MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE

2019

ACCOUNTING

QUESTION AND ANSWER BOOKLET

Time allowed: 3 Hours + 10 minutes reading time

INSTRUCTIONS:

1. Write your **Student Enrolment Number (SEN**) on the top right-hand corner of this page.
2. This paper consists of **FOUR SECTIONS** and is out of 80 Weighted scores.

SECTIONS	TOPICS	TOTAL SKILL LEVEL
A	CONCEPTUAL BASIS OF ACCOUNTING	23
B	ACCOUNTING PROCESS / SUB-SYSTEMS	26
C	FINANCIAL REPORT	6
D	DECISION MAKING PROCESS	25
	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 spaces for answers, ask the supervisor for extra paper. Write your **Student Enrolment Number (SEN)** on each additional sheet, number the questions clearly and insert them in the appropriate places in this booklet.
6. Check that this booklet contains pages 2-19 in the correct order and that page 19 has been deliberately left blank.

YOU MUST HAND IN THIS BOOKLET TO THE SUPERVISOR BEFORE YOU LEAVE THE EXAMINATION ROOM.

SECTION A: CONCEPTUAL BASIS OF ACCOUNTING

1. The International Accounting Standard Board (IASB) has played a vital role in the development of the Accounting Standard.

   Describe the role of the International Accounting Standard Board (IASB).

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2. When preparing financial reports for a company, some information are needed by the Accounting Standard to be disclosed.

   Define the term Disclosure Principle.

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Skill level 1	
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3. AB Ltd was incorporated in 1997 in a piece of land that was bought for TOP$5,000. Today a similar piece of land in the same place has a market value of $30,000.

   You are required to compare the Historical Cost Concept and the Current Cost Accounting in terms of *Reliability* and *Relevancy measurement.*

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4. State **ONE** (1) purpose of the Partnership Act.

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5. Describe **ONE** (1) legal requirement of a partnership in terms of profit distribution.

Skill level 2	
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6. One of the common concepts that appear in a partnership agreement is **interest on capital.**

Describe the meaning of interest on capital.

Skill level 2	
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7. Describe **ONE** (1) feature of a Public Limited Company apart from limited liability.

Skill level 2	
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8. One of the advantages of a public company over a partnership business is that the company has limited liability.

   Explain the meaning of limited liability giving an example to clarify your answer.

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9. Accounting information is required to have certain qualitative characteristics.

   a. Define the following qualitative characteristics:

      i. Comparability

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      ii. Neutrality

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Skill level 1	
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   b. Describe the importance of verifiability as a qualitative characteristic of a good accounting information.

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10. Under the Accrual Basis of accounting, revenues and expenses are recognized when earned and incurred respectively.

    Explain the importance of this recognition criteria.

Skill level 3	
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SECTION B: ACCOUNTING PROCESS / SUB – SYSTEMS

1. a. On 1st July 2018, Chris and Joseph agreed to form a business in partner. Chris is to contribute a piece of land and building in which they agreed at a value of $30,000 and $60,000 respectively. Joseph is to contribute a delivery van in which they agreed at a value of $20,000 and enough cash so that his share of the total capital is 25%.

   You are required to prepare the general journal entries to show the contribution by both partners.

General Journal

Date	*Particulars*	*Dr ($)*	*Cr ($)*

Skill level 2	
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b. Chris and Joseph's partnership agreement includes the following clauses:
- ➢ Salaries to the partners: Chris $20,000; Joseph $15,000
- ➢ Interest on capital accounts – 5% on closing capital balance
- ➢ Interest on current account – 10% on opening balance
- ➢ Interest on drawing – 5% on the amount above the agreed salaries
- ➢ Residual profit or loss is to be shared in their capital ratio
- ➢ Joseph the sales manager is to receive a bonus of 3% on the amount of sales above $500,000

Other information:

- ➢ Sales for the year amounted to $520,000
- ➢ Net Profit for the year ended 30 June 2019 was $120,000
- ➢ Drawings for the year: Chris $30,000; Joseph $25,000

i. Prepare the Profit Distribution Account for the business at 30 June 2019.

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ii. Prepare Joseph's Current Account as at 30th June 2019.

Joseph's Current Account

Skill level 3	
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2. Prior to the issue of shares the Public Company is required to issue a prospectus.

Identify **ONE** (1) purpose of this prospectus document.

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Skill level 1	
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3. CD Ltd issued 100,000 @ $5 ordinary shares to the market payable in full on application. The application was closed on 4:00 pm Friday 5th July 2019 where $750,000 was received. The directors allotted the shares on the 12th of July 2019 on a pro-rata basis and refund the excess application monies on the same date.

You are required to use the General Journal below to:

a. Record the general journal entry for the receipt of the application money.

General Journal

Date	*Particulars*	*Dr ($)*	*Cr ($)*

Skill level 2	
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b. Record the general journal entry for the refund of excess application monies.

General Journal

Date	*Particulars*	*Dr ($)*	*Cr ($)*

Skill level 2	
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c. Record the general journal entry to transfer monies from the Trust account to the General Bank account.

General Journal

Date	*Particulars*	*Dr ($)*	*Cr ($)*

Skill level 2	
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4. The Statement of Financial Performance for EF Ltd for the year ended 30 June 2019 shows a Net Profit before tax of $750,000. The income tax rate for the company is 15%.

Prepare the General Journal entry to show the income tax to be paid.

General Journal

Date	*Particulars*	*Dr ($)*	*Cr ($)*

Skill level 2	
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5. a. Vilisoni Jr the assistant accountant for GH Manufacturing Ltd, was asked to classify the costs into direct and indirect costs.

Define the term indirect costs.

Skill level 1	
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b. GH Manufacturing Ltd used direct labour hour as the basis for the allocation of overhead costs.

Discuss why the basis of this allocation of overhead using direct labour hour as the cost driver giving an example to clarify your answer.

Skill level 4	
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6. Beauty Ltd produces jeans as its main products. Provided is the job cost sheet for job # 210.

Job Cost Sheet

Job No. 210 — Quantity 1,000
Item Men's Jeans — Date Requested January 1
For Fast Wholesalers — Date Completed January 31

Date	Direct Materials	Direct Labor	Manufacturing Overhead
1/6	$1,000		
1/10		$9,000	$7,200
1/12	7,000		
1/26	4,000		
1/31		6,000	4,800
	$12,000	$15,000	$12,000

Cost of completed job:	
Direct materials	$ 12,000
Direct labor	15,000
Manufacturing overhead	12,000
Total Cost	$ 39,000
Unit cost ($39,000 ÷ 1,000)	39.00

You are required to use the information from the job cost sheet provided to prepare the General Journal entries for the following transactions (Narrations are NOT required):

- Transfer of direct materials to the WIP on the 12th January
- Transfer of the direct labour and indirect labour on the 31st January
- Transfer of the job 210 to the finished goods

General Journal

Date	*Particulars*	*Dr ($)*	*Cr ($)*

Skill level 3	
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SECTION C: FINANCIAL REPORT

1. On 30th June 2019, an extract from the Trial Balance of *T & F SUPPLIES*, a partnership between Toakase and Felise, showed the following accounts:

Account name	*Amount ($)*
Capital – Toakase	120,000
Current Account – Toakase	54,000
Inventory (30/06/2019)	145,600
Advance to Felise	4,000
Loan from Toakase	15,000
Capital – Felise	200,000
Current Account – Felise	47,000
Accounts Receivable	8,500

You are required to use the extract given above to prepare the Partner's Proprietorship section as it appears in the Statement of Financial Position as at 30th June 2019.

Skill level 2	
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2. Goodwill is required by the accounting standard to be amortized using straight line method.

Define the terms amortization of Goodwill.

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Skill level 1	
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3. On 19th July 2019, the proposed final dividend of $250,000 was approved by the AGM of Alpha Ltd. On 26th July 2019, the final dividend was paid out of the Retained Earnings.

   Prepare the General Journal entries to record the proposed final dividend and the payment of the final dividend.

General Journal

Date	*Particulars*	*Dr ($)*	*Cr ($)*

Skill level 2	
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4. Sione invested his money in buying shares from Lulu Ltd. For the year ended 30 June 2019 he received $80,000 dividend.

   Define the term dividend.

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Skill level 1	
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SECTION D: DECISION MAKING PROCESS

1. State **ONE** (1) ratio to be used in the analysis of the share market of a company.

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Skill level 1	
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2. The analysis of a company's financial activities can be done vertically or horizontally.

   Describe the vertical analysis of financial ratios.

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Skill level 2	
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3. Financial Statements are provided to help the decision making process of the users of financial information.

   Discuss **TWO** (2) limitations of using the financial statements to make decisions about that entity.

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Skill level 4	
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4. The following data were taken from the books of Sunrise Ltd:

Sunrise Ltd Profitability Ratios as at 31 December…

Ratio	*2016*	*2017*	*2018*
Net Profit percentage	13%	11.5%	8%
Return on Shareholder's Equity Percentage	7.4%	5%	3.5%
Return on Average Total Assets	4.5%	3%	2%
Earning per share	$0.86	$0.75	$0.60
Price earning ratio	8.14:1	8:1	6.67:1
Dividend Yield	26%	21%	18%

You are required to interpret Sunrise Ltd Profitability Ratios and, comment on the trend of its profitability, the reasons for the trend, its strengths and weaknesses, and suggest remedial measures.

Skill level 4	
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5. Both financial and non-financial information are required to make better decisions about an entity.

Identify **ONE** (1) non-financial information that can be used for making decisions.

Skill level 1	
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6. Using examples to clarify your answer, discuss the difference between a routine decision and a strategic decision for decisions made by the managers of a company.

Skill level 4	
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7. A company is to sell out its product at $45 per unit. The fixed cost per unit is $18 while the variable cost per unit is $19.

   Calculate the **contribution margin per unit** and state the formula for your calculation.

Skill level 2	
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8. For the year ended 30th June 2019, Alpha Ltd targeted to achieve a net income of $120,000. During the year its product was sold for $450 per unit while the unit variable cost is $250.

   If the total fixed cost is $200,000 what would be the required unit sales so that the targeted net income is achieved.

Skill level 3	
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9. Theresa the Chief Accountant of Anco Ltd provided the Company's Cash Budget for the quarter ending 30th September 2019.

Anco Ltd
Cash Budget for the quarter ending 30th September 2019

	July ($)	*August ($)*	*Sept. ($)*
Cash Receive:			
Cash sales	60,000	70,000	90,000
Cash receive from debtors	276,480	268,160	289,920
Cash discount	1,540	2,100	1,680
Share Capital	100,000		
Mortgage	200,000		
Total cash receive	*$638,020*	*$340,260*	*$381,600*
Cash Payments:			
Cash purchases	66,000	90,000	72,000
Payments to creditors	152,460	177,100	176,120
New Building		200,000	
Mortgage repayment		20,000	10,000
Selling expenses	29,000	29,000	29,000
Administrative expenses	37,000	37,000	37,000
Financial expenses	1,500	1,500	1,500
Total payments	*$285,960*	*$554,600*	*$325,620*
Net increase (decrease)	*$352,060*	*($214,340)*	*$55,980*
Add opening bank balance	*($50,000)*	*302,060*	*87,720*
Closing bank balance	***$302,060***	***$87,720***	***$143,700***

You are required to interpret the changes to the Anco Ltd cash budget for the quarter ended 30th September 2019.

Analyze the changes showing how its effects would have on the future operations of the entity.

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