MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA FORM SIX CERTIFICATE 2019

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 SECTIONS** and is out of 80 weighted scores.

SECTIONS	TOPICS	TOTAL SKILL LEVELS
A	CONCEPTUAL BASIS OF ACCOUNTING	16
B	ACCOUNTING PRACTICES	37
C	ACCOUNTING REPORTS	13
D	DECISION MAKING PROCESS	14
	TOTAL	80

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 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 places in this booklet.
   NOTE: There is a **Formulae Sheet** on page **23**.
6. Check that this booklet contains pages 2-23 in the correct order and that pages none of the pages is blank.

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

SECTION A: CONCEPTUAL BASIS OF ACCOUNTING

1. For financial information to be useful in assisting users to make informed decisions, it needs to have qualitative characteristics.

   a. Define “comparability as one of the qualitative characteristics”.

   ____
   ____
   ____

Skill level 1	
1	
0	
NR	

   b. Give an example of how comparability is applied.

   ____
   ____
   ____
   ____
   ____
   ____
   ____

Skill level 2	
2	
1	
0	
NR	

2. Identify the user of the information given below:

   This user will be interested in the location of the business

   ____

Skill level 1	
1	
0	
NR	

3. Explain **TWO** (2) reasons why the user you identified in question no.2 is interested in the location of the business.

Skill level 3	
3	
2	
1	
0	
NR	

4. The analysis of a retail business owned by Peter shows that there is a problem in managing the debtors of the business. He went on decreasing the credit sales and more on cash sales.

   Describe the function of accounting that is revealed by the reaction of the owner.

Skill level 2	
2	
1	
0	
NR	

5. Discount received and commission received are classified as revenue in the Statement of Financial Performance.

   Define what revenue is.

Skill level 1	
1	
0	
NR	

6. Manu’s business bought a new office equipment for $15,000 cash. He also paid $1,000 for installing the new equipment.

   a. Define what capital expenditure is.

   ____
   ____
   ____

Skill level 1	
1	
0	
NR	

   b. Explain the effect on the reported net asset value if the $1,000 paid for installing the equipment was recorded as revenue expenditure instead of capital expenidure

   ____
   ____
   ____
   ____
   ____
   ____

Skill level 3	
3	
2	
1	
0	
NR	

7. In preparing the Statement of Financial Performance, the interest received of $150 includes $30 that are not yet received.

   Identify the accounting concept that supports this $30 to be included in the interest amount.

   ____

Skill level 1	
1	
0	
NR	

8. In preparing the Statement of Financial Position, the business building is classified under Fixed Asset.

   Identify the Accounting concept that requires this classification.

   ____

Skill level 1	
1	
0	
NR	

SECTION B: ACCOUNTING PRACTICES

Given below are some analyzed transactions for a retail business owned by Tevita Pua for the month of July.

Date of Transactions	Accounts affected	Types of Account (A,L,P,R,E)	Increase or Decrease	Amount
July 2^{nd}	Sales P.Moli	R A	Increase Increase	\$2,000 \$2,000
July 3^{rd}	Cash at Bank Sales	A R	Increase Increase	\$1,000 \$1,000
July 4^{th}	P. Moli Return Inward	A R	Decrease Decrease	\$200 \$200
July 5^{th}	Cash at Bank P. Moli Discount Allowed	A A E	Increase Decrease Increase	\$1,000 \$1,200 \$ 200
July 6^{th}	Bad Debts P. Moli	E A	Increase Decrease	\$250 \$250
July 7^{th}	S. Pepa Office Equipment	A A	Increase Decrease	\$500 \$500
July 8^{th}	V. Pua Return Outward	L E	Decrease Decrease	\$300 \$300
July 9^{th}	Cash at Bank Interest	A R	Increase Increase	\$100 \$100
July 10^{th}	Cash at Bank V. Pua Discount Received	A L R	Decrease Decrease Increase	\$100 \$150 \$ 50

1. You are required to complete the **four** Journals given below using the analysed transactions given on the previous page.

   (You are **NOT** required to total the Journals)

General Journal

Date	Particulars	Debit	Credit

Sales Journal

Date	Particulars	Debit	Credit

Return Inward Journal

Date	Particulars	Debit	Credit

Cash Receipts Journal

Date	Particulars	Disc	Detail	Bank	Sales	Debtors	Others

Skill level 3	
3	
2	
1	
0	
NR	

2. Give another name for Journals.

Skill level 1	
1	
0	
NR	

____

3. Identify the stage of the Accounting Process where the double entry Accounting system is established.

Skill level 1	
1	
0	
NR	

____

4. The following information is provided by Sione Kali, an owner of a retail business for the month of August 2019.

Total of:	
Sales Column: Cash Receipts Journal	$1,400
Sales Journal	2,400
Purchases Column: Cash Payment Journal	400
Purchases Journal	1,550
Creditors Column – Cash Payment Journal	1,200
Discount Received Column – Cash Payment Journal	40
Debtors Column – Cash Received Journal Column	1,800
Return Outward Journal	120
Return Inward Journal	110
Total Bad Debts	100
Debtors cheque dishonoured	50
Interest charged on debtors	20
Interest charged by creditors	15
Sione Kali, a debtor is also a creditor (the amount is to be offset)	105
Debtors balance at 1st August 2019	1,450
Creditors balance at 1st August 2019	1,000

You are required to use the information on page 7 to prepare the Debtors Control account given below for the month of August.
(Note that not all information is relevant)

Debtors Control a/c

Date	Particulars	Debit	Credit	Balance

Skill level 3	
3	
2	
1	
0	
NR	

5. Debtors Control account in no.4 on page 8 is prepared using the Three Column format.

   Describe the major advantage of using a Three Column Format for preparing ledger accounts..

   ____
   ____
   ____
   ____
   ____
   ____

Skill level 2	
2	
1	
0	
NR	

6. Identify the source document used to record the entries in the following Journals:

   a. Purchases Journal

   ____

Skill level 1	
1	
0	
NR	

   b. General Journal when recording Bad Debts.

   ____

Skill level 1	
1	
0	
NR	

   c. Return Inwards Journal.

   ____

Skill level 1	
1	
0	
NR	

7. A Trial Balance is a list of all balances in the ledger and are used to prepare the final accounts. Although it is a great means of checking the accuracy and double entry rules, there are still some limitations that it cannot disclose.

   Describe **ONE** (1) limitation of a Trial Balance.

   ____
   ____
   ____

Skill level 2	
2	
1	
0	
NR	

8. Soana Palu balanced her Cash at Bank Account at 1st August 2019 and it showed a credit balance of $9620.50.

After a comparison with the Bank Statements a debit balance of $7190.18 is showed on 31st August 2019 and the following differences were revealed.

- Seini Manu's dishonoured cheque had been debited in the bank statement $116
- Deposits not yet credited $94, $26
- Interest on overdraft $64
- Unpresented cheque no. 572 $764 ; no.579 $125
- Bank fee $8
- Interest on bonds $216
- Govt tax on debit $2

Other information:

Cash Receipts Journal:

August 31 Entries to date $22,062.47

Cash Payment Journal:

August 31 Entries to date $20,427.15

It was found that cheque no.572 is for $746 then the bank is incorrect as they have the amount shown as $764.

a. Prepare the bank reconciliation statement for the month of August 2019.

Bank Reconciliation Statement – Soana Palu
For the month ended 31st August 2019.

____

____

____

____

____

____

____

____

____

Skill level 3	
3	
2	
1	
0	
NR	

b. Identify the meaning of the debit balance $7190.18 in the Bank Statement.

Skill level 2	
2	
1	
0	
NR	

9. The business cash records must be checked at regular intervals with an independent record which is the bank record (also known as the bank Statement). This is a good system of internal control over cash.

a. Explain why it is important to have good internal control over cash.

Skill level 3	
3	
2	
1	
0	
NR	

b. Describe the feature of a bank statement.

Skill level 2	
2	
1	
0	
NR	

10. Name the source document for preparing the following records:

Skill level 1	
1	
0	
NR	

a. Petty Cash Book.

____

Skill level 1	
1	
0	
NR	

b. Payroll Sheet:

____

11. Read the following information and use it to answer the question that follow.

> Pita Solo, an owner of a small retail store has problems of how he controls and keeps the record of his business. He has two employees, a secretary and a clerk. He opens all mail and collect cheques and put them in a file to write the Receipts during his leisure time
>
> He takes all cash and cheques to the bank in his spare time. At the end of every day, he enters all amount received directly into the customers' accounts. He cashed a customer's cheque to pay for stamps, stationery and keeps the remaining amount locked in the safe.
>
> His clerk leaves enough signed blank cheques to make payments when he is away.

You are required to make **THREE** (3) recommendations with reasons to Pita of how to improve the internal control system of his business.

____

____

____

____

____

____

____

____

____

Skill level 4	
4	
3	
2	
1	
0	
NR	

12. On 31st December 2018, Mele Tonga had motor vehicles cost is $40,000. On this date, one vehicle which was purchased on 1st July 2016 for $15,000 was sold for $7,000 cash. On 1st January 2018, the accumulated depreciation on motor vehicles account had a credit balance of $18,000. Depreciation is 20% per annum using straight line method. Assume there is no expected residual value and that 31st December is the end of the financial year.

a. You are required to prepare the Motor Vehicle Disposal Account for Mele Tonga

Motor Vehicle Disposal Account

Date	Particulars	Dr	Cr	Balance

Skill level 3	
3	
2	
1	
0	
NR	

b. Define what depreciation is.

Skill level 1	
1	
0	
NR	

Skill level 1	
1	
0	
NR	

c. Identify what type of account is depreciation.

____

d. Motor Vehicles are classified under Non-Current Asset in the Balance Sheet.

Define what Non-Current Asset is.

Skill level 1	
1	
0	
NR	

____

____

____

SECTION C: ACCOUNTING REPORTS

1. Name the Accounting Report that shows the Liquidity Position for a Sole trader business.

Skill level 1	
1	
0	
NR	

2. Describe the reason for Statement of Financial Position being not subjected to double entry.

Skill level 2	
2	
1	
0	
NR	

3. Financial Report of businesses consists of various kind of Financial Statements which include a Statement of Accounting Policies.

   Explain the purpose of the Statement of Accounting Policies.
   Your explanation should have examples of information contained in this Statement of Accounting Policies.

Skill level 3	
3	
2	
1	
0	
NR	

4. The following information about the Accounts Receivable and its related accounts were taken from the financial record of a business owned by Lilly Taufa.

Trial Balance – Lilly Taufa
As at 30th June 2019 (Extract)

Accounts Receivable	$ 60,000 Dr
Allowance for doubtful debts	5,000 Cr

Additional Information:

A further $1,800 of bad debts are to be written off and allowance for doubtful debts is to be adjusted to 10% of accounts receivable.
Prepare the adjusting entries for bad debts and allowance for doubtful debts.
(Note: Narrations are NOT required)

Date	Particulars	Dr	Cr

Skill level 3	
3	
2	
1	
0	
NR	

5. Sione Pulu is the Treasurer of the Tahimate Rugby Club.
The Club's assets and liabilities as at 30th June 2018 are:

Assets:

Bank account – ANZ		$ 650
Rugby Equipment	$14,800	
Less Accumulated depreciation	5,400	9,400
Land and Building		56,000

Liabilities:

Mortgage	15,000
Loan	5,000

Sione has prepared the following lists of Receipts and Payments.
The opening bank balance is $650.

Receipts	**$**	**Payments**	**$**
Subscriptions	4,230	General Expenses	140
Social Revenue	14,445	Mortgage	3,000
Competition	4,100	Interest on loan	500
		Interest on mortgage	3,500
		Insurance	1,090
		Prizes & Trophies	1,780
		Social Expenses	3,500
		Rates	2,500
		Repairs & Maintenance	3,240
		Training costs	2,300
		Judging costs	1,520
	$22,775		$23,070

Additional Information:

i) Subscriptions due $180
ii) Insurance owed $110
iii) Rate paid in advance $100
iv) Provide depreciation on equipment at 10% on cost.
v) 2019 Financial Performance shows Total Income of $16,155 and Total Expenditure of $14,760.

You are required to prepare a **classified Statement of Financial Position** for Tahimate Rugby Club for year ended 30th June 2019.

Tahimate Rugby Club
Statement of Financial Position
As at 30th June 2019

Skill level 4	
4	
3	
2	
1	
0	
NR	

SECTION D: DECISION MAKING PROCESS

1. Define Ratio Analysis as an important tool for decision making.

Skill level 1	
1	
0	
NR	

____
____
____

2. State what a Debt Ratio of 0.60:1 mean.

Skill level 1	
1	
0	
NR	

____
____

3. Name the type of Ratio that Return on Average Total Assets should be classified under.

Skill level 1	
1	
0	
NR	

____

4. While historical cost is a verifiable and neutral measure used in preparing financial statements which is important for decision making, it still has limitations for decision making as well.

   Justify why financial statements are regarded as having limitations towards making effective decisions.

____
____
____
____
____
____
____
____
____
____
____
____
____

Skill level 4	
4	
3	
2	
1	
0	
NR	

5. The information below shows a summary of Financial data of 3 consecutive years taken from the record of Fifita Manu's business

Summary of Financial data (Extract)

	2016 ($000)	**2017 ($000)**	**2018 ($000)**
During the year:			
Sales	1,000	1,200	1,500
Cost of sales	600	720	900
Expenses	200	240	300
At the end of the year:			
Current Assets:			
Inventories	100	150	200
Accounts Receivable	200	350	400
Bank	200	-	-
	500	**500**	**600**
Fixed assets(cost less depreciation)	1,000	1,500	2,000
	1,500	**2,000**	**2,600**
Current Liabilities	300	365	500
Bank Overdraft			100
Long term Liabilities	100	415	630
	1,100	**1,220**	**1,370**
Capital	1,000	1,000	1,000
Net Profit	100	220	370
	1,100	**1,220**	**1,370**

a. Complete the table below by calculating the ratios for 2018. Show your working in the spaces provided in the 2018 column.

Ratios	**2016**	**2017**	**2018**
Inventory Turnover	6.7 times	5.8 times	
Accounts Receivable Collection Period	69 days	84 days	

Skill level 3	
3	
2	
1	
0	
NR	

b. Use the information on page 20 and your answer in part (a) to comment briefly on the trend and possible reasons for such result on the two ratios, Inventory Turnover and Accounts Receivable collection period over those periods of time.

Skill level 4	
4	
3	
2	
1	
0	
NR	

TFSC ACCOUNTING 2019

FORMULAE SHEET

FORMULAE FOR RATIO ANALYSIS

Formulae for Analysis of Financial Information

- **Mark Up Percentage** $\dfrac{\text{Gross Profit}}{\text{Cost of Sales}} \times \dfrac{100}{1}$
- **Gross Profit Percentage** $\dfrac{\text{Gross Profit}}{\text{Net Sales}} \times \dfrac{100}{1}$
- **Expenses Percentage** $\dfrac{\text{Expenses}}{\text{Net Sales}} \times \dfrac{100}{1}$
- **Net Profit Percentage** $\dfrac{\text{Net Profit}}{\text{Net Sales}} \times \dfrac{100}{1}$
- **Return on Owners Equity** $\dfrac{\text{Net Profit}}{\text{Average Owners Equity}} \times \dfrac{100}{1}$
- **Return on Average Total Assets** $\dfrac{\text{Net Profit}}{\text{Average Total Assets}} \times \dfrac{100}{1}$
- **Working Capital Amount** **Current Assets - Current Liabilities**
- **Current Ratio** $\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$
- **Liquid Ratio** $\dfrac{\text{Current Assets} - (\textit{Inventories Prepayments})}{\text{Current Liabilities} - (\textit{Secured Bank Overdraft})}$
- **Equity Ratio** $\dfrac{\text{Owners Equity}}{\text{Total Assets}}$
- **Debt Ratio** $\dfrac{\text{Total Liabilities}}{\text{Total Assets}}$
- **Inventory Turnover** $\dfrac{\text{Cost of Goods Sold}}{\text{Average Inventories}}$
- **Accounts Receivable Collection Period** $\dfrac{\text{Average Accounts Receivable}}{\text{Net Credit Sales}} \times \dfrac{365}{1}$