MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA FORM SIX CERTIFICATE

2024

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	CONCEPTUAL BASIS OF ACCOUNTING	22
B	ACCOUNTING PRACTICES	20
C	ACCOUNTING REPORTS	16
D	DECISION MAKING PROCESS	12
	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.
6. NOTE: There is a Formulae sheet on page 23.
7. Check that this booklet contain pages 2-20 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.

SECTION A: CONCEPTUAL BASIS OF ACCOUNTING

1. Define **Accounting**.

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Skill level 1	
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2. *Topa* owns a small business called *Island Delights*, where she sells handcrafted coconut shell jewellery. As her business grows, *Topa* struggles to keep track of her sales, expenses, and profits. She notices that even though she makes good sales, her bank account balance is not as high as she expected. She decides to hire an accountant to help her understand what is going on with her business finances.

   Describe the **purpose** of accounting for *Topa*'s business, *Island Delights*.

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Skill level 2	
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3. *Mafileó* is in business with her husband. They own and manage a café situated along Taufaáhau Road *in Nukuálofa*. At the end of the year, the accountant prepares a set of financial statements.

   Identify **ONE (1) user** of the financial statements.

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Skill level 1	
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4. *Aunty Tara* owns a sports shop. She prepares her own financial statements for the year ended 30 June 2024 and has brought them to you to look over.
   Identify the accounting concept which has been breached or not followed in each of the situations given above.

   i. *Aunty Tara* withdrew $500 each week for personal expenses and recorded this in the business financial records as wages.

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Skill level 1	
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   ii. The financial records for the sports shop for the last four years, have been prepared over different time periods. In the first one, the financial records were for 9 months. The second set of records covered a 15-month period. The third and fourth set were for one year each.

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Skill level 1	
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iii. Aunty Tara has not recorded any expenses for electricity because the bill has not arrived yet, even though the electricity was used in June.

Skill level 1	
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5. *Angie* is the owner of *Native Vavaú*. The business grows wild Tongan herbs organically on her property in Vavaú. She sells these herbs to local restaurants who use them in unique Tongan meals for tourists.

   Explain how the **Entity** concept will be applied in the preparation of *Native Vavaú*'s Income Statement for the year ended 30 June 2024.

Skill level 3	
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6. *Peta* prepares statements at the end of the financial year and indicates that she views the business as a 'going concern'.

   Define the **going concern** concept.

Skill level 1	
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7. *Sportex* is preparing its financial statements for the year. The accountant, *Lani*, is responsible for making sure the financial reports meet certain standards.

   Define the following characteristics of accounting information.

   i. Verifiability

Skill level 1	
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ii. Comparability

Skill level 1	
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iii. Understandability

Skill level 1	
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8. Every month, *Sipa* receives rent from her tenants living at her properties in Nukualofa. Define **revenue**.

Skill level 1	
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9. *Pata* started his own bakery by investing $10,000 of her savings and buying equipment worth $5,000.
Define **owner's equity**.

Skill level 1	
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10. *Toni* runs a small repair and maintenance business, *Fix It Fast*. In the current financial year, he purchased a new van for the business at a cost of $30,000.
Toni's accountant incorrectly treated the purchase of the van as expense.

i. Define **revenue expenditure**.

Skill level 1	
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ii. Define **capital expenditure**.

Skill level 1	
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iii. Discuss the effect on reported **net profit** of Toni's business when the purchase of the van was *incorrectly* treated as **expense**.

Skill level 4	
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SECTION B: ACCOUNTING PRACTICES

QUESTION ONE: TRANSACTIONS ANALYSIS

Analysed Set of Transactions for Tech Haven, March 2024.

Brian owns a small electronics store called *Tech Haven*. Over the past month, he has been keeping track of his business transactions. Two transactions have been analysed in the table below.

Example: Cash at Bank Dr
Capital Cr
Owner introduced cash into the business.

Date	Accounts affected	Dr / Cr	Amount ($)
i.	Sione	Dr	400
	Sales	Cr	400
ii.	Drawings	Dr	100
	Purchase	Cr	100

Describe the transactions that give rise to the double-entry analysis above.

i. ____

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ii. ____

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Skill level 2	
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QUESTION TWO: ACCOUNTING CYCLE

Pita is the owner of a small bakery business called *Sweet Delights*. Over the course of a month, his bakery makes sales, buys ingredients, and pays wages. At the end of each month, *Pita* needs to summarize his financial activities to see how his business is performing.

Identify the **stage** of the **accounting process** in the system approach when *Pita* gathers source documents, including invoices for ingredient purchases and sales receipts.

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Skill level 1	
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QUESTION THREE: INTERNAL CONTROL

Imagine you are working as the cashier in a small business. Every day, you handle the cash register, collecting payments from customers and depositing the day's earnings into the business's bank account. At the end of each week, you also prepare a report detailing the total cash collected, and a manager checks this report.

Describe **ONE (1)** principle of internal control over cash that the business could implement to ensure accuracy and prevent fraud.

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Skill level 2	
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QUESTION FOUR: PETTY CASH

T Good requires your assistance in establishing and maintaining a petty cash system. The following information relates to his business:

The petty cash fund was established by recording the petty cash advance cheque no 00632, dated 1 July 2024 for $50 in the cash payments journal and petty cash book.

Petty Cash Voucher	**No 1**
Date:	3/7/24
Paid to:	J Turner
For:	Postage
Account no:	416
Amount:	$2.00
Authorised by:	*Tiptop*

Petty Cash Voucher	**No 2**
Date:	7/7/24
Paid to:	D Waite
For:	Travel (airport)
Account no:	418
Amount:	$9.00
Authorised by:	*Tiptop*

Petty Cash Voucher	**No 3**
Date:	9/7/24
Paid to:	J Turner
For:	Stamps
Account no:	416
Amount:	$2.50
Authorised by:	*Tiptop*

Petty Cash Voucher	**No 4**
Date:	21/7/24
Paid to:	J Turner
For:	Coffee
Account no:	403
Amount:	$5.00
Authorised by:	*Tiptop*

Petty Cash Voucher	**No 5**
Date:	28/7/24
Paid to:	D Dixi
For:	Postage
Account no:	416
Amount:	$1.50
Authorised by:	*Tiptop*

Petty Cash Voucher	**No 6**
Date:	31/7/24
Paid to:	D Roberts
For:	Newspapers
Account no:	422
Amount:	$6.00
Authorised by:	*Tiptop*

1. Describe the **accounting procedures** involved in managing a petty cash fund system.

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Skill level 2	
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2. Prepare the **petty cash book** for *T Good* for the month of July 2024 using the information above.

Date	Particulars	Voucher	Receipt	Payment	Postage	Travel	Newspaper	Sundries

Skill level 3	
3	
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QUESTION FIVE: INVENTORY SUB-SYSTEM

1. *Sarah* owns a clothing store. Lately, she has struggled to keep track of her stock levels, resulting in either overstocking or running out of items.

   Describe the **importance** of inventory for *Sarah*'s business.

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   ____
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Skill level 2	
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2. Provide another name for **inventory**.

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Skill level 1	
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3. *Ken* owns *Nuku'alofa Road Service Centre*. He operates a first in first out **perpetual inventory system** to record inventory transactions. During September the following transactions took place at *Nuku'alofa Road Service Centre*, all involving 5-litre containers of oil.

   Sep 1 At the beginning of the month there were 15 containers on hand, at a cost of $10 each.

   Sep 3 *Nuku'alofa Road Service Centre* purchased 20 containers at a cost of $11 each.

   Sep 5 Sold 6 containers of oil.

   Sep 7 Sold 14 containers of oil.

   Sep 8 *Nuku'alofa Road Service Centre* purchased 20 containers at a cost of $12 each.

   Sep 10 *Nuku'alofa Road Service Centre* returned 4 containers purchased on 8 September.

   Sep 13 Sold 12 containers of oil.

   Sep 18 Sold 5 containers of oil.

   Record on the inventory card below the above transactions relating to containers of oil for *Nuku'alofa Road Service Centre* in September, using **first-in-first-out** method.

Nuku'alofa Road Service Centre Item: Containers of Oil Method : First In First Out (FIFO)										
DATE	**PARTICULARS**	**IN**			**OUT**			**BALANCE**		
		NO.	**Unit Cost**	**Total Cost**	**No.**	**Unit Cost**	**Total Cost**	**No**	**Unit Cost**	**Total Cost**

Skill level 3	
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4. *Emma* runs a bookstore and currently uses the periodic inventory system. She is considering updating how she tracks inventory. Her accountant suggests using the perpetual inventory system.

Discuss the difference between the **perpetual inventory system** and **periodic inventory system** and make recommendation so that *Emma* can make the right decision for her bookstore.

Skill level 4	
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SECTION C: ACCOUNTING REPORTS

QUESTION ONE: FINANCIAL REPORTS

1. *Sam* is preparing her first set of financial statements and notices that the balance sheet is not recorded using the double-entry system like other accounts in the general ledger. She is confused about why the balance sheet works differently.

   i. Describe the **purpose** of the **Statement of Financial Position**.

Skill level 2	
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   ii. Describe the reasons why the **balance sheet** is not subjected to double entry.

Skill level 2	
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QUESTION TWO: CLOSING ENTRIES

Given below is the extract of the Trial Balance of *Nuku'alofa Transport*.

Trial Balance (extract)	
Interest on loan	300
Insurance	2,800
Sales	35,895
Doubtful Debts	120
Provision for Doubtful Debts	100
Vehicle	35,000
Accounts Receivable	12,000
Rent received	450

Required:

Prepare the **closing entries** for the following expenses and revenues from the trial balance of *Nuku'alofa Transport*.

General Journal

No.	Particulars	Debit	Credit
1.			
	Interest on loan		
2.			
	Insurance		
3.			
	Sales		

Skill level 3	
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QUESTION THREE: COMMUNITY ORGANIZATIONS

The *Green Hills Tennis Club* held its annual general meeting last week, and the treasurer Sarah, was tasked with presenting the financial information of the club.

The club has the following assets and liabilities as at 30 June 2023:

Assets	$	$
Bank account – ANZ		650
Tennis Equipment	14,800	
Less Accumulated Depreciation	5,400	9,400
Land and Building		56,000
Liabilities		
Mortgage		15,000
Loan		5,000

Sarah also provided a detailed report of the receipts and payments:

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 and Trophies	1,780
		Social Expenses	3,500
		Rates	2,500
		Repairs and Maintenance	3,240
		Training Costs	2,300
		Judging costs	1,520
	$22,775		**$23,070**

Additional Information

- Subscriptions due $180
- Insurance owed $110
- Rates paid in advance $100
- Provide depreciation on tennis equipment at 10% on cost.
- The Statement of Financial Performance for the year ended 2024 shows a total Revenue of $16,155 and Total Expenditure of $14,760.

1. Describe the purpose of preparing the **Statement of Receipts and Payments** for *Green Hills Tennis Club*.

Skill level 2	
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2. Prepare the **journal entries** of the following **adjustments** below to incorporate balance day adjustments into the record.

General Journal

	Particulars	Debit	Credit
i.			
	Subscriptions due $180.		
ii.			
	Insurance owing $110.		
iii.			
	Rates paid in advance $100.		
iv.			
	Provide depreciation on equipment 10% on cost.		

Skill level 3	
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3. You are required to prepare a **classified Statement of Financial Position** for *Green Hills Tennis Club* for year ended 30 June 2024.

Green Hills Tennis Club **Statement of Financial Position as at 30 June 2024**			
	$	$	$

Skill level 4	
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SECTION D: DECISION MAKING

The following statements have been prepared for *Kit-Kat* for the year ended 31 March 2023. Figures from the previous year have been included.

	2022		2023	
Net Sales		316,000		560,000
Cost of Goods Sold		<u>200,000</u>		<u>350,000</u>
Gross Profit		116,000		210,000
Less Operating Expenses				
Selling Expenses	24,000		48,000	
Administrative Expenses	37,000		56,000	
Financial Expenses	<u>5,000</u>	<u>66,000</u>	<u>6,000</u>	<u>110,000</u>
Profit for the Year		**$50,000**		**$100,000**

Statement of Financial Position for *Kit-Kat* as at 31 March 2023						
	2022			2023		
ASSETS						
Current Assets						
Accounts Receivable		130,000			140,000	
Inventory		<u>170,000</u>	300,000		<u>100,000</u>	240,000
Non-current Assets						
Fixed Assets						
Machinery		440,000			500,000	
Furniture		<u>260,000</u>	<u>700,000</u>		<u>260,000</u>	<u>760,000</u>
Total Assets			1,000,000			1,000,000
LIABILITIES						
Current Liabilities						
Bank	60,000			70,000		
Accounts Payable	<u>140,000</u>	200,000		<u>90,000</u>	160,000	
Non-current Liabilities						
Loan (maturing 2026)	100,000			100,000		
Mortgage	<u>200,000</u>	300,000		<u>200,000</u>	300,000	
Total Liabilities			<u>(500,000)</u>			<u>(460,000)</u>
Net Assets			$500,000			$540,000
Equity						
Capital			500,000			500,000
Profit for the Year			50,000			100,000
Drawings			<u>(50,000)</u>			<u>(60,000)</u>
			$500,000			**$540,000**

1. Calculate the following **analysis measures** for *Kit-Kat* for both 2022 and 2023 (one decimal place). Show full working.

	Ratio / Percentage	2022	2023
i.	Net Profit percentage		
ii.	Equity ratio		
iii.	Current ratio		
iv.	Liquid ratio		

Skill level 3	
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2. Identify **ONE (1)** profitability ratio you have calculated in no.1 above.

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Skill level 1	
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3. Based on your calculations above, comment on the Liquidity ratios of *Kit-Kat* for both 2022 and 2023, and state the reasons for the trend.

Skill level 4	
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4. Discuss the limitations of using financial statements to make decisions.

Skill level 4	
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TONGA FORM SIX CERTIFICATE

ACCOUNTING

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