MARKER CODE				

Student Enrolment Number									

TONGA FORM SIX CERTIFICATES

2016

ACCOUNTING

QUESTION AND ANSWER BOOKLET

Time allowed: 3 Hours

INSTRUCTIONS

1. Write your **Student Enrolment Number (SEN)** on the box on the right corner of this booklet.
2. There are **SIX SECTIONS** to this paper, all of which are **COMPULSORY**. Answer ALL questions and allocate your time as follows:

		Total	Time
Section 1:	**Multiple Choice Questions**	**10**	**22 minutes**
Section 2:	**Conceptual Basis of Accounting**	**8**	**18 minutes**
Section 3:	**Processing**	**8**	**18 minutes**
Section 4:	**Accounting System**	**14**	**32 minutes**
Section 5:	**Accounting Reports**	**15**	**34 minutes**
Section 6:	**Analysis, Interpretation and Decision Making**	**25**	**56 minutes**
		---------	--------------
		80	**180minutes**
		=======	=========

3. Answer the questions in the spaces provided in this booklet. If you need more space for your answers, ask the supervisor for extra paper. Write your **SEN** on all extra sheets used and number the questions clearly.
4. Check that this booklet contains pages **2-27** in the correct order and that none of these pages is blank

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

SECTION 1 MULTIPLE CHOICE

ALL questions are compulsory. Write the **LETTER** of the best answer to each question in the space provided on the back flap of this booklet.

1. Which of the following best defines accounting

Skill level 1	
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A. Provide useful financial information to outsiders.
B. The process of applying the basis for double entry recordings.
C. Determine of transactions on the extended accounting equations.
D. The basis of applying accepted accounting concepts to report preparation.

2. Name the appropriate user most interested in the accounting information stated below:

"The assessment of the financial position of a supplier company for purpose of ensuring that a stable source of supply over a long term is maintained"

Skill level 1	
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A. Creditors
B. Investors
C. Customers
D. Owners

3 **Qualitative characteristics of financial information include timeliness.**

Which of the following best defines timeliness?

A . Accounting information available to users before a decision is made.
B. The availability of accounting information makes a difference in the decision process.
C. Accounting information presented showed actual activities taken place.
D. Accounting information are comparable over time and years.

Skill level 1	
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4 Name the accounting concept defines in the statement given below.

" Income and Expenses must be recorded on the accounting periods to which they relate rather than on cash basis "

Skill level 1	
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A. Accounting Entity
B. Going Concern
C. Prudence
D. Accrual

5. Which is the best definition for business liability?

Skill level 1	
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A. Costs incurred in or required for something.
B. Amount of money that a company actually received during a specific period.
C. Company financial debts or obligations that arise during the course of its business operations.
D. The ownership interest in a business.

6. What type of account is loss on disposal of business assets?

Skill level 1	
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A. Expenses
B. Revenue
C. Equity
D. Liability

7. The accounting principle that states business and owners should be account for separately.

Skill level 1	
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A. Periodicity Assumption
B. Monetary unit Assumption
C. Business Entity Assumption
D. Going Concern Assumption

8. Which of the following will not cause a change in owner's equity?

Skill level 2	
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A. Advertising the sales of a new product line.
B. Purchasing a vehicle with cash for business delivery.
C. Performing a service on account.
D. Unpaid wages at balance date.

9. Which accounting concepts applies when we record Revenues and Expenses in the same period in which they occur?

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A. Matching
B. Objectivity
C. Historical Cost
D. Disclosure

SECTION 2: CONCEPTUAL BASIS OF ACCOUNTING

1. You are required to study carefully the accounting report below belonging to the Nuku'alofa Sports Ltd and answer the questions followed.

Nuku'alofa Sports Ltd Statement of Financial Position as at 30 June 2015

	2015
Current Assets	16400
Non-current Assets	
Equipment and Fittings	8100
Plant and Premises	24800
Total Assets	**49300**
Current Liabilities	9300
Non-current Liability	
Mortgage (5 years)	16400
Equity	**23600**
Total Liabilities	**49300**

a. **'Accounting concepts and conventions are of fundamental importance in the preparation of financial statements'**

With relevant examples from the Statement of Financial Position of the Nuku'alofa Sports Ltd as given above, you are required to explain your understanding on any **TWO** (2) of the following concepts.

- ☐ Historical Costs
- ☐ Accounting Entity
- ☐ Going Concern

i.

ii.

Skill level 1	
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b. The business of Nuku'alofa Sports Ltd followed accepted accounting procedures to prepare its accounting reports.

You are required to explain **THREE** (3) FUNCTIONS of Accounting.

i.	
ii.	
iii.	

Skill level 2	
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c. Give an example of capital expenditure and revenue expenditure incurred by the Nuku'alofa Sports Ltd during the financial year ending 30 June 2015.

Capital Expenditure

Revenue Expenditure

Skill level 2	
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2. Explain the effect on reported net profit when a revenue expenditure is reported wrongly as capital expenditure and (ii) The effect on reported asset value when a capital expenditure is wrongly reported as revenue expenditure.

i.

ii.

Skill level 3	
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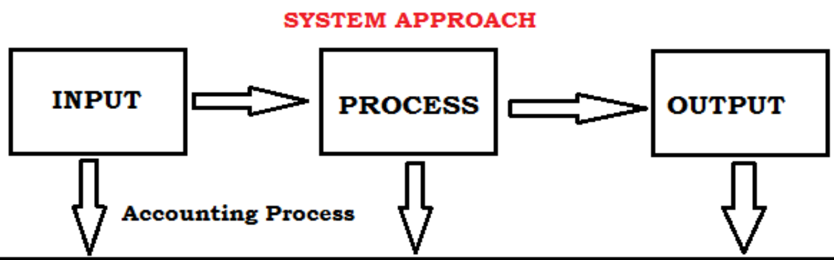
SECTION 3: ACCOUNTING PROCESS

1. Identify the stages of the accounting process within the system Approach.



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2. Name **FIVE** (5) source documents used for recording of transactions of a Service business enterprises .

Skill level 1	
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3. For a Trading business, business dealing are recorded initially in the book of First entry and those books are known to date as

Skill level 1	
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4. Trial Balance have limitations. Explain **TWO** (2) circumstances which shows clearly those limitations of trial balance within the accounting process.

i.

ii.

Skill level 2	
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5. You are required to study carefully the two ledger accounts given below and write out the journal entries from the two ledger accounts that was previously recorded in the specific journal books.

Tinolasa **L105**

Date	Particulars	Folio Ref	DR	CR	Balance
	Balance		10000		10000 Dr
Jan 1	Bank	CRJ1		6500	3500 DR
	Discount Allowed	CRJ1		500	3000Dr
Jan 2	Sales	SJ1	6000		9000Dr
Jan 4	Sales Returns	SRJ1		1000	8000Dr
Jan 8	Interest	GJ1	500		8500Dr
Jan 10	Equipment	GJ1	3000		11500Dr

Tinitini **L205**

Date	Particulars	Folio Ref	DR	CR	Balance
Jan 1	Purchases	PJ1		10000	10000Cr
Jan3	Bank	CPJ1	6200		3800Cr
	Discount Received	CPJ1	300		3500Cr
Jan5	Purchases Returns	PRJ1	800		2700Cr
Jan8	Cartage	GJ1		500	3200Cr
Jan14	Furniture	GJ1		2000	5200Cr

Skill level 3	
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SPECIFIC JOURNALS:

i. **General Journal**

Date	Particulars	Doc Ref	Folio Ref	Details	Dr	Cr

ii. **Cash Payments Journals CPJ1**

Date	Particulars	Chq. no.	Folio Ref	Discount	Details	Bank	Purchases	Wages	Creditors	Others

iii. **Purchases Journals** **PJ1**

Date	Accounts Payable	Invoice no.	Folio Ref	Amount

iv. **Purchases Returns Journals** **PRJ1**

Date	Accounts Payable	Invoice no.	Folio Ref	Amount

v. **Cash Receipts Journals** **CRJ1**

Date	Particulars	Receipt no.	Folio Ref	Discount	Details	Bank	Sales	Rent	Debtors	Others

vi. **Sales Journals** **SJ1**

Date	Accounts Receivables	Invoice no.	Folio Ref	Amount

vii. **Sales Returns Journals** **SRJ1**

Date	Accounts Receivable	Invoice no.	Folio Ref	Amount

SECTION 4: ACCOUNTING SYSTEMS

1. **Internal controls**

You are required to study carefully the case study given below and make recommendations to improve the internal controls over the subsystems of the case study

Case Study

The owner of the Nuku'alofa Restaurant employs an accountant, an account clerk, two cash register operators and a part-time sales assistant. The owner used the following system of internal control for the business.

- *The cash register operators totaled the cash they received for the day and passed the cash and the receipts to the accountant. The accountant recorded the receipts in the Cash Receipts Journals.*
- *The accounts clerk was given the money at the end of the day with a deposit slip already completed by the accountant .If the account s clerk was too busy, he would lock the cash in the safe for the night and go to the bank whenever he could the next day.*
- *On Friday the part time sales assistant would be paid in cash from the cash register.*
- *Other employees would be paid by cheque or direct deposit.*
- *As soon as any invoices were received, the accountant would place them in a folder. At the end of the month, the accountant had the authority and proceeded to prepare and sign the cheques.*
- *Each month a bank statement was received and the accountant was responsible for the reconciliation process. The accountant would then informed the owner of cash position of the business*

Skill level 4	
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2. **Accounting for Inventories**

Skill level 1	
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a. State what items should be recorded under the heading inventories of a car dealer enterprises.

____

b. Study carefully the inventory records of the SHIP Ltd enterprise and answer the questions that followed.

The following information concerns inventory of SHIP Ltd during the first week of June 2015 .

Inventory movements during the first week of June 2015:

June	**1**	**Balance on hand 100 units @ $15.00**
	2	**Purchases 30 units @ $15.50**
	3	**Sales 35 units @ $20.00**
	5	**Purchases 40 units @ $16.00**
	6	**Sales 116 units @ $30.00**

i. You are required to prepare a FIFO inventory card for the inventory of SHIP Ltd.

STOCK CARD:

Product : XXXX1							***Cost Assignment Method : FIFO***			
Date	Particulars	**IN**			**OUT**			***BALANCE***		
		Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost	Qty	Unit Cost	Total Cost

Skill level 3	
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ii. Determine the cost of goods sold out by the end of the first week of June?

____

3. **Accounting for Fixed Asset**

Bluewater Ships has a fleet of ships. One of the ships has been disposed at the end of the fourth year of operations.

The disposed ship has the following details:

i. was purchased at a cost of $50 000 and the ship has an expected useful life of 10 years or 500 000 kilometers useful life. The ship has a residual value of $5 000.

ii. An extra space as ship deck was installed to the ship before used amounted to $10 000. The ship has journeyed 200 000 km in its second year.

You are required to calculate the depreciation charges at the end of the second year of operation by the ship under each of the approved depreciation methods stated below.

Note for Reducing Value Method: a uniform 20 % charged annually.

Depreciation Methods	**Units of Used Method**	**Reducing Value Method**
Workings		
Answers		

Skill level 3	
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4. **PAYROLL**

a. Explain **THREE** (3) ways of paying payroll to employees.

i.
ii.
iii.

Skill level 2	
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b. Name **TWO** (2) source documents used in preparation of payroll.

i.
ii.

Skill level 1	
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SECTION 5: ACCOUNTING REPORTS

1. With a Sole Trader Business, list **FOUR** (4) accounting reports required to be prepared at the end of the financial year.

1	
2	
3	
4	

Skill level 1	
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2. With Community Organizations, list **FOUR** (1) financial reports required to be prepared at the end of the financial year.

1	
2	
3	
4	

Skill level 1	
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3. What accounts that are closed on balance date?

Skill level 2	
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NR	

4. Explain the reasons for preparing of closing entries.

Skill level 2	
2	
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NR	

5. Explain and give reason for preparing reversing entries.

Skill level 2	
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6. **Profit Organizations Financial Reporting**

The following trial balance was prepared for the WXY Services Co. a service business owned by Tevita Manu of Malapo.

WXY Services Co.
Trial Balance as at 31 December 2015

	Dr $	Cr $
Shop Fittings	**120 000**	
Vehicles	**95 850**	
Debtors	**15 500**	
Bank	**36 450**	
Insurance	**5 000**	
Salaries Expense	**58 500**	
Rent Expense	**15 700**	
Sales Commission	**13 100**	
Electricity	**1 400**	
Drawings	**18 000**	
General Expenses	**13 000**	
Selling Expense	**10 000**	
Travel Expenses	**14 500**	
Interest on loans	**13 000**	
Service Revenue		**240 000**
Loan (@ 8 % due 2019)		**50 000**
Interest Received		**6 000**
Accumulated Depreciation - Vehicles		**20 000**
Accumulated Depreciation – Shop Fittings		**14 000**
Capital		**100 000**
	430 000	**430 000**

Additional Information

1. **Interest revenue owing $1500**
2. **Salaries in arrears $2000**
3. **Insurance paid in advance $2800**
4. **Depreciation on 10% pa on cost of Fixed Assets**
5. **Additional capital of $40 000 (cheque no.1234)**
6. **Bad debts written off at balance date $1 500**
7. **Additional drawings of cash $2000**

You are required to

i. Prepare a fully classified Statement of Financial Performance taking into account the balance day adjustments.

ii. You are required to prepare a fully classified Statement of Financial Position taking into account the balance day adjustments.

Note : Expenses Classification are to be under Administrative Expenses, Selling Expense, Financial Expenses.

WXY Services Co. Statement of Financial Performance for the year ended 31 December 2015			
	$	$	$

WXY Services Co. Statement of Financial Performance for the year ended 31 December 2015			
	$	$	$

Skill level 3	
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7. **Community Organizations**

The information given below were extracted from records of the Hihifo Rugby Club :

Assets, liabilities and members' funds at 30 June 2013:

Assets	**$**	**Liabilities**	**$**
Cash at bank	5 000	Accounts payable – Canteen	3 500
Canteen Stock	3 500	Wages accrued	750
Accounts Receivable –Canteen	4 000	Subscriptions in advance	700
Insurance prepaid	500		------------------
Subscriptions in arrears	600	**Total liabilities**	**4 950**
Equipment	20,000		-----------------
Accumulated depreciation on equipment	(4 000)	-	

Total Assets	**29 600**		

Receipts and payments were recorded for the year ended 30 June 2014:

Receipts	**$**	**Payments**	**$**
		Accounts payable – Canteen	2 000
Entrance fees	5 00	Insurance	2 500
Competition fees	6 000	Postage and stationery	1 000
Subscriptions	25 000	Telephone	2 800
Sales –canteen	17 000	Wages-canteen	10 000
Donations	2 000	Trophies for the competition	1 500
Sponsorships	5 500	Purchases-canteen	1 100
Accounts Receivable – Canteen	12000	Equipment	1 000
	--------------------------		-------------
	72 500		21 900
	--------------------------------		----------------

Additional information at 30 June 2014:

- The Club operates a canteen shop at the clubrooms to raise funds.
- Canteen Stocks at end of year $ 2500
- Accounts Receivable – Canteen $3000
- Accounts payable – Canteen $3000
- Subscriptions in arrears $2100
- Subscriptions in advance $1500
- Wages owing $2700
- Insurance prepaid $750
- Depreciation on equipment is at 10% p.a. straight-line method
- New Equipment was bought on the 1 January 2014
- **The club excess of Income over Expenditures was reported to be $42 050**

You are required to use the incomplete record approach to calculate the credit sales and purchases of the club from its canteen and give the TOTAL Sales and TOTAL Purchases for the year.

Determination of Credit Sales and the Total Sales of the Canteen for the year

Determination of Credit Purchases and the Total Purchases of the Canteen for the year

Skill level 4	
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SECTION 6: ANALYSIS, INTERPRETATION AND DECISION MAKING

1. Explain the limitations of using Financial Statement to make decisions.

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2. List **FOUR** (4) profitability ratios.

Skill level 1	
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3. List **FOUR** (4) management ratios.

Skill level 1	
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4. Name **THREE** (3) stability ratios.

Skill level 1	
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NR	

5. Explain the account receivable turnover

Skill level 1	
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6. Identify and explain the relationship between the ratios and percentages used.

Skill level 2	
2	
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7. You are to study carefully the given Financial Statement of the business Aisi's CAFÉ and answers the questions followed.

The business of Aisi's Café provide dining for people of the areas of Nuku'alofa.

Aisi's CAFE
Statement of Financial Performance as at 31 December 2015

	2015
Income	$
Sales(**All sales were on credit)**	360 000
Cost of Good Sold	130 000
Gross Profit	230 000
Less Expenses	
Administrative Expenses	10 000
Bad Debts	1 900
Depreciation on Buildings	13 000
Salary	56 200
Doubtful Debts	200
Interest on Mortgage	10 700
Other operating expenditure	70 000
Total Expenditure	162 000
Net Profit	**68 000**

	2015
Total Owner's Equity	$335 000
Total Assets	$262 000
Average Accounts Receivable	$60 000
Average Inventories	$80 000

a. You are required use the information given from the business of Aisi's Café to complete the table below by calculating the following ratios (i) – (iv) for the year ended 31 December 2015 and show the appropriate formula for the given ratios.

	Formula and Working	***2015***	***2014***	***2013***	***Industries Averages***
(i) Expenses Ratio			*40%*	*40%*	*48%*
(ii) Profit Margin Percentage			*16%*	*14%*	*15%*
(iii) Return on Assets			*22%*	*20%*	*28%*
(iv) Debtors Turnover (in days Collection)			*90*	*98*	*75*
Debt Ratio		45 %	*40%*	*35%*	*35%*
Current Ratio		1:0.33	*1: 0.21*	*1: 0.15*	*1:0.25*
Quick Asset Ratio		1:0.28	*1: 0.03*	*1: 0.29*	*1:031*
Equity Ratio		75%	*85%*	*90%*	*88%*

Skill level 3	
3	
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b. You are to write your comments on the trends for Profitability of the Aisi's Café business and state reasons for trends, strengths and weaknesses and where appropriate suggest remedial measures.

Skill level 4	
4	
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c. You are required to write your comment on the entity's performance, financial position, and management effectiveness using comparative figures ,industries averages, and the results of analysis.

Skill level 4	
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8. You are to study carefully the given Statement of Changes in Cash Position for the Tonga Air Conditioning Enterprise and give a written comments as interpretation of the Statement of Cash Position of the Business.

Tonga Air Conditioning Enterprise Statement of Changes in Cash Position For the month ended June 30, 2015		
Receipts:	**$**	**$**
Cash Received from Customers	**4000**	
Cash Revenues from sales of Disposed vehicle	**2000**	
Cash Investment by owners	**3000**	**9000**
Less Payments :		
Cash paid to Suppliers	**2600**	
Wages Paid	**2500**	
Cash Drawings	**2000**	
Cash paid for Other Expenses	**6500**	**13600**
Net Increase /Decrease in Cash		**(4600)**
Add Bank Balance at beginning		**10000**
Bank Balance at end		**5400**

Statement of Interpretation

Skill level 4	
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