MARKER CODE				

STUDENT ENROLMENT NUMBER									

Tonga National Form Seven Certificate

ACCOUNTING

2016

QUESTION and ANSWER BOOKLET

Time allowed: Three Hours

INSTRUCTIONS

1. Write your **Student Enrolment Number (SEN)** 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 SEN 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 Skill Level
SECTION A **Conceptual Basis of Accounting**	2 - 4	23	19
SECTION B **Process Financial Information and Accounting Systems**	5 - 14	36	31
SECTION C **Accounting Reports**	16 - 19	26	9
SECTION D **Decision Making**	20 - 26	36	21
TOTAL	**26 pages**	**180 mins**	80

Check that this booklet contains pages 1-27 in the correct order and that page 27 has been deliberately left blank.

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

SECTION A: CONCEPTUAL BASIS OF ACCOUNTING

a) Describe **ONE** (1) role of Accounting Standard Board.

Skill level 2	
2	
1	
0	
NR	

b) Describe the purpose of Financial Reporting Standard.

Skill level 2	
2	
1	
0	
NR	

c) Describe **ONE** (1) objective of General Purpose Financial Reports as set out in the Accounting Framework.

Skill level 2	
2	
1	
0	
NR	

d) The qualitative characteristics of accounting information are modified by four influences all of which requires an accountant to exercise professional judgments. One of those factors is Prudence.

You are required to list the other **THREE** (3) of those factors.

i) ____________________

ii) ____________________

iii) ____________________

Skill level 2	
2	
1	
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NR	

e) The Statement of Concepts requires that accounting information which is useful for decision making has certain qualitative characteristics. One of them is reliability.

i) Define the qualitative characteristics of reliability.

Skill level 1	
1	
0	
NR	

ii) Explain how the factor of conservatism influences the reliability of information.

Skill level 3	
3	
2	
1	
0	
NR	

f) Discount received is considered as revenue of the business.
Define the concept of "revenue".

Skill level 1	
1	
0	
NR	

g) Statement of concepts states that General Purpose Financial Report are prepared using various assumptions. One of them is Accrual Accounting.

Define "Accrual Accounting".

Skill level 1	
1	
0	
NR	

QUESTION TWO

Read this passage then answer the questions that follow.

Sione Talo is a sole proprietor who operates a firm that specializes in manufacture of tents used to rent and sold to the public

The firm has the potential of rapid growth that will require a large input of equity finance. Sione personally can raise half of the capital required to finance the new expansion. He has also found five other investors who are willing to contribute the finance required for the expansion of the business.
Sione is seeking advice on whether to set the business up as a partnership or a company.

a) If the business set up as a partnership, there are various features that it should satisfy before it can be considered as partnership. Describe **THREE** (3) of those features.

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Skill level 2	
2	
1	
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NR	

b) List **THREE** (3) common terms contained in the partnership Agreement if Sione does not want the business to be governed by the Partnership Act.

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Skill level 2	
2	
1	
0	
NR	

c) State the purpose of Partnership Act.

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Skill level 1	
1	
0	
NR	

SECTION B: PROCESSING FINANCIAL INFORMATION AND ACCOUNTING SYSTEMS

QUESTION ONE

Sione, Pita and Tevita are in partnership sharing profits and losses according to their opening capital balances at 1st April 2015. The partnership agreement also states that:

i) Each partner is entitled to a salary of $2,000 per month, which is credited to their current account at the beginning of each month.

ii) Interest of 15% is allowed on the opening balances of partners' fixed capital.

iii) All partners are entitled to make drawings in anticipation of salary or profits, but interest is charged on drawings for the year in excess of $24,000 at a rate of 10% per annum.

The partnership balance date is on 31 March. As at 1 April 2015, the capital and current account balances were as follows:

	Capital Account $	**Current Account** $
Sione	75,000 Cr	8,200 Cr
Pita	50,000 Cr	12,400 Cr
Tevita	25,000 Cr	4,300 Dr

Trial balance extracts as at 31 March 2016 (the end of the financial year) are:

	Drawings $	**Capital Account** $	**Current Account** $
Sione	38,000 Dr	75,000 Cr	32,200 Cr
Pita	31,000 Dr	50,000 Cr	36,400 Cr
Tevita	24,000 Dr	25,000 Cr	19,700 Cr

The profit for the year was $90,000.

a) Use the information on page 5 to draw up the Profit and Loss Appropriation account for the partnership for the year ended 31 March 2016.

Profit & Loss Appropriation a/c – Sione, Pita, Tevita
For the year ended 31 March 2016

	$		$

Skill level 4	
4	
3	
2	
1	
0	
NR	

b) In the absence of any formal partnership agreement, how would the profit of partnership have been allocated amongst the three partners.

Skill level 1	
1	
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NR	

QUESTION TWO

On 1st July 2016, Seini Finau and Ana Manu went into partnership in a marketing consultancy business.
The partnership agreement stipulated that Seini is to contribute 60% of the partnership capital.
Seini's contribution is her existing business which is to be taken over at an agreed valuation of $330,000. 'Ana is to contribute sufficient cash to achieve a 40% share of the capital of the partnership.

The assets and liabilities of Seini Finau's existing business are given below

Statement of Financial Position – Seini Finau
As at 30 June 2016

Assets	**$000**	**$000**
Accounts Receivable	160	
Less allowances for doubtful debts	20	140
Office Equipment	260	
Less accumulated depreciation on office	150	110
equipment	460	
Premises	100	360
Less accumulated depreciation on		**610**
premises		
Total Assets		
Liabilities		
Accounts Payable	120	
Bank	10	
Mortgage	250	
Total Liabilities		380
Owners Equity		
Capital		230
Total Owners Equity and Liabilities		**610**

The partnership agreement stated that Seini's assets and liabilities are to be taken over at the amount stated in the Statement of Financial Position as at 30 June 2015 subject to the following:

i) Accounts Receivable are to be valued at $130,000.
ii) Office Equipment is to be valued at $150,000.
iii) Take over only 50% of accounts payable.

a) Use the information on page 7 to prepare the opening Balance Sheet for the partnership.(Use 3 Column)

Seini Finau & Ana Manu
Balance Sheet as at 1st July 2016

	$(000)	$(000)

Skill level 3	
3	
2	
1	
0	
NR	

QUESTION THREE

For the year ended 31 December 2015, Peter & John Traders had recorded a net profit before distributions of $139,000. Peter had taken drawings of $52,000 and John had taken drawings of $29,000.

The partnership agreement stipulated that:

- Peter's capital contribution is to be $200,000 and John's capital contribution is to be $100,000.
- Each partner is to receive an annual salary of $25,000 per annum that is to be treated as a distribution of profit.
- Interest of 10% is to be provided on the partners' capital account.
- John is to receive a bonus of 10% of any net profit made by the firm over the value of $125,000.
- Interest on drawings over $30,000 is to be charged at 15%.
- Residual profit of $60,900 is to be shared in the same ratio as the partners' capital contribution.

a) Using the information above, show how John's Current account would appear in the General Ledger on 31 December 2015 and balance the account. (Use 3 Column)

Current account – John

Date	Particulars	Debit $	Credit $	Balance $

Skill level 3	
3	
2	
1	
0	
NR	

QUESTION FOUR

Low Cost Company Ltd was incorporated on 1st August 2016 and by 30th August had issued 200,000 shares to the public at $2.50.

During September the following transactions occurred:

- Sept 1 - A prospectus was issued inviting the public to apply for a further 170,000 shares at $2.50 per share. The total amount was payable on application.
- Sept 15 - Application for 180,000 shares had been received.
- Sept 30 – The directors met and allotted shares on a pro-rata basis. Excess application monies were refunded to applicants.

a) Use the information above to prepare the accounting entries to transfer to transfer monies from Trust account to General Bank Account.

Date	Particulars	Dr	Cr

Skill level 2	
2	
1	
0	
NR	

b) Explain why Low Cost Company Ltd is likely to have a company constitution.

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Skill level 2	
2	
1	
0	
NR	

QUESTION FIVE

Nuku'alofa Veterinary Clinic Ltd is a public company that on 1st July 2016, takeover the practice of Bill and Ben veterinary surgeons. The Statement of Financial Position of the practice at the date of takeover is shown below.

Statement of Financial Position - Ben & Bill
As at 30th June 2016

Cash at Bank	1,500	Accounts Payable	1,000
Accounts Receivable	2.500	Short term loan	700
Drug stock	3,500	Capital - Ben	15,000
Surgical Equipment	30,000	Capital – Bill	15,000
Less accumulated depreciation	(5,000)		
	32,500		**32,500**

The agreement for sale and purchase specifies the following:

i) The vendors were to issue 8,000 fully paid $2.00 shares each as full payment.

ii) The company would take over all assets and liabilities of the practice except Accounts Payable.

a) Use the information above to prepare a General Journal entry in the books of the company to show the takeover of the partnership by Nuku'alofa Veterinary Clinic Ltd and the settlement of consideration.

Date	Particulars	Dr	Cr

Skill level 2	
2	
1	
0	
NR	

QUESTION SIX

Roy Woodworkers is a wood working factory that produces one-off jobs to customers.

All jobs go through two stages of production: "Forming where the wood is shaped on specialized machinery and " Finishing" when the shaped product is smoothed and polished and painted by skilled workers.

In the Forming department, overheads are applied on the basis machine hours at 80cents per hour. In the Finishing department, overheads are applied on the basis of Direct labour hours at $1.70 per hour.

A Job cost card from Roy woodworkers is shown below along with other data from the Accounting department.

Roy Woodworkers
JOB SHEET

Job Number:	20
Description:	Wooden Turtle
Customer:	Tony Brown
Job commenced:	1/9/16
Job Completed:	30/9/16

Code	**Forming Department**	**Finishing Department**
Raw material	$30,000	$ 5,500
Direct Labour Hours	500	3,500
Machine Hours	1,500	300
Overhead Applied		

a) Explain why Forming Department and Finishing Department apply overhead on different basis, then calculate the applied factory overhead of each department using the appropriate cost drives.

Explanation :____

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Calculation:

	Forming Department	**Finishing Department**
Show Workings in the space given		
Overhead Applied Cost		

Skill level 4	
4	
3	
2	
1	
0	
NR	

QUESTION SEVEN

James Ltd manufactures scorched peanut chocolate using a capital intensive manufacturing process.

The peanuts are roasted cooled and dried them put into rotating pan.

The chocolate is melted and sprayed onto the peanuts as they rotate in the pans. The coated peanuts are considered to be "work in progress when they are in the roasting department, panning department and packing department.

Factory overhead are applied using a pre-determined rate based on machine hours.

During July and August 2016, Pakiaola Dessert, a specialized restaurant ordered 5 tonnes of scorched peanut which were produced using purple chocolate with "D" in gold lettering. The costs for this job are summarized on the Job Cost Sheet below.

JOB COST SHEET

Job No 645 **Start date** - 19/7/16 **Finish Date** – 14/8/16 **Delivered** – 21/9/16	**Customer**: Pakiaola Dessert **Mark up %** - 80% **Type of Sale**: Credit

Date	Reference	Material	Labour	Overhead	Total
July 19	MR 2468	8,000			8,000
24	LN 10, 34, 45		600		600
31	LN11, 32, 56		550		550
	Overhead applied			8,200	8,200
	Total for July	**$8,000**	**$1,150**	**$8,200**	**$17,350**
	Balance	**8,000**	**1,150**	**8,200**	**17,350**
Aug 3	MR 3728	7,600			7,600
	LN 12,23,24		1,280		1,280
	LN 12		430		430
	Overhead applied			7,100	7,100
	Total Job Cost	**$15,600**	**$2,860**	**$15,300**	**$33,760**

a) Use the information on page 13 to prepare the General Journal entries to record the following:

i) Raw materials issued to production for Job 645 during July
ii) The transfer of Job 645 to finished goods
iii) The sale of Job 645 to Pakiaola Dessert.

(Note: narrations have already provided for each entry)

Date	Particulars	Dr	Cr
(i)			
	(raw material issued to production)		
(ii)			
	(for transfer to finished goods)		
(iii)(a)			
	(for the cost of goods sold)		
(b)			
	(for the sales made)		

Skill level 3	
3	
2	
1	
0	
NR	

b) Cost of producing the scorched peanut chocolate is classified in 3 main areas. They are Raw Material, Labour and Factory Overhead.

Identify **TWO** (2) examples of Factory overhead Costs for this Job.

i) ______________________________

ii) ______________________________

Skill level 2	
2	
1	
0	
NR	

c) Name the source document used to record the entry shown by reference No, LN 12 on the Job Cost Sheet.

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Skill level 1	
1	
0	
NR	

QUESTION EIGHT

A Company decides to go ahead with a planned expansion. The firm's accountant has recommended that a whole new accounting system will be needed to cope with the increased level of activity. The accounting system will consist of a number of subsystems including Purchases / Accounts Payable subsystem.

a) Read the information above then write paragraphs explaining **FOUR (4)** objectives of Purchase/Accounts Payable subsystem.

Skill level 4	
4	
3	
2	
1	
0	
NR	

SECTION C: ACCOUNTING REPORTS

During the past year, the directors of Large Industry Ltd paid an interim dividend of 4% on December 2015 and declared a final dividend of a further 5% on 20 July 2016. The final dividend was paid to shareholders on 10 August 2016. Paid up capital was $2 million.

Read the information above then answer the questions that follow.

a) Prepare the Journal entries for declared dividend and paying out of dividend.

Dates	Particulars	Dr	Cr

Skill level 2	
2	
1	
0	
NR	

b) Define what dividend is.

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Skill level 1	
1	
0	
NR	

c) In company, goodwill is an intangible asset which may amortized over a number of years. Define what amortization of goodwill is.

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Skill level 1	
1	
0	
NR	

QUESTION TWO

Kingdom Fashion is owned by two partners, Sela Niu and Ana Pulu. The partnership operates a perpetual inventory system.

The following Trial Balance and additional information relate to the Kingdom Fashion

Kingdom Fashion – Sela Niu, Ana Pulu
Trial Balance as at 31 March 2016

	$		$
Accounts Receivable	18,000	Accounts Payable	21,800
Advertising	12,000	Accumulated depreciation-shop fittings & Equipment	23,500
Bad debts	2,400	Allowances for doubtful debts	600
Cost of goods sold	211,000	Bank	2,000
Current a/c – S. Niu	3,000	Capital a/c – S.Niu	75,000
Drawing – S. Niu	30,000	Capital a/c – A. Pulu	65,000
Drawings – A. Pulu	35,000	Current a/c- A. Pulu	8,000
Electricity	5,200	Loan (12% due 2021)	70,000
General Expenses	88,335	Sales	430,000
Interest on loan	7,700	Commission	535
Inventory	41,700		
Cash on hand	2,100		
Shop fittings & Equipment	190,000		
Goodwill	50,000		
	696,435		**696,435**

Additional Information:

- An invoice for $540 dated 27 March 2016, is on hand for electricity during March.
- Interest on loan is 12% per annum flat rate for the year.
- Shop fittings and equipment are depreciated at 15% per annum using the diminishing value method
- A radio advertising campaign costing $6,000 was paid on 1 December 2015. The campaign was for 6 months of radio advertisements beginning on 1 December 2015.
- Bad debts of $1,800 are to be written off.
- The allowance for doubtful debts is to be adjusted to 5% of accounts receivable
- Commission accrued $165.00

a) Use the information on page 17 to prepare the Statement of Financial Performance for Kingdom Fashion for the year ended 31 March 2016 using Narrative format.

Kingdom Fashion
Statement of Financial Performance
For the year ended 31 March 2016

	$	$

Skill level 3	
3	
2	
1	
0	
NR	

Skill level 1	
1	
0	
NR	

b) Using the information on the Trial Balance and the Statement of Financial Performance, prepare the Partner's Proprietorship Section as it should appear on the Statement of Financial Position. Given that they agree to share the profit equally

Kingdom Fashion
Statement on Financial Position (Extract)
As at 31 March 2016

Proprietorship

Skill level 1	
1	
0	
NR	

SECTION D **DECISION MAKING**

QUESTION ONE

Tevita Pulu is a sole trader who specializes in selling computer equipment and in system maintenance.

Study the following ratios and percentages then answer the question that follows

Ratios /Percentages	2014	2015
Gross Profit percentages	46%	49%
Selling Expenses percentage	5%	7%
Administrative Expenses percentage	10%	11%
Financial Expenses percentage	9%	8%
Net profit percentage	26%	23%
Return in Average Owners Equity percentage	27%	28%
Return on Total assets percentage	17%	16%
Current Ratio	1.5:1	0.9:1
Liquid Ratio	0.7:1	0.4:1
Equity Ratio	0.6:1	0.56:1
Inventory Turnover	14 times	15 times
Age of Accounts Receivable	81days	55 days

a) Identify an area of concern identified by the ratio/percentages above. Suggest a course of action and explain how this course of action could overcome the problem.

Skill level 4	
4	
3	
2	
1	
0	
NR	

QUESTION TWO

Sione Moli and Sons Ltd are planning to establish a business to market overseas tours and seek you advice on the financial structure the company should employ

The financial options available to the company are shown below, together with some additional information provided by their accountant.

SIONE MOLI AND SONS LIMITED INTER-OFFICE MEMORANDUM

FROM : Company Accountant

SUBJECT : Finance Requirement

Establishment of the new business would require funds of $1million and there are two alternative methods of raising the finance

OPTION A – Issue 1 million shares to the public at $1 per share.

OPTION B – Issue 400,000 shares at $1 per share, raise a mortgage $400,000 at 12% per annum and issue $200,000 of debenture also with an interest rate of 12% per annum.

Additional Information:

- The company's earnings in its first year of operations will be $200,000 before interest and taxation.
- The tax rate for the company will be 33% of its net profit.
- The company plans to pay its shareholders dividend of 10 cents per share at the end of its first year of operation.
- Other companies in the industry achieve a rate of return on shareholder's funds at 20% and pay around 50% of their net tax profits as dividends to the shareholders.

a) Use the information on page 21 to complete the table below by calculating the following for each option.

	OPTION A	**OPTION B**
1. Proprietorship Ratio (at the commencement of the business)		
2. Net tax paid profit for the year.		
3. Rate of return on shareholders' funds (after tax) using the opening shareholders fund figures (round to 2 decimal places)		
4. Funds required to pay a 10 cents dividend.		

Skill level 3	
3	
2	
1	
0	
NR	

b) Recommend which method of financing the company is most suitable for shareholders, giving reasons to support your answer.

Skill level 2	
2	
1	
0	
NR	

QUESTION THREE

a) Nuku'alofa Electronics Company supplies computers to local market. Its computers are designed for the house users and sell for $2000.00 each. The cost price of manufacturing each computer is $1200.00. The firm estimates that its costs in selling each computer are $100.00 and that the fixed costs of running the business total $120,000 per annum with an output capacity of 700 computers.

Nuku'alofa Electronics are considering increase their output to 1000 computers per annum. Using an appropriate example, fully explain why their original fixed costs of $120,000 will not remain the same but it will increase at the higher output level.

Skill level 4	
4	
3	
2	
1	
0	
NR	

QUESTION FOUR

Happy Holiday is a tour service which operates at Pangaimotu Island. . Most of the firm's revenue arises from visiting the island by tour groups.

The bulk of the bookings for the tour are made on credit through travel agencies, Casual vacancies are filled on a cash basis to make up the numbers for each party.

During the early part of the year, cash flow can be a problem, management has a policy of placing surplus on term deposit during winter month so that it will mature during summer when there is a need for extra cash.

You have been appointed by management to help with the preparation of a week by week budget for the four weeks of February 2016. You establish the following:

- 90% of sales are on credit. Of these, 70% are paid between the 15th and 20th of the current month, 25% are paid between the 15th and 30th of the following month and 5% are bad debts. Cash sales occur evenly throughout the month.
- Total sales in January are expected to be $60,000 and in February $80,000.
- Wages for February are expected to be $5,000 per week. Of this 24% is deducted as PAYE to be paid directly to the Inland Revenue Department. PAYE deductions are payable on the 20th of the month for deductions made between the 1st and the 15th of the month, and on the 5th of the following month for deductions made from the 16th to the end of the month. PAYE due from January wages is expected to $1,600.
- Other expenses in February are expected to be as follows:

Advertising	$ 8,000
Depreciation on vehicles	25,000
General Administration Expenses	6,000

  All expenses are paid in the last week of the month in which they are received.

- The firm intends to purchase an additional vehicle for $30,000 cash on 18th February.
- A term deposit of $5,000 will mature on 11th February.
- The budgeted bank balance on 31st January 2016 is $500.

a) Use the information on page 24 to prepare a cash budget on a weekly basis for the month of February 2016 below.

Cash Budget - Happy Holiday
For the month of February 2016

	Week 1 ($)	**Week 2 ($)**	**Week 3 ($)**	**Week 4 ($)**

Skill level 4	
4	
3	
2	
1	
0	
NR	

b) Explain **TWO** (2) reasons why budgeting is important.

Skill level 2	
2	
1	
0	
NR	

c) Tonga Furniture Ltd manufactures and sells school desks. In the past year, due to customers' request, they have begun to sell school chairs which they do not manufacture but which they buy for resale from a local supplier.

Tonga Furniture Ltd is considering manufacturing their own chairs, instead of having them from another firm.

Why is this considered a strategic rather than routine decision

Skill level 2	
2	
1	
0	
NR	

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