MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE

2024

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	15
TWO	ACCOUNTING PROCESS AND SUB-SYSTEMS	20
THREE	FINANCIAL REPORT	10
FOUR	DECISION MAKING PROCESS	25
	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 15.
6. Check that this booklet contain pages 2-15 in the correct order and that none of the pages is blank.

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

SECTION ONE: CONCEPTUAL BASIS OF ACCOUNTING

1. One of the Accounting principles followed by accountants when reporting financial report is the disclosure principle.
   Define the ***Disclosure Principle***.

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Skill level 1	
1	
0	
NR	

2. One of the features of a limited liability company is ***its ability to raise more capital*** than the other form of business ownership.
   Describe this special feature of the limited liability company.

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Skill level 2	
2	
1	
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NR	

3. A partnership entity is allowed to have a constitution and a partnership agreement to guide its operation.
   Describe the legal requirement for the partnership entity to have both the constitution and the partnership agreement.

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Skill level 2	
2	
1	
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NR	

4. One of the main advantages of a Sole Trader entity over a Partnership and a Company entity is the ***simplicity*** of its organization.
   Explain this feature of the Sole Trader in relation to the other two entities.

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Skill level 3	
3	
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5. One of the qualitative characteristics of the financial information if it is to be useful is relevance.
Define ***relevance*** as a qualitative characteristic.

Skill level 1	
1	
0	
NR	

6. A good quality financial report must reflect the idea of ***neutrality.*** Explain how the preparer of the financial report applies neutrality when preparing the financial report of an entity.

Skill level 3	
3	
2	
1	
0	
NR	

7. Define ***Revenue*** as one of the elements of financial statements.

Skill level 1	
1	
0	
NR	

8. The Accrual Basis of Accounting argued to recognize an expense item for a certain period of time differently for that of a Cash Basis of Accounting. Describe the basis of recognizing an ***Expense*** item under an Accrual Basis of Accounting.

Skill level 2	
2	
1	
0	
NR	

SECTION TWO: ACCOUNTING PROCESS AND SUB-SYSTEMS

1. On 1st July 2023, Lela and Lisa, the owners of LELI Traders have the following accounts balances as shown in the Statement of Financial Position:

Proprietorship:

Capital Account – Lela	$90,000
Capital Account – Lisa	$120,000
Current Account – Lela	$15,000
Current Account – Lisa	($10,000)

For the year ended 30th June 2024, the following information was taken from the business's report:

- Sales for the year $820,000
- Net Profit $360,000
- Drawing – Lela $38,000
- Drawing – Lisa $46,000

The Partnership Agreement includes the following clauses:

- Lela's salary $30,000 and Lisa's salary $36,000
- Interest on capital accounts – 8% on opening capital balance
- Interest on current account – 10% on opening balance
- Interest on drawing – 7% on the amount above the agreed salaries
- Residual profit or loss is to be shared equally
- A bonus of 10% to be shared equally by the partners on the amount of Sales above $700,000

You are required to prepare:

a. Lisa's Current Account at 30th June 2024.

Current Account – Lisa

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

Skill level 4	
4	
3	
2	
1	
0	
NR	

b. Draw up the partnership profit and loss appropriation account.

Profit & Loss Appropriation Account

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

Skill level 4	
4	
3	
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NR	

2. Before the issue of any security by a Public Company to the Stock Market, the company must issue first a prospectus to the market.
Identify the purpose of the ***prospectus document***.

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Skill level 1	
1	
0	
NR	

3. On 31st March 2024, Blue Ltd issued 100,000 ordinary shares at $4 per share to the market payable in full upon application. On the closing date 30th April 2024, the company received application for 140,000 ordinary shares. The directors accepted the application on a first come first serve basis and refunded the unsuccessful applicants on the same date.

You are required to prepare the general journal entries to record the following:
NARRATIONS ARE NOT REQUIRED.

a. The receive of the application money.

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

Skill level 2	
2	
1	
0	
NR	

b. The refund of the excess application money.

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

Skill level 2	
2	
1	
0	
NR	

4. One classification of costs is to be classified as fixed or variable costs.
Describe the reason for a cost to be classified as a ***fixed cost.***

Skill level 2	
2	
1	
0	
NR	

5. Under the phases of production, identify the process element of a job cost system.

Skill level 1	
1	
0	
NR	

6. Discuss the importance of the job order cost system.

Skill level 4	
4	
3	
2	
1	
0	
NR	

SECTION THREE: FINANCIAL REPORT

1. On 31st July 2024, the Directors of Blue Ltd paid out the final dividend of the shareholders for the year ended 30th June 2024 of $540,000.

   a. Define ***Dividend***.

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Skill level 1	
1	
0	
NR	

   b. Prepare the general journal entry for the payment of the final dividend.

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

Skill level 2	
2	
1	
0	
NR	

2. Sefo and Soni have been in partnership and operated SS Traders for the past 5 years. At the end of the financial year 30th June 2024, their accountant came up with the Trial Balance given and the additional information.

SS Traders

Trial Balance as at 30th June 2024

	Dr ($)	*Cr ($)*
Land	100,000	
Building (cost)	350,000	
Motor vehicles (cost)	90,000	
Accounts Receivable	20,000	
Inventory (01/07/23)	45,000	
Office Equipment (cost)	15,000	
Bond	200,000	
Goodwill	50,000	
Bank		25,000
Loss on sale (motor vehicle)	2,000	
Sales salaries	56,000	
Office salaries	84,000	
Cartage inwards	2,000	
Advertisement	3,800	
Power and light	8,000	
Insurance	20,000	
Rates	4,000	
Bad Debt	1,400	
Interest on mortgage	2,600	
Purchases	420,000	
Cartage outwards	4,000	
Discount allowed	2,200	
Accumulated depreciation-building		70,000
Accumulated depreciation-motor vehicle		18,000
Accumulated depreciation-office equipment		3,000
Accumulated amortization-goodwill		10,000
Sales		840,000
Rent receive		11,000
Discount receive		2,500
Allowance for doubtful debt		500
Accounts Payable		30,000
Mortgage		150,000
Capital account - Sefo		200,000
Capital account – Soni		180,000
Current account – Sefo		13,000
Current account – Soni	14,000	
Drawing – Sefo	36.000	
Drawing - Soni	23,000	
	$1,553,000	***$1,553,000***

Additional information:

- Inventory on hand $40,000
- Depreciations to be provided on a straight-line basis on buildings (cost) at 3% p.a. and on a diminishing balance method on motor vehicle at 10% per annum and on office equipment at 6% p.a.
- Another $1,500 of the account receivable is to be written off as bad.

- The allowance for doubtful debt is to be adjusted to 4% of accounts receivable
- Accrued wages to sales salaries $2,000; while $1,400 of the office salaries were paid in advance.
- Rent is $1,000 per month for the whole year
- Goodwill is amortized at 5% per annum

You are required to:

a. Prepare a fully classified Statement of Financial Performance for the year ended 30th June 2024,

b. And incorporate the balance day adjustment to the Statement.

SS Traders

Statement of Financial Performance for the year ended 30th June 2024

	$	$	$

Skill level 3	
3	
2	
1	
0	
NR	

Skill level 4	
4	
3	
2	
1	
0	
NR	

SECTION FOUR: DECISION MAKING PROCESS.

1. Describe the purpose of an ***insolvency test*** for a company.

Skill level 2	
2	
1	
0	
NR	

2. The following information were extracted from Black Ltd Statement of Financial Performance for the last three Financial Periods.

Black Ltd

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

	2021($)	*2022($)*	*2023($)*
Net Sales	2,000,000	4,000,000	6,000,000
Less Cost of Goods Sold	800,000	2,000,000	2,500,000
Gross Profit	1,200,000	2,000,000	3,500,000
Less other operating expenses:			
Selling expenses	100,000	200,000	300,000
Administrative expenses	400,000	600,000	800,000
Financial expenses	40,000	60,000	90,000
Total operating expenses	540,000	860,000	1,190,000
Net Profit	$660,000	$1,140,000	$2,310,000

You are required to prepare an analysis report of the above financial information using the:

a. Horizontal Analysis method.

Skill level 4	
4	
3	
2	
1	
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NR	

b. Discuss trends regarding the Profitability level of Black Ltd and state reasons for trends.

Skill level 4	
4	
3	
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1	
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NR	

3. In any business here in Tonga, state **ONE (1)** ***non-financial information*** that is useful for the management decision.

Skill level 1	
1	
0	
NR	

4. Using an example for each, discuss the difference between a ***routine decision and a strategic decision*** by the managers of the organization.

Skill level 4	
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1	
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NR	

5. The following information was provided by Red Pty Ltd. You are required to use the information to prepare a Cash Budget for the three months ending 31 December 2024.

Information:

- The following figures were extracted from the Sales Budget:

August	$200,000
September	$300,000
October	$350,000
November	$400,000
December	$500,000

- The Sales are expected to be 30% cash
- Credit Sales are expected to be received as follows:
  - 30% in the month of Sales to receive the 2% discount offer.
  - 50% in one month after the Sales
  - 15% in two months after the Sales
  - The remaining is expected to be written off as bad debt on the third month
- The following information was extracted from the Purchase budget:

September	$100,000
October	$160,000
November	$190,000
December	$240,000

- Purchases are going to be 100% credit and the payments of suppliers are going to be as follows:
  - 40% in the month of the purchase
  - 60% in one month after the purchase
- Other expenses are expected to be $40,000 in October and rise by 20% every month and will be paid in the month they incur.
- The business is planning to buy some equipment in November that cost $50,000
- On 1 October 2023, the business's bank account is expected to be $20,000 overdraft

You are required to prepare a Cash Budget for Red Pty Ltd for the quarter ending 31 December 2024.

Red Pty Ltd
Cash Budget
For the quarter ending 31 December 2024

	October ($)	*November ($)*	*December ($)*

Skill level 4	
4	
3	
2	
1	
0	
NR	

6. An entity is producing 20,000 units of output with selling price of $10 per unit. The cost information is:

Fixed unit cost	$4
Variable unit cost	$2
Total unit cost	$6

Calculate the value of the ***contribution margin***.

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Skill level 2	
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7. Discuss **TWO (2)** underlying assumptions and significance of CVP analysis.

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Skill level 4	
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NR	

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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	$\frac{\text{Current Assets} - \text{(Inventories Prepayment}}{\text{Current Liabilities} - \text{(Secured Bank Overdraft)}}$
▪ 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	$\frac{\text{Average Accounts Receivable}}{\text{Net Credit Sales}} \times \frac{365}{1}$