MARKER CODE				

Student Enrolment Number (SEN)									

TONGA FORM SIX CERTIFICATE

2017

ACCOUNTING

QUESTION AND ANSWER BOOKLET

Time allowed: 3 Hours

INSTRUCTIONS:

1. Write your **Student Enrolment Number (SEN)** on the top right-hand corner of this page.
2. Additional sheets of paper can be obtained from your supervisor if necessary. Write your **Student Enrolment Number (SEN)** on each addition sheet, number the questions clearly and insert them in the appropriate part of your booklet.

Sections/Topics	Total Skill Level
QUESTION 1: Conceptual Basis of Accounting	16
QUESTION 2: Accounting Practices	32
QUESTION 3: Financial Report	20
QUESTION 4: Decision making process	12
TOTAL	**80**

3. Follow instructions and answer all questions in the spaces provided in this booklet.
4. Check that this booklet contains pages 2-19 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.

QUESTION 1: CONCEPTUAL BASIS OF ACCOUNTING

1. When Vilisoni prepared the financial report for his delivery business, he was confused whether to classify the fuel for the motor vehicles as a revenue expense or a capital expense. Define **revenue expenditure**.

Skill level 1	
1	
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NR	

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2. For each of the following information, identify **ONE** (1) user of that specific accounting information.

   i. The working capital ratio of the entity.

Skill level 1	
1	
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NR	

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   ii. The information that might lead to a bonus for the work done.

Skill level 1	
1	
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NR	

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3. Relevance is one of the qualitative characteristics of good accounting information. Define this qualitative characteristic of **Relevance**.

Skill level 1	
1	
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4. Information relevant to the decision making should be disclosed in the report prepared. Define the **disclosure** principle.

Skill level 1	
1	
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NR	

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5. In the preparation of the Revenue Statement for a business that produces concrete blocks, the negative effect of the production process on the environment is not recorded under the expenses. Identify the concept that is being applied here.

Skill level 1	
1	
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6. When Theresa prepared the Balance Sheet Statement for her hair salon business, she avoided putting in the coins values and include only the dollar value.

Identify the concept that she applied for her action.

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Skill level 1	
1	
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7. Sales is the major revenue of a retailing business. Define **revenue** as an element of accounting.

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Skill level 1	
1	
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8. In a retailing business, Sione is a debtor and a corned beef is an inventory. Both are recorded under the current asset in the Balance Sheet Statement.

Give the definition of asset to show the similar nature of both items.

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Skill level 1	
1	
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9. Buying a delivery van for a wholesaler is a capital expense. Define **capital expenditure**.

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Skill level 1	
1	
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NR	

10. When preparing his financial report for the year ended 30 June 2017, Petelo forgot to enter the wages for the month of March into the books of first entry.

Describe the effect of this on the owner's equity.

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Skill level 2	
2	
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11. Joseph prepared the financial report for his laundry business for the year ended 30 June 2017. During the financial year, he built an extension to the building but he wrongly recorded it as a revenue expense.

Analyse the effect on the reported net profit as well as on the total assets for this incorrect recording treatment of the extension.

Skill level 4	
4	
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QUESTION 2: ACCOUNTING PRACTICES

1. ‘Eniketi Jr called a meeting with her workers to inform them on a change of supplier. Identify the source document for the calling of the meeting.

Skill level 1	
1	
0	
NR	

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2. Felise took $100.00 worth of inventory from his shop for his friend’s birthday party. His accountant entered the transaction into the journal. What stage in the accounting process would this journal be classified under?

Skill level 1	
1	
0	
NR	

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3. Identify another name for the books of first entry.

Skill level 1	
1	
0	
NR	

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4. In a car dealer business like the 4H Motors, state **ONE** (1) item that would be recorded under the heading inventory.

Skill level 1	
1	
0	
NR	

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5. A debtor paid his debt directly to the business’s bank account as a direct credit. Identify the source document that record this information.

Skill level 1	
1	
0	
NR	

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6. Name the source document for preparing payroll sheet.

Skill level 1	
1	
0	
NR	

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7. Describe **TWO** (2) advantages of using computers in the accounting processing.

i. ____

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ii. ____

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Skill level 2	
2	
1	
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NR	

8. Describe clearly the accounting procedure for operating a petty cash fund system.

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Skill level 2	
2	
1	
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NR	

9. Describe what does it means to have a credit balance in the bank statement.

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Skill level 2	
2	
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10. Explain **THREE** (3) factors which cause depreciation.

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Skill level 3	
3	
2	
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11. Felise has been operating Felise Taxi services. He depreciated the motor vehicles using the Diminishing Value method.

Explain the cost allocation under the Diminishing Value method that Felise used to depreciate the motor vehicle.

Skill level 3	
3	
2	
1	
0	
NR	

12. Apasia, the owner of Apa's Bakery, depreciated the machineries using the Units of use method. On 1st October 2014, she bought one machine for $20,000. The machine is expected to bake 200,000 loaves of bread with zero residual value. Apasia sold the machine to Sione's Bakery for $10,000 on 31st December 2016.
From October the 1st 2014 to 31st December 2014, Apasia baked 10,000 loaves of bread from the same machine. For the year ended 31st December 2015, 60,000 loaves of bread were baked and 40,000 loaves in 2016 before the machine is being sold.

You are required to calculate the gain or loss on the disposal of the machine.

Skill level 3	
3	
2	
1	
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NR	

13. Paula Jr employed Kelela and Nonga at his garment factory. Kelela is paid $5.00 per hour while Nonga is paid $6.00 per hour. During the first week of April 2017, the following information were extracted from the time sheet:

Employee	*Hours worked*		
	Normal time	Time and a half	Double time
Kelela	30	8	7
Nonga	25	6	8

The weekly deductions from each employees gross pay are as follows:

Deductions	*Kelela ($)*	*Nonga ($)*
Tax	10	10
Superannuation	5	6
Social	5	5

You are required to use the information provided above to prepare the payroll register for Paula Jr garment factory for the first week of April 2017 and determine the gross pay and net pay for each employee.

Skill level 3	
3	
2	
1	
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14. Houa, the owner of Tukumisi Wholesalers, employed Fifita as the accountant to look after the business's inventory. Fifita considered using the Perpetual Inventory valuation method instead of the Periodic Inventory valuation method. Houa came to you for clarification about Fifita's point of view.

You are required to analyse the inadequacies of a periodic system of inventory valuation as opposed to a perpetual inventory system.

Skill level 4	
4	
3	
2	
1	
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NR	

15. You are required to study carefully the case study given below and make recommendations to improve the internal controls over the subsystems given in the case study.

The owner of Sunshine Beach Resort employed Melesa to look after the worker's weekly pay. The owner used the following systems of internal control:

- The resort used a time clock to record the time that the workers started and finished working every day.
- Each worker has a time card left beside the clock in Melesa's office. They punched in their card whenever they started and finished work everyday.
- Every Friday, Melesa went to the bank to withdraw the cash for the payment of the workers. She only used the notes for the payment of wages.
- Before the payment of wages, Melesa wrote down the number of the payroll register then entered the information for the payment to calculate the gross and the net pay of each worker
- Whenever Melesa saw any worker after preparing the payroll register, she called and started giving out the payment already sealed in an envelope.
- At the end of the day, Melesa entered the payroll record to the journals and then the ledger account.

Skill level 4	
4	
3	
2	
1	
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NR	

QUESTION 3: FINANCIAL REPORT

1. Name the financial report that determine the excess of income over expenditure for a community organization.

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Skill level 1	
1	
0	
NR	

2. Describe the accounts that are not closed on balance day?

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Skill level 2	
2	
1	
0	
NR	

3. Describe a reason for preparing reversal entries.

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Skill level 2	
2	
1	
0	
NR	

4. Describe the nature of an insurance paid in advance.

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Skill level 2	
2	
1	
0	
NR	

5. Use the following information for the Youth Health Club Inc to answer the questions that follows.

The club's assets and liabilities as at 1st July 2016 were:

Assets	*$*	*$*		*Liabilities*	*$*
Petty cash imprest		20		Subscriptions prepaid	15
Cash at bank		734		Wages accrued – health food	120
Inventories – health food		228			
Rent paid in advance		90			
Subscriptions accrued		80			
Equipment (cost)	3,800				
Accumulated depreciation	1,300	2,500			

Money received during the year ended 30th June 2017:

- Entrance fees $20
- Subscription revenue $840
- Sales – health food $2,128
- Donations $90
- Sale of equipment $80

Money paid during the year ended 30th June 2017:

- Electricity $300
- Rent $800
- Postage $14
- Telephone $90
- Equipment $1,200
- Purchases – health food $1,450
- Wages – health food $1,480
- Insurance $180
- Sundries $20

Additional information:

- Subscription accrued $50
- Subscription paid in advance $70
- Accrued wages – health food $140
- Rent prepaid $40
- Allow $500 depreciation on equipment
- Inventories on hand of health food $347

You are required to prepare:

i. Youth Health Club Inc Health Food trading account for the year ended 30th June 2017 in vertical form.

Youth Health Club Inc
Health Food Trading Account for the year ended 30th June 2017

	$	$

Skill level 3	
3	
2	
1	
0	
NR	

ii. The Youth Health Club Inc. subscription account.

Subscription account

Date	Particulars	Dr $	Cr $	Balance $

Skill level 3	
3	
2	
1	
0	
NR	

iii. The Youth Health Club Inc. Receipts and Payments Account.

Youth Health Club Inc
Receipts & Payments Account for year ended 30 June 2017.

	$	$

Skill level 3	
3	
2	
1	
0	
NR	

6. Using the information provided below for Joseph's retail store for the year ended 30th June 2017, you are required to calculate the credit sales and credit purchases for the year.

Balances on 1st July 2016:

- Trade debtors $13,000
- Trade creditors $6,800

For the year ended 30th June 2017:

- Payments to creditors $14,000
- Cash purchases $16,000
- Discount allowed $450
- Discount received $2,000
- Receipts from debtors $11,000
- Commission $900
- Interest charged on debtors overdue account $100
- Credit sales return $250
- Credit purchase return $150
- Closing debtors balance $12,000
- Closing creditors balance $10,000
- Bad debts written off $500
- Additional bad debts written off $50
- Stock at the end $6,000

1. Credit Sales	2. Credit Purchases

Skill level 4	
4	
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2	
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QUESTION 4: DECISION MAKING PROCESS

1. List **TWO** (2) management effectiveness ratios.

   i. ____________________

   ii. ____________________

Skill level 1	
1	
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2. Identify the meaning of the account receivable turnover.

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Skill level 1	
1	
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3. Describe the purpose of solvency test.

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Skill level 2	
2	
1	
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4. The owner of ‘Utu Lelei Gas Station has provided the following information about his business.

You are required to study carefully the information provided and complete the tasks that follow:

	2013	*2014*	*2015*	*2016*	*Industry average*
Current Ratio	1.8 : 1	2.4 : 1	2.5 : 1	2.2 : 1	1.5 : 1
Liquid Ratio	1 : 1	1.3 : 1	1.2 : 1	0.9 : 1	0.9 : 1
Debt Ratio	0.38 : 1	0.3 : 1	0.25 : 1	0.2 : 1	0.35 : 1
Debtor’s turnover	70 days	75 days	85 days	90 days	60 days
Inventory turnover	6 times	6.5 times	8 times	10 times	6 times
Sales (70% credit)	$180,000	$200,000	$240,000	$300,000	$200,000
Gross profit Ration	0.40 : 1	0.43 : 1	0.45 : 1	0.48 : 1	0.44 : 1
Total Expenses Ratio	0.28 : 1	0.30 : 1	0.35 : 1	0.38 : 1	0.33 : 1
Net Profit Percentage	12%	13%	12%	10%	11%

i. Comment on the trend and suggest **TWO** (2) remedial measures for the improvement of the Financial Stability position of ‘Utu Lelei Gas Station.

Skill level 4	
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ii. Justify **TWO** (2) recommendations of measures needed to improve the financial performance and management effectiveness of 'Utulelei Gas Station

Skill level 4	
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1	
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NR	