

MARKER CODE				



STUDENT ENROLMENT NUMBER (SEN)									

Tonga National Form Seven Certificate

ACCOUNTING

2017

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	32
SECTION C Accounting Reports	16 - 19	26	9
SECTION D Decision Making	20 - 26	36	20
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

Question ONE

- a. Describe **ONE** (1) role of Accounting Profession and Standards.

Skill level 2	
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- b. The Statement of concepts states that General Purpose Financial Report .
are prepared using various accounting concepts . One of them is
“Accounting entity”

Define the notion of “accounting entity ”.

Skill level 1	
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- c. Define the financial elements Asset .

Skill level 1	
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- d. Describe the purpose of Financial Reporting Standards.

Skill level 2	
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- e. Explain the difference in financial measurement base on historical cost versus current cost .

Skill level 2	
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- f. The Statement of Concepts requires that accounting information which is useful for decision making has certain qualitative characteristics. One of them is neutrality .

- i. Define the qualitative characteristics of neutrality.

Skill level 1	
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- ii. Explain the relationship between timeliness and relevancy characteristics of accounting information.

Skill level 3	
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- g. The preparation of the General Purpose Financial Reports are guided through the application of various accounting assumptions . Describe the assumption Monetary Measurement.

Skill level 2	
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QUESTION TWO

- a. If the business set up as a partnership and there was no Partnership Agreement in existence, state the regulation that will be applied and used for the operation of the partnership.

Skill level 1	
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- b. Describe the 'Limited Life' feature of a Partnership business set up.

Skill level 2	
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- c. Describe the 'Limited Liability' feature of a Company business set up.

Skill level 2	
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SECTION B: PROCESSING FINANCIAL INFORMATION AND ACCOUNTING SYSTEMS

QUESTION ONE

On 1 July 2015, Mosese Latu and 'Ana Finau went into partnership in a groceries marketing business.

- The partnership agreement states that Mosese will contribute his existing business at an agreed value of \$130 000 and 'Ana Finau will have to contribute sufficient cash to achieve a 50% share of the capital of the partnership.

The Statement of Financial Position of Mosese Latu sole trader business is given below

***Statement of Financial Position – Mosese Latu
As at 30 June 2015***

	\$	\$
<i>Proprietorship</i>		
Capital		<u>115 350</u>
This is represented by		
Assets		
Accounts Receivable	30000	
Less allowances for doubtful debts	<u>2250</u>	27 750
Inventory		80 000
Office Furniture	50000	
Less accumulated depreciation on Office Furniture	<u>4000</u>	46 000
Office Equipment	14600	
Less accumulated depreciation on equipment	<u>3000</u>	<u>11 600</u>
Total Assets		<u>165 350</u>
<i>Less Liabilities</i>		
Accounts Payable	20000	
Bank	5000	
Mortgage	<u>25000</u>	
Total Liabilities		50 000
<i>Net Assets</i>		<u>115 350</u>

taken over at carrying amount as stated in the Statement of Financial Position as at 30 June 2015 with the exception of:

- i. Accounts Receivable are to be valued at \$27 000.
- ii. Office Equipment is to be valued at \$15,000.
- iii. Inventory to be revalued \$75000
- iv. Account Payable will be taken over at \$12 000.
- v. Bank Overdraft will not be taken over by the partnership

- a. You are required to prepare the General Journal entries to form the partnership.

Latu and Finau Business
Opening General Journal Entry as at 1 July 2015

[illegible]

Skill level 3	
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QUESTION TWO

The following information was taken from the books of the Partnership business owns by Alisi Latu and Frederick Fifita Partnership.

At the beginning of the financial year 1st July 2013:

	Capital Account	Current Account
Alisi Latu	400 000 Cr	8 000 Cr
Frederick Fifita	200 000Cr	12000Cr

The partnership agreement also states that:

1. Interest on fixed capital is to be 5 % per annum
2. Each partner is entitled to a salary of \$12,000
3. Interest of 10% is allowed on the opening current account balance.
4. Interest of 10 % is to be charged on the final balance of each partner's drawing account .
5. The remaining profit or losses are to be shared between Alisi and Frederick in the ration 3 : 2 respectively

Additional Information at balance date 30th June 2014 :

- The Partnership reported net profit for the year was \$100,000.*
- Partner's drawings account balances are : Alisi Latu \$30 000 (CR) and Frederick Fifita \$20 000 (CR)*

- a. You are required to prepare the Partnership Profit and Loss Appropriation Account and the Current Account of Frederick for the year ended 30 June 2014

Profit & Loss Appropriation a/c – Alisi and Frederick
For the year ended 30 June 2014

	\$		\$

Skill level 4	
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- b.

Current Account – Frederick
For the year ended 30 June 2014

	\$		\$

Skill level 2	
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- c. In the absence of any formal partnership agreement, how would the profit of partnership have been allocated amongst the three partners.

Skill level 1	
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- d. Explain the reasons why partnership charge interest on drawings by partners.

Skill level 1	
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QUESTION THREE

ABC Company Ltd was incorporated on 1st August 2016 and by 30th August had issued 300,000 shares to the public at \$5.00.

During September the following transactions occurred:

- Sept 1 - A prospectus was issued inviting the public to apply for a 300 000 shares at \$5.00 per share. The total amount was payable on application.
- Sept 15 - Application for 352 200 shares had been received however 2200 shares were disqualified for incomplete conditions of application.
- Sept 30 – The directors met and allotted shares on a pro-rata basis. Excess application monies were refunded to applicants.

- a. You are required to show the General Journal entries to record the share issues by the ABC Company Ltd.

There are

Date	Particulars	Debit	Credit
September 15			
Monies received on application			
September 30			
Allotting shares to successful applicants			
September 30			
Refunding application monies to unsuccessful applicants			
September 30			
Transferring monies to Company bank account			

Skill level 3	
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- b. Describe the purpose of the company document 'Prospectus'.

Skill level 2	
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- c. Explain the reasons for company being of benefits from paying provisional tax.

Skill level 1	
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QUESTION FOUR

On 1 July 2015, Lamipeti Ltd was established as a public company by conversion of the partnership business the “Value City Store of Fanga” owns by Pila and Lia.

The agreement for the taking over of the business will be a full payment to the vendors with issuing of 12,000 shares at \$5.00 to each partners and Lamipeti Ltd will take over all assets and liabilities of the Value City Store at book values except accrued expenses.

The Statement of Financial Position of the Value City Store of Fanga at the date of takeover is shown below.

Statement of Financial Position –Pila and Lia as at 1st July 2015

	\$	\$
Assets		
Cash at Bank	4 500	
Accounts Receivable	5 500	
Inventory	8 000	
Vehicles and Equipment	60 000	
Accumulated Depreciation on Vehicles and Equipment	(8000)	
Less Liabilities		
Accounts Payable		15 000
Accrued Expenses		10 000
Capital – Pila		20 000
Capital - Lia		25 000
	70 000	70 000

- a. Use the information above to prepare the Company Opening Balance Sheet upon the Formation of the Company to show the takeover of the Value City Store of Fanga by the Lamipeti Ltd and the settlement of consideration.

Lamipeti Ltd
Balance Sheet as at 1st July 2015

	\$	\$	\$
Shareholders Fund			
This is represented by :			
Assets			
Less Liabilities			
Net Assets			

Skill level 3	
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QUESTION FIVE

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

Nonu Panels JOB SHEET				
Job Number:	420			
Description:	Vehicles Panel Works			
Customer:	Toni Pulu			
Job commenced:	1/6/17			
Job Completed:	31/7/17			
Date	Description	Quantity	Applied Rate	Total
July 19	Materials			\$5000
24	Labour Cost	100 hours	\$25	\$2500
31	Overhead Applied	100 hours	\$50	\$5000
	Total Cost			12500
	Mark Up	50 %		6250
	Amount Invoiced			18750

- a. You are required to use the information from the Job Cost Card to prepare the General Journal entries to record the following situations :
1. Raw materials issued to production for Job 420 during July
 2. The transfer of Job 420 to finished goods
 3. The sale of Job 420 to Toni Pulu.
- Note that you are already given the required narration for each journal entries

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 4	
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a. If the Actual Overhead for job 420 was \$4700 .

i. Is it a situation of Over-applied or Under-applied Overhead ?

ii. Give the general journal entry to the record the closing of the Over-applied or Under-applied Overhead.

Date	Particulars	Dr	Cr
i.			
(Over applied/or Under applied overhead)			

Skill level 2	
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a. Explain why overhead was apply based on machine hours rather than other cost driver.

Skill level 1	
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b. Explain the purpose of a timesheet.

Skill level 1	
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QUESTION SIX

- a. Write paragraphs explaining **THREE (3)** objectives of Job Order Costing System

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Skill level 4	
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SECTION C: ACCOUNTING REPORTS

QUESTION ONE: Partnership Financial Statements

Niu and Pulu Importers is owned by two partners, Samuela Palu and Ana Latu. The partnership operates a perpetual inventory system.

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

Niu and Pulu Importers – Samuela Palu and ‘Ana Latu
Trial Balance as at 31 March 2016
\$

	\$	\$
Accounts Receivable	35,500	
Advertising	12,000	
Bad debts	2,400	
Cost of goods sold	150,000	
Drawing – S. Palu	30,000	
Drawings – A. Latu	35,000	
Electricity	5,200	
General Expenses	10,000	
Inventory	39,000	
Bank	14,000	
Fixtures and Fittings	80,000	
Motor Vehicle	163 500	
Accounts Payable		44,700
Accumulated depreciation on Fixtures and Fittings		10 000
Allowances for doubtful debts		1300
Capital a/c – S.Palu		85 000
Capital a/c – A. Latu		65,000
Current a/c- S.Palu		10,000
Current a/c – A.Latu		7,600
Loan		50,000
Sales Revenue		300 000
Commission		3000
	576 600	576 600

Additional Information:

1. Unpaid Electricity Bill at balance date \$600.
2. Unpaid Interest on loan is 10% per annum flat rate for the year.
3. Fixtures and Fittings are depreciated at 10 % per annum using the diminishing value method
4. Advertising Prepaid \$1500.
5. Further Bad debts of \$1,500 are to be written off.
6. The allowance for doubtful debts is to be adjusted to 5% of accounts receivable
7. Commission accrued \$1500.00
8. Information relating to the Partnership Statement of Financial Performance.

Net Profit from the business is \$113 500 Partnership Profit are to be shared equally.

- a. Use the information on page 17 to prepare the Statement of Financial Position FOR **NIU AND PULU IMPORTERS** FOR THE YEAR ENDED 31 MARCH 2016. YOU ARE REQUIRED TO USE THE NARRATIVE FORMAT FOR REPORT PREPARATION.

NIU AND PULU IMPORTERS – SAMUELA PALU AND ‘ANA LATU
STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 MARCH 2016

[illegible]

Skill level 3	
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QUESTION TWO COMPANY

- a. With Revaluations of Fixed Asset , explain the reasons why land and buildings revalued. Explain in terms of qualitative characteristics of accounting information

Skill level 1	
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- b. The information given below provided information pertaining to the Asset Goodwill of the TOP Company business for the end of the year of the financial year 30 June 2017

TOP Company Ltd Statement of Financial Position for the year ended 30 June 2017 (Extract)	
	\$
Office Equipment	100 0000
Less Accumulated Depreciation for Office Equipment	(9 000)
Goodwill (estimated life 5 years)	50 000
Land	130 000

You are required to give the General Journal Entry that has been used to record the amortization of goodwill by the business .

Date	Particulars	Dr	Cr
(i)			

Skill level 1	
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d. **Accounting for Taxation**

Below are summarized information on the TOP Company Ltd for the year ended 30 June 2017 . The information provided relates to the Taxation of the Company.

TOP Company Ltd Income Statement for the year ended 30 June 2017	
Sales	100 0000
Less Total Expenses	900 000
Net Profit before Tax	100 000
Less Income Tax Expense	30 000
Net Profit after Tax	70 000

At balance date additional information provided:

- i. Provisional Tax Paid \$20 000
- ii. Retained Earnings balance \$125 000

You are required to give the General Journal Entries that had been used to record the company taxation for the financial year ending 30 June 2017.

Date	Particulars	Dr	Cr
(i)			
(to record taxation expenses for the year)			
(ii)			
(to effect payment of Provisional Taxation Paid at balance date)			
(iii)			
(to record the net profit after tax in Retained Earning)			

Skill level 3	
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SECTION D

DECISION MAKING

QUESTION ONE

The following information relates to WXY Company Ltd. The company Comparative Statement of Financial Position are given for the period of 2014 to 2016.

WXY Company Ltd Statement of Financial Position as at 30 June 2016				
		2014	2015	2016
Current Assets				
Accounts Receivable		17000	40000	100000
Inventory		19000	38000	100000
Prepayments		500	900	1000
Accrued Income		1000	1500	1500
Financial Assets		25000	42000	58000
		62500	122400	260500
Non-Current Assets				
Property, Plant and Equipment		500000	490000	500000
Goodwill		50000	50000	50000
		550000	540000	550000
Total Assets		612500	662400	810500
Less Liabilities				
Current Liabilities				
Bank		50000	38000	2600
Tax Payable		3000	5000	6500
Income Tax Payable		2000	5000	6000
Accounts Payable		84000	70000	60000
Accrued Expenses		3000	4000	5000
		142000	122000	80100
Non- Current Liabilities				
Mortgage		150500	160000	210000
Total Liabilities		292500	282000	290100
Net Assets		320000	380400	570400
This is represented by				
Shareholder's Fund				
Contributed Equity		250000	200000	250000
Land Revaluation Reserve		30000	30400	45000
Retained Earnings		90000	150000	225400
Total Equity		320000	380400	520400
Additional Information				
<i>Profit after Tax</i>		70000	80000	120000
<i>Total Dividends Paid out</i>		16 000	25 000	43 750
<i>Market Price per Share</i>			\$1.84	\$2.50
<i>Contributed Equity : Number of Shares</i>		200000	200000	250 000

You are required to calculate the percentages and ratios for profitability liquidity and market share analysis for WXY Company Ltd by completing the table below for figures of 2016.

Analysis Measure	2014	2015	2016	
			Calculations	Answers
Rate of Return on equity percentage	20.5%	22.8%		
Dividends per Share	8cents	12.5 cents		
Dividends Yield	5 %	6.79%		
Earnings per Share	\$0.41	\$0.45		
Price Earnings ratio	\$4.49	\$4.08		

Skill level 4	
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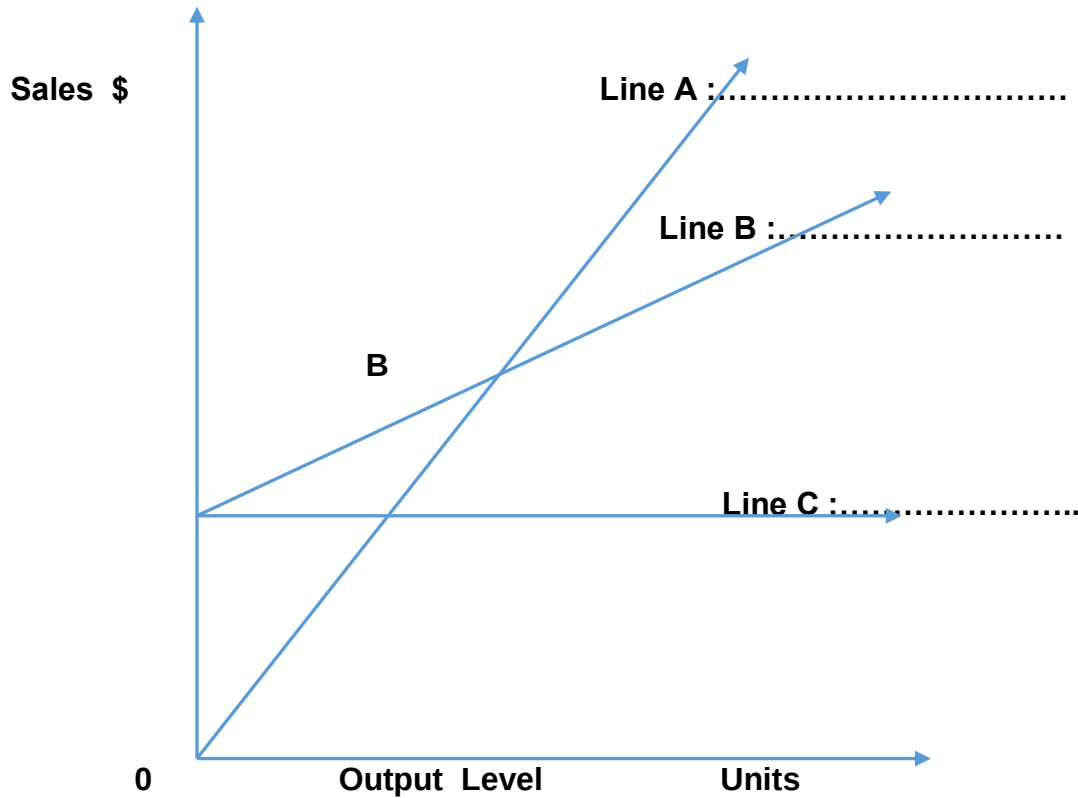
- a. Use your figures in the table above to analyse and interpret the performance of the company for the financial year 2016 by making comments on the trends revealed for share market and explain the reasons for the trends ,strengths and weaknesses.

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Skill level 4	
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QUESTION TWO : Break Even point analysis

The information belongs to Manu Manufacturing of Longolongo.



You are required to determine the followings:

- a. Label the line graphs depicted on the graph above

Line A : _____

Line B : _____

Line C : _____

- b. Determine the breakeven sales if the breakeven units are 20 000 units and the product are sold at \$25 per unit.
- c. Sketch on the graph the Breakeven point(**labelled point B**) for the production.

Skill level 3	
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d. Cost Volume Profit Analysis

A manufacturing enterprise expected to produce and sell 50 000 units of product in December 2017.

Related costs information for the productions are :

- The product will sell out at \$18 per unit
- Fixed cost for the volume of units to be produced is \$150 000
- The variable cost expenses \$6.00 per unit

e. You are required to determine the breakeven point for the production by calculating the Breakeven Units and Sales Units dollar Value.

Show working and formula used.

Formula used	Calculation
Break Even Point	Output Units :
	Sales (\$) :

Skill level 2	
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QUESTION THREE

Beta Company Ltd is a manufacturing company.

The Manager asks you to prepare a Cash Budget for the quarter ending 30 September 2016.

The Company has established the following policies.

- The company estimated that cash sales are 20 % of Total Sales for the month.
- Debtors usually pay their account as 80% on the month after sale, 15 % are paid on the second month after sale and 5% are bad debts.
-
- Sales and expected sales are as :
 - Actual Sales**
 - May \$42 000
 - June \$49 000
 - Estimated Sales**
 - July \$50 000
 - August \$60 000
 - September \$80 000
- All Purchases are on credit and it was found that All purchases are paid in the month following invoice with a 5 % is received for prompt payment.

The expected purchases are to be:

- June \$25 000
 - July \$50 000
 - August \$15 000
 - September \$20 000
- **Monthly expenses budget are to be :**

Wages	\$5 000
Utilities Expenses	\$3,000
Depreciation on vehicles	\$ 20,000
Doubtful Debts	\$ 9,000
- The firm intends to purchase an additional vehicle for \$45 000 cash on the month of September.
- A term deposit of \$13,000 will be matured on 11th September.
- Interest payments are estimated to be :
 - July \$2400
 - August \$2000
 - September \$2500
- **The budgeted bank balance on 1st July is \$9500 Dr .**

- a. Use the information on the previous to prepare a cash budget on a monthly basis to end on the month of September 2017 as shown below.

Cash Budget
For three months ending 30 September 2016

		July (\$)	August (\$)	September (\$)
Expected Cash Inflows	Sales \$			
May sales	42000			
June sales	49000			
July sales	50000			
August Sales	60000			
September Sales	80000			
Term Deposit Matured				
Total Cash Inflows				
Expected Cash Outflows				
Total Cash Outflows				
Net Cash Inflow/Outflow				
Bank Balance 1 st July 2016				
Bank Balance 30 th September 2016				

Skill level 3	
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- b. Give **TWO** (2) reasons why cash budgeting are very important.

Skill level 2	
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- c. ABC Company Ltd decides to open a new outlet line to expand market sales of its groceries goods.
It is the policy of the company to rent an office space only for purpose of expansion of sales market. However, **“the management decides to build an office business instead of instead of renting an office space”**

Give two reasons why the company decision is to be considered strategic rather than routine .

Skill level 2	
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