MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA FORM SIX CERTIFICATE

2021

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	STRANDS	TOTAL SKILL LEVEL
A	ACCOUNTING THEORY	14
B	ACCOUNTING PRACTICES	31
C	ACCOUNTING REPORT	14
D	DECISION MAKING	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 space 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 has been deliberately left blank.

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

SECTION A: ACCOUNTING THEORY

Question 1: Conceptual basis of accounting

Define **Accounting**

Skill level 1	
1	
0	
NR	

Question 2: Functions of accounting

The Financial statements of PTH Co Ltd for the Year ended 30th June 2020 has been distributed to all its shareholders.

Describe the significance of the appropriate function of accounting mentioned in the above information.

Skill level 2	
2	
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Question 3: Users of accounting information

The following table lists possible stakeholders in the Tonga Power Limited. Explain why the stakeholders would be interested in the activities and financial statements of this company.

Stakeholders	Why they would be interested in the activities and financial statements of the Tonga Power Limited
Government	
Employees	

Skill level 3	
3	
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Question 4 : Qualitative characteristics

State the appropriate quality of financial information for each definition given below.

a) The information provided to users should be available in time to assist their decisions otherwise it loses its relevance.

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Skill level 1	
1	
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b) Statements are not prepared in a manner that will influence decision making to achieve predetermined results.

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Skill level 1	
1	
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Question 5: Accounting concepts

a) The extract below is taken from the notes to the financial statements of PTH Co. Ltd Annual Report for the period ended 30th June 2020.

Basis of Preparation

The financial statements for the year ended 30th June 2020 have been prepared in accordance with the Generally Accepted Accounting Practice (GAAP).

Describe why the financial statements of PTH Co. Ltd are required to comply with the GAAP. In your answer, you should describe what GAAP refers to .

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Skill level 2	
2	
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b) PTH Co. Ltd's significant accounting policies for the period ended 30th June 2020 include the following:

Property, plant and equipment

- All property, plant and equipment is stated at Historical Cost less depreciation .
- Historical cost includes expenditure that is directly related to the purchase of property, plant and equipment.
- All other repairs and maintenance expenditure are charged to the income statement during the financial period in which they are incurred.

Historical cost is applied to the measurement of PTH Co. Ltd.'s property, plant and equipment.

Define **Historical Cost**.

Skill level 1	
1	
0	
NR	

Question 6: Financial elements

The characteristics of an asset and of an expense creates the differences in capital and revenue expenditure associated with PTH Co. Ltd's property, plant and equipment.

Define **Assets**.

Skill level 1	
1	
0	
NR	

Question 7: Accounting equation

Use the information given for the month of April 2020 to complete the Accounting Equation given below. An example follows.

1st April 2020	Owner invested $4000 cash and $1000 furniture
4th April	Performed Services on credit $300
8th April	Paid Creditor $380 in full settlement of $400 account

	Furniture/ Equipment	Inventory +	Cash at + Bank	Account + Receivable	=	Liabilities +	Proprietorship
1st April	+1000		+4000				+5000
4th April							
8th April							

Skill level 2	
2	
1	
0	
NR	

SECTION B: ACCOUNTING PRACTICES

Question 1: Accounting cycle

Identify the stages of the accounting process to complete the information given below.

a) The ____________________ are where Debits and Credits are first used which tell whether the amounts are to be increased or decreased.

Skill level 1	
1	
0	
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b) A ____________________ is all the final balances of each ledger account, summarized on one page.

Skill level 1	
1	
0	
NR	

Question 2: Chart of accounts

Define **Chart of Account**.

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Skill level 1	
1	
0	
NR	

Question 3: Transactions analysis

PERPETUAL INVENTORY SYSTEM

The EM Jones Hardware business uses perpetual systems to keep a record of inventory movements throughout the accounting period. This means that every time a purchase or sale is made, the inventory records are also updated.

Study the transaction given below and identify the other three accounts affected if this business uses Perpetual Inventory System. One account has been given

Transaction	Accounts affected	Increase/ Decrease	Debit /Credit	Amount
1. Deluxe Paint (20ltrs) with cost price of $100 is sold for cash at a selling price of $300	1. Cash 2. 3. 4.	Increase	Debit	300

Skill level 3	
3	
2	
1	
0	
NR	

Question 4: Accounting systems

INTERNAL CONTROL

Skill level 1	
1	
0	
NR	

a) Give **THREE (3)** essential information recorded on source documents.

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Skill level 1	
1	
0	
NR	

b) State **TWO (2)** principles of Internal Control.

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Question 5: Cash subsystem

Use the case study given below and your knowledge to answer the questions that follow:

> Sione Kefu operates a Yummy Fried Chicken business located at Nuku'alofa. He has hired Lofia to maintain the accounts of the business. Lofia is accountable for preparing the payroll, keeping payroll records, signing payroll cheques and reconciling the bank account. She allocates wages in a sealed envelope every Friday morning as employees come to work. Sione Kefu does not keep time sheet for each employee because he knows them personally. Sione Kefu questions something is wrong regarding the payroll function as wages expense seems higher than what he expected.

a) In the case study above give recommendations for improvements on weaknesses faced by Sione Kefu in controlling his business.

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Skill level 4	
4	
3	
2	
1	
0	
NR	

b) Give **ONE (1)** source document for Petty Cash.

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Skill level 1	
1	
0	
NR	

c) Bank Reconciliation given below is the information from the books of Finau Pulu Enterprises for the month of August 2020.

Bank Reconciliation Statement as at 31st July 2020

Credit Balance as per Bank statement			562
Less Unpresented Cheques	Cheque No. 215	Amount 165	
	220	75	240
Debit balance as per Bank Account			$322

Cash Receipts Journal

Date	Particulars	Details	Bank
Aug 9	Siaosi		96
12	Sales		120
14	Soni		75
22	Alipate		262
31	Sales		200
			$761

Cash Payments Journal

Date	Cheque No.	Particulars	Bank
Aug 8	225	wages	54
10	226	Saane	250
12	227	Purchases	334
	228	wages	64
	229	Sundry expenses	92
	230	Roy	180
			$974

Bank Statement of Finau Pulu Enterprise

Date	Particulars	Debit	Credit	Balance
Aug 1	Balance			562 CR
10	Deposit		96	658CR
	CHQ. 225 CHQ.215	45 165		613CR 448CR
	Bank Fee	10		438CR
12	Deposit		120	558CR
14	Deposit		75	633CR
	Chq No.227 Chq.No 229	334 92		299CR 207CR
	Chq.No 226	250		43DR
22	Deposit		262	219CR
	Dishon-oured Cheque	100		119CR
	Cheque Book	5		114CR

Assume that the bank statement is correct.

Required:

Prepare a Bank Reconciliation Statement as at 31st August 2020 for Finau Pulu Enterprise.

Bank Reconciliation Statement-Finau Pulu Enterprise
For the month ended 31st August 2020

Skill level 4	
4	
3	
2	
1	
0	
NR	

Question 6: Inventory subsystem

a) Give another name for inventories.

Skill level 1	
1	
0	
NR	

b) State **TWO (2)** reasons why firms need to offer credit.

Skill level 2	
2	
1	
0	
NR	

c) Describe **TWO (2)** procedures that should be implemented in accounting for controlling the purchase of inventories.

Skill level 2	
2	
1	
0	
NR	

Question 7: Fixed assets subsystem

Sekona bought a Mazda BT-50 FWD van for $80 000 on 1st May 2014. The estimated life of the van is 5 years and the estimated residual value at that time is $20 000. The straight line method of depreciation was selected.

a) Define **Depreciation**.

Skill level 1	
1	
0	
NR	

b) Calculate the depreciation expense and accumulated depreciation for the third year, 2017.

Skill level 3	
3	
2	
1	
0	
NR	

Question 8: Payroll subsystem

Payroll

a) Define **Net Pay**.

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Skill level 1	
1	
0	
NR	

b) The information below relates to the payroll of Ana Gift Shops for the month of December 2020. Mrs. Lolo, an employee, is paid on December 25th, 2020 and has the following payroll data.

Hours worked	Hourly Rate	Deductions
40 (normal)	$20	Tax $150 Superannuation 5 % of ordinary earnings Others $40
6 (time and half)		
2 (double time)		

Required:

Complete the Payroll Register for Mrs Lolo for the month of December 2020

Name	Hours			Earnings			Gross Pay	Deductions			
No.50	Ordinary	1 ½	Double	Ordinary	1 1/2	Double		Tax	Super Annua-tion	others	Net Pay
Mrs Lolo											

Skill level 4	
4	
3	
2	
1	
0	
NR	

SECTION C: ACCOUNTING REPORTS

Question 1: Business organisation

a) Describe the purpose of a Statement of Financial performance.

Skill level 2	
2	
1	
0	
NR	

b) Describe the **TWO (2)** common type of adjustments required to be made at the end of the financial period.

Adjustment (i) ______________________

Adjustment (ii) ______________________

Skill level 2	
2	
1	
0	
NR	

c. The information given below was taken from the Trial Balance of Beauty Enterprises located in Kolofo'ou.

Trial Balance (extract)
As at 30th June 2020

Debtors 5000	Allowance for Doubtful Debts 200
Bad debts 100	Creditors 2000
Insurance 200	Capital 5000
Salaries 200	

Additional Information:

- Further bad debts to be written off $100
- Allowance for Doubtful Debts to be adjusted to 5% of account receivable.

Required:

Study the information given above then write adjusting entries for provision for doubtful debts.(Show calculations)

General Journal

Date	Particulars	Debit	Credit

Skill level 3	
3	
2	
1	
0	
NR	

Question 2: Accounting for clubs and societies

The following information is taken from the books of Fetaakinima Social Club.

Balance Sheet as at
31st December 2019

Assets			Liabilities	
Cash at Bank		13,000	Creditors	12,900
Inventory		20,000	Wages Due	700
Account Receivable		6,200	Loan	10,000
Furnitures	23,000			
Less Accumulated	1,000	22,000		
Depreciation			Accumulated Fund	54,000
Office Equipment		16,400		
		77,600		77,600

During 2020, the following are their Receipts and Payments.

Receipts		Payments	
Subscription	21,000	Purchase of computers	3,200
Entrance Fees	800	Wages	600
Donations	2,000	General Expenses	700
Tournament Fees	800	Electricity and Telephone	80
		Creditors	1200

Additional Information:

1. Subscription due to be received $400.
2. Prepaid subscription at the end of the year $220.
3. Unpaid wages on the balance day $200
4. The Cash at Bank balance was $15 000.
5. Furniture worth $600 was sold for $800.
6. The depreciation provided on furniture was $1 000.
7. The excess of the income over expenditure was $10 195.
8. Closing Inventories was $25 515.

Required:

a) Study the additional information given above then complete the General Journal to incorporate the balance day adjustments for number #**1**, **2** and **3**

General Journal

Date	Particulars	Debit	Credit
1			
2			
3			

Skill level 3	
3	
2	
1	
0	
NR	

b) Prepare in the vertical form, a fully classified Balance Sheet of Fetaakinima Social Club as at 31st December 2020.

	$	$	$

Skill level 4	
4	
3	
2	
1	
0	
NR	

SECTION D: DECISION MAKING

Question 1: Analysis and interpretation

a) Give **ONE (1)** example of a Management Effective ratio.

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Skill level 1	
1	
0	
NR	

b) Give **ONE (1)** ratio for calculating Financial Stability apart from Liquidity Ratio.

Ratio:______________________________________

Skill level 1	
1	
0	
NR	

c) Explain the purpose of analyzing financial information at the end of the financial period.

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Skill level 2	
2	
1	
0	
NR	

d) Explain the significance of **Solvency Test**.

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Skill level 3	
3	
2	
1	
0	
NR	

e. The following are the ratios for Leiola Enterprise and the Industry Average for the year ended 30th April 2020 also 30th April 2019.

Ratios	2019	2020	Industry Average
Gross Profit Percentage	37	35	40
Net Profit Percentage	9	7	20
Stock Turnover in number of times	11	13	8
Current Ratio	.90:1	1.10:1	1.9

Study the ratios given for Leiola Enterprise then recommend appropriate measures to improve the entity's financial performance.

Skill level 4	
4	
3	
2	
1	
0	
NR	

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TFSC ACCOUNTING 2021

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** $\frac{\text{Average Accounts Receivable}}{\text{Net Credit Sales}} \times \frac{365}{1}$