MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE

2018

ACCOUNTING

QUESTION and ANSWER BOOKLET

Time allowed: 3 Hours

INSTRUCTIONS:

1. Write your **Student Enrolment Number (SEN)** on the top right hand corner of this booklet.
2. This paper consists of **FOUR QUESTIONS** and is out of 80 Skill Level.

SECTIONS	TOPICS	Total Skill Level
A	CONCEPTUAL BASIS OF ACCOUNTING	15
B	PROCESSING FINANCIAL INFORMATION AND ACCOUNTING SYSTEMS	31
C	ACCOUNTING REPORTS	11
D	DECISION MAKING	23
	TOTAL	**80**

3. Answer ALL QUESTIONS. Write your answers in the spaces provided in this booklet.
4. Use a **BLUE** or **BLACK** ball point pen only for writing. Use a pencil for drawing if required.
5. If you need more space for answers, ask the Supervisor for extra paper. Write your **Student Enrolment Number** (SEN) on all extra sheets used and clearly number the questions. Attach the extra sheets at the appropriate places in this booklet.
6. Check that this booklet contains pages 2-27 in the correct order and that page 27 has been deliberately left blank.

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

SECTION A: CONCEPTUAL BASIS OF ACCOUNTING

QUESTION ONE:

a. Describe **TWO** (2) objectives of general purpose financial statements.

Skill level 2	
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b. Identify the accounting concept which was applied as basis for preparation of the company Financial Statements.

Basis for Financial Statements Preparation	Accounting Concept
1. Revenue are recorded in the period it relates to rather than when cash changes hand.	
2. Financial statements of the business exclude the owners' personal assets.	
3. Capital Expenditures of low values are treated as Revenue Expenditures	

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Skill level 1	
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Skill level 1	
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c. ABC Company records "**Loan from BSP Bank**" as Liability.
You are required to describe why the Loan from BSP Bank is a liability of the company.

Skill level 2	
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d. The Statement of Concepts requires that the accounting information which is useful for decision making has certain qualitative characteristics.

The characteristics include relevance and reliability.

Explain the relationship between reliability and relevancy characteristics of the accounting information.

Skill level 3	
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e. The preparation of the General Purpose Financial Reports are guided through the application of various accounting assumptions.

Describe the assumption **'conservatism'**.

Skill level 2	
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f. Explain **THREE** (3) advantages of a company over a sole trader form of business ownership.

Skill level 3	
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SECTION B: PROCESSING FINANCIAL INFORMATION AND ACCOUNTING SYSTEMS

QUESTION ONE

On 31 March 2017 Veiongo and Mele agreed to form a partnership. **The partnership is to be known as the VM Partnership**.

Veiongo would contribute her existing business at an agreed value of $200 000 and Mele will have to contribute inventory $20 000 and sufficient cash to match Veiongo's contribution equally.

Veiongo's account balances as at 31 March 2017 are given below as the Trial Balance as at 31 March 2017.

Trial balance – VEIONGO As at 31 March 2017			
Cash at Bank	20 000	Accounts Payables	35 000
Accounts Receivable	60 000	Mortgage	50 000
Inventory	105 000	Capital	165 000
Buildings	87 000	Accumulated Depreciations on Buildings	42 000
Land	20 000		
	292 000		***292 000***

The partnership agreement stated that all the assets and liabilities are to be taken over at their book value as stated in the Trial Balance given as at 31 March 2017 with the exception of:

i. Land was to be re-valued to $15 000
ii. Accounts Receivable are to be valued at $55 000.
iii. Buildings is to be valued at $80 000

a. You are required to calculate the value of goodwill for the business of VEIONGO. State the formula used.

Value of goodwill =

Skill level 3	
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b. You are required to prepare the General Journal entries to record the formation of the Partnership on 31 March 2017.

VM Partnership
General Journal Entry as at 31 March 2017

Date	Particulars	DEBIT $(000)	CREDIT $(000)

Skill level 3	
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QUESTION TWO

The information below belongs to the partnership business "Ika and Latu" owned by Sione Ika and Sione Latu.

"Ika and Latu" had their partnership agreement specify the following information regarding the distribution of profit.

1. *The partnership capital balances were Sione Ika $90 000 and Sione Latu $85 000*
2. *Interest on fixed capital is to be 10 % per annum*
3. *The partnership current account balances were as Sione Ika $50 000 and Sione Latu $35 000*
4. *Interest of 10% is allowed on the opening current account balance.*
5. *Each partner is entitled to a salary of $50,000*
6. *Sione Ika's drawings account opening balance $15 000 and Sione Latu's drawings account balances $11 000. There were stock taken for own use by each partners : Sione Ika $ 5 000 and Sione Latu $10 000*
7. *Interest charged on drawings final balances are 5 % per annum.*
8. *Each Partner is entitled to receive a Bonus of $12 650 each as due to excess sales earned at the end of the year.*
9. *Net Profit over the period $210 000*
10. *The remaining profit or losses are to be shared equally.*

You are required to prepare the following parts of the Partnership Final Accounts.

1. **Profit and Loss Appropriation Account**
2. **Partners' Drawing Accounts**
    a. Sione Ika's Drawing Accounts
    b. Sione Latu's Drawing Accounts

Note : The balance date for the partnership is 28 February 2018.

1.

Ika and Latu Partnership
Profit and Loss Appropriation Account
For the year ended 28 February 2018

Date	Particulars	Amount $	Date	Particulars	Amount $

Skill level 4	
4	
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2. **Partners' Drawing Accounts**

a. **Drawing Account – Sione Ika**

Date	Particulars	Amount $	Date	Particulars	Amount $

b. **Drawing Account – Sione Latu**

Date	Particulars	Amount $	Date	Particulars	Amount $

Skill level 4	
4	
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3. Identify **THREE** (3) ways to form a partnership business.

i. ____

ii. ____

iii. ____

Skill level 1	
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QUESTION THREE

On 1 February 2016, the directors of Loumaile Ltd decided to issue 100,000 ordinary shares to the public at a value of $2.20 per share.

The company had advised that on 15th February, applications has been received for 110 000 shares with all shares fully paid on application.

The shares were allotted on 25th February and shares were issued on a first come first serve basis and 10 000 shares on application were refunded.

You are required to show the General Journal entries to record the share issues of the Loumaile Ltd. The required journal entries to be given as answers are:

Item 1 February 15 Monies received on application
Item 2 February 25 Allotment of shares and refund excess applications

Date	Particulars	Debit	Credit
Item 1 February 15			
	(Record monies received on application)		
Date	Particulars	Debit	Credit
Item 2 February 25			
	(Record allotment of shares and the refund of excess application)		

Skill level 2	Item	
	1	**2**
2		
1		
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QUESTION FOUR

On 1 July 2016, **XYZ Ltd** was established as a public company by conversion of the sole trader business, the Sunshine Store of Haveluloto owned by Viliami Kaufusi.

The Statement of Financial Position of the Sunshine Store of Haveluloto at the date of takeover is shown below.

Sunshine Store- Viliami Kaufusi
Statement of Financial Position as at 1 July 2016

	$	**$**
Assets		
Accounts Receivable	7 000	
Inventory	6 000	
Prepayments	5 000	
Buildings	25 000	
Vehicles	37 000	
Allowance for Doubtful debts		1 000
Cash at Bank		10 000
Accounts Payable		20 000
Income in Advance		9 000
Capital – Viliami Kaufusi		40 000
	80 000	**80 000**

The agreement for the taking over of the business will be a full payment to the vendors with issuing of 15,000 shares at $4.00 to Viliami Kaufusi and XYZ Ltd will purchase all assets and liabilities of the Sunshine Store at book values except:

1. Accounts Receivable are to be valued at $4000 after writing off bad debts $500.
2. Buildings to be revalued to the current market value $30 000.
3. Viliami Kaufusi will be responsible for the repayment of the Bank Overdraft.

Use the information on page 10 to prepare the General Journal Entries to:

i. record the takeover of the Sunshine Store of Haveluloto by the XYZ Ltd company
ii. and the settlement of agreed consideration

Date	Particulars	Dr	Cr

Skill level 2	
2	
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QUESTION FIVE

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

JOB COST SHEET
Job Number: 600

Job Description: Bricks Construction
For Customer: Laite Works
Job commenced: 4/7/17
Job Completed: 28/7/17

Mark Up : 50 % **:** Sold to Customer on 29/7/17

	Date	Materials	Labour	Overheads	Totals
	July 4	15 000			15 000
	24		3 000		3 000
	28			14 000	14 000
	TOTAL	15 000	3 000	14 000	32 000

a. Calculate the rate at which the overhead was applied to production, given that Job 600 took 875 machine hours.

Workings:

Predetermined Overhead Rate =

Skill level 2	
2	
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NR	

b. You are required to use the information from the Job Cost Card to prepare the General Journal entries to :

Record the selling of Job 600 to the customer “Laite Works” on July 2017.

Date	Particulars	Dr	Cr
2017 July 29			
	(for selling of finished goods to customer on 29th July 2017)		

Skill level 2	
2	
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c. Identify a reason for using machine hours rather than other cost drivers as a basis for applying overhead expenses.

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Skill level 1	
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d. Define, with example, ‘direct costs’ of a product.

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Skill level 1	
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QUESTION SIX

Write paragraphs to analyse **THREE** (3) importance of **Job Order Costing System**.

Skill level 4	
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SECTION C: ACCOUNTING REPORTS

QUESTION ONE: Partnership Financial Statements

Safety Wears Store is owned by two partners, Petelo ‘Ofa and Tupou Latu.

The following are account balances as at 30 June 2017 and additional information related to Safety Wears Store

Safety Wears Store – Petelo and Tupou
Trial Balance as at 30 June 2017

	$		$
Accounts Receivable	5 500	Accounts Payable	5 000
Rent	6 000	Accumulated depreciation on Equipment	4 000
Bad debts	2 400	Allowances for doubtful debts	500
Purchases	50 000	Capital a/c – Petelo	90 000
Drawing – Petelo	15 000	Capital a/c – Tupou	70 000
Drawings – Tupou	20 000	Current a/c- Petelo	7 000
Delivery Expenses	4 200	Current a/c – Tupou	5 600
Office Expenses	5 000	Loan	25 000
Inventory	30 000	Sales Revenue	150 000
Bank	15 000	Commission	3 000
Equipment	60 000	Interest Revenue	1600
Land	140 000	Discount Revenue	1000
Interest on Loan	1 000		
Advertising	8 600		
	362 700		362 700

Additional Information:

1. Inventory on hand 30 June 2017 $23 000.
2. Advertising unpaid $400
3. Interest Revenue prepaid $500.
4. Interest on Loan owed at balance date $500
5. Equipment are depreciated at 10 % per annum using the Straight Line Method
6. Rent Prepaid $1500.
7. Further Bad debts of $500 are to be written off.
8. The allowance for doubtful debts is to be adjusted to 12% of accounts receivable
9. Commission accrued $1500

a. You are required to use the information on page 15 to complete the Profit and Loss Statement (an extract) given below for **Operating Expenses** and **Operating Revenues** incurred by making the necessary adjustments at balance date.

Operating Expenses	Reported Amount	Operating Revenues	Reported Amount
Example **Advertising**	**9000**	**Discount Revenue**	**1 000**

Skill level 3	
3	
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b. You are required to prepare the Partner's Proprietorship Section as it should appear on the Statement of Financial Position. The information given below relates to the Partnership Profit and Loss Distribution Account.

- **Residual Profit from the Profit and Loss Distribution Account were $50 000 and Partnership Profit are to be shared equally.**

Statement on Financial Position (Extract)
As at 31 June 2017

<u>Proprietorship</u>

Skill level 2	
2	
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QUESTION TWO: Company Accounts

a. WXY Ltd bought Land for $250 000 in 2005. An Independent Valuer on 25 April 2010 revalue the Land at $350 000 as its current market value.
WXY Ltd decided to record the increase in the value of Land into an account Land Revaluation Surplus.

State the type of account which is Land Revaluation Surplus.

Skill level 1	
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b. **Payment of Dividends**

ABC Ltd made a profit of $7000 000 after tax on 31 July 2017.

The number of shares issued on that date were 1 200 000. A final dividend of 10 cents per share was paid on 15 September 2016 for the 2015 financial year.

During the year, on 10 March 2017 the company distributed an interim dividend of 8 cents per share and is going to distribute a final dividend of 10 cents per share on 20 August 2017.

You are required to give the Closing Journal Entry that has been used to close off the Final and Interim Dividend.

Date	Particulars	Dr	Cr
2017 July 31			
To close off the Final and Interim Dividend Accounts			

Skill level 2	
2	
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b. Define **Amortisation of Goodwill.**

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

WXY Ltd has calculated that its provisional tax to be paid for the year ended 30 June 2015 is $80 000.

When the company financial statement was prepared for 30 June 2015, the actual tax expense was calculated as $100 000

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 2015.

Date	Particulars	Dr	Cr
i.			
(to record taxation expenses for the year)			
ii.			
(to effect payment of Provisional Taxation Paid at balance date)			

Skill level 2	
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SECTION D: DECISION MAKING

QUESTION ONE

a. Define financial ratio analysis.

Skill level 1	
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b. The following information relates to WXY Company Ltd .The company sells used and new motor vehicles tyres**.**

Statement of Financial Performance for the year ended 30 June 2017	
	2017
Sales	440 000
Less Cost of Good Sold	264 000
Gross Profit	176 000
Add Other Income	105 000
Total Revenue	281 000
Less Expenses	**150 000**
Net Profit before Tax	131 000
Taxation	50 000
Net Profit after Tax	81 000

Financial Position		
	2016	**2017**
Shareholder's Equity	$400,000	$600 000
Number of shares issued	200 000	200 000
Total Assets	$900 000	$1 000 000
Current Assets	300 000	450 000
Accounts Receivable	110 000	105 000
Inventory	100 000	120 000
Current Liabilities	**100 000**	**300 000**
Bank Overdraft	N/A	55 000
70 % of sales are credit sales		

You are required to calculate the percentages and ratios for profitability, liquidity and effectiveness for WXY Company Ltd by **completing the table below for figures of 2017.**

	Workings	Answers
1. Gross Profit		
2. Net Profit Percentage		
3. Total Expenses Percentage		
4. Current Ratios		
5. Equity Ratios in percentage		
6. Average Accounts Receivable Collection Period		
7. Earning per share		

Skill level 4	
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c. Use your answers for part b. to complete the figures of 2017 in the table given below and answer the question that follow.

You are required to analyse and interpret the performance of the company for the financial year 2017 **by making comments on the trends revealed for the profitability, liquidity and effectiveness of the management of the company.**
You are required to explain the reasons for the trends, strengths and weaknesses.

	2014	***2015***	***2016***	***2017***
Gross Profit Percentage	*33%*	*36%*	*35%*	
Net Profit Percentage	*32%*	*30%*	*36%*	
Total Expenses Percentage	*52%*	*40%*	*36%*	
Current Ratio	*3: 1*	*2.5: 1*	*3.1*	
Equity Ratio	*0.60:1*	*0.55:1*	*0.44: 1*	
Debtors Turnover	*3 times*	*3.1 times*	*3 times*	
Earning per shares	*38 cents*	*41 cents*	*37 cents*	

Skill level 4	
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d. Describe the purpose of solvency test.

Skill level 2	
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QUESTION TWO: Break Even point analysis

The information below belongs to Manu Manufacturing of Longolongo.

a. A manufacturing enterprise expected to produce and sell 50 000 units of product "ZY1" in December 2017. Related costs information for the productions are:

- The product will sell out at $100 per unit
- Fixed cost for the volume of units to be produced is $150 000
- The variable cost expenses $60.00 per unit

You are required to determine the contribution margin for product ZY1 and show working and formula used.

Formula used	Calculation

Skill level 2	
2	
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b. Describe why Cost Volume Profit analysis is important to the owner of the business.

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Skill level 2	
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QUESTION THREE

a. Define budget.

Skill level 1	
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b. Pty Ltd is a manufacturing company.

As the management accountant of the company you are asked by the Manager to prepare a Cash Budget for the next TWO months of June and July 2018.

The Company has established the following policies.

- The company estimated that cash sales are 30 % in the month of sale.
- Debtors usually pay their account as 40 % in the month of sale, 30 % one month after with the balance being collected two months after the sales.
- Sales and expected sales are as follows:

  Actual Sales
  - April $69 600
  - May $84 000

  Estimated Sales
  - June $74 400
  - July $93 600
- All Purchases are on credit and it was found that all purchases are paid in the month following purchase.

  The expected purchases are to be:
  - April $35 000
  - May $39 000
  - June $32 500
  - July $38 600
- **Monthly expenses budget are to be :**

  Salaries $ 7 000
  Depreciation $ 3,000
  Advertising $ 1 600
  Electricity $ 1 000

  All relevant operating expenses will be paid in cash in the month incurred
- The firm intends to purchase an additional vehicle for $15 000 cash on the month of July.
- A Rent Income of $10,000 over the business premises will be received on 11th July.
  - The business intends to make renovations to its buildings at a cost of $100 000. A Deposit of 50% will be required in June, with 50 % of the balance paid in July and the remainder two months later.
  - **The cash balance at the end of May was $4000.**

Use the information on page 24 to prepare a cash budget for the two months June and July 2018.

Cash Budget
For the two months June and July 2018

		June ($)	July ($)
Expected Cash Inflows			
Total Cash Inflows			
Expected Cash Outflows			
Total Cash Outflows			
Net Cash Inflow/Outflow			
Bank Beginning Balance			
Bank Ending Balance			

Skill level 4	
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c. Explain the difference between a routine decision and a strategic decision.

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