

**MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA**

**MATRICULATION CERTIFICATE EXAMINATION
ADVANCED LEVEL
SEPTEMBER 2012**

SUBJECT:	ACCOUNTING
PAPER NUMBER:	I
DATE:	4th September 2012
TIME:	9.00 a.m. to 12.00 noon

Directions to Candidates

Answer **FOUR** questions, choosing **ONE** from **SECTION A** and **THREE** from **SECTION B**.
You must show the working leading up to your answers.
Candidates may only use non-programmable calculators in this examination.

Section A: Answer ONE question from this Section. Each question carries 28 marks.

Question 1

The treasurer of Beach Bodies Gym had to leave suddenly for personal reasons and you, as a person knowledgeable in accounts and a regular member of the club, have offered to help out by preparing the financial statements of the club for the year ended 30 June 2012.

The club officials have passed on to you the following information:

Assets and Liabilities as at 1 July 2011	€
Non current assets	117,000
Cafeteria inventory	22,900
Subscriptions due	7,500
Subscriptions received in advance	3,500
Amounts owing for cafeteria supplies	47,100
Amount owing to Professional Trainers	21,700
Bank balance (Dr)	16,700
Cash in hand	600
Accumulated Fund	92,400

The club also operates a cafeteria on the premises. Sales are on a cash basis at an average margin of 30%. At the end of each week, the treasurer collects the cash takings after paying €150 to each of the two part timers who work there.

Non current assets are depreciated at 20% of their carrying value at the year end. One tenth of these assets are for the use of the Cafeteria. The year end stock take valued the inventory of supplies at the Cafeteria at €33,500, while the cash in the register amounted to €800.

The annual membership fee is €500 and at the end of the year there are 375 registered members. Members who fail to pay the fee for two consecutive years are struck off the register. Should these subsequently pay, they are recorded as bad debts recovered.

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Membership fees received during the year comprise:

in respect of year ended	No. of members
30-Jun-2011	20
30-Jun-2012	350
30-Jun-2013	5

The following bank transactions were carried out during the year:

	€
Deposits effected during the year	217,000
Payments to suppliers of cafeteria	44,300
Purchase of new fixed assets	53,000
Rent of club premises	27,500
Payment to trainers	72,500
Water and electricity	14,000
Repairs and maintenance of equipment	14,500
Rental fee paid for Cable TV	1,700

The following cash payments were also affected during the year:

	€
Purchase of confectionery items	5,200
Cleaning expenses	4,200
Printing, postage and stationery	3,200
General repairs and sundry expenses	2,100

Amounts due but not yet paid at the year end comprised the following:

	€
Water and electricity	7,300
Cafeteria supplies	50,200
Repairs	6,500
Professional trainers	5,200

- Prepare the Income and Expenditure Account for the financial year ended 30 June 2012, and a Statement of Financial Position as at that date. **(22 marks)**
- Some clubs operate a life membership scheme. What accounting principle should be followed? Explain how such a scheme would be treated in the accounts. **(6 marks)**

Question 2

As a financial analyst with a well-established stockbroking firm you regularly issue reports for your clients giving your professional opinion on investment opportunities available. The following are the latest financial information published by two listed companies which operate in the hospitality sector.

Summarised Income Statements	<i>Luxury Lodging plc</i>	<i>Relax Resorts plc</i>
	€'000	€'000
Revenue	2,100	1,400
Inventory (average)	270	170
Gross profit	525	350
Net profit before interest and tax	315	126
Profit for the year after interest and tax	200	80
Additional data per share	€	€
Dividend paid	0.30	0.90
Share price as at 30 June 2012	1.60	3.20
Statement of Financial Position as at 30 June 2012	<i>Luxury Lodging plc</i>	<i>Relax Resorts plc</i>
	€'000	€'000
<i>Non current assets</i>	1,140	320
<i>Current assets</i>		
Inventories	310	180
Trade receivables	250	210
Cash and cash equivalents	-	40
	560	430
Total assets	1,700	750
<i>Equity</i>		
Share capital (€1 Ordinary shares)	600	200
Revaluation reserve	-	200
Retained earnings	90	190
	690	590
<i>Non current liabilities</i>		
5% Debentures 2020	500	-
<i>Current liabilities</i>		
Trade payables	450	130
Accruals	10	30
Overdraft	50	-
	510	160
Total equity and liabilities	1,700	750

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Required:

- a. Calculate **FOUR** ratios for each of the following areas and briefly comment on each area, comparing the two entities.
 - i. Performance
 - ii. Working capital
 - iii. Capital structure and Investment **(22 Marks)**
- b. Prepare a short report for the clients of your firm indicating the preferred investment for the more cautious investor, giving your reasons. **(6 Marks)**

Section B: Answer THREE questions from this Section. Each question carries 24 marks.

Question 3

As Head of Finance of **Happy Holidays Co Ltd**, you are in charge of overseeing newly qualified accountants who are engaged with your company during the summer months to gain practical experience.

This year you have asked them to start preparatory work on the annual budget. They held meetings with different areas across the entity and have tried to reflect the feedback given to them in the draft budget. The assumptions and the resulting figures are as follows:

Draft Budget Statement of Financial Position as at 31 March 2013

	€'000	€'000
Non Current Assets		
Land and buildings	2,100	
Machinery and equipment	940	
Motor vehicles	670	
Research and Development	450	4,160
	<hr/>	
Current Assets		
Inventories	380	
Accounts receivable	410	
Prepayments	10	800
Total Assets	<hr/>	<hr/> 4,960
Equity		
Ordinary share capital (€1 shares)	900	
Share premium	600	
Revaluation reserve	700	
Retained earnings b/f	800	
Draft Budgeted Profit for the year	1,500	4,500
	<hr/>	
Current Liabilities		
Accounts payable	380	
Accruals	50	
	<hr/>	
Bank	30	460
	<hr/>	
Total Equity and Liabilities		<hr/> 4,960

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1. Company policy states that land and buildings are carried at fair value. Indices on property prices report a slow down, but one of the officers argued that the value of property has always gone up and the budget should reflect a gain of €100,000, similar to those recognised in previous years. As the property enjoys excellent location, the officer insisted that at least half of this gain should be recognised as profit. The basis for this reasoning was that the property would be easy to dispose of. The budget reflects these assumptions.
2. The same officer spoke of an overhaul of the machinery, which is carried out on a regular basis. The work required will be carried out by the employees. Total cost is estimated at €75,000, equally split between material and labour costs. The officer insisted that this expense should be capitalised as it increases the value of the machinery and the budget reflects this.
3. The draft budget does not include any depreciation charge on motor vehicles as the fleet manager maintained that these are regularly serviced and their current value is comparable to the market value of similar vehicles. Company policy indicates that motor vehicles are depreciated at 20%, using the reducing balance method.
4. The R&D manager asked for a budget of €250,000. She plans to embark on a new research project at the start of the new financial year. This amount was capitalised. The remaining balance on the R&D account were capitalised this year in respect of a product which is in the final stages of development. This product has an estimated life of 5 years and sales are planned to commence in the second half of the new financial year.
5. In recent months, the company started buying supplies in bulk and larger premises have been rented for this purpose. To make it cost effective, goods belonging to other companies are stored in these premises. The budget figure includes €75,000 inventories belonging to third parties.
6. Past trends show that €20,000 worth of perishable goods are thrown away when the annual stocktake is carried out. The budget closing stock figure has not taken this into consideration.
7. A major customer who owes the company €35,000 is in financial difficulties and the amount due is unsecured. Budgeted receivables are stated net of an allowance of 1%, based on past trends, and does not include any specific allowances.

Required:

- a. Prepare a statement showing the adjusted budgeted profit, stating a reason for each adjustment. **(12 marks)**
- b. Draw up an adjusted Budget Statement of Financial Position as at 31 March 2013 incorporating the adjustments required. **(6 marks)**
- c. What is the difference between capital and recurrent expenditure? Give two examples of each type and explain the relative accounting treatment. **(6 marks)**

Question 4

Jack Tar trades in the fashion industry. The difference in the trial balance he extracted on 31 March 2012 was posted to a Suspense Account pending verification. Subsequently, the following errors were found:

1. New furniture costing €2,400 purchased in January 2012 was posted to Purchases. Furniture is depreciated at 15% on cost, irrespective of the time of purchase.
2. A payment of €980 for electricity was only entered in the Cashbook.
3. The total of the Purchase Returns Day Book of €1,800 had been correctly entered but this figure had not been posted to the Purchases Ledger.
4. A motor vehicle bought on 1 April 2007 for €8,000 and depreciated annually at 20% on cost was disposed of for €1,200 on 1 April 2011. The only entry made in respect of this transaction was to debit the sales proceeds to the bank account.
5. No entries were made for goods costing €860 which Tar took for his personal use.
6. Discounts Allowed of €725 had been credited to Discounts Received.
7. As at 31 March 2012, a stock sheet with a sub-total of €7,460 was carried forward as €7,640.
8. Insurance prepaid as at 31 March 2012 amounting to €3,315 was overlooked.
9. The balance of a trade debtor amounting to €2,475 had been set-off against a balance in the Purchases Ledger but no record of this transaction was made in the Sales Ledger Control Account.

Required:

- a. Prepare the Journal Entries required to correct the above errors. **(12 marks)**
- b. Prepare the Suspense Accounting showing the original discrepancy. **(4 marks)**
- c. Before adjustments, Profit for the year amounted to €48,798. Prepare a statement of corrected profit for the year ended 31 March 2012. **(4 marks)**
- d. List two Books of Prime Entry and describe their functions. **(4 marks)**

Question 5

Glamping Ltd, operators of luxurious camp sites, had the following balances on their books at the year ended 30 June 2012.

	€
Ordinary shares (€1 per share)	300,000
Share Premium	30,000
Retained earnings b/f	48,000
6% Debentures 2020	50,000
Premises (at cost)	150,000
Equipment (at cost)	125,000
Motor vehicles (at cost)	66,000
Accumulated depreciation: Premises	5,000
Equipment	32,500
Motor vehicles	15,200
Investment in 4% Malta Government Stock	45,000
Inventory b/f	85,500
Receivables	61,600
Prepaid advertising costs b/f	500
Payables	55,800
Bank overdraft	10,600
Revenue	409,300
Purchases	272,800
Returns in	4,400
Returns out	4,700
Carriage in	1,000
Employee costs	36,500
Repairs and maintenance	46,700
Advertising costs paid during year	1,500
Telecom expenses	6,700
Water and electricity	41,500
Professional and managerial fees	3,500
Directors' fees	15,300
Discounts allowed	1,300
Discounts received	2,100
Interest received on Malta Government Stock	1,800
Interest and bank charges	200

The following information is also available.

- Non current assets are depreciated on cost at the following rates:

Premises	2%
Equipment	10%
Motor vehicles	20%
- Inventory at the year end has a value of €111,300.
- During the year an extension to the pool area was constructed, costing €35,000, which expense was included with Repairs and maintenance.

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4. The debentures were issued 2 years ago to finance an expansion project. The annual interest on these long term borrowings was paid in arrears in July 2012.
5. No provision was made for staff bonuses due amounting to €5,200.
6. Advertising paid during the year is for the 6 month period ending 31 October 2012.
7. The internet provider fee for June 2012 amounting to €200 was directly debited to the company's account at the bank. Accounting entries were passed after the year end.

Required:

- a. Prepare the Income Statement for the year ended 30 June 2012 and a Statement of Financial Position as at that date.
(18 marks)
- b. What sources of financing are available for an entity wishing to expand operations
Discuss the advantages and disadvantages of **two** of these possible sources of finance.
(6 marks)

Question 6

PE Moorings runs a small enterprise without keeping proper accounting records of his transactions. He provides you with the following information and asks you to prepare a complete set of accounts for his business.

Balances as at:	1-May-11	30-Apr-12
	€	€
Premises (including land)	150,000	200,000
Machinery	80,000	83,800
Fixtures	45,000	28,800
Motor vehicles	27,000	33,600
Inventories	78,000	52,000
Trade receivables	44,000	61,000
Trade payables	22,000	27,000
Amounts owing: for wages	1,396	1,696
for rent	1,200	1,800
Prepaid insurance	-	820
Cash	576	327
Bank	2,820	?

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The following lists his bank transactions during the year ended 30 April 2012:

<u>Receipts</u>	€	<u>Payments</u>	€
Debtors	?	Creditors	148,241
Loan	50,000	Rent	5,800
		Wages	12,200
		Insurance	3,400
		General expenses	5,150
		Purchase of: Motor vehicles	15,000
		Fixtures	7,000
		Machinery	12,000
		Electricity	2,210
		Sundries	950
		Drawings	8,400

He also provides you with additional information as follows:

1. Not all receipts from sales have been banked and PE Moorings does not have records to show the exact amount. He informs you that before banking cash takings he kept €300 a week for his personal use and also donated €0 to the local church fund at the end of each month.
2. The only other cash payments were in respect of cash purchases amounting to €12,759.
3. PE Moorings operates his business at a uniform gross profit on sales of 33 1/3%.
4. Returns out during the year amounted to €3,250 and returns in totaled €5,530.
5. Trade receivables amounting to €8,400 are not expected to be recovered, and, therefore, have not been included in the closing balance.
6. Premises were revalued by €50,000. Premises are not depreciated.
7. Fixtures with a book value €20,000 were scrapped during the year. There was no other disposal of non-current assets.
8. The loan was drawn on 1 May 2011 and bears interest at 8% per annum.

Required:

- a. Prepare a bank account and a cash account, and other workings to determine sales receipts not banked for the year ended 30 April 2012. **(8 marks)**
- b. Prepare the Income Statement for the year ended 30 April 2012, and a Statement of Financial Position as at that date. **(10 marks)**
- c. List and explain **three** benefits of keeping control accounts. **(6 marks)**

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**MATRICULATION CERTIFICATE EXAMINATION
ADVANCED LEVEL
SEPTEMBER 2012**

SUBJECT:	ACCOUNTING
PAPER NUMBER:	II
DATE:	5th September 2012
TIME:	9.00 a.m. to 12.00 noon

Directions to Candidates

Answer **FOUR** questions, choosing **ONE** from **SECTION A** and **THREE** from **SECTION B**.
You must show the workings leading up to your answers.
Candidates may only use non-programmable calculators in this examination.

Section A: Answer ONE question from this Section. Each question carries 28 marks.

Question 1

Franky Frendo's started his own business on 1 July 2010. Franky has provided you with the following information and is seeking your assistance in preparing some profit calculations using different stock valuation methods. Franky uses the FIFO method.

	Year ended 30-Jun-2011	Year ended 30-Jun-2012
Number of units produced	2,400	2,500
Number of units sold	1,800	2,700
	€	€
Selling price per unit	260.00	246.00
Cost per unit:		
Direct material	68.80	60.40
Direct labour	96.20	104.10
Variable production overheads	50.00	31.90
Other expenses:		
Fixed production overheads	24,000	24,750
Selling and admin expenses	20,800	19,500

Required:

- a) For the two years, prepare Profit Statements using:
 - i. Marginal Costing
 - ii. Absorption Costing

(18 marks)
- b) Write a report to reconcile the profit under the two approaches and explain the reason that gives rise to this difference in reported profits.

(10 marks)

Question 2

Crockery Ltd produces high quality hand painted tableware for direct orders. Budgeted sales and production for the month of June is 10,000 units at a profit margin of 20%.

The standard cost for each unit is as follows:

Material A	10 kg
Material A price per kg	€1.00
Material B	5 kg
Material B price per kg	€5.00
Direct Labour hours	5 hours
Rate per hour	€3.00
Fixed Production Overheads - 200% of Direct Labour cost	

Actual production for June amounted to 9,600 units which were sold at 10% above the budgeted sales price.

Actual costs incurred comprised:

Material A	96,000 kg
Material A price per kg	€1.20
Material B	48,000 kg
Material B price per kg	€4.70
Direct Labour hours	46,000 hours
Rate per hour	€3.20
Fixed Production Overheads	€290,000

Required:

- a) For the month of June 2012, prepare statements showing:
 - i. the Budgeted Profit; and
 - ii Actual Profit. **(10 marks)**
- b) Analyse the difference between Budget and Actual Profit by:
 - i. Material variance (Usage and Price)
 - ii. Labour variance (Efficiency and Rate)
 - iii. Fixed overhead variance (Expenditure and Volume)
 - iv. Sales variance (Volume and Price). **(12 marks)**
- c) Explain how variance analysis can add value in decision making and mention **three** benefits of carrying out such an analysis. **(6 marks)**

Section B: Answer THREE questions from this Section. Each question carries 24 marks.

Question 3

Lostru Limited is a manufacturing company producing products for the furniture industry. The production of its main product requires two processes, namely Process LOS and Process TRU. The output of Process LOS becomes the input of Process TRU and the output of Process TRU is transferred to finished goods stock.

The following information is available for the month of July 2012.

Process LOS

Material A	10,000 kgs at a total cost of €19,200
Material B	8,000 kgs at a total cost of €14,400
Direct Labour	774 hours at €8.00 per hour
Overheads	€7,953
Normal Loss	5% of weight input
Output	16,560 kgs
Sale of scrap	€0.80 per kgs

There was no work in process at the beginning or end of the month.

Process TRU

Material C	19,440 kgs at a total cost of €56,160
Colouring Material	€4,140
Direct Labour	670 hours at €8.00 per hour
Overheads	€8,176
Normal Loss	2% of weight input
Output	32,400 kgs

Scrap has no value. There was no work in process at the beginning of the month, but at the end of the month, 2,880 kgs were complete as far as materials are concerned and 50% complete in so far as labour and overheads are concerned.

Required:

- Prepare Process LOS, Process TRU and the Abnormal Loss Accounts. **(18 marks)**
- Briefly explain the differences between job costing and process costing. Mention **two** industries that use job costing and **two** industries that use process costing. **(6 marks)**

Question 4

Touchitup Ltd refurbishes old buildings and artefacts and the work required is carried out in three different sections, each having its own overhead absorption rate.

The following are the production overheads budgeted for the period ended 30 June 2012:

	€
Power	435,000
Servicing and maintenance of machinery	420,000
Depreciation of machinery	84,000
Indirect wages	900,000
Staff insurance	270,000
Production bonus	300,000
Insurance of premises	200,000
Rent	40,000

Additional information for the three sections is given below:

	Scrape	Fix	Polish
Area (square metres)	15,000	10,500	14,500
Machine hours	350,000	52,500	17,500
Electricity units	210,000	63,500	161,500
Direct Labour hours	140,000	245,000	315,000
Number of employees	75	45	150
Direct wages (€)	925,000	820,000	1,800,000

The following are the actual results for the period ended on 30 June 2012:

	Scrape	Fix	Polish
Direct Labour hours	140,000	205,000	185,000
Machine hours	320,000	80,000	20,000
Total Production Overhead (€)	1,040,000	430,000	619,000

Required:

- a) For each section calculate:
 - i. the budgeted production overheads, clearly showing the bases of apportionment used; **(9 marks)**
 - ii. a suitable absorption rate; and **(4 marks)**
 - iii. the over/under absorption for the year. **(5 marks)**
- b) Write a report to briefly explain the resulting over/under absorbed overheads for the period. Discuss the advantages and disadvantages of using pre-set absorption rates. **(6 marks)**

Question 5

Exportonly Limited is a company exporting its products to a number of countries in Europe and in North Africa. Due to economic and political problems, the company's profitability has been severely affected and the directors are devising ways to improve profitability. Various proposals have been put forward to improve the company's results for the coming quarter ending 30 September 2012.

The following information is available for the quarter ended 30 June 2012:

Units sold and produced	22,000
Selling price per unit	€90
Material cost per unit	€20
Labour cost per unit	€15
Variable overhead per unit	€5
Fixed overheads: Production	€500,000
Administration	€300,000
Marketing	€250,000

The following alternative strategies were proposed to the company's board of directors:

1. Increase the selling price by 10%. It is estimated that if the marketing expenditure were to be increased by €120,000, the decrease in demand would only be 2% despite the increase in selling price.
2. Reduce the selling price by 10% resulting in an increase in demand of 30%. It is estimated that fixed production overheads would increase by €50,000 and fixed marketing overheads by €20,000.
3. Improve the quality of the product by using a higher quality material costing €25 per unit. It is estimated that fixed marketing overheads would increase by €70,000. The selling price will increase by 10% and demand will increase by 5%.
4. Sub-contract part of the company's production process. The current production process requires the production of 44,000 components per quarter with a variable cost of €1.65 per component. These will be bought for €20 per component. However, this will result in savings in labour costs of €35,200 and savings in fixed production overheads of €15,000.

Required:

- a) Calculate the present contribution per unit. **(2 marks)**
- b) Calculate the present break-even point and the margin of safety for the quarter ended 30 June 2012. **(4 marks)**
- c) Prepare profit statements for the quarter ended 30 June 2012 and for each of the proposals made for the quarter ending 30 September 2012. **(14 marks)**
- d) Compile a short report to the company's directors clearly explaining the limitations when using break-even analysis. **(4 marks)**

Question 6

Conrad Borg operates in the fashion sector from a number of shops around Malta and Gozo. All imports are stored in a central warehouse from which he supplies all the outlets. He has approached you to perform a stock valuation.

On 1 June 2012, there were 250 units in the warehouse valued at a total of €35,000.

The following information is available for the month of June 2012:

Purchases	
Jun 3	150 units for a total cost of €21,600
Jun 14	180 units for a total cost of €27,180
Jun 24	270 units for a total cost of €42,390

Issues	
Jun 4	200 units
Jun 20	230 units
Jun 22	110 units
Jun 26	150 units

All units issued were sold at a selling price of €175 per unit.

The following additional information is available:

Normal consumption per day	25 units
Maximum consumption per day	28 units
Minimum consumption per day	22 units
Re-order period	4 – 6 days
Re-order quantity	100 units

Required:

- a) Calculate the value of closing inventory held at the warehouse as at 30 June 2012 using the following methods of valuation:
 - i. First In First Out (FIFO)
 - ii. Weighted Average Cost (AVCO). **(8 marks)**
- b) Calculate the profits made for the month of June 2012 using each of the above methods of stock valuation. **(4 marks)**
- c) On the basis of the rate of consumption registered in the month of June, calculate:
 - i. Re-order level
 - ii. Minimum stock level
 - iii. Maximum stock level. **(6 marks)**
- d) Prepare a short report to Conrad Borg outlining the advantages and disadvantages of the above methods of stock valuations. Explain clearly why profits are different under each method of valuation. **(6 marks)**

Note: The stock value per unit is to be calculated to the nearest 2 decimal places.