

MARKER CODE



Student Personal Identification Number

South Pacific Form Seven Certificate

ACCOUNTING

2014

QUESTION and ANSWER BOOKLET

Time allowed: Three hours

INSTRUCTIONS

Write your **Student Personal Identification Number (SPIN)** in the space provided on the top right hand corner of this page.

Answer **ALL QUESTIONS**. Write your answers in the spaces provided in this booklet. If you need more space for answers, ask the Supervisor for extra paper. Write your SPIN on all extra sheets used and clearly number the questions. Attach the extra sheets at the appropriate places in this booklet.

Major Learning Outcomes (Achievement Standards)	Skill Level			Weight /Time
	Band 1 <i>Basic</i>	Band 2 <i>Proficient</i>	Band 3 <i>Advanced</i>	
AccA: Describe the conceptual basis of Accounting.	5 questions	1 question	1 question	10% 25 min
AccB: Process financial information for partnerships and companies.	8 questions	2 questions	1 question	15% 30 min
AccC: Process financial information for a manufacturing job-costing system.	8 questions	2 questions	1 question	15% 35 min
AccD: Prepare accounting reports.	12 questions			12% 30 min
AccE: Analyse, interpret and report on a company's financial statements.	8 questions	3 question	1 question	17% 40 min
AccF: Explain and prepare information for management decision making.	5 questions	1 question	1 question	10% 20 min
TOTAL	46 questions	9 questions	5 questions	80% 180 min

Check that this booklet contains pages 2-24 in the correct order and that none of these pages is blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

SECTION A: CONCEPTUAL BASIS OF ACCOUNTING

QUESTION ONE

Assessor's use only

A1a	Describe the role of the Institute of Chartered Accountants. <hr/> <hr/> <hr/> <hr/>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 70%;">Basic</th> <th style="width: 30%;">Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td style="text-align: center;"> </td> </tr> <tr> <td>Weak</td> <td style="text-align: center;"> </td> </tr> <tr> <td>NR</td> <td style="text-align: center;"> </td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR			
Basic	Level											
Excellent												
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A1b	Describe the purpose of the Accounting Framework. <hr/> <hr/> <hr/>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 70%;">Basic</th> <th style="width: 30%;">Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td style="text-align: center;"> </td> </tr> <tr> <td>Weak</td> <td style="text-align: center;"> </td> </tr> <tr> <td>NR</td> <td style="text-align: center;"> </td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR			
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A1c	Explain the purpose of Generally Accepted Accounting Practice. <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 70%;">Proficient</th> <th style="width: 30%;">Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td style="text-align: center;"> </td> </tr> <tr> <td>Moderate</td> <td style="text-align: center;"> </td> </tr> <tr> <td>Weak</td> <td style="text-align: center;"> </td> </tr> <tr> <td>NR</td> <td style="text-align: center;"> </td> </tr> </tbody> </table>	Proficient	Level	Excellent		Moderate		Weak		NR	
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QUESTION TWO

Assessor's use only

A2a	<p>Ana owns and operates a tailoring business under the name '<i>Ana's Tailors</i>'.</p> <p>Describe a feature of this type of business ownership.</p> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR							
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A2b	<p><i>Capelle & Co Ltd</i> is a company operating in Nauru.</p> <p>Describe an advantage of this form of business ownership.</p> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR							
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Excellent																
Weak																
NR																
A2c	<p>Smith & Dyer operates a law firm in Vanuatu called '<i>Smith & Dyer Partners</i>'.</p> <p>Describe a disadvantage of this form of business ownership.</p> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR							
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A2d	<p><i>John's Enterprises</i> took a loan of \$1 million to expand its operations in the Cook Islands.</p> <p>Apply the definition of liabilities recognition criteria of the loan.</p> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Advanced</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Low</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> <tr> <td>Exceed</td> <td></td> </tr> </tbody> </table>	Advanced	Level	Excellent		Moderate		Low		Weak		NR		Exceed	
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SECTION B: PROCESSING FINANCIAL INFORMATION

QUESTION ONE: PARTNERSHIPS

On 31/12/2013, Peter and Mere agreed to form a partnership. Peter was to contribute cash of \$50 000 while Mere was to contribute an existing business at an agreed price of \$70 000. The assets and liabilities of Mere were:

Mere: Statement of Financial Position as at 31/12/2013

Assets		Liabilities	
Cash at Bank	7 000	Accounts Payable Control	14 100
Accounts Receivable Control	4 200		
Less Allowance for Doubtful Debts	100		
Inventories	8 000		
Buildings	35 000	Owner's Equity	
Less Accumulated Depreciation	10 000	Capital	50 000
Land	20 000		
	\$64 100		\$64 100

The partnership agreed to take over all the assets and liabilities at the following values: Land was to be re-valued to \$35 000; inventories at \$5 000, accounts receivable – increase allowance for doubtful debts to \$200 and Buildings at \$30 000.

Assessor's use only

B1a	Prepare General Journal entries to record Mere's contribution of assets and liabilities to the partnership, at an agreed valuation of \$70,000.	<table border="1"> <thead> <tr> <th>Advanced</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Low</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> <tr> <td>Exceed</td> <td></td> </tr> </tbody> </table>	Advanced	Level	Excellent		Moderate		Low		Weak		NR		Exceed	
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	NR															
	Exceed															
	General Journal															
	(To record Mere's contribution)															
B1b	Identify a document that Peter and Mere will encounter in this formation of partnership business.	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR							
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The following information relates to the partnership of 'Tom and Jerry' for the accounting period ending 31 December, 2013:

Capital Tom: \$55 000 Jerry: \$45 000
Current: Tom: \$7 000 Jerry: (\$1 000)

Additional Information:

- Tom is entitled to a salary of \$10 000 and Jerry is entitled to \$11 000.
- Net Loss over the period was \$80 000.
- Tom and Jerry withdrew \$5 000 and \$4 000 respectively.
- Partners are entitled to a 10% Interest on Capital.
- Profit and losses are shared equally.
- Interest on Drawings is also 10% on Drawings.

Assessor's use only

B1c (i) Prepare Tom's Current Account for the year ended 31 December, 2013.

**General Ledger
Current Account – Tom**

Date	Particulars	Dr	Cr	Balance	Dr/Cr

Proficient	Level
Excellent	
Moderate	
Weak	
NR	

(ii) Prepare Jerry's Current Account for the year ended 31 December, 2013.

**General Ledger
Current Account – Jerry**

Date	Particulars	Dr	Cr	Balance	Dr/Cr

Proficient	Level
Excellent	
Moderate	
Weak	
NR	

B1d (i) Prepare Tom's Capital Account for the year ended 31 December 2013.

**General Ledger
Capital Account – Tom**

Date	Particulars	Dr	Cr	Balance	Dr/Cr

Basic	Level
Excellent	
Weak	
NR	

(ii) Prepare Jerry's Capital Account for the year ended 31 December 2013.

**General Ledger
Capital Account – Jerry**

Date	Particulars	Dr	Cr	Balance	Dr/Cr

Basic	Level
Excellent	
Weak	
NR	

QUESTION TWO: COMPANIES

Office Furniture Ltd, a supplier of office furniture to offices, had the following account balances on 1 January 2013.

	\$
Shares Equity (200,000 fully paid up shares)	400,000
Retained Earnings	50,000
Land Revaluation Reserve	30,000
Land	150,000
Buildings	250,000
Accumulated Depreciation on Buildings	50,000
Final Dividend proposed 2012	30,000
Goodwill	20,000
Inventory	150,000

The following information relates to the year ended 31 December 2013:

- On 1 January 2013 a further issue of 50,000 shares at \$2 was made to be paid in full on application. By 1 April 2013 applications for 60,000 shares were received. On 30 April 2013 the shares were issued on a pro-rata basis and the unsuccessful applications were refunded.
- The final dividend for the year ended 31 December 2012 was paid to shareholders on 31 March 2013.
- An Interim Dividend was paid 1 July 2013 \$50,000.
- Inventory is to be re-valued at \$140,000.
- Goodwill amounting to \$10,000 is to be written off.
- A final dividend of 20 cents per share for the year ended 31 December 2013 was declared.
- On 31 December 2013 it was agreed to increase the Land value by \$30,000.
- Profit before tax for the year ended 31 December 2013 amounted to \$330,000, and the taxation expense is calculated to be \$90,000.

Assessor's use only

B2a	Prepare General Journal entry for the Final Dividend for 2013. <p style="text-align: center;">Office Furniture Ltd General Journal</p> <table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 25%;"></td> <td style="width: 25%;"></td> <td style="width: 25%;"></td> <td style="width: 25%;"></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table>									<table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th style="width: 50%;">Basic</th> <th style="width: 50%;">Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
Basic	Level																	
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Weak																		
NR																		
B2b	Prepare General Journal entry for the revaluation of the Land. <p style="text-align: center;">Office Furniture Ltd General Journal</p> <table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 25%;"></td> <td style="width: 25%;"></td> <td style="width: 25%;"></td> <td style="width: 25%;"></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table>									<table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th style="width: 50%;">Basic</th> <th style="width: 50%;">Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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B2c	<p>Prepare General Journal entry for writing off the Goodwill.</p> <p style="text-align: center;">Office Furniture Ltd General Journal</p> <table border="1" style="width: 100%; height: 60px;"> <tr> <td style="width: 20%;"></td> <td style="width: 40%;"></td> <td style="width: 20%;"></td> <td style="width: 20%;"></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table>									<table border="1" style="width: 100%; height: 60px;"> <thead> <tr> <th style="width: 50%;">Basic</th> <th style="width: 50%;">Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
Basic	Level																	
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Weak																		
NR																		
B2d	<p>Prepare General Journal entry for the revaluation of inventory.</p> <p style="text-align: center;">Office Furniture Ltd General Journal</p> <table border="1" style="width: 100%; height: 60px;"> <tr> <td style="width: 20%;"></td> <td style="width: 40%;"></td> <td style="width: 20%;"></td> <td style="width: 20%;"></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table>									<table border="1" style="width: 100%; height: 60px;"> <thead> <tr> <th style="width: 50%;">Basic</th> <th style="width: 50%;">Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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NR																		
B2e	<p>Prepare General Journal entry to transfer the after tax profit to the Retained Earnings.</p> <p style="text-align: center;">Office Furniture Ltd General Journal</p> <table border="1" style="width: 100%; height: 60px;"> <tr> <td style="width: 20%;"></td> <td style="width: 40%;"></td> <td style="width: 20%;"></td> <td style="width: 20%;"></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table>									<table border="1" style="width: 100%; height: 60px;"> <thead> <tr> <th style="width: 50%;">Basic</th> <th style="width: 50%;">Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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SECTION C: PROCESS FINANCIAL INFORMATION for a MANUFACTURING CONCERN/JOB COST SUB-SYSTEMS

QUESTION ONE

Greeting Card Manufacturer uses the job order costing system. The following information for June, 2013 was obtained from their records:

Materials and supplies were bought on credit for \$130 000.

Materials requisitioned during June for Jobs:

Materials	\$
Job 16	46 000
Job 17	28 000
Job 18	10 000
	84 000
Indirect Material	15 000
	99 000

The payroll tickets for the month of June were totalled and the following results were obtained:

Labour	\$
Job 16	31 000
Job 17	30 000
Job 18(unfinished)	9 000
	70 000
Indirect Labour	17 000
	87 000

Factory overhead costs incurred during June were:

	\$
Telephone and utilities	25 000
Depreciation on factory	14 000
Amortization of prepaid insurance	6 000
Repairs and Maintenance	8 000
Total	53 000

Notes:

- Factory overhead is applied at 80 percent (80%) of direct labour cost.
- Jobs 16 and 17 were **completed** and sold on account for \$275 000.

Assessor's use only

C1a Calculate *Greeting Card Manufacturer's* total factory overhead applied. Show your workings.

Total Factory Overhead Applied \$ _____

Basic	Level
Excellent	
Weak	
NR	

<p>C1b</p>	<p>Calculate over-or-under-applied factory overheads for the year. Show your workings.</p> <p style="text-align: right;">\$ _____</p>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR																			
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<p>C1c</p>	<p>Use the information provided to prepare the journal entry for the Raw Materials purchased.</p> <p style="text-align: center;">Greeting Card Manufacturer General Journal</p> <table border="1"> <thead> <tr> <th>Date</th> <th>Particulars</th> <th>Dr</th> <th>Cr</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>(for raw materials purchased)</td> <td></td> <td></td> </tr> </tbody> </table>	Date	Particulars	Dr	Cr										(for raw materials purchased)			<table border="1"> <thead> <tr> <th>Proficient</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Proficient	Level	Excellent		Moderate		Weak		NR	
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<p>C1d</p>	<p>Use the information provided to prepare the journal entry for Job 16 and 17 that was sold.</p> <p style="text-align: center;">Greeting Card Manufacturer General Journal</p> <table border="1"> <thead> <tr> <th>Date</th> <th>Particulars</th> <th>Dr</th> <th>Cr</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>(to record jobs 16 & 17 sold on account)</td> <td></td> <td></td> </tr> </tbody> </table>	Date	Particulars	Dr	Cr										(to record jobs 16 & 17 sold on account)			<table border="1"> <thead> <tr> <th>Proficient</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Proficient	Level	Excellent		Moderate		Weak		NR	
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<p>C1e</p>	<p>Use the information provided to complete the Direct Labour Control Account in the General Ledger for the year ended 30 June 2013.</p> <p style="text-align: center;">Greeting Card Manufacturer General Ledger Direct Labour Control Account</p> <table border="1"> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>																			<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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C1f

Use the information provided to complete the Factory Overheads Control Account in the General Ledger for the year ended 30 June 2013.

**Greeting Card Manufacturer
General Ledger
Factory Overheads Control Account**

Advanced	Level
Excellent	
Moderate	
Low	
Weak	
NR	
Exceed	

QUESTION TWO

Assessor's use only

C2a	<p>Describe a source document that is used to keep a record of a job.</p> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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C2b	<p>Describe an input element of a job cost system.</p> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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NR										
C2d	<p>Define the appropriate source document used for requesting materials of a job cost system.</p> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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Weak										
NR										
C2e	<p>Describe internal controls for a job cost system which ensures that internal costs are correctly recorded and transferred.</p> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
Basic	Level									
Excellent										
Weak										
NR										

SECTION D: ACCOUNTING REPORTS - PARTNERSHIPS

Eric and John are partners who own *EJ Partners*, an accounting firm.

EJ Partners
Trial Balance (extract) as at 31 December 2013

Accounts Receivable	10,000	Accounts payable	10,000
Drawings- Eric	5,000	Provision for Doubtful Debts	400
Drawings- John	8,000	Capital – Eric	200,000
Building	200,000	Capital – John	150,000
Vehicles	120,000	Current Account – Eric	5,000
Interest on loan	1,500	Current Account- John	4,000
Office Furniture	12,000	Loan	40,000
Wages	22,000		
Insurance	4,200		

Additional information:

1. *EJ Partners* bought a new set of computers from *Office Works Ltd* for \$25,000 on 28th December and is yet to be recorded.
2. On balance day, wages owing is \$5,000.
3. Additional bad debts to be written off amounting to \$300.
4. The provision for doubtful debt is to be 2% of Accounts Receivable.
5. *EJ Partners* provided consultation to an investor. The fees charged for this consultation is \$4,000. This fee is yet to be received.
6. The insurance premium for the year amounts to \$4,000.
7. Interest on loan payable is at 5% per annum.
8. Depreciation is charged on the Motor Vehicles at 5% straight line method.
9. Eric and John have the following profit sharing clauses in their partnership agreement:
 - Salaries to partners: Eric \$40,000, John \$40,000.
 - Interest on capital: 5% on opening balance.
 - Interest on drawings is charged at 10%.
 - Residual profits and losses: shared between Eric and John equally.

D1a

Prepare the General Journal entries for the balance day adjustments 1 to 8 above. Narrations are not required.

General Journal

i.			
ii.			
iii.			
iv.			
v.			
vi.			
vii.			
viii.			

Basic	Level
Excellent	
Weak	
NR	

Basic	Level
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NR	

Basic	Level
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Weak	
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Basic	Level
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Weak	
NR	

D1b

Prepare the partners Profit and Loss Appropriation Account.

EJ Partners

Profit and Loss Appropriation Account as at 31 December, 2013

	Net Profit		\$130 000
i.	Add:		
ii.	Deduct:		
iii.			
iv.			

Basic	Level
Excellent	
Weak	
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Basic	Level
Excellent	
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NR	

Basic	Level
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Weak	
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SECTION E: ANALYSIS AND INTERPRETATION OF FINANCIAL INFORMATION

QUESTION ONE

The following financial information relates to Zoy's Products *Ltd* which sells used and new motor vehicle tyres.

Financial Information for years ended 31 December:

	2012	2013
Sales	\$350,000	\$440,000
Gross Profit	220,000	310,000
Other Income	80,000	105,000
Total Revenue	300,000	415,000
Less Expenses	120,000	250,000
Net Profit before Tax	180,000	165,000
Taxation	54,000	50,000
Net Profit after Tax	\$126,000	\$115,000

Financial Position:

	2012	2013
Shareholders' Equity (1 January 2012 \$100,000)	\$400,000	\$600,000
Number of shares issued (1 January 2012 200,000 shares)	200,000	200,000
Total Assets (1 January 2011 \$800,000)	\$900,000	\$1,000,000
Current Assets	300,000	450,000
Accounts Receivable	110,000	105,000
Inventory of tyres	100,000	120,000
Current Liabilities	100,000	300,000
Bank Overdraft	N/A	55,000
70% of sales are credit sales		

Comparative Ratios & Percentages:

	2008	2009	2010	2011	2012	2013
Gross Profit percentage	50%	61%	59%	62%	63%	?
Total Expenses percentage	50%	50%	52%	40%	34%	57%
Net Profit percentage	25%	30%	32%	30%	36%	26%
Return on Equity	20%	20%	20%	25%	42%	?
Current Ratio	3:1	3:1	2.5:1	2.5:1	3:1	?
Equity Ratio	0.60:1	0:60:1	0.60:1	0.55:1	0.44:1	?
Debtors Turnover	2.9 times	3.1 times	3 times	3.1 times	3 times	?
Inventory Turnover (Industry average)	2	2	2	2	2	2

E1a	<p>Calculate the following Profitability ratios for 2013 and show the appropriate formula for each. (Round off answers to one decimal place only).</p> <table border="1" data-bbox="199 336 1289 705"> <thead> <tr> <th></th> <th>Formula and workings</th> <th>Answer</th> </tr> </thead> <tbody> <tr> <td>Gross Profit Percentage</td> <td></td> <td></td> </tr> <tr> <td>Return on Equity Percentage</td> <td></td> <td></td> </tr> </tbody> </table>		Formula and workings	Answer	Gross Profit Percentage			Return on Equity Percentage			<table border="1" data-bbox="1321 392 1524 645"> <thead> <tr> <th>Proficient</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Proficient	Level	Excellent		Moderate		Weak		NR	
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Return on Equity Percentage																					
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E1b	<p>Calculate the following Liquidity and Financial Stability ratios for 2013 and show the appropriate formula for each. (Round off answers to one decimal place only).</p> <table border="1" data-bbox="183 907 1284 1317"> <thead> <tr> <th></th> <th>Formula and workings</th> <th>Answer</th> </tr> </thead> <tbody> <tr> <td>Current ratio</td> <td></td> <td></td> </tr> <tr> <td>Equity ratio</td> <td></td> <td></td> </tr> </tbody> </table>		Formula and workings	Answer	Current ratio			Equity ratio			<table border="1" data-bbox="1321 967 1524 1220"> <thead> <tr> <th>Proficient</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Proficient	Level	Excellent		Moderate		Weak		NR	
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E1c	<p>Calculate the following Management Effectiveness ratios for 2013 and show the appropriate formula for each. (Round off answers to one decimal place only).</p> <table border="1" data-bbox="183 1512 1284 1960"> <thead> <tr> <th></th> <th>Formula and workings</th> <th>Answer</th> </tr> </thead> <tbody> <tr> <td>Debtors Turnover</td> <td></td> <td></td> </tr> <tr> <td>Inventory Turnover</td> <td></td> <td></td> </tr> </tbody> </table>		Formula and workings	Answer	Debtors Turnover			Inventory Turnover			<table border="1" data-bbox="1321 1612 1524 1865"> <thead> <tr> <th>Proficient</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Proficient	Level	Excellent		Moderate		Weak		NR	
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E1d	Describe the purpose analysing financial information. <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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E1e	Describe a limitation of using financial statements in decision making. <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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E1f	Define liquidity. <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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E1g	Define management effectiveness. <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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E1h	Describe the trend shown on Return on Equity ratio. <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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E1i	Describe the strength of <i>Zoy's Products Ltd.</i> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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Weak										
NR										

Assessor's use only

E1j	Describe a weakness of <i>Zoy's Products Ltd.</i> <hr/> <hr/> <hr/>	<table border="1"><thead><tr><th data-bbox="1329 226 1437 271">Basic</th><th data-bbox="1437 226 1517 271">Level</th></tr></thead><tbody><tr><td data-bbox="1329 271 1437 322">Excellent</td><td data-bbox="1437 271 1517 322"></td></tr><tr><td data-bbox="1329 322 1437 374">Weak</td><td data-bbox="1437 322 1517 374"></td></tr><tr><td data-bbox="1329 374 1437 423">NR</td><td data-bbox="1437 374 1517 423"></td></tr></tbody></table>	Basic	Level	Excellent		Weak		NR	
Basic	Level									
Excellent										
Weak										
NR										

QUESTION TWO

Study the Statement of Cash Flows of *Pasifika Ltd* for the year ended 31 December 2013 and answer the questions that follow.

<i>Pasifika Ltd</i>		
Statement of Cash Flows		
for the year ended 31 December 2013		
Cash Flows from Operating Activities		
<i>Cash was provided from:</i>		
Cash from Sales	110,000	
Accounts Receivable	380,000	
		490,000
<i>Cash was applied to:</i>		
Accounts Payable	120,000	
General Expenses	105,000	
Interest Paid	10,000	
Tax Paid	6,000	241,000
<i>Net cash flows from Operating Activities</i>		249,000
Cash Flows from Investing Activities		
<i>Cash was provided from:</i>		
Sale Fixed Assets		10,000
<i>Cash was applied to:</i>		
Purchase Fixed Assets		155,000
<i>Net cash flows from Investing Activities</i>		(145,000)
Cash Flows from Financing Activities		
<i>Cash was provided from:</i>		
Decrease Term Deposits	20,000	
Issue Share Capital	10,000	
Increase Mortgage	30,000	60,000
<i>Cash was applied to:</i>		
Interim Dividend paid	60,000	
Final Dividend paid	90,000	150,000
<i>Net cash flows from Financing Activities</i>		(90,000)
Net Changes in Cash Flow		14,000
Add Bank Balance 1 January 2013		20,000
Bank Balance 31 December 2013		34,000

<p>E2a</p>	<p>Describe the type of activity shown in <i>Pasifika Ltd's</i> Statement of Cash Flow that improves the cash balance.</p> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		weak		NR							
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NR																
<p>E2b</p>	<p>Write a report to the management of <i>Pasifika Ltd</i> regarding the cash flow position for the year ended 31 December 2013 and recommend ways that it could be improved.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Advanced</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Low</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> <tr> <td>Exceed</td> <td></td> </tr> </tbody> </table>	Advanced	Level	Excellent		Moderate		Low		Weak		NR		Exceed	
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SECTION F: DECISION MAKING AND BUDGETS

QUESTION ONE

Golden Ocean Ltd operates a fish shop in the city. Due to increase in demand, the management is looking into leasing a space in the next building. The lease per month will cost the company \$10,000. The company's average profit per month is \$11,000.

Assessor's use only

<p>F1a</p>	<p>Identify the objective of the leasing another space.</p> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
Basic	Level									
Excellent										
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<p>F1b</p>	<p>Identify the financial information needed to make the decision whether to lease the space or not.</p> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
Basic	Level									
Excellent										
Weak										
NR										
<p>F1c</p>	<p>Identify alternative courses of action Golden Fish Ltd could implement in order to achieve its objective.</p> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
Basic	Level									
Excellent										
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<p>F1d</p>	<p>Identify ONE item of non-financial information that would be needed in making the given decision.</p> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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<p>F1e</p>	<p>Is the decision under consideration a strategic or a routine decision?</p> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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QUESTION TWO

Mary who owns *Virgin Oil* is concerned about the cash situation of the business and has asked you to assist in the preparation of a cash budget for the three month period ending 31 December 2013.

You are given the following information:

- All sales will be on credit and it is estimated that:
 - 70% of sales will be received in the month of the sale.
 - 22% of sales will be received in the first month following the sale.
 - 8% of sales will be uncollectable. This 8% is to be written off as Bad Debts at the end of the first month following the sale.
 - Actual Sales for September is \$60,000
 - Sales have been estimated for the three months to be:
 - October \$70,000
 - November \$75,000
 - December \$75,000
- Sales are expected to increase to \$80,000 per month

The following additional information relates to sales of virgin oil for October, November and December:

- The mortgage repayment of \$5,000 is paid in December.
- Mary withdraws \$2,000 per month for her own use.
- The interest on the loan is paid monthly on the last day of \$200.
- Cost of supplies will be purchased on credit, payable the month after purchase and are estimated to be:

- September	\$30,000
- October	\$30,000
- November	\$30,000
- December	\$30,000
- Other variable costs are estimated to be 12% of sales and paid in the month in which they occur.
- General selling and administration expenses are expected to be \$15,000 a month and are paid in the month they occur.
- Depreciation related to the expansion is estimated to be \$1,000 per month.

F2a	<p>Prepare a cash budget for the three months to 31 December 2013.</p> <p style="text-align: center;">Virgin Oil Cash Budget</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 65%;"></th> <th style="width: 15%;">October</th> <th style="width: 15%;">November</th> <th style="width: 5%;">December</th> </tr> <tr> <td></td> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Receipts</td> <td></td> <td></td> <td></td> </tr> <tr> <td> </td> <td></td> <td></td> <td></td> </tr> <tr> <td> </td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total Receipts</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Payments</td> <td></td> <td></td> <td></td> </tr> <tr> <td> </td> <td></td> <td></td> <td></td> </tr> <tr> <td> </td> <td></td> <td></td> <td></td> </tr> <tr> <td> </td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total Payments</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Surplus/(Deficit) of cash</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		October	November	December		\$	\$	\$	Receipts												Total Receipts				Payments																Total Payments				Surplus/(Deficit) of cash				<table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 60%;">Advanced</th> <th style="width: 40%;">Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Low</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> <tr> <td>Exceed</td> <td></td> </tr> </tbody> </table>	Advanced	Level	Excellent		Moderate		Low		Weak		NR		Exceed	
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