

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

MATRICULATION EXAMINATION
ADVANCED LEVEL
SEPTEMBER 2015

SUBJECT:	ACCOUNTING
PAPER NUMBER:	I
DATE:	1 st September 2015
TIME:	9.00 a.m. to 12.00 noon

Directions to Candidates

Answer **ALL** questions in **SECTION A**.

Answer the question in **SECTION B**. **This question is compulsory.**

Answer any **TWO** questions from **SECTION C**.

You must show the working leading up to your answers.

Candidates may only use non-programmable calculators in this examination.

Section A: Answer ALL questions in this section. This section carries a total of 22 marks.

Question 1

Identify and briefly describe THREE qualitative characteristics of financial statements. (3 marks)

Question 2

Distinguish between a trade discount and a cash discount, highlighting the different accounting treatment, if any. (3 marks)

Question 3

- a) Distinguish between capital and revenue reserves. (2 marks)
- b) Give TWO examples of a capital reserve and TWO examples of a revenue reserve, and in each case describe how the reserve is created. (2 marks)

Question 4

- a) Define 'depreciation' and explain the purpose of providing for depreciation, together with the underlying concept. (3 marks)
- b) Identify two depreciation models prescribed by IAS 16 *Property, Plant and Equipment*. (1 mark)

Question 5

- a) Define 'goodwill'. (2 marks)
- b) Why is it important to make a distinction between purchased and internally generated goodwill? (2 marks)

Question 6

According to IAS2 *Inventory*, inventory is valued at the lower of cost and net realisable value.

- a) Define cost and net realisable value. (2 marks)
- b) Describe the accounting concept underlying the requirements of this financial reporting standard on inventory valuation. (2 marks)

Section B: Answer Question 7 in this Section. This question is compulsory and carries 26 marks.**Question 7**

The following Trial Balance was extracted from the books of Propshaft plc on 31 March 2015:

	€	€
Ordinary Shares of €2 each		400,000
6% Debentures		60,000
Share Premium		25,000
General reserve		32,000
Retained Earnings		4,350
Interim Ordinary Dividend	40,000	
Inventories (31 March 2014)	85,600	
Sales		481,000
Purchases	216,000	
Returns in>Returns out	16,300	9,800
Carriage in	14,200	
Wages	32,600	
Distribution expenses	21,320	
Administration	15,160	
Discounts allowed/received	17,880	14,900
Directors' remuneration	8,000	
Motor expenses	5,620	
Allowance for bad debts		1,850
Bad debts	7,020	
Sundry expenses	4,880	
Debenture interest	2,700	
Premises/Depreciation allowance	600,000	20,000
Fixtures & fittings at cost/Depreciation allowance	44,600	8,430
Motor Vehicles at cost/Depreciation allowance	34,200	18,400
Trade Receivables/Payables	33,600	28,300
Value Added Tax		1,850
Suspense		122,000
Bank	28,200	
	1,227,880	1,227,880

Additional information:

1. Inventories at 31 March 2015 amount to €71,400.
2. As at 31 March 2015, administration expenses are prepaid by €3,600, and the following expenses are owing: Sundry expenses €780; Wages €4,200; and Distribution expenses €2,400.
3. The debentures were issued on 1 January 2014, and interest is payable every six months in arrears.
4. Only half of the directors' remuneration for the year has been paid.

5. Propshaft plc calculates depreciation on balances at end of year. A full year's depreciation is calculated in year of acquisition and none in year of disposal. It is the company's policy to provide for 40% reducing balance depreciation on Motor Vehicles and 25% straight line on Fixtures & Fittings. Buildings are depreciated in equal instalments over 50 years.
6. Premises includes land valued at €300,000. As at 31 March 2015, an architect has valued the land at €350,000.
7. The balance on the Suspense Account consists of:
 - (i) The proceeds received from the disposal of a motor vehicle in January 2015. The motor vehicle was purchased in January 2012 for €15,000; and
 - (ii) The money received from a rights issue of one ordinary share for every existing 4 at €2.40 per share.
8. A 3% allowance for doubtful debts is to be made. Apart from this allowance, a debtor owing €2,400 has been declared bankrupt and the directors are not confident that any of this amount will be recovered.
9. The directors wish to transfer €20,000 to the General Reserve.

Required:

- A. For the period ended 31 March 2015 of Propshaft plc, prepare:
 - i. A Statement of Comprehensive Income. **(16 marks)**
 - ii. A Statement of Changes in Equity. **(4 marks)**
- B. A Statement of Financial Position as at 31 March 2015. **(6 marks)**

Section C: Answer any TWO questions from this Section. Each question carries 26 marks.**Question 8**

The following are summarised statements of financial position of Trailer plc as at 31 December:

	2013		2014	
	€	€	€	€
Non-current assets:				
Land & buildings		240,000		440,000
Plant & machinery		80,000		210,000
		<u>320,000</u>		<u>650,000</u>
Current Assets:				
Inventory	360,000		400,000	
Trade Receivables	260,000		240,000	
Prepaid expenses	4,000		8,000	
Bank	<u>56,000</u>		<u>112,000</u>	
		<u>680,000</u>		<u>760,000</u>
		<u>1,000,000</u>		<u>1,410,000</u>
Equity:				
Ordinary Shares of €1 each		400,000		420,000
Share Premium		--		60,000
Retained Earnings		<u>320,000</u>		<u>530,000</u>
		<u>720,000</u>		<u>1,010,000</u>
Current Liabilities:				
Trade Payables	200,000		330,000	
Taxation	40,000		50,000	
Accruals	<u>40,000</u>		<u>20,000</u>	
		<u>280,000</u>		<u>400,000</u>
		<u>1,000,000</u>		<u>1,410,000</u>

Additional information:

1.

	2013	2014
	€	€
Profit before tax	320,000	260,000
Revenue	1,600,000	1,400,000
Market value of ordinary shares	2.00	1.80

- No dividends were distributed in 2013 and 2014.
- The amount of taxation shown as a current liability at the end of each year refers to the tax on profit for that year.

Please turn the page.

Required:

- A. Prepare a report analysing the comparative profitability, liquidity and investment potential of Trailer plc over the two year period. Support your report with suitable ratios. **(22 marks)**
- B. 'Accounting ratios are only as good as the data on which they are based'. Discuss. **(4 marks)**

Question 9

The following data is extracted from the books of Springer plc, whose year ends on 31 December:

	2013	2014
	€	€
Issued Ordinary Share Capital €1 each	400,000	600,000
Share Premium	80,000	104,000
Revaluation Reserve	-	120,000
General Reserve	160,000	100,000
Retained Earnings	113,000	158,000
Company Tax due	32,200	28,100
Premises	300,000	420,000
Other Non-current Assets at book value	650,000	630,000
Inventories	46,200	135,500
Trade Receivables	85,400	125,600
Trade Payables	124,400	97,300
Bank balance	28,000 DR	3,700 CR
8% Debentures	200,000	100,000

During the year ended 31 December 2014:

1. A motor vehicle with a book value of €12,500 was sold for €15,000, while fixtures costing €35,000 were purchased. No other transactions in non-current assets took place except for premises, which were revalued.
2. A bonus issue of 1 share for every existing 5 was made from retained earnings, followed by a share issue at a premium.
3. An interim dividend of €12,000 was paid in November 2014.
4. Last year's company tax was settled in June 2014.
5. The debentures were redeemed on 1 July 2014. All debenture interest has been paid.

Required:

- A. Prepare the Statement of Cash Flows for Springer plc for the year ended 31 December 2014. **(22 marks)**
- B. Explain to Springer plc why, notwithstanding the profit realised, the enterprise ended with an overdraft. Your answer should include reference to figures shown in the Statement of Cash Flows prepared in (A). **(4 marks)**

Question 10

The accountant of Cruising plc prepared the draft accounts for the year ended 31 December 2014, which included the following balances:

	€
Ordinary share capital (€1 each)	1,000,000
Share premium	275,000
Revaluation Reserve	250,000
General Reserve	500,000
Retained Earnings b/f	450,000
Profit for the year	650,000

During the year ended 31 December 2014, the following transactions took place but have **not** yet been reflected in the above balances:

1. It was discovered that the opening inventory had been understated by €30,000 as a batch of goods had been overlooked. Moreover, this batch of goods was not included with the closing inventory valuation of the previous year.
2. On 1 July 2014, the rights issue of 3 shares for every 5 held at €2 per share was fully taken up.
3. On 1 September 2014, a public issue was made of 250,000 ordinary shares at €2.50. This issue was fully subscribed and paid in full.
4. Research on the design and development of a new product was carried out amounting to €60,000. It was estimated that 80% of the cost incurred was market-based research. The intangible asset will be written off over 4 years. No accounting entries were carried out in this respect.
5. Land was revalued upwards by €100,000.
6. At the year end the board of directors decided to transfer €30,000 to general reserve and an ordinary dividend of €0.10 per share was paid.

Required:

- A. Prepare Journal entries to record the transactions 1 to 6. Ignore taxation. **(12 marks)**
- B. Prepare a statement of changes in equity for the financial year ended 31 December 2014. **(10 marks)**
- C. Explain the treatment of research and development, giving an example from note 4. **(4 marks)**

Please turn the page.

Question 11

The Pavia Hardware Retailers operates two departments: Department A caters for ironmongery items on a cash and carry basis; and Department B sells heavy tools and other supplies which require transportation. Where possible, Pavia Hardware keeps separate accounts for each of the two departments.

The following balances are available from the books of Pavia Hardware Retailers:

	As at 30 June 2014	As at 30 June 2015
	€	€
Premises at cost	400,000	400,000
Motor vehicles at cost	90,000	90,000
Equipment at cost	68,000	68,000
Accumulated depreciation:		
Premises	42,000	57,600
Motor vehicles	36,000	?
Equipment	24,500	?
Trade payables	44,500	64,200
Trade receivables	70,000	98,000
Accrued expenses	2,000	1,200
Prepaid expenses	3,000	2,600
Inventories:		
Department A	42,000	?
Department B	48,000	?
Bank	32,000 (Cr)	?

For the year ended 30 June 2015, the following revenues and expenses were registered after all adjustments were made, except those for depreciation of non-current assets:

	€
Total sales	1,368,000
Cost of sales	980,400
Salaries:	
Selling and distribution	38,640
Administration	48,400
Commission payable	56,000
Selling expenses	32,000
Repairs and maintenance	28,795
Insurance	14,820
Vehicles running costs	28,300

Depreciation is calculated on cost at 20% for motor vehicles and 15% for equipment. The utilisation of these non-current assets by each department is as follows:

	Department A : Department B
Motor Vehicles	2 : 3
Equipment	5 : 3

Further information:

1. 40% of all sales were attributed to Department B.
2. Department A made a gross profit margin of 25%.
3. Department A had a rate of stock-turnover of 12 times while B's was 8 times.
4. Department A occupies 5,000 square metres of a total area of 13,000 square metres.
5. Department A has 4 sales personnel, while Department B has 3.
6. It is up to you to use appropriate basis to apportion costs between the two departments but Pavia Hardware instructs you to apportion Administration salaries in the ratio of sales; and repairs and insurance according to area occupied.

Required:

- A. Prepare, in as much detail as possible, the departmental Statement of Profit or Loss for Pavia Hardware Retailers for the year ended 30 June 2015. **(13 marks)**
- B. Prepare the Statement of Financial Position of Pavia Hardware Retailers as at 30 June 2015. **(9 marks)**
- C. Give TWO reasons why a loss-making department may still be operated. **(4 marks)**

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SEPTEMBER 2015

SUBJECT:	ACCOUNTING
PAPER NUMBER:	II
DATE:	2 nd September 2015
TIME:	9.00 a.m. to 12.00 noon

Directions to Candidates

Answer **ALL** questions in **SECTION A**.

Answer any **THREE** questions 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 ALL questions in this section. This section carries a total of 22 marks.

Question 1

Briefly describe THREE differences between management accounting and financial accounting.

(3 marks)

Question 2

Describe THREE characteristics that distinguish process costing from job costing.

(3 marks)

Question 3

Describe TWO causes of labour turnover and give TWO examples of the related costs.

(4 marks)

Question 4

Describe TWO assumptions made in cost-volume-profit analysis which have to be considered when making decisions.

(4 marks)

Question 5

Explain the difference between direct production costs and indirect production costs, and give TWO examples for each type of cost.

(4 marks)

Question 6

Mention TWO possible causes of a favourable direct material cost variance and TWO possible causes of an adverse direct labour efficiency variance.

(4 marks)

Section B: Answer any THREE questions from this Section. Each question carries 26 marks.

Question 7

RT Ltd makes two different products, the Ar and the Ti. In one particular month, the company plans to sell the following quantities of each product:

	Sales units
Ar	6,000
Ti	15,000

These two products require the input of two types of material, Y and Z, both costing € per kilo, as follows:

	Y	Z
Ar	€	€
Ti	€	€2

Inventories at the beginning of the month are as follows:

Finished goods:	
Ar	2,000 units
Ti	4,000 units
Raw material:	
Y	1,000 kg
Z	1,200 kg

RT Ltd plans to increase all inventories (both raw materials and finished goods) by 10% at the end of the month.

The two products, Ar and Ti, require equal amounts of the same type of labour per unit.

The total fixed production overhead is €51,200 monthly. A fixed production overhead absorption rate of €10 per labour hour has been calculated from the current month's budget.

Required:

A. Prepare the following functional budgets for the month:

- (i) Production of finished goods in units; **(3 marks)**
- (ii) Materials usage in kg; **(6 marks)**
- (iii) Materials purchases in kg; and **(4 marks)**
- (iv) Labour requirements in hours. **(10 marks)**

B. What is a flexible budget? **(3 marks)**

Question 8

Manifattura Limited is a Maltese company manufacturing four products for the export market, namely products A, B, C and D. The production costs per unit are as follows:

Product	A	B	C	D
	€	€	€	€
Materials	232	192	86	392
Direct Wages:				
Skilled Labour	64	96	24	128
Unskilled Labour	48	36	12	192
Variable Production Overheads	30	33	15	75

Variable production overheads are incurred at the rate of €1.50 per machine hour. The plant used to manufacture the products has a maximum annual capacity of 250,000 hours.

Following a successful marketing campaign of the company's brand, the demand for its products is on the increase. The expected demand and the planned selling prices for the coming year are as follows:

Product	A	B	C	D
Selling price per unit - €	€20	€35	€20	€20
Expected sales – number of units	2,800	3,200	6,400	2,100

In order to satisfy demand, Manifattura Ltd has contacted another company which manufactures the same products and asked for a quote for all four products. The quoted prices are as follows:

Product	A	B	C	D
	€	€	€	€
Selling price per unit	495	350	240	750

Required:

- A.** Assuming that Manifattura Limited needs to fully utilise its plant facilities, prepare a statement to support your advice to management regarding the most profitable production pattern. Your statement should identify which product (if any) should be purchased from the other manufacturing company in order to meet expected demand. It should also include the total proposed contribution. **(17 marks)**
- B.** If on the other hand, the assumption is that Manifattura Limited does not need to fully utilise its plant facilities, identify whether it would be more profitable to buy any of the products rather than make them, showing the net effect on the contribution. **(6 marks)**
- C.** Briefly comment on considerations which management should keep in mind when making decisions as in (A) and (B). **(3 marks)**

Question 9

Carol Borg is a top table-tennis player having made a name for herself on the international scene. She has set up a company which owns a number of shops in major European cities selling professional table-tennis rackets. Deliveries from her suppliers are made to the shops on a regular basis.

The following information is available for the month of August 2015:

Purchases	Units	Total cost - €
4 th August	1,200	246,000
11 th August	1,860	386,880
26 th August	1,740	368,880

Sales	Units
6 th August	1,560
9 th August	1,150
16 th August	1,020
28 th August	2,140

On 1st August 2015, there were 1,960 units in inventory, all purchased for €210 per unit. All units are sold at €320 per unit.

As Carol's management accountant you have gathered additional information on inventory: the economic order quantity has been calculated at 820 units; the minimum delivery period from suppliers is 4 days and the maximum delivery period is 8 days; the daily sales are at least 70 units and are not expected to exceed 100 units.

Required:

- A.** Calculate the inventory value as at 31 August 2015 using the following methods of valuation:
- (i) First In First Out (FIFO)
 - (ii) Weighted Average Cost (AVCO) **(8 marks)**
- B.** Calculate the gross profit for the month of August 2015 using both methods of inventory valuation. **(6 marks)**
- C.** Using the information gathered by the management accountant, calculate the following:
- (i) Re-order level
 - (ii) Maximum inventory level
 - (iii) Minimum inventory level **(9 marks)**
- D.** Briefly comment on why different inventory valuation methods result in different reported profits. **(3 marks)**

The inventory value per unit is to be calculated to the nearest 2 decimal places

Question 10

PFSAM Limited is a manufacturing company with two production departments, namely Processing Department and Finishing Department. These are supported by two service departments, namely, Stores Department and Maintenance Department.

The budgeted indirect costs for the year 2015 were as follows:

	€
Indirect wages	528,200
Materials for the maintenance department	28,200
Electricity	36,000
Rent	42,000
Insurance of machinery	11,550
Insurance of premises	7,000
Depreciation of machinery	23,100

The following additional information was available:

	Processing	Finishing	Stores	Maintenance
Number of indirect employees	16	12	4	6
Floor Area (m ²)	1,600	1,300	400	200
Electricity Units	3,600	1,600	300	500
Direct Labour Hours	32,400	56,390		
Machine Cost – €	170,000	40,000		
Machine Hours	112,600	20,000		

The costs of the service departments are allocated to the other departments as follows:

	Processing	Finishing	Stores	Maintenance
Stores	60%	30%	--	10%
Maintenance	50%	50%	--	--

PFSAM Limited uses job costing. The following information relates to Job 104:

Processing Department	Direct material	€630
	Direct Labour hours at €8.00 per hour	26 hours
	Machine hours	40 hours
Finishing Department	Direct material	€290
	Direct Labour hours at €9.50 per hour	16 hours
	Machine hours	5 hours

Required:

- A. Calculate an appropriate overhead recovery rate for each production department by apportioning the costs of the service departments to the production departments and using suitable bases for apportioning indirect costs. **(17 marks)**
- B. Calculate the production cost of Job 104. **(6 marks)**
- C. Briefly explain the methods used for the recovery of overheads in part (A), giving reasons for choosing these methods. **(3 marks)**

Question 11

A factory manufactures three components: X, Y and Z. Last week the following was recorded:

Labour grade	No. of employees	Rate per hour	Individual hours worked
I	12	€8.00	40
II	36	€6.40	42
III	8	€5.60	40

Output and standard times during the same week were as follows:

Component	Output (units)	Standard minutes per unit
X	960	66
Y	888	30
Z	1,390	60

The normal working week is 38 hours. Overtime is paid at one and a half times the basic hourly rate.

A group incentive scheme is in operation. A bonus is paid for the time saved, that is, where actual production time is less than the standard time allowed. The time saved is expressed as a percentage of hours worked and is shared between the group as a proportion of the hours worked by each grade, and paid at a rate of 75% of the normal hourly rate.

Required:

- A. Calculate the total payroll for the week, showing the basic pay, overtime premium and bonus pay as separate totals for each grade of labour. **(23 marks)**
- B. "Overtime premium can be traced to specific batches, jobs or products and should be considered to be direct labour rather than indirect labour." Discuss this statement. **(3 marks)**