

MARKER CODE				



STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE

2021

ACCOUNTING

QUESTION AND ANSWER BOOKLET

Time allowed: 3 Hours

INSTRUCTIONS:

- Write your **Student Enrolment Number (SEN)** on the top right-hand corner of this page.
- This paper consists of **FOUR SECTIONS** and is out of 70 Weighted scores.

SECTION	STRANDS	TOTAL SKILL LEVEL
A	CONCEPTUAL BASIS OF ACCOUNTING	16
B	ACCOUNTING PROCESS AND SUB SYSTEMS	25
C	ACCOUNTING REPORTS	13
D	DECISION MAKING PROCESS	16
TOTAL		70

- Answer ALL QUESTIONS. Write your answers in the spaces provided in this booklet.
- Use a **BLUE** or **BLACK** ball point pen only for writing. Use a pencil for drawing if required.
- If you need more space 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.
- Check that this booklet contains pages **2 - 19** in the correct order and that pages 17 - 19 have 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****Question 1**

Assets are required to be recognised first before they can be recorded in the business financial report.

Describe these criteria of recognition which are specified in the Statement of Concepts.

Skill level 2	
2	
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Question 2

A company reported the Accounts Receivables at historical cost less allowances for doubtful debts in the Statement of Financial Position.

Describe the basis of financial measurement that the company used to record the above information.

Skill level 2	
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Question 3

Qualitative Characteristics of accounting information are designed to ensure that the quality of information presented will be high enough to ensure that the reports are useful for decision making.

However sometimes it is not possible for financial information to have all of these characteristics because there are factors that have influence on those characteristics.

Identify **TWO** of those factors:

- i) _____
- ii) _____

Skill level 2	
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Question 4

The first and the foremost requirement for a reporting company that needs full NZ GAAP requirements is to prepare General Purpose Financial Statement. **Statement of Movement in Equity** and **Statement of Accounting Policies** are parts of those requirements.

Describe the purpose of preparing these two Statements:

a) **Statement of Accounting Policies**

Skill level 2	
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b) Statement of Movement in Equity

Skill level 2	
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Question 5

In preparing financial reports, reporting entities usually adopt historical cost as the initial measurement base and nominal dollars as the monetary units. However, some reporting entities believed that historical cost is not the most appropriate measurement. They prefer to use modified historical cost as the measurement base for some of the assets.

a) Explain the meaning of **modified historical cost**.

Skill level 3	
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- b) Compare historical cost to current cost accounting in terms of reliability and relevancy in measurement.

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Skill level 3	
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SECTION B ACCOUNTING PROCESS AND SUB SYSTEMS

Question 1

The information below relates two jobs completed during July by Jones Printing Ltd.

Information:

- Labour costs \$15.00 per hour
- Overhead is to be applied at the rate of \$5.00 per Direct Labour hour.
- A job is considered sold when it is delivered.

Job 1

This was already in progress at the end of June. At that point, \$90.00 of Direct Labour Cost and \$450.00 of Direct Material have been used and recorded in the accounts.

During July, a further \$100.00 Direct Material and 5 Direct Labour hours were needed to complete it

No overhead had been applied in **June**

This job was completed but not delivered by the end of July

Job 2

This job was accepted, completed and delivered during July.

- Direct material used \$ 500.00
- Direct labour 10 hours

- The actual overhead cost for the month of July amounted to \$125.00.

Requirements:

- a) Direct Labour hour is an example of cost drivers. Define what a cost driver is.

Skill level 1	
1	
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NR	

- b) Determine the over-applied or under-applied overhead.

Skill level 2	
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- c) Prepare the Journal entry needed to close your answer in part (b) above. (Narration is **NOT** required)

Date	Particulars	Dr (\$)	Cr (\$)

Skill level 2	
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- d) If 50% marked up was applied on cost for selling of **Job 2**. Determine the selling price of this job.

Skill level 2	
2	
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Question 2

Use the Statement of Financial Position extract, Profit Statement and Partnership Agreement for Anna and Mary Partnership below to complete the required tasks that follows.

PARTNERSHIP AGREEMENT

- Salary – Anna \$100,000
- Salary – Mary 80,000
- Interest of 10% is paid on partner's capital accounts
- Interest of 10% is paid/charged on current accounts (opening balance) in debit/credited.
- Interest of 5% is charged on drawings in excess of \$50,000
- Profit /losses are to be shared equally.

Anna & Mary Partnership Statement of Financial Performance For the year Ended 30th June 2021

Income	\$ 500,000
Expenses	<u>280,000</u>
Net Profit	<u>220,000</u>

Anna & Mary Partnership Statement of Financial Position (Extract) As at 30 June 2020

Owners Equity	\$	\$
Capital – Anna	40,000	
Current account - Anna	<u>10,000</u>	50,000
Capital – Mary	40,000	
Current account – Mary	<u>(5,000)</u>	35,000

Drawings for Current Year	
	\$
Drawings – Anna	90,000
Drawings – Mary	76,000

Requirements:

- a) Prepare the Profit Distribution for year ended 30th June 2021

Anna & Mary Partnership
Profit & Loss Distribution account
For year ended 30th June 2021

[illegible]

Skill level 4	
4	
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- b) Prepare Mary's current account below for year ended 30th June 2021 to show the final balance of her account

Mary's Current Account

[illegible]

Skill level 4	
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Question 3

Read the following information and then answer the questions that follow:

Sione 'Uvea owns and operates a motor vehicle repair shop in Tongatapu. As a Form 7 accounting student, you have visited his garage and assembled the following information on how he operates the job cost system for his repair shop.

Sione's repair shop employs four mechanics and an office manager, while Sione divides his time between administrative and mechanical work.

Cars requiring repair work are booked into the repair shop by the office manager on a first-come first served basis. When the customer brings the car to the repair shop, the office manager writes up a job cost sheet to the mechanic.

The mechanic obtains the spare parts for the job from the storeroom next to the office manager's office. For any spare parts that are not in stock, the mechanic requests the office manager to order the parts.

When they have completed the repairs on the vehicle, the mechanic records on the job cost sheet the materials and labour hours used in the vehicle. The mechanic passes the job cost sheet to the office manager who calculates material costs and labour costs. The office manager writes an invoice for the customer, entering the total cost of vehicle repairs from the job cost sheet.

The customer collects the keys for the motor vehicle from the office manager. The office manager gives the customer the top copies of the invoice and the job cost sheet so the customer has a record of work done on the vehicle. The office manager then files the bottom (duplicate) copies of the job cost sheet and the invoice together in numerical order. The following day, Sione checks the job sheets for the material used on the job and the hours worked by each mechanic.

Answer the following questions

- a) Identify the source document needed to record the material used and labour hours worked to repair the motor vehicle to the job cost sheet.

(i) Material Used: _____

(ii) Labour hours worked: _____

- b) Discuss the weaknesses in Sione's motor vehicle repair shop job cost sub system.

Skill level 1	
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Skill level 1	
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NR	

Skill level 4

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- c) Discuss the relationship between Sione's motor vehicle repair shop's job cost sub system with its sales and accounts receivable sub system.

Skill level 4

4

3

2

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SECTION C

ACCOUNTING REPORTS

Question 1

When the Nuku'alofa Company Ltd was purchased, a goodwill amount of \$90,000 was negotiated. It was decided to amortise the cost of goodwill over 5 years.

- a. Define what amortisation of goodwill means.

Skill level 1	
1	
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- b. The company declared the 5% dividend at the end of the financial period. Define what dividend is.

Skill level 1	
1	
0	
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Question 2

Sione Finau and Pita Manu own and operate Finau & Manu Accounting Service, a firm that specialises in providing accounting service to small business.

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

Finau & Manu Accountancy Service

Finau & Manu Accountancy Service
Trial Balance as at 30th June 2021

	\$		\$
Accounts Receivable	17,000	Acc depreciation- Fixed Assets	29,000
Bad Debts	2,300	Allowances for doubtful debts	1,400
Current account – S. Finau	4,500	Bank	600
Drawing- P. Manu	36,500	Capital a/c– S. Finau	40,000
Drawings – S.Finau	48,000	Capital a/c– P. Manu	30,000
Fixed Assets	145,000	Current a/c – P. Manu	6,200
Interest	2,500	Fees	134,610
Office Expense	7,410	Loan	43,000
Rent	21,600		
	<u>284,810</u>		<u>284,810</u>

The following balance day adjustments are required:

- i. Invoice issued by Finau & Manu Accountancy Service for fees in June but not yet recorded amount to \$2,400.
- ii. Bad debts of \$1500 are to be written off and allowance for doubtful debts is to be adjusted to 10% of debtors.
- iii. Rent of \$2,400 have been paid in advance.
- iv. Interest of \$200 is owing by Finau & Manu Accountancy Service at balance date.
- v. Fixed Assets are to be depreciated at 20% per annum using the diminishing value method.

Requirements:

- a) Prepare a Statement of Financial Performance for the year ended 30th June 2021
(**Note:** A Statement of Profit Distribution is **NOT** required)

Finau & Manu Accountancy Services
Statement of Financial Performance
For the year ended 30th June 2021

	\$	\$

Skill level 4	
4	
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- b) Complete the classified Statement of Financial Position showing the working capital as at 30th June 2021. For Owners Equity as at 30th June 2021 only include the total figures of \$67,510

Finau & Manu Accountancy Services
Statement of Financial Position
As at 30th June 2021

[illegible]

Skill level 4	
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- c) Explain the purpose of preparing the financial reports.

[illegible]

Skill level 3	
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SECTION D**DECISION MAKING PROCESS****Question 1**

Cost Volume Profit Analysis is a useful tool for planning and decision making where managers are interested in analysing the costs, selling price, quantity to produce or sell and their effects on profit as well as the breakeven point.

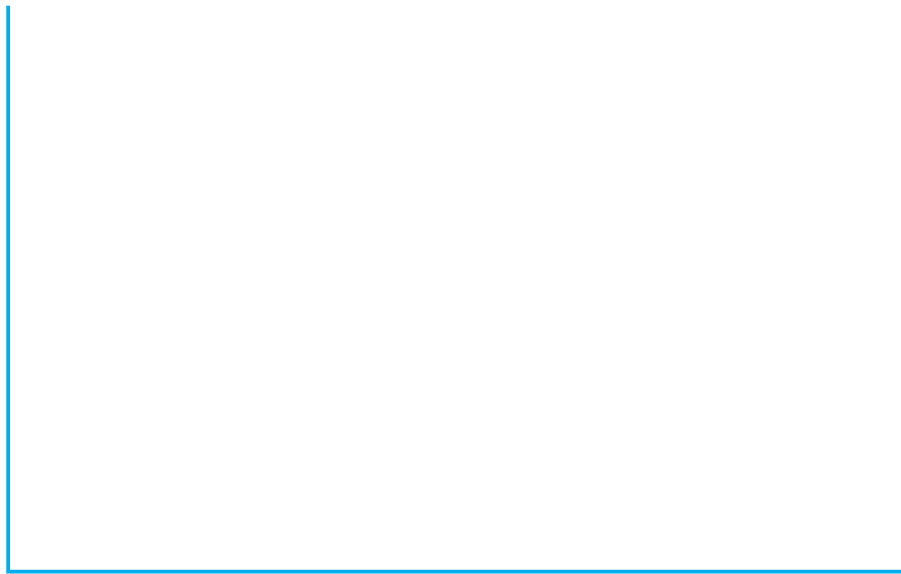
Define what breakeven point means.

Skill level 1	
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Question 2

Jones Ltd produce a variety of gifts for Christmas trade. One of the company's best sellers is a Christmas tree which has sold for \$24. Careful analysis of cost has revealed that the fixed costs related to its production for the next Christmas period are expected to total \$8,000 and that direct labour, raw materials and other variable items of overhead expenses will total \$18.00 per tree.

Sketch the line graph of total cost on the given axis below to show the total cost of producing 50 Christmas trees.



Skill level 1	
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Question 3

a) Describe the importance of budgeting.

Skill level 2	
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- b) The following information relates to Sione Huni's business.
- i) Accounts Receivable regularly settle their accounts as follows:
 - 90% in the month following sales. These accounts receivable are entitled to a 3% discount
 - 8% in the second
 - 2% were to be considered as bad debts
 - ii) Accounts Payable are paid in the month after purchase and attracts 5% discount
 - iii) Actual credit sales in July and August were \$75,000 and \$80,000 respectively.
 - iv) Actual credit purchases in August were \$50,000
 - v) The other operating expenses include an amount for \$400 per month for depreciation.
 - vi) The bank balance at 31st August was \$5,000 debit

Estimated figures

	<i>September</i>	<i>October</i>	<i>November</i>
	\$	\$	\$
Cash Sales	90,000	115,000	110,000
Credit Sales	100,000	110,000	90,000
Cash purchases	50,000	45,000	55,000
Credit purchases	75,000	80,000	90,000
Rent Received	1,000	1,000	1,000
Wages	6,800	6,800	6,800
Other operating expenses	10,000	10,000	11,000
Land	-	150,000	-

Requirements:

Use the information given above to prepare a cash budget for the month of September, October and November for Sione Huni's business.

\$

[illegible]

Skill level 4	
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- c) Interpret the cash budget you prepared in **(b)** above and suggest reasons for implications shown

[illegible]

Skill level 4	
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Question 4

The ratios given below were calculated from the financial statements of Jenifer Sportswear Ltd for consecutive months.

	2018	2019	2020
	(\$000)	(\$000)	(\$000)
Equity Ratio	73%	61%	53%
Shareholders fund	1,100	1,220	1,370
Total Assets	1,500	2,000	2,600
Average age of debtors	69 days	84 days	91 days
Net Sale	1,000	1,200	1,500
Average Debtors	190	275	375

Requirements:

From the above information, comment briefly on the trends of each ratio and the possible reasons for the trends.

i) Equity Ratio

ii) Average Age of debtors

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