capital management to cope with an economic recession. (6 marks)

### CH.13 Cash Book

#### 3. 2010 CE Q3

Jane Ho is a sole proprietor who keeps records of her cash and bank transactions in a three-column cash book. The balances in the cash book at 1 March 2010 were: cash \$38 900 and bank overdraft \$6240. Jane made the following transactions during the month of March 2010:

March 2	Sales with a list price of \$8000 were made to a customer at a discount of 10% on 25 February 2010. The customer settled his account balance by cheque after deducting a 3% cash discount.
5	From the proceeds of cash sales, paid \$1000 for cash purchases of trading goods and banked the remaining \$4600.
11	Settled a supplier's outstanding account of \$3000 by cheque after deducting a 5% cash discount.
16	A customer paid cash \$19 600 to settle her debt. A 2% cash discount was allowed for early settlement.
22	Paid suppliers in cash \$16 500.
29	Banked cheques of \$27 800 from customers through an Automatic Teller Machine (ATM).
30	Paid salaries in cash \$14 000.
31	Banked a cheque of \$3007 from a customer in full settlement of his account of \$3100.

Jane Ho received a bank statement which showed a credit balance of \$27 194 as at 31 March 2010. An examination of the bank column in the cash book and the bank statement disclosed the following discrepancies:

- (i) Bank lodgement on 31 March 2010 had not yet been recorded by the bank.
- (ii) A bank service charge of \$300 had been debited by the bank on 26 March 2010. However, an amount of \$100 had been overcharged and was refunded by the bank on 31 March 2010.
- (iii) Cheques drawn totalling \$19 200 had not been presented to the bank.
- (iv) An autopay payment of \$18 000 was made by the bank for rent.
- (v) A post-dated cheque of \$4100 received from a customer was banked on 29 March 2010, but it was returned by the bank.

#### REQUIRED:

- (a) Prepare a three-column cash book for the month of March 2010, incorporating the necessary updates to be made on 31 March 2010. (12 marks)
- (b) Prepare a bank reconciliation statement as at 31 March 2010 commencing with the bank statement balance and ending with the updated cash book balance in (a) above. (2 marks)

#### 4. 2013 P1B Q5

i. David is a sole proprietor who keeps records of his cash and bank transactions in a three-column cash book. The balances in the cash book as at 1 January 2013 were: cash \$12 680 and bank overdraft \$30 980. In addition, a petty cash imprest amount of \$2000 was maintained on that date. Transactions made in January 2013 were as follows:

2013	
Jan 2	Received a cheque from a customer, Lung, who was given a cash discount of 2½% to settle his account of \$150 000. The cheque was banked on the same day.
5	Paid a 20% deposit by cheque for the purchase of a motor van costing \$200 000. The balance was to be paid on delivery two weeks later.
7	Received a cheque of \$190 000 from Hilly Company as commission for work done.
14	Cash amounting to \$8790 from sales were deposited into the bank directly.
17	David withdrew \$3200 from the cash box to pay his son's school fees.
19	Paid the balance of the motor van purchased on 5 January by cheque.
24	Settled Kam Kee's account of \$35 000 by cheque, with a cash discount of 3%.
28	Withdrew \$9000 from the bank and put the money in the cash box for business use.
30	Paid wages of \$10 000 in cash and \$20 000 by cheque.
31	Petty cash had a balance of \$205. The petty cash imprest amount was replenished with cash.

Write up a three-column cash book for January 2013.

(8 marks)

### CH.15 General Journal

#### 5.SP P1A Q20

Which of the following incidents relating to a toy trader should NOT be recorded in the General Journal?

- A. The sale of an office desk on credit
- B. A credit note received from a supplier
- C. The exchange of a fax machine for a copier of equal value
- D. Correction of a credit transfer from a customer credited to a wrong personal account

6.2013 P1A Q3

Which of the following transactions would be recorded in the General Journal?

- A. purchase of goods on credit
- B. goods returned from customers
- C. introduction of office premises as capital
- D. cash drawings for personal use by the proprietor

ANS

1. 2012.P1A.MC28:	A
5. SP.P1A.MC20	B
6. 2013.P1A.Q3	C

2. 2010 AL P1 Q5

#### QUESTION 5

Ways:

- lower inventory level
  - tighten credit policy
  - speed up collection of accounts receivables
  - defer payments for accounts payables
- (2 marks for each relevant point, max. 6 marks)

3. 2010 CE Q3

#### QUESTION 3

Marks

Cash Book									
2010	Discount	Cash	Bank	2010	Discount	Cash	Bank		
Mar	\$	\$	\$	Mar	\$	\$	\$		
1/2 1 Balance b/d		38 900		1 Balance b/d			6 240	1/2	
1/4 2 Debtors	216		6 984	5 Purchases		1 000		1/2	
1/2 5 Sales		5 600		5 Bank		4 600		1/2	
1/2 5 Cash			4 600	11 Creditors	150		2 850	1	
1 16 Debtors	400	19 600		22 Creditors		16 500		1/2	
1/4 29 Debtors			27 800	30 Salaries		14 000		1/2	
1 31 Debtors	93		3 007	31 Bank service charge (ii)			200	1	
				31 Rent (iv)			18 000	1/2	
				31 Debtors (v)			4 100	1	
				31 Balance c/d			11 001	1/2	
	709	64 100	42 391		150	28 000	42 391		(12)

Bank reconciliation statement as at 31 March 2010			
		\$	
Balance as per bank statement		27 194	1/2
Add: Lodgement not yet recorded by bank (i)		3 007	1/2
		30 201	
Less: Unpresented cheques (iii)		19 200	1/2
Balance as per updated cash book		11 001	1/2
			(2)

Total: 14 marks

4. 2013 P1B Q5

**Marks**

**Total: 8 marks**



## 1. 2014.MC.Q29

Miss Lee drew a personal cheque to pay an electricity bill for her business. Which of the following double entries for the business is correct?

	<u>Debit</u>	<u>Credit</u>
A.	drawings	cash at bank
B.	drawings	capital
C.	electricity expenses	cash at bank
D.	electricity expenses	capital

## 2. 2014.MC.Q10

In the trial balance, if the total of debit balances is larger than the total of credit balances, it means that \_\_\_\_\_.

- A. there is a loss for the year
- B. there is an error in the double entries
- C. there is insufficient capital to run the business
- D. the amount of total assets is larger than the total liabilities

## 3. 2014.MC.Q18

How will an increase in discount received affect the gross profit and net profit?

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

## 4. 2014.MC.Q26

An asset is classified as a current asset on the statement of financial position if it \_\_\_\_\_.

- A. was purchased on credit more than 12 months ago
- B. was purchased in cash in the last 12 months
- C. is to be sold within 12 months
- D. is to be used for over 12 months

## 5. 2014.MC.Q14

What is the flow of an accounting cycle after the books of original entry?

- (1) Balancing day adjustments
- (2) Financial statements
- (3) Ledgers
- (4) Trial balance
- A. (1) → (2) → (3) → (4)
- B. (2) → (3) → (4) → (1)
- C. (3) → (4) → (1) → (2)
- D. (4) → (3) → (1) → (2)

## 6. 2014.MC.Q16

On 30 December 2013, a firm bought a motor van and made a payment of \$150 000 by cheque. The van's list price was \$243 000 and a trade discount of \$15 000 was given. As at 31 December, its market value had fallen to \$200 000. The van should be recorded at \_\_\_\_\_ in the statement of financial position as at 31 December 2013.

- A. \$150 000
- B. \$200 000
- C. \$228 000
- D. \$243 000

## 7. 2014.MC.Q19

Which of the following accounting ratios can be calculated when only the income statement is provided?

- (1) Net profit ratio
- (2) Quick ratio
- (3) Return on capital employed
- A. (1) only
- B. (2) only
- C. (3) only
- D. (1) and (3) only

## 8. 2014.MC.Q9

As at 31 December 2013, Quinton Company had current liabilities amounting to \$60 000 and its current ratio was 3:1 and quick ratio was 2:1. What was the amount of its inventory on that day?

- A. \$60 000
- B. \$120 000
- C. \$180 000
- D. \$240 000

## 9. 2014.MC.Q11

A business earns a gross profit margin of 25%. Calculate its sales amount based on the following data:

Item	\$
Opening inventory	10 000
Closing inventory	4 000
Purchases	51 000
Selling expenses	1 500

- A. \$69 375
- B. \$71 250
- C. \$74 000
- D. \$76 000

10. 2015.MC.Q4

In October 2014, a firm had the following purchases and returns:

- |       |   |
|-------|---|
| Oct 2 | Purchased goods on credit from Mr Yu for \$2500   |
| 9     | Purchased goods in cash for \$2000  |
| 17    | Returned goods to Mr Yu for \$300   |
| 26    | Purchased good on credit from Miss Lui for \$3200 with a cash discount of 10% if payment is made within 30 days |

Based on the above information, what should be the total amount of purchase recorded for the month of October 2014 in the Purchases Journal?

- A. \$5380
- B. \$5700
- C. \$7400
- D. \$7700

11. 2015.MC.Q7

What is/are the main purpose(s) of preparing a trial balance?

- (1) record the daily transactions of the business
  - (2) reflect financial performance of the business
  - (3) check the arithmetical accuracy of bookkeeping entries
- A. (1) only
  - B. (3) only
  - C. (1) and (2) only
  - D. (2) and (3) only

12. 2015.MC.Q10

Which of the following is not a nominal account?

- A. salaries account
- B. purchases account
- C. returns inwards account
- D. cash at bank account

13. 2015.MC.Q14

A firm sells goods to a customer on credit. Which of the following are the effects of this transaction on the statement of financial position?

- |    | <u>Total current assets</u> | <u>Total current liabilities</u> |
|----|-----------------------------|----------------------------------|
| A. | decrease                    | increase                         |
| B. | decrease                    | decrease                         |
| C. | increase                    | unchanged                        |
| D. | unchanged                   | unchanged                        |

14. 2015.MC.Q15

Investors will use the accounting information provided in financial statements to evaluate \_\_\_\_\_.

- (1) whether it is worth investing in the business
- (2) whether the organizational structure of the business is appropriate
- (3) whether the business has adequate capital to carry out its projects

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

15. 2015.MC.Q18

Which of the following descriptions of cash discounts offered to customers are correct?

- (1) They are expenses.
- (2) They must be recorded in the books.
- (3) They are used to encourage customers to purchase in cash.

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

16. 2015.MC.Q23

On 1 January 2014, Mary started her business by depositing her own cash \$300 000 into the firm's bank account and introducing her motor van costing \$80 000 into the firm. In addition, the firm borrowed \$40 000 from Mary's friend to buy goods for the business. Total revenues and total expenditures of the firm for the year ended 31 December 2014 amounted to \$120 000 and \$45 000 respectively.

What is the amount of Mary's capital as at 31 December 2014?

- A. \$305 000
- B. \$335 000
- C. \$455 000
- D. \$485 000

17. 2015.MC.Q25

Which of the following double entries are correct?

	<u>Transactions</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	Purchased a file cabinet for office use in cash	Purchases	Cash
(2)	The owner introduced cash into the business	Cash	Capital
(3)	A debtor paid his debts by cheque	Cash at bank	Accounts receivables

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

**Based on the following information, answer 2015.MC.Q29 and 2015.MC.Q30.**

Nelson established his firm on 1 January 2014. Its sales and purchases for the year ended 31 December 2014 were \$540 000 and \$230 000 respectively. The gross ratio for 2014 was 60% while the net profit margin was 35%.

18. 2015.MC.Q29

What is the amount of inventory of the firm as at 31 December 2014?

- A. \$10 000  
 B. \$12 000  
 C. \$14 000  
 D. \$18 000

19. 2015.MC.Q30

What is the amount of expenses of the firm for 2014?

- A. \$135 000  
 B. \$189 000  
 C. \$216 000  
 D. \$324 000

20. 2014.MC.Q5

It's a firm's practice to record free samples given to customers as promotion expenses. At the year end, the owner of the firm took some free samples for his personal use. According to the \_\_\_\_\_ concept, these free samples should be treated as \_\_\_\_\_.

- A. business entity ... .. promotion expenses  
 B. business entity ... .. drawings  
 C. consistency ... .. promotion expenses  
 D. consistency ... .. drawings

21. 2014.MC.Q20

\_\_\_\_\_ are external users of financial statements who focus on the liquidity and solvency of the firm.

- A. Managers  
 B. Customers  
 C. Competitors  
 D. Lenders

22. 2016.MC.Q5

Sunny, who maintains a good credit record, is a customer of Mary's business. For the year ended 31 December 2015, Mary sold goods for \$8000 on credit to Sunny. Sunny fully settled the debt in January 2016. According to \_\_\_\_\_ (1) \_\_\_\_\_, Mary should record this transaction as sales for the year \_\_\_\_\_ (2) \_\_\_\_\_.

- |    | (1)                      | (2)  |
|----|--------------------------|------|
| A. | accrual concept          | 2015 |
| B. | accrual concept          | 2016 |
| C. | going concern assumption | 2015 |
| D. | going concern assumption | 2016 |

23. 2016.MC.Q11

Which of the following accounts must have balances on the debit side of a trial balance?

- (1) bank charges  
 (2) bank loan  
 (3) bank

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

24. 2016.MC.Q12

Which of the following would affect the calculation of cost of goods sold?

- A. rental expenses for the office  
 B. carriage expenses for the delivery of goods to customers  
 C. discounts given by suppliers for purchasing a large quantity of goods  
 D. discounts given by suppliers for early settlement of outstanding balances

25. 2016.MC.Q13

Which of the following statements about non-current assets is correct?

- A. Their cost of purchases exceeds \$100 000.  
 B. They are used for the operations of the business.  
 C. Their balances are presented in the income statement.  
 D. Accounts receivable is a non-current asset.

26. 2016.MC.Q18

Which of the following double entries are correct?

<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1) Returned goods to suppliers	Purchases	Returns outwards
(2) Deposited cash into the bank account	Bank	Cash
(3) Sold goods to customers on credit	Trade receivables	Sales

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

27. 2016.MC.Q21

Which of the following should be recorded on the credit side of the respective accounts?

	<u>Account</u>
(1) Decrease in capital	Capital
(2) Increase in trade payables	Trade payables
(3) Decrease in cash at bank	Bank

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

28. 2016.MC.Q23

On 1 January 2015, Mr Lee set up a firm with cash \$100 000. On the same day, the firm took out a loan of \$200 000 from a bank. At the end of that year, total assets and total liabilities of the firm were \$980 000 and \$560 000 respectively. During the year, Mr Lee made regular cash drawings of \$5000 per month.

What is the net profit of the firm for the year 2015?

- A. \$180 000  
 B. \$260 000  
 C. \$325 000  
 D. \$380 000

29. 2016.MC.Q26

Which of the following is not the main use of a company's financial statements for the respective users?

<u>User</u>	<u>Main use</u>
A. managers	to formulate company's development strategies
B. employees	to assess their remuneration level and job security
C. government	to assess company's ability to repay tax
D. trade creditors	to decide whether to sell goods to the company on credit

30 - 31 Based on the following information, answer Question 30 and 31.

The following account balances as at 31 December 2015 were extracted from the books of a firm:

	Dr	Cr
	\$	\$
Purchases	75 000	
Returns inwards and returns outwards	5 000	3 000
Discounts allowed and discounts received	3 500	2 000
Inventory as at 1 January 2015	15 000	
Electricity	10 000	
Wages and salaries	36 500	

30. 2016.MC.Q29

Given that the inventory as at 31 December 2015 was \$27 000, what was the cost of goods sold for the year ended 31 December 2015?

- A. \$54 500  
 B. \$58 000  
 C. \$60 000  
 D. \$63 000

31. 2016.MC.Q30

Given that the net profit for the year ended 31 December 2015 was \$9000, what was the gross profit for the year?

- A. \$59 000  
 B. \$57 000  
 C. \$54 000  
 D. \$53 500

32. 2017.MC.Q2

Assume that no account balance is missing from a trial balance. If the total of the debit balances and the total of the credit balances of the trial balance are not equal, it means that \_\_\_\_\_.

- (1) one or more ledger balance(s) in the trial balance is/are wrong  
 (2) the statement of financial position will not balance  
 (3) the net profit in the income statement will be wrong

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



33. 2017.MC.Q5

In the accounting cycle, which of the following step comes immediately after the preparation of a trial balance?

- A. preparing financial statements
- B. making period-end adjustments
- C. posting entries to the ledgers
- D. recording transactions in the books of original entry

34. 2017.MC.Q9

If an account has a debit balance, which of the following statements about the account is correct?

- A. The total amount of the debit side in the account is higher than the total amount of the credit side.
- B. The balance carried down appears on the debit side of the account.
- C. The balance brought down appears on the right hand side of the account.
- D. The account is an asset account.

35. 2017.MC.Q12

Chan Kee and Yip Kee are trading firms in the same industry. Their gross profit ratios and net profit ratios for the year 2016 are shown below:

	Chan Kee	Yip Kee
Gross profit ratio	39%	45%
Net profit ratio	24%	20%

Based on the above ratios, which of the following can be concluded?

- A. Yip Kee has a higher sales amount.
- B. Yip Kee has a higher cost of goods sold.
- C. Chan Kee has a higher net profit.
- D. Chan Kee has better control over operating expenses.

36. 2017.MC.Q15

Which of the following is **not** a use of financial statements?

- A. assist different users in making decisions
- B. provide information about the financial position of a business
- C. provide information to employees for assessing their job security
- D. provide qualitative information regarding the performance of a business

37. 2017.MC.Q19

Mr Wong set up a firm on 1 January 2017. He introduced his motor van of \$40 000 into the firm. The firm borrowed \$200 000 from Mr Wong's relatives to purchase office equipment and \$100 000 from bank for his bank operation.

What are the amounts of the firm's asset, liabilities and capital on 1 January 2017?

	<u>Assets</u>	<u>Liabilities</u>	<u>Capital</u>
	\$	\$	\$
A.	240 000	200 000	40 000
B.	40 000	300 000	340 000
C.	340 000	100 000	240 000
D.	340 000	300 000	40 000

Based on the following information, answer 2017.MC.Q21 and 2017.MC.Q22.

As at 31 December 2016, Wong's firm had the following assets and liabilities:

	\$
Non-current assets	280 000
Bank	18 000
Cash	58 000
Inventory	71 000
Trade payables	86 000
Trade receivables	162 000
Long term bank loan	120 000

38. 2017.MC.Q21

What is the quick ratio of Wong's firm for 2016?

- A. 1.16 : 1
- B. 2.77 : 1
- C. 3.59 : 1
- D. 6.02 : 1

39. 2017.MC.Q22

What is the amount of working capital in Wong's firm as at 31 December 2016?

- A. \$103 000
- B. \$152 000
- C. \$223 000
- D. \$503 000

40. 2017.MC.Q25

Which of the following descriptions about accounting assumptions, principles and conventions is correct?

- A. Historical cost: all business transactions should be recorded in the books.
- B. Business entity: a sole proprietor can record his personal spending in the books of his business
- C. Consistency: the accounting policies and methods cannot be changed once adopted
- D. Going concern: a business will continue in operation for the foreseeable future

41. 2017.MC.Q28

Which of the following double entries are correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	Settled a trade debt by cheque	Trade payables	Bank
(2)	Sold the office furniture of the firm on credit	Trade receivables	Sales
(3)	Paid carriage expenses for delivering goods to customers in cash	Carriage outwards	Cash

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

42. 2017.MC.Q29

Which of the following statements about accounting ratios is/are correct?

- (1) They are used to evaluate the financial results of a business.
- (2) For the calculations of all profitability ratios, the denominator is 'Sales'.
- (3) The acid-test ratio of a firm is higher than its current ratio.

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

43. 2018.MC.Q2

Which of the following accounts must carry a debit balance in a trial balance?

- A. Rental income
- B. Purchases returns
- C. Discounts received
- D. Loans to employees

44. 2018.MC.Q4

Which of the following double entries is/are correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	Received interest on bank deposit	Interest income	Bank
(2)	Purchased stationery for office use on credit	Stationery expense	Accounts payable
(3)	The owner brought in his motor van for the firm's use	Motor van	Drawings

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

45. 2018.MC.Q6

Which of the following should be recorded as an expense of a firm?

- (1) Wages paid for the part-time workers of the firm in cash
- (2) Insurance paid for owner's private apartment by the firm's cheque
- (3) Rent paid for the firm's warehouse by owner's personal cheque

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

46. 2018.MC.Q8

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

- (1) goods withdrawn by owners for personal use
- (2) goods returned to a supplier
- (3) goods donated to a non-profit making organisation

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

47. 2018.MC.Q10

Which of the following is/are the example(s) of a real account?

- (1) Sales account
- (2) Bank loan account
- (3) Equipment account

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

48. 2018.MC.Q12

On 1 March 2018, the cash at bank account and the cash in hand account of a firm carried debit balances of \$15 000 and \$12 000 respectively. Cash sales for the month were \$13 000, of which \$5 000 was kept in the safe and the remaining cash from sales were deposited into the bank before the month end. During the month, \$9 000 was paid for expenses in cash and \$26 000 was paid to acquire equipment by cheque.

The cash at bank account carried a \_\_\_\_\_ on 31 March 2018.

- A. credit balance of \$3 000
- B. credit balance of \$6 000
- C. debit balance of \$5 000
- D. debit balance of \$8 000

49. 2018.MC.Q17

The following information relates to Mr Chan's firm in 2017:

	\$
Capital, as at 1 January 2017	443 800
Capital, as at 31 December 2017	425 000
Total revenue for the year 2017	97 000
Total expenses for the year 2017	108 500

Based on the above information, Mr Chan \_\_\_\_\_ the firm during the year 2017.

- A. withdrew \$7 300 from
- B. withdrew \$30 300 from
- C. introduced \$7 300 into
- D. introduced \$30 300 into

50. 2018.MC.Q20

Which of the following would increase the gross profit of a trading firm?

- A. decrease in returns outwards
- B. decrease in carriage outwards
- C. increase in trade discount offered by the supplier
- D. increase in cash discounts offered by the supplier

51. 2018.MC.Q21

Ming Kee and Chan Kee are trading firm in the same industry. Their financial information for the year 2017 is shown below:

	Ming Kee	Chan Kee
Current assets	\$900 000	\$600 000
Current ratio	6:1	2.5:1
Acid test ratio	2:1	1.5:1

Based on the above information, Ming Kee has \_\_\_\_\_.

- (1) less current liabilities
- (2) greater ability to meet short-term obligations.
- (3) less inventory

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

52. 2018.MC.Q23

Which of the following is **not** a function of accounting?

- A. summarising business transactions
- B. monitoring the performance of the accounting staff
- C. communicating the performance of the business to different stakeholders
- D. classifying business transactions

53. 2018.MC.Q29

Which of the following about an income statement is **not** correct?

- A. Information is mostly quantitative.
- B. Information mainly reflects past event.
- C. Its preparation involves professional judgments.
- D. Its preparation is based on cash receipts and cash payments only.

54. 2019.MC.Q2

According to accounting assumptions, principles and conventions, which of the following accounting treatment is correct?

- A. A sole proprietor records his own rental expenses in the books of the firm.
- B. Mr Chan owns three firms. He keeps separate accounting records for each firm.
- C. All assets are valued at current market price if a business is expected to cease operating in the following month.
- D. Once an accounting method has been adopted, the method should not be changed unless the new method leads to a higher profit.

55. 2019.MC.Q4

The following account was extracted from the books of Lee's firm.

Mr Au					
2018		\$	2018		\$
Oct 14	Cash	22 000	Oct 1	Balance b/d	10 000
Oct 31	Balance c/d	44 000	Oct 5	Purchases	56 000
		<u>66 000</u>			<u>66 000</u>

Based on the information in the above account, which of the following statements is **not** correct?

- A. Lee's firm owed Mr Au \$10 000 on 1 October 2018.
- B. Mr Au sold goods for \$56 000 on credit to Mr Lee's firm on 5 October 2018.
- C. Lee's firm received \$22 000 in cash from Mr Au on 14 October 2018.
- D. The account has a credit balance as at 31 October 2018.

56. 2019.MC.Q6

A firm acquired a set of equipment with a list price of \$200 000. The owner paid \$50 000 by personal cheque and the remaining amount was to be settled later on. Which of the following are the effects of this transaction on the accounting equation?

	<u>Assets</u>	<u>Capital</u>	<u>Liabilities</u>
A.	increase	increases	decrease
B.	increase	increases	increase
C.	increase	decreases	increase
D.	decrease	unchanged	decrease

57. 2019.MC.Q10

On 31 December 2018, the quick ratio of a firm was 0.8:1. On that date, the account balances of the firm were as follows:

	\$
Inventory	6 000
Bank loan (repayable in April 2019)	10 000
Cash	30 000
Trade payables	50 000

Based on the above information, calculate the amount of trade receivables as at 31 December 2018.

- A. \$4 000
- B. \$10 000
- C. \$12 000
- D. \$18 000

58. 2019.MC.Q12

Which of the following will decrease the total amount of current liabilities of a business?

- (1) some unpaid goods are returned to the supplier.
- (2) trade payables are repaid using a bank overdraft facility.
- (3) a 6-month loan is repaid by taking out a 3-year bank loan.

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

59. 2019.MC.Q14

For a sole proprietorship selling office equipment, which of the following about its statement of financial position is correct?

- A. Office equipment held for sale should be classified as a current asset.
- B. The statement shows details of the transactions made during the year.
- C. The statement shows the balances of the nominal accounts and real accounts of the firm.
- D. Working capital is the difference between non-current assets and non-current liabilities.



60. 2019.MC.Q16

A firm was set up in January 2018. The following account balances were extracted from its books as at 31 December 2018:

	\$
Sales	154 000
Purchases	51 000
Carriage outwards	2 500
Carriage inwards	4 700
Salaries	31 000

The inventory as at 31 December amounted to \$7 200. The gross profit for the year ended 31 December 2018 was \_\_\_\_.

- A. \$72 000
- B. \$105 500
- C. \$107 700
- D. \$114 900

61. 2019.MC.Q19

Which of the following double entries are correct?

<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1) Credit customer returned goods to the firm	Sales	Trade receivables
(2) A bank loan was settled by cheque	Loan from bank	Cash at bank
(3) A cash refund for the overpayment of motor expenses was received	Cash	Motor expenses

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

62. 2019.MC.Q23

In the accounting cycle, the next step after posting entries to the ledger account is \_\_\_\_\_.

- A. preparing financial statements
- B. recording transactions in the books of original entries
- C. preparing the trial balance
- D. making period-end adjustments

63. 2019.MC.Q25

Which of the following is **not** the main use of financial statements for the respective users?

<u>User</u>	<u>Main use</u>
A. employees	to assess the prospects of the company
B. managers	to evaluate the financial performance of the company
C. government	to compute the profits tax payable by the company
D. customers	to assess the liquidity of the company

64. 2019.MC.Q28

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

	\$
Purchases	74 000
Inventory, 1 January 2018	6 200
Cash at bank	121 500
Loan from bank	36 700
Office equipment	15 000
Sales	123 000
Operating expenses	28 000
Drawings	14 700
Capital, 1 January 2018	?

The firm's capital as at 1 January 2018 was \_\_\_\_\_.

- A. \$43 700
- B. \$70 300
- C. \$99 700
- D. \$197 700

65. 2020.MC.Q3

Which of the following descriptions about 'debit' and 'credit' in accounting is/are correct?

- (1) 'Debit' means an increase and 'credit' means a decrease in the amount of an account.
- (2) 'Debit' side refers to the left-hand side and 'credit' side refers to the right-hand side of an account.
- (3) 'Debit' balance is positive and 'credit' balance is negative.

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

66. 2020.MC.Q5

Which of the following effects on the assets, capital and liabilities brought about by the respective transaction is correct?

<u>Transaction</u>	<u>Asset</u>	<u>Capital</u>	<u>Liability</u>
A. Owner injected his own motor van to the firm.	increases	increases	increases
B. Received cash from a customer as settlement of his account.	increases	unchanged	decreases
C. Owner repaid a bank loan for the firm by his personal cheque.	unchanged	increases	decreases
D. Paid rent of the firm for the current month in case.	decreases	unchanged	decreases

67. 2020.MC.Q9

A firm's current ratio is 1.8:1 and the acid-test ratio is 0.9:1. Which of the following statements is correct?

- A. The amount of working capital of the firm is negative.
- B. Half of the current assets of the firm are inventory.
- C. The liquidity and profitability of the firm are poor.
- D. The firm has sufficient liquid assets to settle its current liabilities.

68. 2020.MC.Q11

Which of the following is/are limitation(s) of using financial statements?

- (1) The financial statements mainly record past transactions, which may not reflect the future.
- (2) The inter-period comparison of the firm's performance is difficult as the assets in financial statements are generally reported at their market values, which fluctuate over time.
- (3) It is difficult to compare the performance of different firms in the same industry as different firms would adopt different accounting methods.

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

69. 2020.MC.Q13

Which of the following descriptions of the flow of the accounting cycle is/are correct?

- (1) Right after the posting of entries to ledgers, period-end adjustments are made.
- (2) Right after the preparation of trial balance, financial statements are prepared.
- (3) Right after the confirmation of business transactions, books of original entry are recorded.

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

70. 2020.MC.Q14

A trading firm earned an interest income of \$8 000. How will the firm's gross profit and net profit for the year be affected?

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

71. 2020.MC.Q18

Which of the following transactions should be recorded in the purchases account of a supermarket?

- (1) Purchased a freezer for storing ice-cream
- (2) Owner took some canned food from the warehouse for his family use
- (3) Received a discount from a supplier from bulk purchase of goods

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

72. 2020.MC.Q20

Jeffery is the owner of two firms. For the sake of convenience, he records all the purchases of the two firms in the same book. Which of the following accounting assumptions, principles or conventions has been violated in this case?

- A. Accrual
- B. Historical cost
- C. Going concern
- D. Business entity

73. 2020.MC.Q23

The following balances as at 31 December 2019 were extracted from the accounts of a firm:

	\$
Inventory	17 500
Bank	27 000
Trade payables	30 800
Trade receivables	16 400
Short term loan to employees	8 000
Bank loan (repayable in 2022)	13 000

What is the liquid ratio of the firm?

- A. 1.12:1
- B. 1.57:1
- C. 1.67:1
- D. 2.24:1

74. 2020.MC.Q30

On 8 April, Tin Ming purchased goods for \$60 000 on credit from Walter with a trade discount of 2%. Another 3% discount would be received by Tin Ming if settlement was made within 10 days. If Tin Ming makes the settlement on 21 April, he has to repay \_\_\_\_\_.

- A. \$57 036
- B. \$58 200
- C. \$58 800
- D. \$60 000

75. 2021.MC.Q6

On 1 February 2021, Mr Lee set up a retail firm selling computers. On the same day, the firm purchased ten sets of computers on credit from a supplier at a cost of \$4 500 each. During February, two sets of damaged computers were returned to the supplier and three sets of computers were sold at a selling price of \$7 000 each.

What is the balance of the purchases account of the firm as at 28 February 2021?

- A. \$22 500
- B. \$31 500
- C. \$36 000
- D. \$45 000

76. 2021.MC.Q9

The following is a list of all account balances of Lee's firm as at 31 December 2020:

	\$
Accounts receivables	55 000
Bank overdraft	2 500
Inventory	21 200
Loan to Mr Chan	18 000
Cash	23 000
Accounts payables	42 300
Equipment	121 000
Capital	?

What is the balance of the capital account as at 31 December 2020?

- A. \$157 400
- B. \$162 400
- C. \$193 400
- D. \$198 400

77. 2021.MC.Q11

Which of the following will reduce the gross profit of a firm?

- (1) Drawing of goods
- (2) Increase in carriage inwards
- (3) Increase in electricity expenses

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

78. 2021.MC.Q13

Which of the following statements about a trial balance is/are correct?

- (1) If the trial balance agrees, there are no errors in the account balances.
- (2) The trial balance shows all the account balances of a firm.
- (3) If the total of the debit side of an account is smaller than the credit side, the account balance is shown in the credit column of a trial balance.

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

79. 2021.MC.Q15

Which of the following about the statement of financial position is/are correct?

- (1) It reveals the liquidity of a firm.
- (2) Non-current assets are listed according to their total amounts in descending order.
- (3) It reveals the financial status of a firm for a period of time.

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

80. 2021.MC.Q18

On 31 December 2020, Sunview Company decided to close the business three months later. On that date, its non-current assets were recorded at \$3 800 000 and its liquidation value was \$2 098 000.

According to the \_\_\_\_\_, the value of the non-current assets shown in the statement of financial position of Sunview Company as at 31 December 2020 should be \_\_\_\_\_.

- A. going concern assumption ..... \$2 098 000
- B. going concern assumption ..... \$3 800 000
- C. historical cost concept ..... \$2 098 000
- D. historical cost concept ..... \$3 800 000

81. 2021.MC.Q22

Information about Shun Kee and Kam Kee for the year ended 31 December 2020 is shown below:

	<b>Shun Kee</b>	<b>Kam Kee</b>
	\$000'	\$000'
Sales	8 800	15 000
Cost of goods sold	2 400	2 600
Operating expenses	2 800	9 800

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

- A. Kam Kee had a lower gross profit.
- B. Kam Kee had a higher return on capital employed.
- C. Kam Kee had a better control over operating expenses.
- D. Kam Kee had a lower net profit ratio.



82. 2021.MC.Q26

Which of the following double entries is/are correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	Purchased a motor van by cheque from Silver Company	Motor vans	Silver Company
(2)	Received commission by cheque from Mr Leung	Bank	Commission income
(3)	The owner paid the rental expenses of the firm with his personal cheque	Rental expenses	Capital

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

83. 2021.MC.Q29

Which of the following is an example of a real account?

- A. Purchases account  
 B. Trade receivables account  
 C. Discounts allowed account  
 D. Electricity expenses account

1. 2014.Q.3

(a) Tony is the sole owner of a toy trading business. State the book of original entry for the recording of each of the following transactions of Tony's business:

- (i) Sold toys to customers on credit.  
 (ii) Received a credit note for toys returned.  
 (iii) Paid salaries to office clerks by autopay. (3 marks)

(b) From the accounts for recording the transactions in (a), identify one example for each of the following types of ledger accounts:

- (i) Real account  
 (ii) Nominal account (2 marks)

2. 2014.Q.5(a)

Mike sells imported tableware to restaurants. The following balances were obtained from the books of accounts as at 31 December 2013:

	\$
Accounts payables	15 000
Accounts receivables	27 000
Bank loan (repayable in March 2015)	22 000
Bank overdraft	11 000
Capital, 1 January 2013	?
Furniture and fixtures	63 000
Inventory	7 000
Net profit for the year	3 800
Rental deposit	20 000

- (a) Prepare for Mike the statement of financial position as at 31 December 2013. (5 marks)

3. 2014.Q.6(a)

Sunshine Department Store had the following financial information for the year ended 31 December 2013.

	\$
Carriage inwards	9 000
Inventory, 1 January 2013	80 000
Inventory, 31 December 2013	60 000
Purchases	120 000
Rent and rates	48 000
Return inwards	2 000
Sales	268 000
Sundry expenses	30 000

- (a) Prepare an income statement for Sunshine Department Store for the year ended 31 December 2013. (5 marks)

## 4. 2015.Q2

- (a) Explain the consistency principle in accounting. (2 marks)
- (b) A firm bought a motor van for business use and paid \$175 000 from its bank account. The list price of the motor van was \$200 000 and a discount of \$25 000 was given by the vendor.
- State the amount to be recorded for the motor van in the books of the firm. (2 marks)
- Explain your answer with a relevant accounting principle or concept.

## 5. 2015.Q4(a)

Peter is the sole owner of a garment firm. The following balances as at 31 December 2014 were obtained from the firm:

	\$
Bank loan (repayable in September 2015)	430 000
Capital, 1 January 2014	?
Cash at bank	398 000
Fixed deposit (6-month)	180 000
Inventory	210 000
Motor vehicles	986 000
Net profit for the year	82 000
Trade payables	383 000
Trade receivables	320 000

- (a) Prepare a statement of financial position for Peter's business as at 31 December 2014. (5 marks)

## 6. 2015.Q5(a)

John commenced a trading firm on 1 January 2014 as the sole owner. The financial information of the firm for the year ended 31 December 31 2014 is as follows:

	\$
Carriage inwards	25 500
Carriage outwards	23 600
Inventory, 31 December 2014	88 000
Purchases	227 500
Rental expenses	128 000
Returns outwards	9 230
Sales	492 000
Salaries	120 000

- (a) Prepare an income statement for John's business for the year ended 31 December 2014. (5 marks)

## 7. 2016.Q1

Annie runs a shop selling bicycles. One day, Annie took one of the bicycles home for her son's use. The cost and selling price of the bicycle are \$500 and \$980 respectively.

- (a) Prepare the journal entry to record the above event. Narration is not required. (2 marks)
- (b) Explain, with a relevant accounting principle or concept, why records have to be made in the accounts, as in (a) above. (3 marks)

## Q8 &amp; Q9 - 2016.Q4 / Q5

**Based on the following information, answer either Question 4 or 5.**

John runs a small supermarket. Its financial statements for the year 2015 are given below:

## Income statement for the year ended 31 December 2015

	\$
Sales	100 000
Less: Cost of goods sold	60 000
Gross profit	40 000
Less: General expenses	30 000
Net profit	10 000

## Statement of financial position as at 31 December 2015

	\$	\$
<b>Non-current assets</b>		20 000
<b>Current assets</b>		
Inventory	34 000	
Cash	6 000	
	40 000	
<b>Less: Current Liabilities</b>		
Trade payables	30 000	10 000
		30 000
Capital, 1 January 2015		37 000
Add: Net profit		10 000
		47 000
Less: Drawings		17 000
		30 000

8. 2016.Q4(a)(b)

- (a) Calculate (to two decimal places) the following ratios for the year 2015 for John's supermarket:
- (i) Gross profit ratio
  - (ii) Net profit ratio
  - (iii) Return on capital employed
- (3 marks)
- (b) Man Kee is another small supermarket in the same district. Its gross profit ratio and net profit ratio for the year 2015 are 35% and 15% respectively. Briefly comment on the profitability of John's supermarket for the year 2015 as compared with Man Kee. (2 marks)

A business consultant advises John to adopt Management by Objectives in his supermarket.

9. 2016.Q5(a)(b)

- (a) Calculate (to two decimal places) the following for the year 2015 for John's supermarket:
- (i) Working capital
  - (ii) Current ratio
  - (iii) Liquid ratio
- (3 marks)
- (b) Briefly comment on the liquidity of John's supermarket as at 31 December 2015. (2 marks)

10. 2017.Q3(d)

The financial year of Company B ends on 31 December. On 4 January 2017, Company B received an electricity bill for December 2016 of \$9500. It then settled the bill on 29 January 2017.

- (d) Explain, with a relevant accounting principle or concept, in which year the electricity of \$9500 should be recorded as an expense. (3 marks)

**Based on the following information, answer Q11 – 2017.Q4(a) & Q12 – 2017.Q5(a)**

John commenced a firm selling grocery and household products on 1 January 2016. Three employees were hired for the operation of the firm.

The following balances were obtained from his books as at 31 December 2016:

	\$
Capital, 1 January 2016	240 000
Bank overdraft	173 400
Furniture	204 000
Sales	796 200
Purchases	500 400
Returns inwards	1 800
Returns outwards	1 500
Discounts received	2 100
Operating expenses	507 000

11. 2017.Q4(a)

- (a) Prepare for John's firm a trial balance as at 31 December 2016. (5 marks)

12. 2017.Q5(a)

The inventory as at 31 December 2016 was valued at \$195 000.

- (a) Prepare for John's firm an income statement for the year ended 31 December 2016. (5 marks)

13. 2018.Q3(b)

Darwin Limited is a listed company, running a department store business with five stores of a similar size in Hong Kong.

The performance of Darwin Limited was poor during the past few years. In February 2018, the company had to liquidate within six months as it was unable to repay its debts. Therefore, the financial statements as at 31 December were not prepared based on the going concern assumption.

- (b) Explain the going concern assumption. How should the non-current assets of Darwin Limited be valued as at 31 December 2018? (2 marks)

## 14. 2018.Q4(a)

On 1 January 2017, Mandy commenced a sole proprietorship firm to design and sell computer software. The following balances were extracted from the books of the firm as at 31 December 2017:

	\$
Trade receivables	13 000
Motor van	48 000
Bank loan (to be matured in July 2018)	30 000
Sales	220 000
Trade payables	8 000
Purchases	98 000
Equipment	166 000
Operating expenses	105 600
Cash at bank	16 000
Capital, 1 January 2017	?

- (a) On 31 December 2017, the inventory of the firm was valued at \$26 000. Prepare a statement of financial position of Mandy's firm as at 31 December 2017. (5 marks)

## 15. 2018.Q5(a)

On 1 January 2018, the cash at bank account of Vincent's firm carried a debit balance of \$20 000. The following transactions took place in January 2018:

2018

- |     |    |   |
|-----|----|---|
| Jan | 3  | Purchased goods on credit with a list price of \$10 000. The supplier offers a trade discount of 2% for purchase orders over \$5 000 and a cash discount of 3% for settlements within 10 days after purchase. |
|     | 7  | Repaid the supplier for the purchase made on 3 January 2018 by cheque.  |
|     | 10 | Paid rent by cheque for \$7 000.  |
|     | 25 | Sold goods on credit for \$12 000.  |

- (a) Prepare the T-accounts in the books of Vincent's firm to record the above transactions. (5 marks)

## 16. 2019.Q3

On 1 December 2018, Chung's firm purchased goods for \$5 000 by cheque.

On 22 December 2018, Chung's firm sold goods to a new customer, Jacky, on credit for \$8 000. A 5% discount would be offered to customers if the settlements were made within 10 days after purchase. Jacky settled the account by cheque on 30 December 2018.

With reference to the accounts listed below,

- Purchases account
- Sales account
- Jacky account
- Cash at bank account
- Discounts received account
- Discounts allowed account

- (a) prepare appropriate T-accounts to record the above transactions for Chung's firm. (4 marks)  
Balancing off the accounts is not required.
- (b) give one example for each of the following types of ledger account:
- (i) real account
- (ii) nominal account (2 marks)



Au's firm manufactures and sells garments. The following account balances were extracted from the books of Au's firm as at 31 December 2018:

	\$
Sales	2 300 000
Inventory, 31 December 2018	100 000
Gross profit for the year	1 495 000
Net profit for the year	345 000
Capital, 1 January 2018	1 827 500
Machinery	2 182 500
Cash at bank	140 000
Trade payables	250 000

In 2017, the return on capital employed and the current ratio of Au's firm were 25% and 1.4:1 respectively. In 2018, additional capital was not introduced and there were no drawings.

Refer to the above information, answer 2019.P1B.Q4 or 2019.P1B.Q5.

17. 2019.Q4(a)(b)

- (a) Calculate the following ratios for 2018 for Au's firm (to two decimal places):
- (i) Gross profit ratio (1 mark)
  - (ii) Net profit ratio (1 mark)
  - (iii) Return on capital employed (2 marks)
- (b) Based on the return on capital employed, briefly comment on the profitability of Au's firm in 2018. (1 mark)

18. 2019.Q5(a)(b)

- (a) Prepare a statement of financial position of Au's firm as at 31 December 2018. (3 marks)
- (b) Based on the current ratio (to two decimal places), briefly comment on the liquidity of Au's firm as at 31 December 2018. (2 marks)

19. 2020.Q2

To finance the expansion of the business, Chan's firm is applying for a bank loan. The bank requested Chan's firms to submit its financial statements of the past three years for its consideration.

- (a) Explain how the bank will use the financial statements to decide whether to approve the loan. (2 marks)

Based on the General managers' suggestion, Chan's firm is considering changing the valuation method of its non-current assets this year.

- (b) State an accounting principle or concept that can be applied to this case, and use this principle or concept to explain whether or not Chan's firm should change the valuation method of its non-current assets. (4 marks)

20. 2020.Q4(B)(b)

(B) Wendy set up a firm on 1 March 2020. All the transactions of the firm for its first month of operations have been recorded in the following accounts:

				Bank	
2020		\$	2020		\$
March 1	Capital	10 000	March 2	Rent	4 000
March 16	Sales	3 500	March 5	Equipment	3 000
			March 11	Purchases	2 000
			March 20	Purchases	4 700

		Equipment		
2020		\$	2020	\$
March 5	Bank	3 000		

		Rent		
2020		\$	2020	\$
March 2	Bank	4 000		

Sales			
2020	\$	2020	\$
		March 16    Bank	3 500
		March 25    Trade receivables	4 500

Purchases				
2020		\$	2020	\$
March 11	Bank	2 000		
March 20	Bank	4 700		

		Trade receivables		
2020		\$	2020	\$
March 25	Sales	4 500		

Capital					
2020		\$	2020		\$
	?			?	

- (b)(i) Prepare the capital account and balance off the account as at 31 March 2020. (1 mark)
- (ii) Prepare a trial balance as at 31 March 2020. (5 marks)

## 21. 2020.Q5(B)(d)

Lucy has been operating in a trading firm since 2017. The following account balances were extracted from the books of the firm as at 31 December 2019:

	\$
Capital, 1 January 2019	100 000
Returns inwards	4 000
Inventory, 1 January 2019	10 000
Carriage inwards	8 000
Machinery	145 000
Purchases	400 000
Other operating expenses	87 500
Discounts allowed	9 000
Carriage outwards	32 000
Bank	199 000
Returns outwards	4 500
Sales	790 000

There was no closing inventory at the end of 2019.

- (d) Prepare an income statement for the year ended 31 December 2019 (5 marks)

## 22. 2021.Q3

Jeffery commenced a firm as a sole trader on 1 April 2021 with \$80 000. The following is the bank account of the firm for April:

Bank			
2021	\$	2021	\$
Apr 1 Capital	80 000	Apr 5 Rental expenses	37 000
Apr 18 Sales	15 000	Apr 19 Equipment	62 000

- (a) Based on the above account, prepare two relevant nominal accounts to complete the double entries. Balancing off the accounts is not required. (2 marks)
- (b) Prepare an extract of the statement of financial position for Jeffery as at 30 April 2021 to present the bank account balance and its classification. (2 marks)

On 1 May 2021, Jeffery purchased a second-hand motor car on credit at \$50 000 for his personal use. The bookkeeper of the firm recorded the transaction as follows:

Other payables			
	2021		\$
	May 1	Motor cars	50 000

Motor cars			
2021		\$	
May 1	Other payables	50 000	

- (c) Explain the accounting principle or concept that has been violated in the above case. (2 marks)

## 23. 2021.Q4(A)

(A) Chan Kee is a shop selling household products. The account balances as at 31 December 2020 extracted from its books were as follows:

	\$
Bank loan (due in March 2021)	30 000
Bank	20 000
Fixed deposit (for 6 months)	50 000
Inventory	180 000
Trade payables	100 000
Trade receivables	120 000

In 2020, the industry averages of the working capital ratio and acid test ratio were 1.9:1 and 1.0:1 respectively.

- (a) Calculate (to two decimal places) the following ratios for 2020 for Chan Kee:
- (i) Working capital ratio (2 marks)
- (ii) Acid test ratio (2 marks)
- (b) Briefly comment on the liquidity of Chan Kee on 31 December 2020. (3 marks)

24. 2021.Q5(A)

(A) Mr Wong started a garment firm on 1 April 2021. The following balances were obtained from the books as at 30 April 2021:

	\$
Carriage outwards	1 300
Discounts received	800
Purchases	80 000
Sundry expenses	23 475
Returns inwards	1 500
Sales	103 500

The inventory as at 30 April 2021 was valued at \$18 000.

- (a) Prepare an income statement for the month ended 30 April 2021. (5 marks)
- (b) Explain one use to the government of the income statement of a business. (1 mark)

# Answers

## 2014 MC Questions (1-9)

1.	D	68%
2.	B	80%
3.	B	74%
4.	C	60%
5.	C	85%
6.	C	52%
7.	A	75%
8.	A	76%
9.	D	62%
20.	B	82
21.	D	80

## 2015 MC Questions (10-19)

10.	B	28%
11.	B	63%
12.	D	64%
13.	C	54%
14.	B	85%
15.	A	54%
16.	C	63%
17.	C	68%
18.	C	81%
19.	A	73%

## 2016 MC Questions (20-31)

22.	A	79%
23.	A	53%
24.	C	56%
25.	B	88%
26.	C	75%
27.	C	76%
28.	D	33%
29.	C	28%
30.	C	76%
31.	B	63%



2017 MC Questions (32-42)

32.	A	38%
33.	B	47%
34.	A	51%
35.	D	75%
36.	D	40%
37.	D	73%
38.	B	74%
39.	C	70%
40.	D	80%
41.	B	65%
42.	A	69%

2018 MC Questions (43-53)

43.	D	54%
44.	B	74%
45.	B	77%
46.	B	33%
47.	D	58%
48.	A	74%
49.	A	68%
50.	C	48%
51.	A	78%
52.	B	88%
53.	D	68%

2019 MC Questions (54-64)

54.	B	73%
55.	C	52%
56.	B	64%
57.	D	55%
58.	B	72%
59.	A	58%
60.	B	77%
61.	C	67%
62.	C	71%
63.	D	60%
64.	C	70%

2020 MC Questions (65-74)

65.	B	77
66.	C	64
67.	B	69
68.	C	57
69.	B	62
70.	A	87
71.	B	39
72.	D	93
73.	C	34
74.	C	89

2021 MC Questions (75-83)

75.		
76.		
77.		
78.		
79.		
80.		
81.		
82.		
83.		
84.		

1. 2014.Q.3

- (a) Books of original entry:
- |   |   |
|---|---|
| (i) Sales Day Book / Sales Journal                      | 1 |
| (ii) Return Outwards Day Book / Return Outwards Journal | 1 |
| (iii) Cash Book   | 1 |
- (b) (i) Real account: Max. 1
- Cash at bank, trade receivables, trade payables  
(1 mark for each relevant example, max. 1 mark)
- (ii) Nominal account: Max. 1
- sales, return outwards, office salaries  
(1 mark for each relevant example, max. 1 mark)
- 5 marks

2. 2014.Q.5(a)

Mike				0.5
Statement of Financial Position as at 31 December 2013				
<b>Non-current Assets</b>	\$	\$		
Furniture and fixtures		986 000	0.5	
<b>Current Assets</b>				
Inventory	7 000		0.5	
Rental deposit	20 000		0.5	
Accounts Receivables	27 000	54 000	0.5	
<b>TOTAL ASSETS</b>		<u>117 000</u>		
Capital, 1 January 2013 ( <i>balancing figure</i> )		65 200	0.5	
Add: Net profit		3 800	0.5	
		<u>69 000</u>		
<b>Non-current liabilities</b>				
Bank loan		22 000	0.5	
<b>Current liabilities</b>				
Accounts payables	15 000		0.5	
Bank overdraft	11 000	26 000	0.5	
<b>TOTAL CAPITAL AND LIABILITIES</b>		<u>117 000</u>	(5)	

3. 2014.Q.6(a)

Sunshine Department Store				0.5
Income Statement for the year ended 31 December 2013				
	\$	\$		
Sales		268 000	0.5	
Less: Returns inwards		2 000	0.5	
Net Sales		<u>266 000</u>		
Less: <u>Cost of goods sold</u>				
Opening inventory	80 000		0.5	
Add: Purchases	120 000			
Carriage inwards	9 000		0.5	
	209 000		0.5	
Less: Closing inventory	60 000	149 000	0.5	
Gross profit		<u>117 000</u>		
Less: <u>Expenses</u>				
Rents and rates	48 000		0.5	
Sundry expenses	30 000	78 000	0.5	
Net profit		<u>39 000</u>	0.5	
			(5)	

4. 2015.Q2

- (b) The consistency principle: 2
- The accounting treatment of similar items should be the same in an accounting period and from one period to another.

5. 2015.Q4(a)

Peter			0.5
Statement of Financial Position as at 31 December 2014			
	\$	\$	
<b>Non-current Assets</b>			
Motor Vehicles		986 000	0.5
<b>Current Assets</b>			
Inventory	210 000		0.5
Fixed deposit (6-month)	180 000		0.5
Trade receivables	320 000		0.5
Cash at bank	398 000	1 108 000	0.5
<b>TOTAL ASSETS</b>		<u>2 094 000</u>	
Capital, 1 January 2014 ( <i>balancing figure</i> )		1 199 000	0.5
Add: Net profit		82 000	0.5
		<u>1 281 000</u>	
<b>Current liabilities</b>			
Trade payables	383 000		0.5
Bank loan (repayable in September 2015)	430 000	813 000	0.5
<b>TOTAL CAPITAL AND LIABILITIES</b>		<u>2 094 000</u>	
			(5)

6. 2015.Q5(a)

John			0.5
Income Statement for the year ended 31 December 2014			
	\$	\$	
Sales		492 000	0.5
Less: <u>Cost of goods sold</u>			
Purchases	227 500		
Add: Carriage inwards	25 500		0.5
	<u>253 000</u>		0.5
Less: Returns outwards	9 230		0.5
	<u>243 770</u>		0.5
Less: Closing inventory	88 000	155 770	
Gross profit		<u>336 230</u>	
Less: <u>Expenses</u>			0.5
Carriage outwards	23 600		0.5
Rental expenses	128 000		
Salaries	120 000	271 600	
Net profit		<u>64 630</u>	0.5
			(5)

7. 2016.Q1

Journal			
	Dr	Cr	
	\$	\$	
Drawings	500		1
Purchases		500	1
(b) - business entity concept			1
- A firm and its owner(s) are separate entities			Max. 2
Takeover of business's inventory by the owner should be recorded in the			
- Drawings account so as to decrease the capital amount			
- Purchases account to avoid overstating the cost of goods sold			
(1 mark for each relevant elaboration, max. 2 marks)			
			Total: 5 marks

8. 2016.Q4(a)(b)

(a)(i) Gross profit ratio = $\$40\,000 / \$100\,000 \times 100\% = 40\%$	1
(ii) Net profit ratio = $\$10\,000 / \$100\,000 \times 100\% = 10\%$	1
(iii) Return on capital employed = $\$10\,000 / [(\$30\,000 + \$37\,000)/2] \times 100\% = 29.85\%$	1
(b) John's supermarket:	
- Has higher gross profit ratio but lower net profit ratio	1
- Is poor in controlling expenses / administrative arrangements	1

9. 2016.Q5(a)(b)

(a)(i) Working capital = $\$40\,000 - \$30\,000 = \$10\,000$	1
(ii) Current ratio = $\$40\,000 / \$30\,000 = 1.33:1$	1
(iii) Liquid ratio = $\$6000 / \$30\,000 = 0.20:1$	1
(b) The liquidity of John's supermarket is poor due to the low current ratio and liquid ratio	1
- It has difficulty meeting its immediate debts	
- Its current assets are tied up in inventory	Max. 1
(1 mark for each relevant point, max. 1 mark)	

10. 2017.Q3(d)

(d) - 2016	1
- Accrual concept	1
- Revenues and expenses are recognised when they are earned or incurred and are included in the financial statements of that year	1

11. 2017.Q4(a)

Remarks: 0.5 marks for proper heading and \$ sign.

John		
Trial balance as at 31 December 2016		
	Dr	Cr
	\$	\$
Capital, 1 January 2016		240 000
Bank overdraft		173 400
Furniture	204 000	
Sales		796 200
Purchases	500 400	
Returns inwards	1 800	
Returns outwards		1 500
Discounts received		2 100
Operating expenses	507 000	
	1 213 200	1 213 200

0.5

0.5

0.5

0.5

0.5

0.5

0.5

0.5

0.5

0.5

0.5

(5)

12. 2017.Q5(a)

Remarks: 0.5 marks for proper heading and \$ sign.

John		
Income statement for the year ended 31 December 2016		
	\$	\$
Sales		796 200
Less: Returns inwards		1 800
		794 400
Less: Cost of goods sold		
Purchases	500 400	
Less: Returns outwards	1 500	
	498 900	
Less: Closing inventory	195 000	303 900
Gross profit		490 500
Add: Discounts received		2 100
		492 600
Less: Operating expenses		507 000
Net loss		(14 400)

0.5

0.5

0.5

0.5

0.5

0.5

0.5

0.5

0.5

0.5

0.5

0.5

0.5

0.5

0.5

(5)

13. 2018.Q3(b)

(b) - Going concern assumption: assumes that an entity will continue its operation in the foreseeable future, the entity has neither the intention nor the need to liquidate or reduce its scale of operations significantly

1

- The non-current assets should be valued at their liquidation value/ net realisable value

1

(b) Going concern:

1. Definition:

1.1 The company will continue its operation. (did not mention "in the foreseeable future").

→ (definition: "0")

企業將繼續營運 (沒有提及「可預見未來」)

→ (解釋: "0")

1.2 the entity has neither the intention nor the need to liquidate ("1")

企業沒有意圖或需要清盤 ("1")

OR

the entity has neither the intention nor the need to reduce its scale of operation significantly ("1")

企業沒有意圖或需要大幅減少其營運規模 ("1")

2. How should the non-current assets be valued:

(Current) Market value 市值 (✓)

Market price 市價 (×)

Fair value 公平值/ 公允值 (×)

Disposal value (×)

NRV (short form) (×)

Net worth 淨值 (×)

Liquid / Liquidated / Liquidate value (×)

- MUST spell "net realisable/realizable value" correctly

- The fixed assets / Assets / they..... (acceptable)

- The financial statement/total assets/net current assets should be valued (×)

- ..... at lower of net realizable value (×)

標準答案為「清算值」或「變現值」。但經評卷小組開會決定，可接受「市值」。但不鼓勵老師以「市值」教授學生，因兩者在某些情況下並不相同。



14. 2018.Q4(a)

Mandy				
Statement of financial position as at 31 December 2017				
	\$	\$	\$	
<b>Non-current assets</b>				
Equipment			166 000	0.5
Motor van			48 000	0.5
			<u>214 000</u>	
<b>Current assets</b>				
Inventory		26 000		0.5
Trade receivables		13 000		0.5
Cash at bank		16 000		0.5
		<u>55 000</u>		
<b>Less: Current liabilities</b>				
Bank loan	30 000			0.5
Trade payables	8 000	38 000	17 000	0.5
			<u>231 000</u>	
<b>Financed by:</b>				
Capital as at 1 January 2017 (Balancing figure)			188 600	0.5
Add: Net profit (\$220 000 – (\$98 000 – \$26 000) = \$105 600)			42 400	1
			<u>231 000</u>	(5)

(a) I form → accepted.

- Non-current assets + (Current assets - Current liabilities) = Capital or.
- Non-current assets + Current assets = Capital + Current liabilities → accepted.
- Items under Wrong/No/Abbreviated subheadings → NO MARK.
- All assets / liabilities items under Assets/Liabilities will be treated as under NCA / NCL.
- Ignore Statement heading, Net current assets, subtotals, etc.
- Ignore extra items, but NO MARK for duplicate items (e.g. items under both NCA and CA)
- NO MARK for "Bank 銀行", "Accounts receivables/payables 應收/應付賬款".
- But accept "Closing inventory 期末存貨".
- NO MARK for abbreviation (e.g. Capital, bal as at 1 Jan 18), NOR for Opening Capital.
- Deduct ½ mark for Profit (instead of Net Profit).
- NO MARK for 2nd part without underline (single or double) after TA/NA or "Financed by".

15. 2018.Q5(a)

(a)

Cash at bank					
2018		\$	2018		\$
Jan 1	Balance b/d	20 000	Jan 7	Trade payables	9 506 0.5
			Jan 10	Rent	7 000 0.5
Purchases					
2018		\$			\$
0.5 Jan 3	Trade payables	9 800			
Trade payables					
2018		\$	2018		\$
0.5 Jan 7	Cash at bank	9 506	Jan 3	Purchases	9 800 0.5
0.5 Jan 7	Discounts received	294			
Discounts received					
		\$	2018		\$
			Jan 7	Trade payables	294 0.5
Rent					
2018		\$			\$
0.5 Jan 10	Cash at bank	7 000			
Sales					
		\$	2018		\$
			Jan 25	Trade receivables	12 000 0.5
Trade receivables					
2018		\$			\$
0.5 Jan 25	Sales	12 000			

# Supplementary marking notes: Q5

(a) For each entry in the T account, award mark if both the following are correct:

- amount
- corresponding account name in the 'particulars' column
- ignore dates

(Trade/Accounts Receivables/Payables, Bank/Cash at Bank are accepted)

16. 2019.Q3

Purchases 購貨				
2018	\$			
0.5 Dec 1	Cash at bank	5 000		
Cash at bank				
2018	\$	2018	\$	
0.5 Dec 30	Jacky	7 600	Dec 1	Purchases 5 000 0.5
Sales				
2018	\$			
Dec 22	Jacky	8 000		0.5
Jacky				
2018	\$	2018	\$	
0.5 Dec 22	Sales	8 000	Dec 30	Cash at bank 7 600 0.5
			Dec 30	Discounts allowed 400 0.5
Discounts allowed				
2018	\$			\$
0.5 Dec 30	Jacky	400		

(b)(i) Real account: Jacky account, Cash at bank account

1

(ii) Nominal account: Purchases account, Sales account, Discounts received account, Discounts allowed account

1

(1 marks for each example, max. 2 marks)

6 marks

## Marking notes – Q3(a)

- Entries in the account with account name different from the name specified in the question → 0 mark
- Corresponding entry with wrong account name but is traceable in the answer → ✓
- For 'Jacky' account: Accounts/Trade receivables /Debtor without mentioning 'Jacky' Entries in the account itself and corresponding accounts → 0 mark

評分例子 - Q3(a):

李奇帳			
2018年	\$	2018年	\$
12月20日 金寶	8,000	12月30日 金寶	7,600
		12月30日 金寶	400
2018年	\$	2018年	\$
12月30日 李奇	7,600	12月1日 金寶	5,000
顯示對應的帳戶名稱			
2018年	\$		\$
12月30日 李奇	400		

Common mistakes:

purchases			
2018	\$		\$
Dec 1	Bank	5,000	
Failed to show the corresponding account name of the other side of the double entries.			
2018	\$		\$
Dec 30	July	7,600	Dec 1 purchases 5,000

## Marking notes – Q3(b)

- Any account name out of those provided in the question are NOT accepted
- Candidates gave more than one example → mark the 1st answer ONLY no matter it is right or wrong

金寶帳	金寶帳	金寶帳	金寶帳
李奇帳	李奇帳	李奇帳	李奇帳
金寶帳	金寶帳	金寶帳	金寶帳

舉出多於一個答案 → 只評改第一個答案