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MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA FORM SIX CERTIFICATE

2020

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 70 weighted scores.

SECTION	TOPIC	TOTAL SKILL LEVEL
A	CONCEPTUAL BASIS OF ACCOUNTING	11
B	ACCOUNTING PRACTICES	32
C	ACCOUNTING REPORT	16
D	DECISION MAKING PROCESS	11
	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 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 **19**.
6. Check that this booklet contains pages 2-19 in the correct order and that page 18 have been deliberately blank.

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

SECTION A: CONCEPTUAL BASIS OF ACCOUNTING

1. Sione Finau is the owner of Toolcare, which provides carpet cleaning services.

   Study the Statement of Financial Position (extract) for Toolcare below and answer the questions that follow:

Toolcare
Statement of Financial Position (Extract)
As at 30 June 2020

Owners' Equity			**$45,000**
This is represented by:			
ASSETS			
Current Assets			
Bank		$3,000	
Accounts Receivable	$7,000		
Less allowances for doubtful debts	(300)	6,700	
Prepaid expenses – Insurance		300	$10,000
Non Current Assets			
Plant & Equipment	$49,000		
Less Accumulated depreciation	(4,000)	45,000	
Van	$17,000		
Less Accumulated depreciation	(5,000)	12,000	$57,000
			$67,000
LIABILITIES			
Current Liabilities			
Accounts Payable	$4,000		
Accrued Expense – Rent	1,500	$5,500	
Non Current Liabilities			
Term Loan (12% pa due June 2025)		$16,500	$22,000
			$45,000

a) Identify ONE accounting concept or assumption that Sione Finau followed or applied the preparation of Statement of Financial Position.

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Skill level 1	
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b) Define the concept you have identified in part (a) on **page 2**.

Skill level 1	
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c) Define Owners Equity as one of the financial elements in the Statement of Financial Position.

Skill level 1	
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d) Give an example of Owners Equity account apart from Capital.

Skill level 1	
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e) Give an example from the given Statement of Financial Position which illustrates that the information is **Relevant** but **NOT Reliable.**

Skill level 2	
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2. Study the Statement of Accounting Policies for a business owned by Tevita Finau and answer the questions that follow:

Statement of Accounting Policies

These Financial Statement policies are prepared for Tevita Finau's business, a sole proprietor owner offering a range of floor cleaning services. The Financial Statements have been prepared on the measurement basis of historical cost.

Specific Accounting Policies

Accounting Receivable
Accounting Receivables are stated at their estimated net realisable value allowing for debts where collection is doubtful.

Fixed Assets
Fixed assets are recorded at total cost ie all costs incurred to make them available for use are included.

Depreciation
Depreciation is calculated on a straight line basis to allocate the cost of fixed assets, less any residual value over their estimated economic life as follows:

Plant & Equipment - 5 years
Van - 6 years

Change in Accounting Policy:

There have been no change in Accounting Policies during the period concerned.

a) Identify the concept that is being followed when an allowance for doubtful debts is established.

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Skill level 1	
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b) Accounts Receivables are stated at their estimated net realisable values. Explain how is this in conflict with the historical cost concept.

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Skill level 3	
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c) Accounts Receivable and Van are classified as assets of the business. Define what **asset** is.

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Skill level 1	
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SECTION B: ACCOUNTING PRACTICES

Part A: Processing

1. Identify the source document used to record the following transactions.

Skill level 1	
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a) Interest of $50 received on investment made at ANZ Bank.

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b) Write off Mele Palu's account of $50 as bad debts.

Skill level 1	
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2. Given below is an analysed transaction on July 1st, 2020 for a retail business owned by Sione Palu.

Transaction	Accounts affected	Type of Account	Increase or Decrease	Amount
July 1	Bank Debtors Discount Allowed	Assets Assets Expenses	Increase Decrease Increase	$1900 $2000 $100

You are required to describe the transaction on July 1st where its analysis is shown in the table above.

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Skill level 2	
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3. Discuss the difference between General Ledger and Subsidiary Ledger.

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Skill level 4	
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Part B: Accounting System

1. Cash Subsystem:

a) Define internal controls over cash.

Skill level 1	
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b) Describe **TWO** principles of internal control over cash.

i.

ii.

Skill level 2	
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c) Explain the imprest petty cash system.

Skill level 3	
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d) Describe the purpose of the Petty Cash Book.

Skill level 2	
2	
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e) On July 1st, a cheque no. 100 for $30.00 was withdrawn to establish the Petty cash fund. The following vouchers were written out during the first week of July.

July	2	Bus fare	Voucher 1	$1.00
	2	Advertising	Voucher 2	5.50
	4	Taxi fare	Voucher 3	5.00
	5	Stationery	Voucher 4	8.00
	6	Advertising	Voucher 5	4.00
	6	Pens & pencils	Voucher 6	1.00

On July 7th, a reimbursement cheque no. 101 was drawn to bring back the fund to $30.00

You are required to prepare the Cash Payment Journal below to record the above vouchers that were paid with cheque no 101.

Skill level 2	
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Cash Payment Journal

Date	Particulars	Cheque no.	Detail	Bank	Advertising	Travelling	Stationery	Others

2. *Inventory Subsystem:*

a) Discuss why a perpetual inventory system is a better system of inventory valuation than a periodic inventory system.

Skill level 4	
4	
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b) On 1st July 2020, 50 units of item P were on hand at a value of $250.00. This was the only inventory sold in the business and a perpetual inventory system (using FIFO) was used. The following transactions occurred.

You are required to prepare the Stock Ledger Card.

Purchases

July 1st	600 units @ $6.00 per unit
August 1st	500 units @ $5.00 per unit
September 1st	750 units @ $4.00 per unit

Sales

July 31st	400 units for $4,000
August 31st	550 units for $5,500
September 30th	800 units for $7,200

Purchases Return

August 3rd	20 units @ $5 per unit

Sales Return

September 6	50 units for $450 (originally sold on 31st August)

Additional Information:

September 30th, the end of accounting period stocktake revealed that there are 150 units on hand.

STOCK LEDGER CARD

Date	Particulars	Purchases			Sales			Balances		
		Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost

Skill level 3	
3	
2	
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3. *Fixed Asset Subsystem:*

Assets are classified into Current Assets and Non current Assets.

a) Define Non Current Assets.

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Skill level 1	
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b) The following list are examples of Non Current assets. You are required to classify them into Fixed Assets, Intangible assets and Investment.

Skill level 2	
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<u>Non current assets</u>:

Goodwill	Shares in company	Furniture
Debentures	Machinery	Patent

Fixed Asset	**Intangible Asset**	**Investment**

c) Define Revenue Expenditure.

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Skill level 1	
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4. *Payroll Subsystem:*

a) Define Gross Pay.

Skill level 1	
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b) Define payroll register.

Skill level 1	
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NR	

c) Name a source document for preparing payroll sheet.

Skill level 1	
1	
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SECTION C: ACCOUNTING REPORT

1. Given below is a trial balance and additional information for Vuna Floor who is a retailer of carpet and rugs. You are required to study carefully the information and answer the questions that follow.

Trial Balance – Vuna Floor
As at 30 June 2020

	$		**$**
Land and building (cost)	62,000	Bank Overdraft	4,000
Equipment (cost)	12,000	Accounts Payable	7,500
Delivery vehicle (cost)	15,000	*Accumulated depreciation*	
Accounts Receivable	9,900	- Delivery van	6,000
Inventory (30 June 2020)	21,500	- Equipment	3,600
Salaries	8,000	Allowances for doubtful debts	300
Electricity	1,000	Sales	155,000
Rates	600	Capital	42,850
Office expenses	19,000	Mortgage	22,000
Term deposit	12,000	Interest	1,000
Insurance	500	Commission	450
Advertising	1,200		
Cost of goods sold	80,000		
	242,700		**242,700**

Additional Information

i) A customer's account of $900 is to be written off as bad
ii) Adjust the allowance for doubtful debts to 5% of accounts receivable
iii) Salaries due to be paid $900
iv) Advertising of $450 has been paid in advance.
v) Rates due to be paid $100
vi) Depreciation for this financial year amounted to equipment $1,200 and delivery vehicle $3,000
vii) Commission received in advance $30.

a) Identify the types of account that are **NOT** closed on balance day.

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Skill level 1	
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b) State **TWO** purposes of preparing the reversing entry.

i) ____
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Skill level 2	
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ii) ____

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c) Write the journal entries for allowances for doubtful debts, as stated in the additional information number (ii) of the Trial Balance of Vuna Floor.

Journal entry:

Date	Particulars	Debit ($)	Credit($)

Skill level 3	
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d) Prepare the post closing trial balance of Vuna Floor.

Post Closing Trial Balance – Vuna Floor
As at 30 June 2020

	$		$

Skill level 3	
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e) Prepare all the necessary reversing entries of the business, Vuna Floor. (Narrations are not required).

Date	Particular	Debit($)	Credit($)

Skill level 3	
3	
2	
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f) The following information was extracted from the Tigers Sports Club records. The treasurer of the sports club asks you to calculate the **total sales** for the year ending 30 June 2020. (Show your working).

• Accounts receivable – refreshment at 1st July 2019	$145
• Accounts Payable – refreshment at 1st July 2019	76
• Cash sales	715
• Cash received from accounts receivable	850
• Cash paid to Accounts payable	300
• Refreshment returns – accounts receivable	20
• Refreshment returns – accounts payable	42
• Accounts receivable – refreshment at 30 June 2020	78
• Accounts Payable – refreshment at 30 June 2020	94
• Inventories of refreshment at 1st July 2019	600
• Inventories of refreshment at 30 June 2020	615

Skill level 4	
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SECTION D DECISION MAKING PROCESS

1. State **ONE** ratio that measure the effectiveness of management policies of the business.

Skill level 1	
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2. The analysis of the performance of a business can be expressed in terms of ratio and percentages. Describe the relationship between the ratios and percentages used.

Skill level 2	
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3. The following ratios were calculated from the Balance Sheet of two companies that supply freshly baked packaged cakes to supermarkets in their respective areas.

Ratios	**Company A**	**Company B**	**Industry Average**
Current ratio	3.0 : 1	2.0 : 1	1.5 : 1
Liquid Ratio	2.0 : 1	0.7 : 1	1.3 : 1
Debtors Turnover	120 days	40 days	30 days
Stock turnover	24 times pa	8 times pa	17 times pa

a) Comment on the **liquidity situation** of each of the above company.

Skill level 4	
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b) Make recommendations on the areas that need further investigation to improve the managing of the financial position of each company.

Skill level 4	
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TFSC ACCOUNTING 2020

FORMULAE SHEET

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