

MARKER CODE				



STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE 2022

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
ONE	CONCEPTUAL BASIS OF ACCOUNTING	16
TWO	ACCOUNTING PROCESSES AND SUBSYSTEMS	24
THREE	ACCOUNTING REPORTS	9
FOUR	DECISION MAKING PROCESS	21
TOTAL		70

- Answer ALL QUESTIONS. Write your answers in the spaces provided in this booklet.
- Use a **BLUE** or **BLACK** ballpoint 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.
NOTE: There is a Formulae Sheet on **page 23**.
- Check that this booklet contain pages **2-23** in the correct order and that page 22 has been deliberately left blank.

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

SECTION ONE: CONCEPTUAL BASIS OF ACCOUNTING

1. Describe the purpose of the New Zealand Accounting Framework.

Skill level 2	
2	
1	
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NR	

2. State **TWO** (2) financial reports that come under the heading of General Purpose Financial Reports.

Skill level 1	
1	
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3. Name the accounting concept that is being applied in the situation below.

- Business fixed assets are stated at historical cost and not in market value that an urgent sale would generate.

Skill level 1	
1	
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4. One of the Qualitative characteristics of financial information is comparability.

Define comparability.

Skill level 1	
1	
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NR	

5. 'Interest Received from Company Investment is considered as revenue of the business.'

Define the Concept of revenue.

Skill level 1	
1	
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6. A company reported fixed assets at historical cost less accumulated depreciation 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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7. Statement of Concepts states that General Purpose Financial Reports are prepared using various assumptions. One of them is Accrual Accounting.

Explain "Accrual Accounting".

Skill level 3	
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8. For Financial Statements to be useful they should be Reliable and Relevant.

State whether a **Revaluation of asset Land** would make the financial information more or less:

- Reliable
- Relevant

Characteristic	State More or Less	Write Reason for answers
Reliable		
Relevant		

Skill level 3	
3	
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9. Describe the legal requirement for a Partnership to set out a Partnership Agreement.

Skill level 2	
2	
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SECTION TWO: ACCOUNTING PROCESSES AND SUBSYSTEMS**Question One**

Latu and Tonga Partnership had the following information for the year 31 December 2021,

- **The partnership had recorded a net profit before distribution of \$150 000.**
- **The two partners had taken drawings for the years as**
 - i. Latu \$32 000
 - ii. Tonga had taken drawings of \$55 000.

The partnership agreement stated that:

- i. Latu's capital contribution is to be \$220 000 and Tonga's capital contribution is to be \$150 000
- ii. Each partner is to receive an annual salary of \$30 000 per annum which is to be treated as an appropriation of profits
- iii. Interest of 10 % is to be provided on the partner's capital account
- iv. Tonga is to receive a bonus of 10 % of any net profit made by the partnership over the value of \$100 000
- v. Interest on drawings over \$30 000 is to be charged at 20 %
- vi. Residual profits or losses are to be shared equally between the two partners

You are required to use the information above to prepare the final accounts of the partnership as in the General Ledger on 31 December 2021 and balance the account.

You are required to prepare the following accounts:

1. The partnership Profit Distribution Account
2. The Current Account for partner Tonga.

Answer the question in the tasks given on the next page.

1.

Latu and Tonga Partnership PROFIT DISTRIBUTION ACCOUNT					
Date	Particulars	Dr \$	Cr \$	Balance \$	Dr/Cr

Skill level 4	
4	
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NR	

2.

Current Account - TONGA					
		Dr \$	Cr \$	Balance \$	Dr/Cr

Skill level 4	
4	
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Question Two

- a. In manufacturing processes, define direct costs of a product.

Skill level 1	
1	
0	
NR	

- b. Identify a source document used in a job order cost subsystem.

Skill level 1	
1	
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NR	

The information below relates to Job no. 250 completed by Caitlah Printing Ltd of Nuku'alofa:

- The rate for costing Labour is \$10.00 per hour
- Overhead is to be applied at the rate of \$8 per Direct Labour Hour
- The job is considered sold when it is delivered.

Job No. 250

- This job was accepted, completed and delivered during the month of July 2022
 - Direct Materials used \$3000.00
 - Direct Labour Hours used 150 hours
- i. Additional information for completion of job : Further direct materials used \$1500 with 50 hours of direct labour
- ii. The actual overhead cost of the job was \$1000
- c. You are required to determine the total cost value of Job No. 250 for the month.

Skill level 2	
2	
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- d. Determine the over-applied or under-applied overhead.

Skill level 2	
2	
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- e. If a 50 % marked up was applied on the cost of the job to have a selling price of the job, prepare the journal entry to record if the job was sold on account to Tevita's Shop.

Date	Particulars	Dr	Cr

Skill level 2	
2	
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Question Three

Job Cost Subsystem

Discuss the objectives of a Job cost subsystem.

Skill level 4	
4	
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Question Four

Part 1: Accounting for Shares Issues

WXY Ltd was incorporated on 31 March 2021.

On 18 April, a prospectus was issued inviting the public to apply for 200 000 shares at a price of 3.50 each. Applications closed on 16 May by which time the issue was fully subscribed. The public had applied to purchase 300 000 shares.

You are required to give the general journal entries to record the above transactions for issuing of shares as given. This is for the issuing of shares and the buying of shares by applications.

Date	Particulars	Dr	Cr

Skill level 2	
2	
1	
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NR	

Part 2: Company Formation

On 1 July 2021 WXY Ltd was established as a Public company by conversion of the Sole Trader business Ni's Shop of Haveluloto owned by 'Isi Katoa .

The Statement of Financial Position of Ni's Shop at the date of conversion is shown below:

NI'S SHOP OF HAVELULOTO STATEMENT OF FINANCIAL POSITION AS AT 1 JULY 2021

	\$	\$
Assets		
Accounts Receivable	10 000	
Inventory	8 000	
Accrued Income	5 000	
Buildings	40 000	
Vehicles	57 000	
Allowance for doubtful Debts		2 000
Cash at Bank		50 000
Accounts Payable		20 000
Income in advance		8 000
Capital - 'Isi Katoa		40 000
	120 000	120 000

The agreement for the taking over of the business will be a full payment to the vendors with issuing of 50 000 shares at \$4.00 and WXY Ltd will purchase all assets and liabilities of Ni's Shop at book values except

- Accounts Receivable are to be valued at \$8 000 after a further bad debts written off \$500
- Buildings are to be revalued to \$35 000

Use the information on page 11 to prepare the General Journal Entries to record the takeover of Ni's Shop by WXY Ltd.

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SECTION THREE: ACCOUNTING REPORTS

Question One

Tonga Furnitures is owned by two partners, Sione and Toni. The partnership operates a perpetual inventory system.

The following Trial Balance and additional information relate to the Tonga Furnitures operation for the year ended 30 June 2020

Tonga Furnitures - Sione and Toni
Trial Balance as at 30 June 2020

	\$		\$
Accounts Receivable	20 000	Accounts Payable	20 000
Advertising	12 000	Accumulated depreciation- Equipment	23 000
Bad debt	2 400	Allowances for doubtful debts	800
Cost of goods sold	220 000	Capital a/c – Sione	80 000
Bank	2 000	Current a/c – Sione	3 000
Drawing – Sione	30 000	Capital a/c – Toni	70 000
Drawings – Toni	35 000	Current a/c- Toni	8 000
Electricity	5 000	Loan (12% due 2028)	80 000
General Expenses	8 000	Sales	450 000
Interest on loan	8 000	Commission	600
Equipment	100 000		
Land	293 000		
	735 400		735 400

Additional Information:

- An invoice for \$600 is on hand for electricity during 30 June 2020.
- Interest on loan is 12% per annum for the year.
- Shop fittings and equipment are depreciated at 10 % per annum using the diminishing value method
- A TV advertising campaign costing \$6,000 was paid and used on 1 March 2020 and the campaign was for 6 months.
- 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 \$800.00

You are required to use the information given above for the partnership of Tonga Furnitures to prepare the Statement of Financial Performance and the Statement of Financial Position for the year ended 30 June 2020 using the Narrative format.

Answer the question in the space provided.

Tonga Furnitures
Statement of Financial Performance
For the year ended 30 June 2020

[illegible]

Skill level 4	
4	
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Skill level 4	
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Question Two

In company accounting, define dividends.

		Skill level 1	
		1	
		0	
		NR	

'Uniform - Tonga' is owned by Motuliki who makes tupenu for children and sells them at the local market during the school holidays .

- Sales \$1215 000
- Variable Costs \$50 000
- Fixed Costs \$30 000

- | |
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[illegible]

Skill level 4	
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QUESTION TWO:

ABC 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 2021.

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 70 % in the month of sale, 25 % on the following month after and with the balance being uncollected and are written off as bad debts on the third month

Sales and expected sales are as follows:

- Actual Sales : May \$85 000
- Estimated Sales : June \$75 000, July \$94 000
- 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:
 - May \$40 000
 - June \$35 000
 - July \$40 000
- Monthly expenses budget are to be :
 - Salaries \$ 8 000
 - Depreciation \$ 4,000
 - Advertising \$ 2 000
 - Electricity \$ 1 000
- All relevant operating expenses will be paid in cash in the month incurred
- The cash balance at the end of May was at \$10,000 OD (an overdraft)

Requirements:

Use the information given on page 18 to prepare a cash budget for the month of June and July for ABC Ltd.

Cash Budget – ABC Ltd
For month June and July 2021

[illegible]

Skill level 4	
4	
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QUESTION THREE: Calculations

Given below are the figures extracted from the Financial Statement for the years ending 30 of June 2020 and 2021.

Summary Figures from Statement Financial Performance			
		30/06/2020	30/06/2021
Sales		\$687 630	872 150
Cost of Good Sold		\$401 600	492 500
Total Expenses		\$175 100	194 521
Net Profit before Tax		\$110 930	185 129
Income Tax Expense		\$30 650	51 500
Summary Figures from Statement of Financial Position			
Equity		\$372 000	\$601 529
Total Assets		\$649 073	\$841 094
Number of Shares		200 000	\$250 000
Total dividends		\$19 000	\$38 500
Current Share Market Value		\$1.84	\$2.52

- a. You are required to complete the table below by calculating the given financial ratios for the year, 2021.

- I. Gross Profit Percentage
- II. Equity Ratio
- III. Dividends Yield
- IV. Earnings per Share

Analysis Measure	2020	2021	
	Calculated Ratio	Workings	Calculated Ratio
Gross Profit Percentage	40.3 %		
Rate of Return on Total Assets Percentage	21.0%	Not included	27.0%
Equity Ratio	57 %		
Dividends Yield	5.16 %		
Earning per share	\$0.41		

Skill level 4	
4	
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NR	

- b. You are required to comment on the trends on: of ratios calculated in (a) on page 20 and the reasons for the trends. Your explanations will be related to Profitability, Liquidity and Share Market analysis.

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Skill level 4	
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TONGA NATIONAL FORM SEVEN CERTIFICATE ACCOUNTING

FORMULAE FOR RATIO ANALYSIS

Formulae for Analysis of Financial Information

▪ Mark Up Percentage	$\frac{\text{Gross Profit}}{\text{Cost of Sales}} \times \frac{100}{1}$
▪ Gross Profit Percentage	$\frac{\text{Gross Profit}}{\text{Net Sales}} \times \frac{100}{1}$
▪ Expenses Percentage	$\frac{\text{Expenses}}{\text{Net Sales}} \times \frac{100}{1}$
▪ Net Profit Percentage	$\frac{\text{Net Profit}}{\text{Net Sales}} \times \frac{100}{1}$
▪ Return on Owners Equity	$\frac{\text{Net Profit}}{\text{Average Owners Equity}} \times \frac{100}{1}$
▪ Return on Average Total Assets	$\frac{\text{Net Profit}}{\text{Average Total Assets}} \times \frac{100}{1}$
▪ Working Capital Amount	Current Assets - Current Liabilities
▪ Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
▪ Liquid Ratio	$\frac{\text{Current Assets} - (\text{Inventories} \text{ Prepayments})}{\text{Current Liabilities} - (\text{Secured Bank Overdraft})}$
▪ Equity Ratio	$\frac{\text{Owners Equity}}{\text{Total Assets}}$
▪ Debt Ratio	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$
▪ Inventory Turnover	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventories}}$
▪ Accounts Receivable Collection Period	$\frac{\text{Average Accounts Receivable}}{\text{Net Credit Sales}} \times \frac{365}{1}$