MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA SCHOOL 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.

SECTIONS	TOPICS	TOTAL SKILL LEVEL
A	CONCEPTUAL BASIS OF ACCOUNTING	21
B	ACCOUNTING PRACTICES:-	27
	PART A: Processing	9
	PART B: Accounting Systems	18
C	ACCOUNTING REPORTS	13
D	DECISION MAKING	9
	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 **23**.
6. Check that this booklet contain pages 2-23 in the correct order and that pages 20-22 have been deliberately left blank.

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

SECTION A: CONCEPTUAL BASIS OF ACCOUNTING

Question One: Features of Business Ownership

Skill level 1	
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1. *Island View is a car rental business owned by Linlin and Jen.*

   Name this type of business ownership.

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2. *Dr Jenkin wants to enlarge its operations in his clinic by hiring two nurses. He approaches his family and his younger brother who is also a doctor to support the idea of starting a family business. The family business would be a limited liability company.*

   a) Describe the meaning of the term **limited liability**.

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Skill level 2	
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   b) Discuss **TWO advantages** of this type of business and why *Dr Jenkin* and his family should accept this proposal to form a **limited liability company.**

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Skill level 4	
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Question Two: Specialised Areas of Accounting

1. In dealing with **taxation accounting**, name the ministry in Tonga that is interested in businesses' financial statements.

Skill level 1	
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2. Describe **Auditing** as an area of specialization in accounting.

Skill level 2	
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Question Three: Accounting Equation

1. *Jovani Mara* operates a surgery under the name of *Jovani Medical Clinic*. On 1st February 2020, her business had the following Assets and Liabilities.

Cash at Bank +	Debtors +	Medicines +	Furnitures & Office Equipments =	Liabilities +	Proprietorship
$8 000 +	$3 600 +	$7 400 +	$25 600 =	$12 200 +	$32 400

The following transactions took place during the month of February:

February 2 Purchased medicine on account $800.
8 Billed customers for service rendered $2 500.
12 A debtor who owes $200 agreed to pay $150 and balance to be written off as bad debts.
14 Sold old computers for $2 000.

Show the effects of the transactions on the accounting equation for the month of February 2020.

You are not required to show the balance after each transaction.

Date	Cash at Bank + $8 000 +	Debtors + $3 600 +	Medicine + $7 400 +	Furnitures & Office Equipments = $25 600 =	Liabilities + $12 200 +	Proprietorship $32 400

Skill level 3	
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Question Four: Accounting Information and Concepts

1. *Internal users of accounting information rely heavily on the information from the past in order to prepare financial budgets and forecasts for the next financial year.*

Name **ONE** user who is interested in this information.

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Skill level 1	
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2. *Suppliers are important stakeholders in any business.*

State **ONE** reason why suppliers are interested in business financial affairs.

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Skill level 1	
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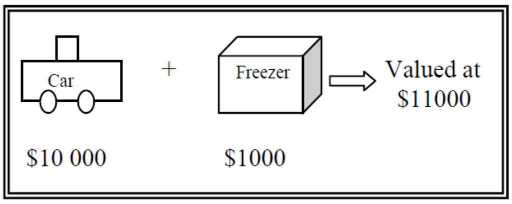
3. **Figure 1** below represents accounting concepts.

Figure 1



Identify the accounting concept depicted in Figure 1.

Skill level 1	
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4. *Qualitative characteristics are features that users can check for when determining how useful the information in the statements is to the user.*

a) Define the qualitative characteristic of **Timeliness**.

Skill level 1	
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b) Discuss the relationship between **Relevance** and **Comparability**.

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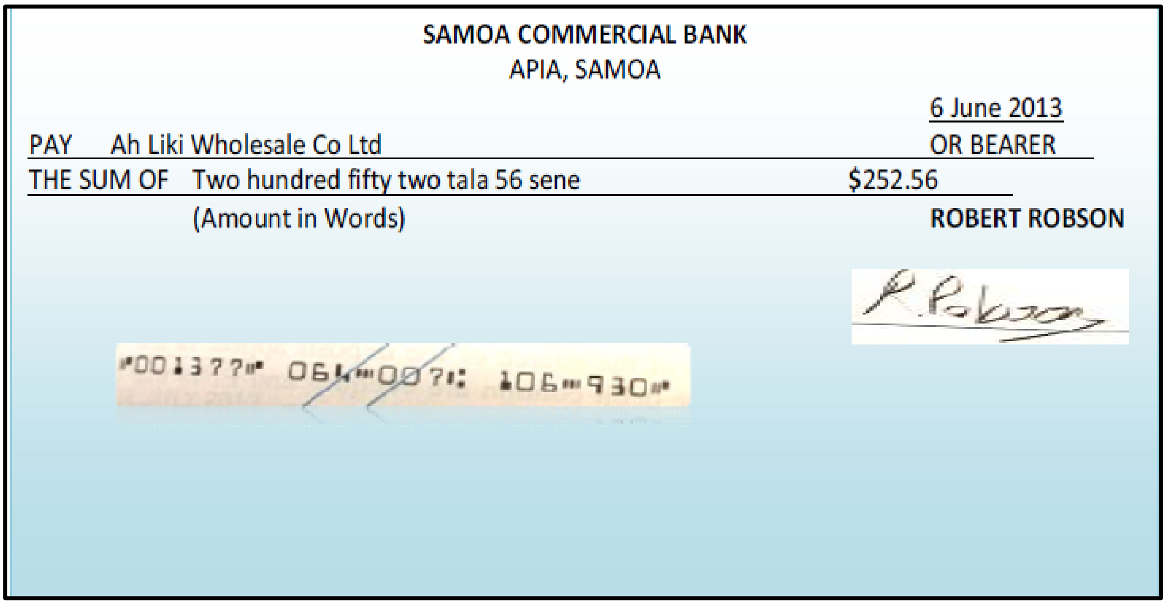
SECTION B: ACCOUNTING PRACTICES

PART A: Processing

1.


SAMOA COMMERCIAL BANK
APIA, SAMOA

6 June 2013

PAY Ah Liki Wholesale Co Ltd OR BEARER

THE SUM OF Two hundred fifty two tala 56 sene $252.56

(Amount in Words) ROBERT ROBSON

State the name of the given document.

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Skill level 1	
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2. On July 1st 2019, *Ben Marshall*'s book showed the following assets: cash at bank $5 000, stock $2 600, Debtors: J. Aman $450, Jing Jang $600 and Office furniture $7 700. His liabilities were creditors Small Ben $2 600 and Big Ben $290.

His transactions for the month were:

Date	Transactions
Jul 2	Sold goods for cash $200.
4	J. Aman fully paid his account less 10% discount.
5	The owner took goods for this own use $115.
7	Purchased goods from TV Ltd for $300 cash.
8	Sold goods to J. Aman $140.
19	Bought goods from Big Ben for $75 on account.
19	Paid freight $7 on goods bought on July 7.
20	Bought goods on credit from Small Ben $380.
22	Returned goods to Small Ben $30.
25	J. Aman returned damaged goods $25.
28	Paid $280 to Small Ben and discount allowed $10.

Required

Select the relevant transactions from the above information to prepare *J. Aman*'s **ledger** account.

J. Aman's Account				
Date	Particulars	Debit	Credit	Balance DR/CR

Skill level 2	
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3. Discuss the importance of **General Ledgers**.

Skill level 4	
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4. Listed below are the liabilities and assets from *Tongana Car Rental* as at 30 June 2019.

Accounts Payable, Accounts Receivable, Advertising, Bank Overdraft, Building, Capital, Drawings, Interest Received, Inventory, Land, Rent Paid, Sales

Use the information above to design the **chart of accounts** for *Tongana Car Rental*.

Skill level 2	
2	
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PART B: Accounting Systems

1. *One person opens envelopes containing checks also records the checks in the accounting system.*

   Name the principle of Internal Control being violated in the above situation.

   ____

Skill level 1	
1	
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2. *The manager of Tepa Rental emphasises the importance of petty cash funds to the business.*

   a) Name **ONE** source document used for recording petty cash funds.

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Skill level 1	
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   b) Describe the purpose of a **petty cash fund**.

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Skill level 2	
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3. *There are control procedures in place for credit sales and credit purchases.*

   State **ONE internal control** procedure for accounts receivable.

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Skill level 1	
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4. Describe the purpose for keeping an accounts receivable subsidiary ledger.

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Skill level 2	
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5. *One of the internal controls over cash is bank reconciliations.*

Discuss the importance of **bank reconciliations**.

Skill level 4	
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6. *Jinga* and *Jongo* are a newlywed couple. *Jinga* works as a librarian in *Your Dream World Library*. She earns $18 000 net per annum. Her husband works as a mechanic and earns $450 per fortnight.

Given below are the estimated expenses for the year 2020.

Estimated Expenses for 2020	$
Food	180/fortnight
Mortgage payment	300/month
Water and Electricity Bill	60/month
Insurance payments	180/month
Entertainment	80/month
Hire purchase payments	100/month
Clothing	70/month

Additional information

During the year, the following changes took place:

- *Jinga*'s salary increased by 10%
- Entertainment expenses increased by 5%
- Mortgage payment increased to $400 per month

a) Prepare a **fully classified monthly budget** for *Jinga* and *Jongo* for 2020.

Jinga and *Jongo* Monthly Budget for 2020

Skill level 3	
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b) Discuss the importance of preparing a **personal budget** for *Jinga* and *Jongo*.

Skill level 4	
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SECTION C: ACCOUNTING REPORTS

Financial Statements

1. *Hassan* operates a jewellery store known as *Hassan's Jewellery Shop*. The following Trial Balance and additional information relates to *Hassan's Jewellery Shop* for the year ended 30th September 2020.

Hassan's Jewellery Shop **Trial Balance as at 30 September 2020**			
	$		$
Advertising	1 500	Accounts Payable	5 960
Cash at Bank	7 000	Accumulated Depreciation – Furniture	5 010
Customs Duty	390	Accumulated Depreciation – Vehicle	7 200
Discount Allowed	600	Sales	103 500
Electricity	1 880	Purchases Returns	1 700
Insurance	960	Discount Received	870
Inventory (1/10/19)	19 070	Loan	20 000
Purchases	50 000	Commission Received	410
Goodwill	2 200	Capital	36 110
Sales Returns	2 500		
Wages and Salaries	20 000		
Furniture	33 400		
Office Expenses	3 680		
Vehicle	18 920		
Accounts Receivable	6 500		
Rent	11 700		
Drawings	460		
	180 760		**180 760**

Additional Information

(i) Wages and Salaries due $500

(ii) Insurance is due for 2 months $192

(iii) Paid one month rent in advance $900

(iv) Commission due but not received $80

(v) Inventory on hand 30/09/2020, $16 850

Required

a) Use the information given on **page 13** and your knowledge to:

Prepare the **general journal entries** for the balance day adjustments **(i)** to **(iv)**. Narrations are not required.

Date	Particulars	Dr	Cr
(i)			
(ii)			
(iii)			
(iv)			

Skill level 3	
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b) Prepare a fully classified **Statement of Financial Performance** of *Hassan's Jewellery Shop* for the year ended 30 September 2020.

Hassan's Jewellery Shop **Statement of Financial Performance** **As at 30 September 2020**		

Skill level 4	
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c) With regard to the Statement of Financial Performance you have prepared for *Hassan's Jewellery Shop*, state the financial year on which the financial report was based.

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Skill level 1	
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d) Describe the purpose of preparing the Statement of Financial Performance you have prepared for *Hassan's Jewellery Shop.*

Skill level 2	
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e) Prepare the **closing journal entry** for the account below using *Hassan*'s Statement of Financial Performance. Narrations are not required.

(i) Inventory as at 1 October 2019			
Date	Particulars	Dr	Cr

Skill level 2	
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f) One *of the financial statements of Non-profit organisations is the Statement of Income and Expenditure.*

Identify the accounting report of a Sole Trader that is equivalent to the Statement of Income and Expenditure.

Skill level 1	
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SECTION D: DECISION MAKING

Skill level 1	
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1. Identify the ratio that measures the amount of assets or funds provided by the external users.

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2. *Island Tours Ltd* provide varieties of activities for tourists. The manager is concerned that the company is not doing well as he had hoped.

The following information has been taken from the previous 5 years' financial statements:

	2005	**2006**	**2007**	**2008**	**2009**
Sales from activities	$200,000	$220,000	$240,000	$250,000	$290,000
Selling and Marketing Expenses	10%	10%	12%	15%	20%
Administration Expenses	15%	15%	15%	20%	25%
Financial Expenses	5%	5%	5%	10%	5%
Net Profit	10%	10%	10%	8%	5%
Return on Owner's Equity	15%	18%	20%	15%	10%
Current ratio	2.2:1	2.0:1	1.8:1	1.5:1	1.3:1
Liquid ratio	1.4:1	1.2:1	1:1	0.9:1	0.6:1

a) Using the information above, you are required to comment on the managers concerns regarding the **Liquidity position** of the company.

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Skill level 4	
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b) ***Profitability*** *is one of the main classifications of ratios and percentages.*

Describe the purpose of the Profitability ratios when analysing financial statements.

Skill level 2	
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3. *Stakeholders are interested in business financial information*.

Describe the purpose of analysing financial information.

Skill level 2	
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TSC 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** $\frac{\text{Current Assets} - (Inventories\ \ Prepayments)}{\text{Current Liabilities} - (Secured\ Bank\ Overdraft)}$

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