

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2013

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

8.30am – 10.00am (1 hour 30 minutes)

This paper must be answered in English

**GENERAL INSTRUCTIONS**

- (1) There are TWO sections, A and B, in this Paper.
- (2) Section A consists of multiple-choice questions in this question paper. Section B contains short questions printed separately in Question-Answer Book B.
- (3) Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the spaces provided in Question-Answer Book B. **The Answer Sheet for Section A and the Question-Answer Book for Section B must be handed in separately at the end of the examination.**

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**INSTRUCTIONS FOR SECTION A (MULTIPLE-CHOICE QUESTIONS)**

- (1) Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label after the 'Time is up' announcement.
- (2) When told to open this book, you should check that all the questions are there. Look for the words '**END OF SECTION A**' after the last question.
- (3) All questions carry equal marks.
- (4) **ANSWER ALL QUESTIONS.** You are advised to use an HB pencil to mark all the answers on the Answer Sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.
- (5) You should mark only **ONE** answer for each question. If you mark more than one answer, you will receive **NO MARKS** for that question.
- (6) No marks will be deducted for wrong answers.

**SECTION A (60 marks)**

Choose the **best** answer for each question.

1. Which of the following descriptions about a franchised shop is correct?
  - A. operates under the authorisation 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
  
2. The primary function of a financial market is to transfer funds from economic units with surpluses to economic units in need of them. Which of the following sectors help performing this function?
  - (1) banking sector
  - (2) insurance sector
  - (3) securities sector
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
3. 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
  
4. 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)
  
5. All the owners of a business enjoy limited liability. Although the business has no regulatory obligation to disclose its financial reports, it still publishes these reports via the internet each year. The business is a
  - A. limited partnership.
  - B. private limited company.
  - C. company listed on the Main Board.
  - D. company listed on the Growth Enterprise Market Board.
  
6. Which of the following statements is correct?
  - A. A 6-month government bill is an investment instrument in the equity market.
  - 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 the preferred stock is more risky than in the common stock of a company.

7. In which of the following ways could corporate governance be promoted in a business?
- (1) introduce a code of conduct to its employees
  - (2) publicise the product catalogue to public
  - (3) invite customers to give comments
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
8. Which of the following statements 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)
9. 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)
10. 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 equaled to two months' 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
11. 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.
12. 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

13. 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)

14. 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)

15. A bank launches the following savings plans:

	<b>Plan I</b>	<b>Plan II</b>	<b>Plan III</b>
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

16. 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 profits 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)

17. \_\_\_\_\_ promotes the stability and integrity of the banking system while \_\_\_\_\_ trading and clearing rules in Hong Kong.

- A. Hong Kong Monetary Authority ... Securities and Futures Commission  
B. Hong Kong Monetary Authority ... Hong Kong Exchanges and Clearing Limited  
C. Securities and Futures Commission ... Hong Kong Monetary Authority  
D. Securities and Futures Commission ... Hong Kong Exchanges and Clearing Limited

**Based on the following information, answer Questions 18 and 19:**

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

18. 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)
19. 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
20. The following are Peter's personal budget and actual incomes and expenses for the month of April 2013:

<u>Items</u>	<u>Budgeted amount</u>	<u>Actual amount</u>
<i>Incomes</i>	\$	\$
Salary (Part time job)	6 000	6 000
Pocket money	1 000	1 000
<i>Expenses</i>		
Transportation fees	500	560
Books and stationery	1 050	1 480
Mobile phone charges	150	150
Food and beverages	900	810
Entertainment fees	850	970
<i>Saving</i>	?	?

The budgeted saving of Peter for April 2013 is \_\_\_\_\_, which is \_\_\_\_\_ than his actual saving for the month.

- A. \$3030 ... .. less  
 B. \$3030 ... .. more  
 C. \$3550 ... .. less  
 D. \$3550 ... .. more

21. Alice sends an email to invite Benny to attend the opening ceremony of her business. Which of the following descriptions relating to the above communication process is correct?
- there must be a feedback
  - the message was not encoded
  - the message has to be decoded
  - the computer keyboard is the channel
22. Which of the following statements are correct?
- Hong Kong is an offshore Renminbi Business Centre of Mainland China.
  - The main origin and destination of Hong Kong's re-exports of goods are Mainland China.
  - "Closer Economic Partnership Arrangement" (CEPA) aims at raising capital in Hong Kong for Mainland enterprises.
- (1) and (2) only
  - (1) and (3) only
  - (2) and (3) only
  - (1), (2) and (3)
23. All entrepreneurs:
- earn profits by taking business risks.
  - start businesses with their own capital.
  - enter the market with new products.
  - possess extensive knowledge and experience in the business.

24. If a bank is offering you a four-year personal instalment loan plan of \$10 000 under a flat rate arrangement with the following repayment schedule:

<u>End of Year</u>	<u>Repayment Amount</u>
	\$
1	2 900
2	2 900
3	2 900
4	<u>2 900</u>
Total	<u>11 600</u>

What is the annual flat rate of this instalment loan plan?

- 3.45%
  - 4%
  - 7.25%
  - 16%
25. Mary is a Secondary 5 student. She has just earned \$8000 from her summer job. She plans to use the money for paying her university tuition fee one year later. If she wants to keep the principal and at the same time looks for some returns, which of the following instruments is most suitable to her?
- current account
  - fixed deposit
  - blue chips
  - warrants

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

	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

26. 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 goods sold.
- D. higher operating expenses.

27. 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.

28. Which of the following double entries are correct?

<u>Transactions</u>	<u>Account to be debited</u>	<u>Account to be 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)

29. A trading company provides a notebook computer with mobile internet connectivity to each member of its sales team. Which of the following are the benefits of such arrangement to the company?

- (1) help updating the sales figures
- (2) enhance information flow between the sales team members
- (3) facilitate communication with clients

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

30. Which of the following are tasks of accounting?

- (1) classifying and recording business transactions
  - (2) equipping the purchasing system with security measures
  - (3) summarising and reporting the performance of the company's sales periodically
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- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

**End of Section A**

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**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES**

**PAPER 1**

**SECTION B : Question-Answer Book B**

8.30 am – 10.00 am (1 hour 30 minutes)

This paper must be answered in English

Candidate Number

**INSTRUCTIONS**

- (1) After the announcement of the start of the examination, you should first write your Candidate Number in the space provided on Page 1.
- (2) Stick barcode labels in the spaces provided on Pages 1 and 3.
- (3) Refer to the general instructions on the cover of the Question Paper for Section A.
- (4) Answer **ALL** questions.
- (5) Write your answers to Section B in the spaces provided in this Question-Answer Book. Do not write in the margins. Answers written in the margins will not be marked.
- (6) Supplementary answer sheets will be supplied on request. Write your candidate number, mark the question number box and stick a barcode label on each sheet, and fasten them with string **INSIDE** this book.
- (7) No extra time will be given to candidates for sticking on the barcode labels or filling in the question number boxes after the 'Time is up' announcement.

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**SECTION B (40 marks)**

1. (a) Many people are using credit cards to purchase goods and services. Explain two benefits for customers of using credit card. (4 marks)

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- (b) Explain one reason why credit card companies are more willing to issue credit cards to applicants with good personal credit records. (2 marks)

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2. 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)

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3. 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 heard 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

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

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

5. 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)

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

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

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7. In the sales department of a firm, the manager and the sales representatives discussed and agreed on the sales target for a quarter. Throughout the quarter, the manager met the sales representatives regularly to discuss problems encountered and gave appropriate support. At the end of the quarter, the manager reviewed the performance of the sales representatives and gave them rewards and feedback.

(a) Name the principle of effective management applied in the above sales department. (1 mark)

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(b) From the sales department's point of view, explain two advantages of applying the principle of effective management named in (a). (4 marks)

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**END OF PAPER**

Answers written in the margins will not be marked.