

MARKER CODE				



STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE

2023

ACCOUNTING

QUESTION AND ANSWER BOOKLET

Time allowed: 3 Hours + 10 minutes reading

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 70 weighted scores.

SECTION	STRANDS	TOTAL SKILL LEVEL
ONE	CONCEPTUAL BASIS OF ACCOUNTING	18
TWO	ACCOUNTING PROCESS AND SUB-SYSTEMS	18
THREE	FINANCIAL REPORT	13
FOUR	DECISION MAKING PROCESS	21
TOTAL		70

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 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 19.
6. Check that this booklet contain pages **2-19** in the correct order and that pages 16-18 have 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. 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).

Skill level 2	
2	
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2. While each country has its own accounting standard to be followed, there is also the international accounting standard. Explain the purpose of the International Accounting Standard (IAS).

[illegible]

Skill level 3	
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3. When preparing financial reports for a company, consistency is very important so that the users of accounting information could make the better judgement of the entity.

Define the Consistency Principle.

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

Skill level 1	
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9. Define Liability as an accounting element.

Skill level 1	
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10. The Accrual Basis of Accounting argued to recognize a Revenue item, for a certain period of time differently for that of a Cash Basis of Accounting. Describe the basis of recognizing a Revenue item under an Accrual Basis of Accounting.

Skill level 2	
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SECTION TWO:

ACCOUNTING PROCESS AND SUB-SYSTEMS

1. On 1st July 2022, Toakase and Joseph agreed to form a business as partners. They agreed that Toakase would contribute a piece of land with a building on it at an agreed value of \$20,000 and \$70,000 respectively. Joseph is to contribute a delivery van at an agreed value of \$20,000 and enough cash so that his share is $\frac{1}{4}$ (one quarter) of the total capital.

Toakase and Joseph's partnership agreement includes the following clauses:

- Salaries to the partners: Toakase \$25,000; Joseph \$20,000
- Interest on capital accounts – 5% on opening 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 using their capital ratio
- Joseph the sales manager is to receive a bonus of 3% on the amount above \$450,000

Other information:

- Sales for the year amounted to \$520,000
- Net Profit for the year ended 30 June 2023 was \$120,000
- Drawings for the year amounted to: Toakase \$30,000; Joseph \$25,000

- a. Give a reason why do partners keep the Capital account separate from the current account.

Skill level 1	
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- b. Prepare the General Journal entries for the partners contribution on 1st July 2022. (NARRATION IS NOT REQUIRED)

General Journal

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

Skill level 2	
2	
1	
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- c. Prepare the Profit Distribution Account for the business at 30 June 2023.

Date	Particulars	Dr	Cr	Balance	

1. At the end of the financial year 30th June 2023, Hungatonga Ltd estimated the income tax for the year to be \$45,000.
 - a. Prepare the General Journal entry to record the company's tax.
(NARRATION IS NOT REQUIRED)

General Journal

Date	Particulars	Dr (\$)	Cr (\$)	Skill level 2	
				2	
				1	
				0	
				NR	

- b. The company's share capital at 30th June 2023 consists of 800,000 ordinary shares. The Annual General Meeting declared a Final Dividend of \$0.20 per share for the Shareholders. The Final Dividend was paid on 30th July 2023. Prepare the General Journal entry to record the payment of the dividend. (NARRATION IS NOT REQUIRED)

General Journal

Date	Particulars	Dr (\$)	Cr (\$)	Skill level 2	
				2	
				1	
				0	
				NR	

2. Mark Manufacturing Ltd, manufactures Highlight markers to be used by the students when they were studying. On July 2023 they were working on one order, Job 55 which requires them to produce 20,000 highlight markers. The company used Job Costing Method for the calculation of the total cost and unit cost of the product. The work is mostly done by machineries and therefore used the machine hours as the cost driver with no supervision on the workers time of work. Felise is the accountant for the company and he thought that since he is the only degree holder in accounting for the company, he is the one to make decisions on every financial matters. Without waiting for the supervisors in the processing section, he orders all the materials to be transferred to the work in the process section. He used last years overhead rate of \$4 per machine hours as the applied overhead for Job 55 which is estimated to use 9,000 machine hours. Felise also treated the depreciation of the factory, the company's main office and all machineries and equipment as administrative expenses as well as insurance and therefore calculated the actual overhead for the month of July as \$35,200.

- a. Define what a cost driver is.

Skill level 1	
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- b. According to Felise's calculation, what is the over or under-applied overhead for Job 55.

Skill level 2	
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- c. Discuss the weaknesses in the internal control system used by Mark Manufacturing Ltd in the processing of Job 55.

Skill level 4	
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FINANCIAL REPORT

1. On 1st July 2022, Toakase and Joseph agreed to form a business as partners. They agreed that Toakase would contribute a piece of land with a building with a building on it at an agreed value of \$20,000 and \$70,000 respectively. Joseph is to contribute a delivery van at an agreed value of \$20,000 and enough cash so that his share is $\frac{1}{4}$ (one quarter) of the total capital.

- Salaries to the partners: Toakase \$25,000; Joseph \$20,000
- 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 using their capital ratio
- Joseph the sales manager is to receive a bonus of 3% on the amount above \$450,000

- Sales for the year amounted to \$520,000
- Net Profit for the year ended 30 June 2023 was \$120,000
- Toakase contributed a further \$20,000 cash into the business during the year.
- Drawings for the year amounted to: Toakase \$30,000; Joseph \$25,000

Current Account – Toakase

Skill level 4	
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2. Sione and Apa has been in partnership and operated as **AS Traders** for the past 5 years. At the end of the financial year 30th June 2023, their accountant came up with the Trial Balance given and the additional information.

AS Traders
Trial Balance as at 30th June 2023

	Dr (\$)	Cr (\$)
Accounts Receivable	12,000	
Accounts Payable		15,000
Advertising Expense	2,500	
Office Supplies Expense	3,000	
Current Account - Sione		50,000
Current Account - Apa		42,000
Capital Account - Sione		130,000
Capital Account - Apa		110,000
Mortgage		50,000
Debenture	40,000	
Loan Account - Apa		4,000
Sales		470,000
Commission Receive		4,700
Rent Revenue		6,500
Bank	25,000	
Inventory (01/07/2022)	45,000	
Land	50,000	
Buildings (cost)	400,000	
Delivery Vehicle (cost)	50,000	
Office Equipment (cost)	20,000	
Accumulated Depreciation – Building		30,000
Accumulated Depreciation – Delivery vehicle		13,500
Accumulated Depreciation – office equipment		5,200
Allowance for doubtful debt		600
Purchases	225,000	
Salaries – sales	10,000	
Salaries – office	25,000	
Discount Allowed	1,500	
Discount Received		1,900
Bad Debt	1,400	
General Expenses	9,000	
Interest expense	4,000	
Loss on fire	<u>10,000</u>	
	\$933,400	\$933,400

Additional information:

- Inventory on hand \$30,000
- Depreciations to be provided on a straight-line basis on buildings (cost) at 4% p.a. and on a diminishing balance method on delivery vehicle at 8% per annum and on office equipment at 5% p.a.
- Another \$2,000 of the account receivable is to be written off as bad.
- The allowance for doubtful debt is to be adjusted to 7% of accounts receivable
- Accrued wages to office staff \$1,500; while \$1,200 of the sales salaries were paid in advance.
- \$3500 of the rent were received for the rent of January 2023 to July 2023.
- A commission of \$300 was due but not received

- Prepare a Classified Statement of Financial Statements for the year ended 30th June 2023.
- Incorporate the balance day adjustments into the Revenues and Expenses.

Statement of Financial Performance for the year ended 30th June 2023

3. On 30th June 2023, Phone Ltd declared a final dividend for the ordinary Shareholders of \$100,000 out of the Retained Earnings. Prepare the General Journal entry for the Final Dividend declared. (NARRATION IS NOT REQUIRED)

<i>Date</i>	<i>Particulars</i>	<i>Dr (\$)</i>	<i>Cr (\$)</i>

SECTION FOUR:

DECISION MAKING PROCESS

1. The users of accounting information of a company need the Financial Reports so that they can make better judgements of the business from different angles such as the profitability, liquidity position *etc.*

Discuss **THREE (3)** limitations of using Financial Statements to make decisions using an **example of ONE limitation** to clarify your answer.

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Skill level 4	
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- Bottle Ltd**
Statement of Financial Performance for the year ended 30th June.....

You are required to Analyze and interpret the above Financial Statements using the Vertical Analysis method.

Skill level 4	
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3. The following information was provided by Fakava Pty Ltd. You are required to use the information to prepare a Cash Budget for the three months ending 31 December 2023.

Information:

- The following figures were extracted from the Sales Budget:

August	\$120,000
September	\$180,000
October	\$200,000
November	\$160,000
December	\$200,000
- The Sales are expected to be 20% cash
- Credit Sales are expected to be received as follows:
 - 40% in the month of Sales to receive the 2% discount offer
 - 40% in one month after the Sales
 - 20% in two months after the Sales
- The following information was extracted from the Purchase budget:

September	\$90,000
October	\$120,000
November	\$100,000
December	\$110,000
- Purchases are going to be 100% credit and the payments of suppliers are going to be as follows:
 - 20% in the month of the purchase
 - 80% in one month after the purchase
- Fakava is expected to withdraw \$900 cash each month for family obligations
- Other business expenses are expected to be \$1,000 per month and will be paid in the month they incur.
- Fakava is planning to buy some equipment in November that cost \$30,000
- On 1 October 2023, the business's bank account is expected to be \$15,000

- a. You are required to prepare a Cash Budget for Fakava Pty Ltd for the quarter ending 31 December 2023.

Fakava Pty Ltd
Cash Budget
For the quarter ending 31 December 2023

Skill level 4	
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- b. You are required to interpret the cash budget you prepared in part a. and suggest the reasons for the trend shown.

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Skill level 4	
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4. Using the Cost Volume Profit (CVP) analysis for decision making;

a. State the formula for Contribution Margin.

Skill level 1	
1	
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b. Discuss the **FOUR (4)** underlying assumptions and significance of CVP analysis.

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	$\frac{\text{Average Accounts Receivable}}{\text{Net Credit Sales}} \times \frac{365}{1}$