

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
ADVANCED LEVEL
SEPTEMBER 2016

SUBJECT:	ACCOUNTING
PAPER NUMBER:	I
DATE:	2 nd September 2016
TIME:	9.00 a.m. to 12.05 p.m.

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

- a) Describe the main purpose of preparing control accounts.
- b) List the sources of the Sales Ledger Control Account. **(3 marks)**

Question 2

- a) Mention THREE primary reports included in financial statements.
- b) Describe the objective of each report identified in (a). **(3 marks)**

Question 3

- a) What does the accruals concept mean?
- b) Give THREE examples of year-end adjustments and explain why such adjustments are necessary in the preparation of the final accounts. **(4 marks)**

Question 4

- a) List FOUR sources of financing that are available for an entity wishing to expand operations.
- b) Discuss the advantages and disadvantages of TWO of these possible sources of finance. **(4 marks)**

Question 5

A business is a collector of valued added tax (VAT).

Explain this statement with reference to the purchases and sales of a retailer of computer equipment. Computer equipment is subject to VAT. **(4 marks)**

Question 6

Inventory at year end included items costing €1,000 that were shop soiled. It was estimated that they could be repaired and cleaned at a cost of €100, and could then be sold for €700.

- a) Calculate the carrying value of these inventory items at the financial year end.
- b) Describe the accounting rule followed in (a). **(4 marks)**

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

Eccolinos Ltd extracted the following Trial Balance from its books on 30 June 2016:

	€	€
Land	500,000	
Buildings, at cost	220,000	
Machinery, at cost	83,500	
Motor Vehicles, at cost	25,300	
Depreciation Allowance on Buildings		13,200
Depreciation Allowance on Machinery		22,600
Depreciation Allowance on Motor Vehicles		9,700
Inventories (30 June 2015)	55,000	
Revenue		445,800
Purchases	238,700	
Returns In>Returns Out	12,430	9,850
Discounts Allowed/Discounts Received	21,900	15,400
Allowance for bad debts		870
Research and Development costs	56,200	
Selling and Distribution expenses	17,810	
Rental Income		4,125
Motor expenses	3,540	
Wages	31,000	
Interim Dividend	80,000	
Trade Receivables/ Trade Payables	45,600	39,200
Ordinary Shares of €1 each		800,000
Retained Earnings		55,590
Suspense		157,210
Bank	182,565	
	<u>1,573,545</u>	<u>1,573,545</u>

Additional information:

- 1) Inventories at 30 June 2016 amounted to €63,000.
- 2) Buildings are depreciated at 2% p.a. using the straight-line method. Machinery and motor vehicles are depreciated using the reducing balance method at 10% and 15% respectively.
- 3) As from this year, the directors have decided to revalue the company's property. At the year-end, the architect hired to perform the exercise valued the land at €600,000.
- 4) The balance of the suspense account is due to the following:
 - (i) A purchase of €4,800 has been recorded in the Purchases Day Book at the recommended retail price. The company's gross profit margin on such goods was 20%. This purchase was correctly entered into the supplier's account at cost.

- (ii) The money received from the issue of 125,000 new ordinary shares at €1.25 per share was only recorded in the bank account.
- 5) Allowance for doubtful debts is estimated at 2% of Trade Receivables.
- 6) Research and development costs include €8,000 spent on the development of a new product which is expected to be imminently launched. Management is confident that this new product will boost the company's sales and profit.
- 7) The company rents a small part of its buildings for a yearly charge of €5,500. Three months' rent were still due to the company at 30 June 2016.
- 8) Transportation costs amounting to €2,300 were due but not yet paid at the end of the year.
- 9) In addition to the interim dividend paid earlier in the year, the directors will propose a final dividend of €0.35 per share on all shares held at the end of the year.

Required:

- A. For the year ended 30 June 2016, prepare the following statements for Eccolinos Ltd:
 - i. A Statement of Comprehensive Income. **(14 marks)**
 - ii. A Statement of Changes in Equity. **(6 marks)**
- B. Prepare a Statement of Financial position as at 30 June 2016. **(6 marks)**

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

John Pavia, a sole trader, importing and retailing ironmongery goods, attempted to prepare an Income Statement at the end of his accounting period on 31 March 2016 as shown below:

		€	€
Sales			320,000
<i>Less</i>	Inventories (1 April 2015)	65,400	
	Purchases	198,000	
	Inventories (31 March 2016)	(73,800)	(189,600)
			130,400
<i>Less</i>	Administration expenses	34,600	
	Drawings	14,800	
	Wages	18,500	
	Motor Van	22,600	(90,500)
Profit			39,900

Although Pavia had thought he had done a fine job, he still harboured doubts about the accuracy of the result. He asks you to verify his figures and you find the following:

- 1) Purchases include €1,420 of material used for the refurbishment of Pavia's private residence. Another €860 included in wages relates to work carried out on the same residence.
- 2) Sales were found to be overstated by €80, due to an adding mistake.
- 3) The administration expenses figure includes an end of year adjustment of €40 being prepaid insurance while accrued electricity of €650 were not included.
- 4) A discrepancy of €180 between the bank statement and the cashbook was found to have been for a standing order of a monthly trade magazine.
- 5) The sales figure included proceeds of €60 from the sale of office equipment, which exactly equals its net book value. It also included an amount of €90 from the recovery of a bad debt. It was also noted that a page in the sales daybook totalling €20 was inadvertently overlooked.
- 6) The closing inventory valuation was based on selling prices, which are set at a mark-up of 20%.
- 7) Carriage out of €40 had been deducted from the figure for purchases as shown in the Income Statement.
- 8) Motor Van depreciation of €4,520 was not provided for.
- 9) Returns In of €40 were posted as Returns Out, and deducted from the total of purchases.

Required:

- A. Prepare Journal entries to correct the above errors and omissions. **(15 marks)**
- B. Redraft the Income Statement and calculate the correct profit. **(6 marks)**
- C. Briefly describe FIVE types of errors that would not affect the trial balance. Give ONE example for each type of error that you mention. **(5 marks)**

Question 9

The following are Statements of Financial Position of Slipway plc for the financial years ended 31 December 2014 and 2015.

	2014		2015
	€		€
ASSETS			
Non-current assets			
Cost	425,000		595,000
Depreciation	(130,000)		(185,000)
	295,000		410,000
Current assets			
Inventories	170,000		200,000
Trade Receivables	110,000		120,000
Bank	50,000		67,500
	330,000		387,500
Total assets	625,000		797,500
EQUITY & LIABILITIES			
Equity			
Ordinary Share Capital	130,000		140,000
Share Premium	60,000		65,000
General Reserve	20,000		30,000
Retained Earnings	115,000		237,500
	325,000		472,500
Non-current liabilities			
8% Bank Loan	100,000		50,000
Current liabilities			
Trade payables	140,000		200,000
Taxation	60,000		75,000
	200,000		275,000
Total equity & liabilities	625,000		797,500

Additional information:

- 1) The Ordinary Shares have a nominal value of €0.50 each.
- 2) The loan repayment was effected on 31 December 2015.
- 3) During 2015 non current assets, original cost €24,000, book value €16,000, were sold for €12,000.
- 4) The final dividend of €0.10 per share for the year 2014 was paid during 2015.

Required:

- A. Prepare a Statement of Cash Flows for the year ended 31 December 2015. **(22 marks)**
- B. Mention TWO benefits of preparing a Statement of Cash Flows. **(4 marks)**

Question 10

Deep Blue plc manufactures equipment for the aquatic sports industry, mostly for subaqua enthusiasts. On 31 March 2016 it extracted the following balances from its books:

	€	€
Premises/Premises depreciation allowance	200,000	20,000
Plant/Plant depreciation allowance	84,200	28,400
Office equipment/Office equipment depreciation allowance	85,000	38,200
Motor Vehicles/Motor Vehicles depreciation allowance	198,000	56,400
Loose tools at valuation	9,600	
Purchases raw materials	348,600	
Direct wages	56,000	
Factory Supervisors' wages	22,500	
Other factory wages	35,400	
Electricity	15,200	
Factory Power	21,500	
Motor Vehicles running expenses	12,600	
Office salaries	26,400	
Administrative expenses	17,500	
Returns In/Returns out	24,200	14,800
Discounts allowed/ Discounts received	18,200	15,400
Bad debts	8,500	
Trade receivables/payables	41,300	57,180
Ordinary Share Capital (<i>nominal value €0.50 per share</i>)		200,000
Retained earnings		35,500
8% Debentures		100,000
Debenture interest paid	4,000	
Bank overdraft		27,600
Revenue		727,800
Opening Inventories: Raw material	28,600	
Finished goods	53,475	
Work in progress	18,400	
Allowance for doubtful debts		920
Provision for unrealised profit		6,975
	1,329,175	1,329,175

Additional information:

- 1) New loose tools costing €3,400 has been included with purchases of raw material.
- 2) Inventories on 31 March 2016 were valued at:

	€
Raw materials	56,600
Finished goods	66,700
Work in progress	43,380

- 3) The allowance for bad debts is to be maintained at 5% of trade receivables.
- 4) Interest on the bank overdraft amounting to €2,800 and electricity bills of €1,600 still unpaid at the year-end have not been accounted for. Administrative expenses include an amount of €2,650 in respect of prepaid rent.
- 5) The debentures were issued on 1 April 2014 and interest is paid every six months.
- 6) It is company policy to provide for depreciation as follows:

Premises at	2% on cost
Plant at	40% on book value
Office equipment at	15% on cost
Motor vehicles at	20% on cost

- 7) Loose tools were valued at €8,900 on 31 March 2016.
- 8) Apportion the following costs as follows:

	Factory	Administration
Electricity	40%	60%
Motor Vehicles running costs	20%	80%
Motor Vehicles depreciation	20%	80%
Premises depreciation	90%	10%

- 9) Manufactured goods are transferred to trading at cost plus 15%.

Required:

- A. Prepare the Provision for Unrealised Profit Account and the Manufacturing Account of Deep Blue plc for the year ended 31 March 2016, showing clearly the prime cost and the cost of manufactured goods. **(10 marks)**
- B. Prepare the Statement of Profit or Loss of Deep Blue plc for the year ended 31 March 2016 and the Statement of Financial Position as at that date. **(12 marks)**
- C. In the preparation of the Manufacturing account, it is essential to distinguish between direct and indirect factory cost. Explain the difference between the two categories and give ONE example of each. **(4 marks)**

Question 11

Andrew Bollard does not use the double-entry system for his business books and he appoints an accountant to provide him with a complete set of financial statements for the accounting year ended 30 June 2016. Bollard provides the accountant with the following information regarding the financial year:

1) From bank records:

<i>Receipts</i>	€
Trade receivables	185,660
Transfer from personal account	8,000
Cash deposits	3,300
<i>Payments</i>	
Trade payables	150,900
Salesman's wages	15,600
Insurance	3,200
Equipment	12,000
Electricity	5,300
Loan interest	600
Sundries	1,400
Rent	6,400

2) From cash records:

<i>Receipts</i>	€
Cash Sales	21,300
Equipment disposal	3,600
<i>Payments</i>	
Drawings	11,900
Cash purchases	2,500
For cleaning services	1,230
Deposits to Bank	3,300
Carriage in	2,800

3) Opening and closing balances:

	1 July 2015	30 June 2016
	€	€
Equipment	46,200	?
Equipment depreciation allowance	15,400	?
Bank (<i>Credit balance</i>)	8,400	?
Cash	1,290	?
Inventories	17,800	?
Trade receivables	25,600	32,600
Trade payables	18,800	31,100
Rent prepaid	1,200	--
Rent accrued	--	800
Electricity accrued	870	650
Bank loan	30,000	30,000

- 4) During the year, bad debts written off amounted to €40.
- 5) Bollard had withdrawn goods costing €40 for his personal use.
- 6) Discounts allowed amounted to €8,500 while those received totalled €12,200.
- 7) Returns in and returns out were €7,300 and €9,800 respectively.
- 8) The equipment disposed of had originally cost €8,600 and had accumulated depreciation of €3,800.
- 9) Equipment is to be depreciated at 15% on cost.
- 10) All goods were sold at 33 % mark-up on cost.
- 11) Apart from her wages, the salesgirl was to receive 5% of any profits realised by Bollard after paying the commission.
- 12) The loan was drawn down on 1 July 2014 and bears interest at 8% per annum payable by 30 June of each year. The principal is repayable in 10 equal instalments starting from July 2018.

Required:

- A. For the accounting period ended 30 June 2016, calculate
 - i) Bollard's opening capital; and
 - ii) the total amount of sales and purchases for the year. **(10 marks)**
- B. Prepare the Statement of Profit or Loss of Bollard for the year ended 30 June 2016 and the Statement of Financial Position as at that date. **(12 marks)**
- C. Give TWO reasons why it is good practice to maintain proper accounting records. **(4 marks)**

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UNIVERSITY OF MALTA, MSIDA
MATRICULATION EXAMINATION
ADVANCED LEVEL
SEPTEMBER 2016

SUBJECT:	ACCOUNTING
PAPER NUMBER:	II
DATE:	3 rd September 2016
TIME:	9.00 a.m. to 12.05 p.m.

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

Mention THREE differences between financial and management accounting. **(3 marks)**

Question 2

- a) Briefly describe what causes over/under absorption of overhead.
- b) List TWO factors that are considered when deciding the basis of an overhead recovery rate for a production department. **(3 marks)**

Question 3

- a) Explain why it is important to maintain an appropriate level of inventory.
- b) Mention TWO suggestions to ensure that the stock level is maintained at the appropriate level. **(4 marks)**

Question 4

A company is considering the replacement of the current piecework remuneration of its direct employees with a bonus system based on time saved. State TWO advantages **and** TWO disadvantages of each system. **(4 marks)**

Question 5

- a) Explain what you understand by '*interdependence of variances*'.
- b) Give TWO examples of how materials and labour variances could be related. **(4 marks)**

Question 6

'Break-even analysis assumes that variable costs and revenues are linear, and that fixed costs do not change with the level of output.' Briefly explain, through examples, why these assumptions may not be realistic. **(4 marks)**

Section B: Answer any THREE questions from this Section. Each question carries 26 marks.**Question 7**

EKSPORT Products Limited manufactures three products, X, Y and Z for export. The production costs and selling prices per unit are as follows:

	X	Y	Z
	€	€	€
Materials	168	36	124
Direct Labour – Skilled	60	20	80
Direct Labour – Unskilled	36	24	54
Selling Prices	420	125	360

Skilled workers are paid at €10 per hour whereas unskilled workers are paid at €6 per hour.

Orders for the company's products are very good and indicate that demand in the forthcoming year, indicated below, is much higher than expected:

Product X	2,800 units
Product Y	5,630 units
Product Z	3,640 units

As this level of demand was not anticipated, the company was caught off guard since the machine capacity is limited to 110,000 hours per annum. The machine hours required for each product is equivalent to the labour hours required for each product.

Required:

- A. Calculate the profit of EKSPORT Products Ltd should it decide to follow a production pattern in proportion to total machine hours required for each product. **(10 marks)**
- B. Prepare a statement advising management on a more profitable production pattern. **(10 marks)**
- C. In order to satisfy all client orders, another company manufacturing similar products was approached. Briefly comment on the considerations management must keep in mind when faced with such situations. **(6 marks)**

Question 8

The manufacturer of "Quenchit" is in the process of preparing budgets for the final quarter of 2016, and the following draft figures are available:

Sales forecast		
2016	October	400 cases
	November	500 cases
	December	800 cases
2017	January	600 cases
	February	600 cases
	March	700 cases

Each case contains 12 packets of "Quenchit", and each packet has a standard direct cost of €15.50 as follows:

		€
Material Ingredients	1.5 litres at €5 per litre	7.50
Direct Labour	0.8 hour at €10 per hour	8.00

The manufacturer consistently operates a policy to ensure that the inventory of material ingredients at the end of each month covers 50% of production needs of the following month while inventory of finished goods at the end of the month are equivalent to the expected sales of the following month. It is expected that the inventories held at end of September will be in line with this policy.

Variable production overhead is absorbed in production cost at a rate based on normal levels of standard direct labour hours. Estimated total budget production for the year 2016 was 7,200 cases and total budget variable overhead amounted to €138,240.

One packet of "Quenchit" sells for €30. Ten per cent of the sales are for cash. Two-thirds of the credit sales are paid for during the month after the sale and the remainder during the following month. Credit sales during August 2016 are forecast at €24,300 and during September €21,600.

Required:

- A.** Prepare the necessary functional budgets for the final quarter of 2016 to determine the following monthly requirements:
- (i) The number of cases that need to be produced;
 - (ii) The cost of purchases;
 - (iii) The cost of direct labour;
 - (iv) The variable production overhead absorbed. **(14 marks)**
- B.** Prepare the Sales and Trade Receivables Budgets for the final quarter of 2016, showing clearly the monthly cash receipts, receipts from debtors and the balance of debtors as at 31 December 2016. **(6 marks)**
- C.** Mention THREE benefits of introducing a budgetary control system. **(6 marks)**

Question 9

Best Produce Ltd is a company manufacturing premium quality milk-based products, namely cottage cheese, yogurt, and cheeselets. The actual figures for the month of August 2016 were as follows:

	Cottage Cheese	Yogurt	Cheeselets
Material A used –kgs	880	680	310
Material B used –kgs	105	110	85
Material A - Price per kg – €	1.60	1.60	1.60
Material B - Price per kg – €	2.25	2.25	2.25
Labour Hours worked	1,020	1,050	550
Labour Hourly Rate - €	6.60	6.35	7.75

The standard cost information of actual output for the month of August 2016 is as follows:

	Cottage Cheese	Yogurt	Cheeselets
Material A required –kgs	836	612	351
Material B required –kgs	132	108	78
Material A - Price per kg – €	1.50	1.50	1.50
Material B - Price per kg – €	2.20	2.20	2.20
Labour Hours required	980	1,116	468
Labour Hourly Rate - €	6.50	6.40	7.60

Required:

- A.** For each type of product, prepare statements for the month of August 2016 showing the budgeted total cost; the actual total cost; and the total cost variance clearly indicating if it is a favourable or an adverse variance. **(4 marks)**
- B.** For each type of product, analyse the total cost variance calculated in (A) into:
- (i)** Total Material cost, Material price and usage variances, for both materials; and
 - (ii)** Total Labour cost, Labour rate and efficiency variances. **(18 marks)**
- C.** Write a short report explaining variance analysis clearly indicating the benefits of such an exercise. **(4 marks)**

Question 10

MuscleFit Limited provides health and fitness services. The company is currently calculating an absorption rate for indirect costs. It has established three cost centres which are based on the revenue generating activities, namely, Gym Memberships, Personal Fitness Training and Nutrition Advice. Budgeted overheads for the forthcoming period are as follows:

	€
Indirect wages	45,800
Indirect materials	2,789
Electricity	19,497
Rent	37,500
Insurance	2,300
Advertising and promotion	13,230
Administration costs	12,480
Depreciation of machinery and equipment	8,320

The following information is also available:

- Advertising and promotion costs include a specific promotional campaign targeted at gym memberships for a cost of €3,050. As for the remaining promotional costs, it is the company's policy to apportion such costs on the basis of customer usage.
- Insurance costs include a premium of €800 covering professional indemnity of nutritionists. The balance relates to the annual premium payable as premises insurance.
- It is company policy to apportion administration costs on the basis of the number of employees in each cost centre.

Other relevant information for each cost centre is as follows:

	Gym Memberships	Personal Fitness	Nutrition Advice
Number of direct employees	12	16	4
Number of indirect employees	6	8	2
Indirect materials – €	1,197	1,149	443
Electricity Units	75,120	51,740	3,120
Floor Area (sq. metres)	420	280	50
Machinery and Equipment Cost – €	50,300	30,700	2,200
Customer usage – Number of visits	73,000	23,200	5,600

Required:

- Prepare a statement showing the budgeted total overheads for each cost centre using suitable bases for apportioning indirect costs. **(15 marks)**
- Calculate the budgeted overhead recovery rate per customer visit for each cost centre for the forthcoming period. **(3 marks)**
- Calculate the overheads to be included in the total bill of a customer who wants to use the nutritionist service for 10 times and the personal fitness service for 40 times. **(4 marks)**
- Briefly explain the consequences to the company if the calculated overhead recovery rate is higher or lower than the actual overhead recovery rate. **(4 marks)**

Question 11

Produzzjoni Limited manufactures an electronic component, which is then sold to companies involved in the production of computers. The electronic component is manufactured in three processes: Process A, Process B and Process C.

On 1 August 2016, 42,000 units costing €1.50 each were issued from stores and input to Process A. The following additional information is available for the month of August 2016:

	Process A	Process B	Process C
	€	€	€
Other materials	3,920	7,307	1,280
Direct labour	18,630	9,240	16,230
Overheads	4,330	3,265	3,970
Scrap value per unit	0.25	0.40	1.00
Normal loss	10% of input	5% of input	Nil
Output (Units)	38,100	35,800	35,000

There was no opening or closing inventories or work in progress in any process. The finished product is sold at €5.20 per unit.

Required:

- A. Prepare the process accounts for each process. **(14 marks)**
- B. Prepare the normal loss, abnormal loss and abnormal gain accounts. **(3 marks)**
- C. Prepare a statement showing the profit made on the sale of the finished product. **(3 marks)**
- D. Briefly explain the differences between job costing and process costing. Mention TWO examples of industries that use job costing and TWO industries that use process costing. **(6 marks)**