MARKER CODE			

STUDENT PERSONAL IDENTIFICATION NUMBER					

TONGA GOVERNMENT
MINISTRY OF EDUCATION AND TRAINING

Tonga National Form Seven Certificate
ACCOUNTING
2015
QUESTION and ANSWER BOOKLET

Time allowed: Three Hours

INSTRUCTIONS

1. Write your **Student Personal Identification Number (SPIN)** on the top right hand corner of this booklet.
2. Answer ALL QUESTIONS. Write your answers in the spaces provided in this booklet.
3. If you need more space for answers, ask the Supervisor for extra paper. Write your SPIN on all extra sheets used and clearly number the questions. Attach the extra sheets at the appropriate places in this booklet.

		Pages	Time (mins)	Total Marks	Prescription Weighting
SECTION A	**Conceptual Basis of Accounting**	2 - 5	23	26	13%
SECTION B	**Process Financial Information for Partnership and Company**	6 - 11	36	40	20%
SECTION C	**Process Financial Information for a Manufacturing Job Costing Subsystem**	12 - 16	26	28	14%
SECTION D	**Preparing Accounting Report**	17 - 23	36	40	20%
SECTION E	**Analyse, interpret and report on company's financial statements**	24 - 30	36	40	20%
SECTION F	**Explain and prepare information for management decision making**	31 - 35	23	26	13%
TOTAL		**35 pages**	**180 mins**	200	**100%**

Check that this booklet contain pages 1-35 in the correct order and that none of these pages is blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

SECTION A: CONCEPTUAL BASIS OF ACCOUNTING **TOTAL: 26 Marks**

Question 1: Accounting Concepts and Framework

Answer the following questions:

a. State the purpose of the accounting Framework in auditing the General Purpose Financial Report.

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Skill Level 1	
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NR	

b. i) Define the concept of Liability.

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Skill Level 1	
1	
0	
NR	

ii) Discuss why accrued expense is considered a temporary liability.

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Skill Level 4	
4	
3	
2	
1	
0	
NR	

c. The fixed assets are shown at their carrying amount. This is their historical cost less accumulated depreciation.

i) Explain why the historical cost is a reliable measure of fixed assets.

Skill Level 3	
3	
2	
1	
0	
NR	

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ii) Explain why the carrying amount is relevant measure of the fixed assets.

Skill Level 3	
3	
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NR	

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d. Describe how an accountant would apply the balance between benefit and cost concept when deciding whether to provide additional financial information.

Skill Level 2	
2	
1	
0	
NR	

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e. Give **one** example of a revenue item that is a saving in outflow and that result in a decrease in liability.

Skill Level 1	
1	
0	
NR	

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f. Discuss why rate that have been prepaid at the balance date meet the definition of asset.

Skill Level 4	
4	
3	
2	
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Question 2: Ownership Structure

Sione Palu who is in his late sixty, owns and operates a well-established firm called Anga'ofa Pharmacy. The firm currently has an equity ratio of 0.70:1 and a return on owner's equity of 75%. Anga'ofa Pharmacy services currently employs a young pharmacist, Pita Sikulu who has expressed an interest in becoming a partner in the business.

Sione has asked you to answer the following questions:

a. State **one** advantage for Sione of entering into a business partnership with Pita.

Skill Level 1	
1	
0	
NR	

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b. Describe the advantage of Pita entering into a business partnership with Sione.

Skill Level 2	
2	
1	
0	
NR	

c. Give **two** reasons why Sione and Pita should enter into partnership agreement.

i)

ii)

Skill Level 2	
2	
1	
0	
NR	

d. Describe **one** advantage for Sione and Pita if they decided to form a company instead of a partnership.

Skill Level 2	
2	
1	
0	
NR	

SECTION B PROCESSING FINANCIAL INFORMATION FOR PARTNERSHIP AND COMPANY TOTAL: 40 Marks

Question 1: Company Formation and Share Issue

Study the following information then answer the questions that follows.

Rachel Merchandise Limited is a public company that was registered on 1 June 2015 with the objective of buying and selling products that are produced in Tonga. Its prospectus inviting the public to buy 25,000 shares at $2.00 each fully payable on application was issued to the public on that date. By 31 July 2015, application for 27,000 shares had been received. The directors allotted the shares on a first received, first issued basis and refund surplus application money on 1 August 2015.

On 1 September 2015, the directors of Rachel's Merchandise Ltd acquired Lily and Tima Ltd. The Statement of Financial Position for Lily and Tima Ltd as at 31 August 2015 is shown below.

Lily and Tima Ltd
Statement of Financial Position
As at 31 August 2015

Shareholders Equity	**$(000)**	**$(000)**
Issued Capital (900,000 shares fully paid)		1,800
Retained Earnings		200
		2,000
These funds are represented by:		
Assets		
Bank		2
Accounts Receivable		280
Stock on hand		350
Plant & Machinery	600	
Less accumulated depreciation	80	520
Motor Vehicle	225	
Less accumulated depreciation	2	223
Land & Building	2,000	
Less accumulated depreciation	500	1,500
Total assets		2,875
Less Liabilities		
Creditors		300
Short term loan		75
Mortgage on Land & Buildings		500
Total liabilities		875
		2,000

The agreement between Rachel's Merchandise Ltd and Lily & Tima's Ltd stated that all assets and liabilities were to be taken over at carrying amount on 31 August 2015 apart from the following

- Plant and machinery $500,000
- Motor vehicles 220,000
- An allowance for doubtful debts of 10% of Accounts Receivable is to be created.
- Lily & Tima's Ltd will be responsible for short-term loan.

The shareholders of Lily & Tima Ltd were issued with 1,000,000 ordinary shares and the balance with cash on 30 September.

a. Prepare the necessary General journal entries (including any cash entries) to record the share issue to Rachel's merchandise Ltd
(Note: Narrations are NOT required)

Journal Entries:

Date	Particulars	Debit	Credit

Skills level 4	4	3	2	1	0	NR
4						
3						
2						
1						

b. Prepare the necessary General Journal entries to record the acquisition of the assets and liabilities of Lily & Tima Ltd.
(Note: Narrations are NOT required)

Journal Entries:

Date	Particulars	Debit	Credit

Skills level 4	4	3	2	1	0	NR
4						
3						
2						
1						

c. Prepare the necessary General Journal entries to record the payment made to Lily & Tima Ltd for the acquisition of assets and liabilities.
(Note: Narrations are NOT required)

Journal Entries:

Date	Particulars	Debit	Credit

Skills level 3	3	2	1	0	NR
3					
2					
1					

Question 2: Company

On 31 March 2014, the value of building as shown in the Trial Balance for Tevita & Sons Ltd is as follows:

Tevita & Sons Ltd Trial Balance (Extract)
As at 31 March 2014

	Debit ($)	Credit ($)
Building	240,000	
Accumulated depreciation on building		9,600
Building Revaluation reserve		20,000

On 31 March 2014, the directors resolved to revalue building to their current independent valuation of $260,000.

Required:

a) Show the general journal entries necessary to record the revaluation of the buildings on 31 March 2014.

General Journal

Date	Particulars	Debit	Credit

Skills level 4	4	3	2	1	0	NR
4						
3						
2						
1						

Question 3: Appropriation Account

Pita and Paula own Walrus Music shop in partnership. They also offer lessons for piano and violin and has a recording studio for musicians to record CDs.
The following Trial Balance extract and additional information relate to Walrus music shop for the year ended 30 June 2015.

Walrus Music
Trial Balance (Extract)
As at 30 June 2015

Current – Pita	$ 4,000	Capital – Pita	$15,000
Drawings – Pita	4,000	Capital - Paula	13,440
Drawings – Paula	7,000	Current – Paula	6,000

Additional Information:

i) On 1 January 2015, Paula transferred $1,000 from hia current account to his capital account.

ii) On 1 April 2015, Pita contributed an additional $15,000 cash to the partnership.

Pita and Paula has the following profit sharing clauses in their Partnership Agreement:

i) Salaries to partners: Pita : $4,000; Paula: $5,000

ii) Interest on drawings: 10 % per annum of the amount above agreed salaries.

iii) Interest on current account: 10% per annum on opening balance.

iv) Interest on capital account: 10% per annum on average monthly capital balance.

Equal share of residual profit.

a. Complete Paula's current account on the General Journal Ledger from 1 July 2014 to 30 June 2015. Record Paula's share of residual profit as $9,050.

Current a/c - Paula

Date	Particulars	Amount	Date	Particulars	Amount

Skills level 4	4	3	2	1	0	NR
4						
3						
2						
1						

SECTION C: PROCESSING FINANCIAL INFORMATION FOR MANUFACTURING JOB COSTING SUBSYSTEM TOTAL: 28 Marks

Question 1: Job Cost Ledgers

Samiu Va'inga produces toys for children. Because each consignment of toys that his business makes is different, Samiu uses a job costing system.

Given below is Samiu Va'inga's factory operations for the month of September 2015.

1. **Job 20 – Production of aeroplane toys**.
    - Completed and sold in September.
    - Prior to September 1, $6,000 of costs had been applied to the job and included in the accounts.
    - During September, a further $2,000 of direct labour was used to finish the job, and overheads for the month were applied.
2. **Job 21 – Production of gun toys**
    - This job was commenced and completed in September, but remained unsold as at 30 September.
    - $5,000 of direct material and $3,000 of direct labour were used in the job and overheads for the month were applied.
3. Expenses paid during the month

• Direct labour	$6,000
• Direct materials	1,800
• Factory overheads	3,000

a. Use the information given on page 12 to complete the following ledger accounts. **(Note** that it is **NOT** necessary to close or balance the account).

Direct material control a/c

2015					
Sep 1	Balance	31,000			

Work in Progress control a/c

Sept 1	Balance	6,000			
Sept 30	Direct labour	5,000			
	Factory overhead	2,500			

Direct labour control a/c

Sept 1	Balance	31,000	Sept 30	Work in Progress	5,000

Finished goods control a/c

Sept 1	Balance	29,000	Sept 30	Cost of goods sold	9,000

Cost of goods sold a/c

Sept 1	Balance	200,000	Sept 30	Factory overhead	10,500
Sept 30	Finished goods	9,000			

Skills level 4	4	3	2	1	0	NR
4						
3						
2						
1						

b. Name the source document that generates the credit entry in the finished goods control account.

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Skill Level 1	
1	
0	
NR	

Question 2: Job Costing

1. The Snow company uses job order costing with pre-determine department overhead rates. The rate is based on machine hours in **Department A** and on direct labour cost in **Department B**.

   At the beginning of the financial year, the following data was projected.

	$(000)	**$(000)**
Material cost	3,000	1,000
Direct labour cost	1,800	4,400
Factory overhead cost	2,880	6,600
Direct labour hours	60 hrs	352 hrs
Machine hours	240 hrs	12 hrs

   a. Calculate the predetermined overhead rates for **Department A** and **Department B** respectively.

Department A	**Department B**

Skills level 3	**3**	**2**	**1**	**0**	**NR**
3					
2					
1					

b. The following are the actual results as reflected in the company's books at the end of the financial year.

	Department A	**Department B**
Material Cost	$280,000	$1,200,000
Direct Labour Cost	1,800,000	4,220,000
Factory overhead cost	2,500,000	6,600,000
Direct labour hours	60,000	370,000
Machine hours	240,000	12,000

Use the table above and the overhead rate for your answer in 1(a) to determine the over or underapplied overhead for **each** department.

	Department A	**Department B**
Actual Factory Overhead	$2,500,000	$6,600,000
Applied Factory Overhead		
Overapplied factory Overhead		
Underapplied factory overhead		

Skills level 4	**4**	**3**	**2**	**1**	**0**	**NR**
4						
3						
2						
1						

Question 3: Job Cost Sheet

South Pacific Sports Ltd manufactures sporting goods using more labour for manufacturing process. The firm uses a predetermined overhead rate of $25 per direct labour hour. Workers are paid $30 per hour.

a. Complete the job cost sheet below for Tonga Sporting Ltd, calculating the labour cost, overhead cost and total cost for Job No.50

<table>
<tr><th colspan="7">Job Cost Sheet</th></tr>
<tr><td colspan="3">Job No: 50
Customer: Tonga Sporting Ltd
Mark up %: 60%</td><td colspan="4">Start date: 1/8/2015
Finish Date: 25/8/2015
Delivered: 30/8/2018</td></tr>
<tr><td>Date</td><td>Reference</td><td>Labour hrs</td><td>Material Cost ($)</td><td>Labour cost ($)</td><td>Overhead ($)</td><td><b>Total Cost ($)</td></tr>
<tr><td>Aug 5</td><td>MR 20</td><td></td><td>2,600</td><td></td><td></td><td></td></tr>
<tr><td>Aug 15</td><td>LN10,34</td><td>124</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Aug 25</td><td>LN 10,34,52</td><td>120</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Aug 25</td><td>Overhead Applied</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>TOTAL COST</td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Skills level 3	**3**	**2**	**1**	**0**	**NR**
3					
2					
1					

SECTION D: ACCOUNTING REPORT **TOTAL: 40 Marks**

Question 1: Accounting Policies

Mary and Salote, a partnership who operates a computer hardware supplies business are seeking for the financial reporting requirement of the business. They asks you to help them to prepare a Statement of Accounting Policies.

State the purpose of preparing a statement of Accounting Policies

Skill Level 2	
2	
1	
0	
NR	

Question 2 **Financial Statements**

a. Define Accrual Accounting.

Skill Level 1	
1	
0	
NR	

b. Give an example from the given information on page 18 to illustrate your answer.

Skill Level 1	
1	
0	
NR	

Read the following passage then answer the questions that follow

Sione Tava and Taniela Moli own and operate Tava & Moli Accounting services, a firm that specializes in providing accounting services to small businesses.

The partnership agreement provides for interest to be paid on capital at 10% per annum and for remaining profits to be shared in the same ratio as the partner's capital.

Tava & Moli Accounting Services
Trial Balance as at 30 June 2015

Accounts Receivable	17,000	Acc depreciation – Land & Building	19,000
Bad debts	2,300	Allowances for doubtful debts	1,400
Current a/c – T. Moli	4,500	Bank	600
Drawings – S. Tava	48,000	Capital a/c – S. Tava	40,000
Drawings – T. Moli	36,500	Capital a/c – T Moli	30,000
Land & Building	100,000	Current a/c – S.Tava	6,200
Stationery	1,400	Fees	134,610
Interest	2,500	Loan	43,000
Office Expenses	6,010	Acc depreciation – Office Equipment	10,000
Rent	21,600		
Office Equipment	45,000		
	284,810		284,810

The following balance day adjustments are required:

- Invoices issued by Tava & Moli Accounting Services for fees in June but not yet recorded amounted to $2,400.
- Bad Debts of $1,600 are to be written off, and allowance for doubtful debts is to be adjusted to 10% of debtors.
- Rent paid in advance $2,400.
- Interest of $200 is owed by Tava & Moli Accounting Services at balance date.
- Land & Building are to be depreciated at 20% per annum using the diminishing value method.
- Office Equipment are to be depreciated at 10% per annum on cost.

c. Prepare an unclassified Statement of Financial Performance for the year ended 30 June 2015.

Tava & Moli Accounting Services
Statement of Financial Performance
<u>For the year ended 30 June 2015</u>

	$	$

Skills level 3	**3**	**2**	**1**	**0**	**NR**
3					
2					
2					
1					

d. Give an example of Revenue from the Statement of Financial Performance you prepared in (c).

Skill Level 1	
1	
0	
NR	

e. Calculate the amount of accumulated depreciation on land and building that would be shown in the Statement of Financial Position as at 30 June 2015.

Skill Level 1	
1	
0	
NR	

f. Prepare a well classifed Statement of Financial Position as at 30 June 2015 by completing the table below. For Owners Equity as at 30 June 2015 only include total figure of $69,920.

Tava & Moli Accounting Services
Statement of Financial Position
For the year ended 30 June 2015

	$	$
Owners Equity		**69,920**
This is represented by:		

Skills level 4	4	3	2	1	0	NR
4						
3						
2						
1						

g. Describe one limitation of the Statement of Financial Position that you have prepared in (f).

Skill Level 1	
1	
0	
NR	

h. State the major difference between the Statement of Financial Position of a partnership and a sole-trader.

Skill Level 1	
1	
0	
NR	

Question 3: Appropriation Account

a. State the purpose of having the following account for each partner in a partnership.

i) Current account

Skill Level 1	
1	
0	
NR	

ii) Capital account

Skill Level 1	
1	
0	
NR	

b. Explain why a Partnership Agreement may have a number of clauses relating to a profit sharing. (Do not just state what the clauses may be.)

Skill Level 3	
3	
2	
1	
0	
NR	

c. Read the following information then answer the questions that follow:

Pita and Paula are in partnership as dealers in the second hand cars. The following details are contained in their partnership agreement.

i) Annual salaries are to be paid as follows:

- Pita $ 30,000
- Paula $ 20,000

ii) Interest on capital accounts is to be paid at the rate of 10% per annum on the opening balance.

iii) Interest on current accounts is to be paid (or payable if overdrawn) at the rate of 10% per annum on the average annual balance.

iv) Profits and losses are to be shared in the ratio 3:2.

The following extracts are from the Balance Sheets for the business which were prepared at 31 March 2014 and 31 March 2015.

Balance Sheet – Pita and Paula
As at 31 March 2014 (Extract)

Owners Equity		
Pita		
Capital	50,000	
Current	(4,000)	46,000
Paula		
Capital	30,000	
Current	10,000	40,000
		86,000

Balance Sheet – Pita and Paula
As at 31 March 2015 (Extract)

Owners Equity		
Pita		
Capital	50,000	
Current	(10,000)	40,000
Paula		
Capital	40,000	
Current	6,000	46,000
		86,000

During the year ended 31 March 2015, the firm made a net profit of $41,100 before salaries and interest.

Required:
Prepare the Profit Appropriation Statement for the year ended 31 March 2015.
(**Note**: The firm's accountant considers that salaries and interest are appropriation of profit)

Pita and Paula
Profit Appropriation Statement
For the year ended 31 March 2015

	$	**$**	**$**

Skill Level 4	**4**	**3**	**2**	**1**	**0**	**NR**
4						
3						
2						
1						
1						

SECTION E: ANALYSIS INTERPRET AND REPORT ON COMPANY FINANCIAL STATEMENT **TOTAL: 40 Marks**

Question 1: Ratio

a. Describe the purpose of calculating the following ratios and percentages:

i) Return on shareholders funds:

Skill Level 2	
2	
1	
0	
NR	

ii) Return on total assets:

Skill Level 2	
2	
1	
0	
NR	

iii) Shareholders Equity ratio:

Skill Level 2	
2	
1	
0	
NR	

b. Explain how a decrease in the shareholders equity ratio leads to an increase in the return on the average shareholders equity percentage.

Skill Level 3	
3	
2	
1	
0	
NR	

c. Give **one** possible strategy the firm could use to improve its return on average shareholders equity ratio with reducing its shareholders equity ratio.

Skill Level 1	
1	
0	
NR	

d. The ratios given in the table below were calculated from the financial statements of the companies which buy commercial properties and lease them to tenants on a long term basis. The table also shows the industry averages for these ratios.

	COMPANY A	**COMPANY B**	**INDUSTRY AVERAGE**
Return on Shareholders Funds	25%	12.5%	15%
Return on Total Assets	10%	10%	8%
Shareholders Equity Ratio	0.4:1	0.8:1	0.6:1

Use the information above to answer the following question.

Comment on the financial stability of each of the two companies, Company A and Company B. You should explain the interrelationships between the ratios which have been given.

Skill Level 4	
4	
3	
2	
1	
0	
NR	

Question 2: Company Analysis

Malakai Fotu is considering investing in a sportswear manufacturing business. He has short listed two such businesses which are for sale as going concern.

The financial information available is as follows:

Balance Sheet

	Olympicwear Ltd $000s	**Oceanicware Ltd $000s**
Assets		
Cash at Bank	2,000	4,500
Accounts Receivable (net)	2,000	6,500
Inventory	2,000	5,000
Property, Plant & Equipment	20,000	35,000
	26,000	**51,000**
Liabilities & Shareholders Fund		
Accounts Payable	2,500	3,000
Mortgage over Property	7,500	29,000
Issued & Paid up capital	1,000	3,000
Capital reserves	9,000	9,000
Retained earnings	6,000	7,000
	26,000	**51,000**

Income Statement

	$000s	**$000s**
Sales	53,000	86,000
Less cost of goods manufactured& sold	37,000	61,000
Gross Profit	16,000	25,000
Less Operating Expenses		
Selling & Distribution	7,000	10,000
Administration	4,000	5,000
Financial	3,200	6,600
Total Operating expenses	14,200	21,600
Net Profit	**1,800**	**3,400**

a. Use the final accounts on page 26 to complete the table below by identifying the formula and calculating the missing ratios and percentages for Oceanware Ltd.

Ratios & Percentages	Formulae	Olympicwear Ltd	Oceanware Ltd
Gross Profit Percentage	$\frac{Gross\,Profit}{Net\,Sales}$ x 100	30%	$\frac{25000}{86000}$ x100% = 29%
i) Current Ratio	Current Assets / Current Liability	2.4:1	
ii) Shareholders Equity Ratio		61.5%	37.25%
iii) Liquid Ratio	Current Asset -(Stock + Prepayment) / Current Liability-Bank Overdraft	1.6:1	
iv) Return on Shareholders fund		11.25%	17.9%
v) Net Profit Percentage	Net Profit / Net Sales x 100% / 1	3.4%	
vi) Return on Total Assets		6.9%	6.7%

Skill Level 1	
1	
0	
NR	

Skill Level 1	
1	
0	
NR	

Skill Level 1	
1	
0	
NR	

Skill Level 1	
1	
0	
NR	

Skill Level 1	
1	
0	
NR	

Skill Level 1	
1	
0	
NR	

b. Name **ONE** ratio or percentage from the table in (a) that measure the following area of the business.

i) Profitability:

____

Skill Level 1	
1	
0	
NR	

ii) Financial Stability:

____

Skill Level 1	
1	
0	
NR	

iii) Liquidity:

____

Skill Level 1	
1	
0	
NR	

c. Name **one** area that the business should measure which is not stated in (b).

____

Skill Level 1	
1	
0	
NR	

d. Give **one** ratio that measure the area that you identified in (c).

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Skill Level 1	
1	
0	
NR	

e. State the purpose of calculating the ratio in (d).

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Skill Level 2	
2	
1	
0	
NR	

f. Explain the relationship between the ratio you stated in (d) with the liquidity position of the business.

Skill Level 3	
3	
2	
1	
0	
NR	

g. Explain how the information provided by the current ratio differ from the information provided by the Liquid Ratio.

Skill Level 3	
3	
2	
1	
0	
NR	

h. You are required to advise Malakai on the business he should invest in base on the analysis you have done in (a). Your advice should include **three** reasons.

Skill Level 4	
4	
3	
2	
1	
0	
NR	

i. Explain **three** additional information you would need before reaching a definite conclusion.

Skill Level 3	
3	
2	
1	
0	
NR	

SECTION F: PREPARATION OF INFORMATION FOR MANAGEMENT DECISION MAKING — TOTAL: 26 Marks

Question 1: Management and Decision making

Read the following information and answer the questions that follow.

Beauty Kids run a number of day-care centres throughout Tonga. Beauty Kids has decided to establish a new day care centre at Mu'a. The land and building have been purchased near a new housing development which has attracted a large number of families with preschool children. Resource management consent and planning permission have been obtained, and Beauty Kids is in the process of making the necessary alterations and extensions to the building to meet the requirements for a day-care centre.

a. State **one** item of non-financial information that Beauty Kids would have considered before purchasing the land and buildings.

Skill Level 1	
1	
0	
NR	

____

b. Describe why this non financial information in (a) is important to the decision to establish a new day-care centre.

Skill Level 2	
2	
1	
0	
NR	

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c. Explain in detail why establishing a new day-care centre is considered a strategic decision for Beauty Kids.

Skill Level 3	
3	
2	
1	
0	
NR	

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d. Beauty Kids prepared a number of different budgets before making a decision to establish a new day care centre at Mu'a.

Explain the purpose of Beauty Kids preparing a Cash budget to aid with the decision to establish a new day care centre at Mu'a.

Skill Level 3	
3	
2	
1	
0	
NR	

e. Using the following budgeted information, prepare a cash budget for the first two months (April and May 2015) of Beauty Kids operations at Mu'a. A template is provided on page 33.

The following information has been provided to help complete the cash budget

- The number of children expected to attend Beauty Kids per month for April and May 2015 are shown in the table below. Caregivers are invoiced on the 20th of each month.

	April	May
Number of children expected per day	20	26
Budgeted fees for the month	24,000	24,000

- It is expected that caregivers will pay as follows:
  - 80% of fees will be received before the end of the month as care givers receive a 5% discount for payment within 7 days of the invoice date.
  - 15% of fees will be received in the month following the invoice date.
  - 5% of fees will be received two months after the invoice date.

- A government grant of $10,000 will be received in May.

- Set up costs including resource management consents are estimated to be $14,500. Three quarters of this is payable in April, the remaining amount will be settled in May.

- The centre manager's salary is $4250 after tax per month, payable monthly. A PAYE tax payment on this salary of $750 will be paid in May.

- Apart from the manager, teachers are employed on a need basis as follows: The ratio of children to teacher cannot exceed 6:1. All teachers employed earn $2400 per month before tax. Teachers are paid at the end of each month in which they work. PAYE amounts to 15% of the total wage bill for the month and is paid to the Inland Revenue Department in the following month.

- General expenses are estimated at $0.15 per dollar of revenue. Expenses are paid in the month in which they occur.

Cash Budget for Beauty Kids (Mu'a) for April and May 2015

Estimated Receipts	**April**	**May**
Cash from accounts receivable		
Government grant		
Total cash received		
Estimated Payments		
Set up costs		
Centre manager's salary		
PAYE on centre manager's salary		
Teacher's salaries		
PAYE on teachers' salaries		
General expenses		
Total cash paid		
Surplus(Deficit)		

Skill Level 4	
4	
3	
2	
1	
0	
NR	

f. Explain why teachers' salaries are a semi-variable cost for Beauty Kids.

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___

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Skill Level 3	
3	
2	
1	
0	
NR	

Beauty Kids has decided to establish a new day-care centre at Mu'a. The land and buildings have been purchased near a new housing development, which has attracted a large number of families with preschool children.

Use the following information to answer the following questions:

- Beauty Kids (Mu'a) is budgeting on revenue per child of $7.50 per hour.
- Beauty Kids (Mu'a) is budgeting on variable expenses per child of $4.50 per hour.
- Each child is expected to attend the day care for 160 hours per month.
- Fixed cost per month are expected to $9,000.

g. Calculate the breakeven number of hours per month needed to be charged by Beauty Kids (Mu'a).

Skill Level 1	
1	
0	
NR	

h. The cash budget for Beauty Kids (Mu'a) indicates a cash deficit for April. Recommend to the manager what she should do to cover this deficit.

Skill Level 3	
3	
2	
1	
0	
NR	

i. Describe **one** consequence your recommendation will have for the cash position of Beauty Kids in May.

Skill Level 2	
2	
1	
0	
NR	

j. Write a paragraph including three fully explained reasons why the new Beauty Kids (Mu'a) centre is likely to be successful. You must include at least one financial reason and at least one non financial reason for your answer.

Skill Level 4	
4	
3	
2	
1	
0	
NR	