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| STUDENT ENROLMENT NUMBER (SEN) | | | | | | | | | |
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# TONGA FORM SIX CERTIFICATE

# 2018

# 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. This paper consists of **FOUR QUESTIONS** and is out of 80 Skill Level.

| QUESTIONS | TOPICS | TOTAL WEIGHT |
|---|---|---|
| **ONE** | **CONCEPTUAL BASIS OF ACCOUNTING** | 15 |
| **TWO** | **ACCOUNTING PRACTICES** | 35 |
| **THREE** | **FINANCIAL REPORT** | 20 |
| **FOUR** | **DECISION MAKING PROCESS** | 10 |
| | **TOTAL** | **80** |

3. Answer ALL QUESTIONS. Write your answers in the spaces provided in this booklet.
4. In addition to this booklet, you should also receive a **Formulae Sheet.**
5. Use a **BLUE** or **BLACK** ball point pen only for writing. Use a pencil for drawing if required.
6. If you need more spaces 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 part of your booklet.
7. Check that this booklet contains pages 2-19 in the correct order and that page 19 has been deliberately left blank.

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

## QUESTION ONE: CONCEPTUAL BASIS OF ACCOUNTING

1. Identify the user of accounting information that require the productivity of the workers.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

*"Businesses monitor their expenses according to what have been planned for in their budget".*

2. Identify the function of accounting that the above statement is referring to.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

3. Define **Reliability** as a qualitative characteristic.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

4. Fixed Assets are recorded at their historical cost. Define **historical cost**.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

*"Vilisoni Jr included estimated expenses such as depreciation in the preparation of the Statement of Financial Performance at the end of the financial period".*

5. Identify the accounting concept that the above statement illustrates.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

*"At the end of the Statement of Financial Position, Matakaiongo added the description of the valuation method used by the business as a foot note".*

6. Identify the accounting concept that the above statement illustrates.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

7. Explain the interrelationship between the **Going Concern concept** and the **Accounting Period concept**.

| Skill level 3 | |
|---|---|
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

8. Analyse the interrelationship between the **Matching concept** and the **Accrual concept**.

| Skill level 4 | |
|---|---|
| 4 | |
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

9. Define **liability**.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

10. Define **revenue expenditure**.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

**QUESTION TWO: ACCOUNTING PRACTICES**

1. Identify the stage in the accounting process where the submission of the worksheet is included.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

*Theresa has completed the chart of account to be used by the business.*

2. Describe the purpose of a **chart of accounts** in accounting processing.

| Skill level 2 | |
|---|---|
| 2 | |
| 1 | |
| 0 | |
| NR | |

3. Describe **TWO** (2) importance of **source documents** in accounting processing.

| Skill level 2 | |
|---|---|
| 2 | |
| 1 | |
| 0 | |
| NR | |

*The heading for every trial balance includes 'as at" then the balance date.*

4. Describe the reason for the heading ***"as at"*** for every trial balance.

| Skill level 2 | |
|---|---|
| 2 | |
| 1 | |
| 0 | |
| NR | |

*Joseph is the chief accountant while Felise is the accounts clerk. It is the company's policy that every source document prepared by Felise must be signed by Joseph.*

5. Identify the principle of internal control that is illustrated by the above stated example.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

6. Identify and describe the essential information and control features recorded on a receipt book.

| Skill level 2 | |
|---|---|
| 2 | |
| 1 | |
| 0 | |
| NR | |

*Poli Wholesalers employed Paula as the manager at the purchase department, Apa as the manager at the storage department and Sione as the manager at the receiving department. When Paula feels that there is a need for more stock, he calls a supplier he knows very well to deliver the inventory required. The delivery is received by Apa and then gives a copy of the invoice to Sione for recording purposes.*

7. You are required to study the case above and make recommendations for the improvement of the internal control over the inventory.

| Skill level 4 | |
|---|---|
| 4 | |
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

8. Define **internal controls over cash**.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

*The following information was recorded by Nonga, the petty cashier for Sieli Accounting Firm, for the month of October 2018:*

| | | |
|---|---|---|
| *October* | *1* | *withdraw petty cash fund $80, chq #225* |
| | *3* | *bought stationery $7.50, voucher #1* |
| | *6* | *pay for posting of parcels $10.50, voucher #2* |
| | *8* | *bought stamp and envelopes $9.50, voucher #3* |
| | *12* | *pay transport of documents $10.00, voucher #4* |
| | *15* | *pay for posting of parcels $10.50, voucher #5* |
| | *22* | *transport of documents $9.00, voucher #6* |
| | *29* | *bought stationery $8.50, voucher #7* |
| | *31* | *reimbursement cheque #270* |

9. You are required to use the information given above to prepare the petty cash book for Sieli Accounting Firm for the month of October 2018.

| Skill level 3 | |
|---|---|
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

*During the second week of May 2018, the following transactions took place with regard to the blue dia flip flops (one of the inventories at Poli Wholesalers).*

| | | |
|---|---|---|
| *May* | *7* | *balance on hand, 100 blue dia @ $9 each* |
| | *8* | *bought 50 blue dia @ $10 each* |
| | *9* | *sell 120 blue dia to Folau Retail Store for $12 each* |
| | *11* | *bought 150 blue dia @ $11 each* |
| | *12* | *sell 80 blue dia to Toakase Store for $13 each* |

*Suppose Poli Wholesalers uses the perpetual inventory system.*

10. You are required to enter the above transactions into a stock ledger card below using **FIFO** method.

***Stock Ledger Card – FIFO method***

| *Date* | *Particulars* | *In* | | | *Out* | | | *Balance* | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Qty | $ | Total | Qty | $ | Total | Qty | $ | Total |
| | | | | | | | | | | |
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| Skill level 3 | |
|---|---|
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

11. State **ONE** (1) reason why a cheque may be dishonoured by the bank.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

12. Define **inventory**.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

13. Explain **THREE** (3) inadequacies of a periodic system of inventory valuation as opposed to a perpetual inventory system.

| Skill level 4 | |
|---|---|
| 4 | |
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

*Kelela is planning to dispose one delivery van and buy a new one for her business.*

14. Identify **ONE** (1) method that can be used for the disposal of the delivery van.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

*Theresa owns ten buildings at different locations in Nuku'alofa. She depreciated the buildings 10% straight line method. One of the buildings was built on 1st July 2010 with a cost of $92,000 and an expected residual value of $2,000. On 31st December 2017, she sold the building for $24,000.*

15. Calculate the loss or gain on the disposal of the building.

| Skill level 3 | |
|---|---|
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

16. Define **gross pay**.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

*Soane is paid $6 per hour in ordinary time and $9 per hour when time and a half over time.*

17. Explain the difference between **ordinary earnings** and **overtime earnings**.

| Skill level 3 | |
|---|---|
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

**QUESTION THREE: FINANCIAL REPORT**

1. Name the **financial report** that shows the profitability of a sole trader business.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

2. Define **balance day adjustment**.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

Given is the Trial Balance for Soni's Electronic Repair Services as at 30 June 2018. Use it to answer question 3 and 5

**Soni Electronic Repair Services**
**Trial Balance as at 30th June 2018**

| | $ | | $ |
|---|---|---|---|
| Accounts Receivable | 8,500 | Accounts Payable | 11,600 |
| Bank | 28,900 | Mortgage | 50,000 |
| Building (cost) | 130,000 | Loan | 9,000 |
| Service Equipment | 50,000 | Service Revenue | 121,200 |
| Drawings | 10,000 | Commission Received | 1,200 |
| Rent | 12,000 | Capital-Soni | 93,500 |
| Advertising | 1,000 | | |
| Insurance | 1,600 | | |
| Telephone | 2,000 | | |
| Utilities Expenses | 20,000 | | |
| Interest on Mortgage | 3,500 | | |
| Salaries | 19,000 | | |
| | | | |
| | | | |
| | | | |
| | ***$286,500*** | | ***$286,500*** |

***Additional information:***

a. Prepaid insurance $400
b. Salaries due but unpaid $1000
c. Commission received in advance $100
d. Depreciation on building, 5% on cost

3. Use the additional information for Soni Electronic Repair Services Trial Balance to prepare the general journal entries for the adjustments a. to d.

**General Journal**

| Date | Particulars | Dr ($) | Cr ($) |
|---|---|---|---|
| | | | |
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| Skill level 3 | |
|---|---|
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

4. State the accounting equation that a Statement of Financial Position is based on.

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| Skill level 2 | |
|---|---|
| 2 | |
| 1 | |
| 0 | |
| NR | |

5. Use the trial balance and the adjustments for Soni Electronic Repair Services to prepare the post-closing trial balance for the business as at 30th June 2018.

**Soni Electronic Repair Services**
**Post-Closing Trial Balance as at 30th June 2018**

| Accounts | Dr ($) | Cr ($) |
|---|---|---|
| | | |
| | | |
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| Skill level 3 | |
|---|---|
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

6. Describe the difference between a **trading** and a **service** enterprise.

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| Skill level 2 | |
|---|---|
| 2 | |
| 1 | |
| 0 | |
| NR | |

7. For a community organization, name the financial statement that shows entrance fees.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

8. Use the following information to prepare the subscription account for the period ended 30/06/2018.

- **Sub in advance 01/07/2017** **$300**
- **Sub in arrear 01/07/2017** **$400**
- **Sub in advance 30/06/2018** **$600**
- **Sub in arrear 30/06/2018** **$700**
- **Subscription received during the period** **$4,500**

| Skill level 3 | |
|---|---|
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

9. Using the information provided by Mo'ui Hockey Club for the year ended 30th June 2018, you are required to prepare an Account Receivable Control account and the Account Payable Control account to calculate the credit sales and credit purchases for their Bar Trading activities shown below for the given period.

**Balances on 1st July 2017:**

- Trade debtors $7,000
- Trade creditors $7,400

**For the year ended 30th June 2018:**

- Payments to creditors $12, 000
- Receipts from debtors $17,000
- Bar Cash Sales $45,000
- Bar Cash Purchases $43,000
- Discount Allowed $500
- Discount Received $600
- Credit sales return $200
- Credit purchase return $300
- Interest charged by creditors $100
- Stock at the end $6,000

**Additional information (30/06/2018):**

- Trade Debtors balance $7,500
- Trade Creditors balance $8,200
- Bad debt written off $900

i. Credit sales

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ii. Credit purchases

| Skill level 4 | |
| --- | --- |
| 4 | |
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

**QUESTION FOUR: DECISION MAKING PROCESS**

1. State **ONE** (1) management effectiveness ratio.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

2. State the formula for the Equity ratio.

| Skill level 1 | |
|---|---|
| 1 | |
| 0 | |
| NR | |

3. Explain **FOUR** (4) limitations of using financial statements to make decisions.

| Skill level 4 | |
|---|---|
| 4 | |
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

4. The information given below were taken from the books of Stanley Traders for the year ended 30th June 201X. You are required to use the information to write comments on the profitability of the business.

| | ***2015*** | ***2016*** | ***2017*** | ***2018*** | ***Industry average*** |
|---|---|---|---|---|---|
| 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 Ratio | 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% |

| **Skill level 4** | |
|---|---|
| 4 | |
| 3 | |
| 2 | |
| 1 | |
| 0 | |
| NR | |

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