L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

ADVANCED MATRICULATION LEVEL
2019 FIRST SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	I
DATE:	9th May 2019
TIME:	9:00 a.m. to 12:05 p.m.

This paper contains **THREE** Sections. Follow the instructions below.

Section A
Answer **ALL** questions in this Section. Each question carries 4 marks.

Section B
Answer question 6. **This question is compulsory** and carries 30 marks.

Section C
Answer any **TWO** questions from this Section. Each question carries 25 marks.

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 20 marks.

1. Describe **FOUR** qualitative characteristics that information included in financial statements should have in order to be suitable for decision-making by lenders and investors. (4)

2. A company is registered with the VAT Department as a business carrying out taxable supplies. During the month of March 2019, it sells €518,000 gross of 18% VAT. Its gross taxable expenses amount to €120,000. Describe how these two transactions are accounted for in the books of the company and state whether the resulting VAT balance is an asset or liability of the company. (4)

3. What does the balance on the unrealized profit account represent for a manufacturing concern? Explain why a manufacturing concern would create such an account. (4)

4. Explain how life membership fees are accounted for by a non-profit organization and identify the underlying accounting concept applied. (4)

5. (i) Distinguish between profitability and liquidity. (2)
   (ii) Describe **TWO** ratios that you would use to measure the profitability of a company and **TWO** ratios to assess its liquidity. (2)

SECTION B

Answer Question 6 in this Section. This question is compulsory and carries 30 marks.

6. Transom plc extracted the following balances from its books for the financial year ended 31 December 2018:

	€	€
Premises/Depreciation allowance	760,000	80,000
Plant and machinery/Depreciation allowance	313,000	96,000
Motor vehicles/Depreciation allowance	84,600	38,400
5% Investment	120,000	
Inventories	58,200	
Trade receivables/Trade payables	64,500	52,400
Bank	288,500	
Sales		745,360
Purchases	304,220	
Returns In/Returns out	26,440	12,800
Carriage in	8,750	
Carriage out	14,300	
Salaries and wages	82,200	
General distribution expenses	25,700	
General administration expenses	18,400	
Insurance	38,400	
Discounts allowed/Discounts received	21,800	8,500
Bad debts	12,300	
Directors remuneration	41,600	
6% Debentures		250,000
Allowance for doubtful debts		2,680
Debenture interest paid	6,000	
Share Capital - ordinary shares of €0.50 each		500,000
Share premium		60,000
Revaluation reserve		80,000
Retained earnings		42,770
Difference in books		320,000
	2,288,910	**2,288,910**

The following adjustments have, as yet, not been made to the above trial balance:

a) During the year a rights issue was made of 2 shares for every existing 5 at €0.80 per share. All the shares were taken up. The only entry made was to deposit the proceeds received from this issue in the company's bank account.

b) The rights issue was followed by a bonus issue of one share for every five. The directors of Transom plc wish to maintain the company's reserves as flexible as possible.

c) The company depreciates premises at the rate of 2% per annum on the opening cost balance. As at 31 December 2018, the company's architect estimated the fair value of the premises to be €800,000. It was decided to adjust the value of the premises accordingly.

d) During the previous year inventories had been valued incorrectly using the average cost method when these should have been valued with the first in first out method. The result was a difference of €2,300 when prices had constantly risen during the year.

The following information is also provided:

e) Accruals and prepayment at 31 December 2018 were as follows:

	Prepaid	Accrued
	€	€
General administration expenses	--	4,800
General distribution expenses	--	12,400
Directors' remuneration	--	6,400
Insurance	6,800	--

f) An allowance for doubtful debts of 4% on trade receivables is estimated as required in respect of unrecoverable debt.

g) Depreciation of non-current assets is calculated as follows:

Plant and machinery	15% on cost
Motor vehicles	40% on written down value

h) Closing inventories were valued at €84,200 using the first in first out valuation method.

i) It was proposed and agreed at the annual general meeting of shareholders held on 28 February 2019, to pay a dividend of €0.04 per ordinary share.

Required:

A. For the year ended 31 December 2018, prepare the following statements for Transom plc:
   i) A Statement of Comprehensive Income. (15)
   ii) A Statement of Changes in Equity. (5)

B. Prepare a Statement of Financial Position as at 31 December 2018. (10)

(Total: 30 marks)

Questions continue on next page

SECTION C
Answer any TWO questions from this Section. Each question carries 25 marks.

7. You are preparing to close off the year-end financial statements of Machinedra Ltd, manufacturers of high quality coffee vending machines, for the year ended 31st December 2018. The following is the draft statement of financial position as at 31st December 2018.

Draft Statement of Financial Position as at 31 December 2018

	€	€
Non-Current Assets		
Property, plant and equipment		1,393,900
Goodwill		900,000
Development costs		150,000
		2,443,900
Current Assets		
Inventories	318,000	
Trade Receivables (net)	77,000	
Cash and Cash Equivalents	430,200	
		825,200
TOTAL ASSETS		3,269,100
EQUITY AND LIABILITIES		
Ordinary share capital		1,100,000
Revaluation reserve		260,000
Retained earnings		1,477,100
		2,837,100
Non-Current Liabilities		
Loans payable		320,000
Current Liabilities		
Trade payables	90,400	
Other payables	21,600	
Total Current Liabilities		112,000
TOTAL EQUITY AND LIABILITIES		3,269,100

The following has only come to light to you after preparing the above draft Statement of Financial Position:

a) The directors had resolved to adopt IAS 16's revaluation model for the company's office and operational premises. Due to its remarkable location and historic value, the premises originally bought for €690,000, was revalued as at 31 December 2017 to €950,000 by a professional architect. Unfortunately, following a fire on 28 November 2018, the architect estimated that repair costs to bring back the building to an operational state would amount to €135,000. Machinedra's insurance policy covers 75% of all the cost of damages, with work commencing immediately, but to be paid later on. Consequently, the new value of the building revalued as at 31 December 2018 was that of €650,000 due to having suffered irreparable loss to a section of its interior.

b) As a result of the fire suffered on 28 November 2018, the store manager informs you that inventory items currently valued at a cost of €25,000 were slightly damaged. Had they not been damaged, their sales price would have been €37,500. She informs you that they could still be sold for €30,000. Unfortunately, some other stock items originally costing €90,000 were severely damaged and the store manager estimates that they can only be sold as scrap for €9,000.

c) In November 2018, you were made aware that there is current litigation by a previous employee against Machinedra Ltd. A final court ruling is expected in March 2019, however, Machinedra Ltd's lawyers are convinced that, more likely than not, Machinedra Ltd stands to lose the case. As at 31 December 2018, the lawyers' best estimate of the liability stands at €43,000 in damages. Nevertheless, in another court case filed against Machinedra Ltd by a client, the lawyers are less convinced of the timing and outcome of the settlement and they can at best quantify a potential liability of €15,000.

d) During one of the company's 2018 Board meetings, the Chief Executive Officer of Machinedra Ltd informed the members that, had the shareholders of Machinedra Ltd decided to sell their company, a premium of €900,000 above the net asset value would have been gained. Consequently, it was decided that €900,000 is recognised as goodwill, with the corresponding entry in this year's profit or loss, given that the estimate had been carried out by the CEO in 2018.

e) Development costs incurred and paid for in 2018 for a new coffee machine model design to be launched in early 2019 amount to €90,000 and have already been incorporated in the above €150,000 development costs. Following a more reliable assessment of the expected future income to be generated from the new model, the recoverable amount of these development costs was deemed to be €70,000.

Required:

A. Prepare Journal Entries to take into account each of the above considerations (a) to (e) and explain by way of a short narrative for each journal entry why the entry is required. (16)

B. Prepare a revised Statement of Financial Position as at 31 December 2018. (4)

C. Machinedra Ltd is looking to acquire Megadra Ltd, a smaller scale manufacturer of espresso machines. Although the net asset value of Megadra Ltd is estimated at €1,300,000 Machinedra Ltd would acquire it at a price of €1,600,000.
Define what is meant by Purchased Goodwill, and describe the initial and subsequent measurement of purchased goodwill, using Machinedra Ltd as an example. (5)

(Total: 25 marks)

Questions continue on next page

8. The following is an extract from Ginger Ltd's Statement of Financial Position schedule as at 31 December 2017.

Property Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value
	€	€	€
Land & Buildings	9,605,773	(130,289)	9,475,484
Machinery	415,000	(249,000)	166,000
Motor Vehicles	252,000	(145,688)	106,312
	10,272,773	(524,977)	9,747,796

Additional information on the company's depreciation policy is detailed below:

Property Plant and Equipment	<u>Depreciation Basis</u>	<u>Useful Lifetime/rate</u>	<u>Depreciation Policy</u>
Land & Buildings	*Revaluation method: Land is not depreciated; Buildings are depreciated using the straight line basis.*	60 years (buildings)	*A full year's depreciation is charged in the year of acquisition and nil in the year of disposal.* *In the case of a revaluation, the depreciation charge is calculated on the revalued amount at the end of the year.*
Machinery	*Units of Production method*	150,000 units	*Based on the estimated production for the year.*
Motor Vehicles	*Reducing Balance Method*	25% annually	*A full year's depreciation is charged in the year of acquisition and nil in the year of disposal.*

The following information was also made available pertaining to the year 2018:

a) On 1 October 2018, all Land and Buildings were revalued to €10,500,000, of which €8,800,000 was attributable to land that originally cost €7,000,000.
b) Machinery originally costing €50,000 were sold in December 2018. Their usage to date helped produce 80,000 units.
c) In May 2018, the production manager re-forecasted this year's production to be in excess of normal capacity. During the previous two years, production was fairly constant at 45,000 units/annum. This year's production is forecasted to increase by 6,000 units. To meet this excess demand, a new machine costing €30,000 with an estimated production lifetime of 150,000 units was purchased. Production/month can be assumed to be stable throughout the year.
d) During the year 2018, Motor vehicles purchased in January 2014 for €80,000 were part-exchanged for another Motor Vehicle costing €26,000 and a trade-in allowance of €8,000.

Required:

a) Prepare as at 31 December 2018:
   i) The Land and Buildings account and the Accumulated Depreciation account. (5)
   ii) The Motor Vehicles account, accumulated Depreciation and Disposal accounts. (10)
   iii) The Machinery account and accumulated Depreciation accounts (5)
b) Briefly outline the reasoning why one may opt for the reducing balance method on motor vehicles and the production hours method of depreciation for machinery. (5)

(Total: 25 marks)

9. The following are the Statements of Financial Position for Sapporo plc for the years ended 31 March 2018 and 2019 respectively:

Statement of Financial Position as at

	31 March 2018		31 March 2019	
	€	€	€	€
Non-Current Assets				
Land and Buildings		13,206,000		12,264,000
Plant and Equipment		2,187,500		1,575,625
Motor Vehicles		61,440		61,152
		15,454,940		13,900,777
Current Assets				
Inventories	580,000		250,000	
Trade Receivables	130,500		56,250	
Cash and Cash Equivalents	1,707,165		6,682,073	
		2,417,665		6,988,323
TOTAL ASSETS		17,872,605		20,889,100
EQUITY AND LIABILITIES				
Ordinary share capital (nominal value €0.50 per share)		8,000,000		9,750,000
Share Premium		1,265,000		1,890,000
Revaluation reserve		2,689,000		3,259,000
General Reserve		1,757,850		1,757,850
Retained Earnings		842,250		2,013,250
		14,554,100		18,670,100
Non-Current Liabilities				
6% Redeemable debentures		3,000,000		1,500,000
7% Redeemable debentures		--		500,000
Current Liabilities				
Trade payables	138,505		129,000	
Debenture interest Payable	180,000		90,000	
Total Current Liabilities		318,505		219,000
TOTAL EQUITY AND LIABILITIES		17,872,605		20,889,100

The following information is available in respect of the year ended 31 March 2019:

a) The directors of Sapporo plc issued 2,500,000 ordinary shares at the price of €0.75 per share. Subsequent to this, a rights issue of 1,000,000 ordinary shares at nominal value was made.
b) The dividend of €0.03 per share proposed in March 2018 was paid in June 2019.
c) 1,500,000 debentures were redeemed on 31 March 2019, with the interest being paid up to that date. These were replaced by a fresh issue of €500,000 debentures bearing 7% interest.

Question continues on next page

d) The land included in the land and buildings account was worth €8,600,000 as at 31 March 2018. This was revalued to €9,170,000 on 31 March 2019.
e) The cost of buildings included in the land and buildings account as at 31 March 2018 was €5,900,000. Buildings are valued using IAS 16's cost model, applying a 2% annual depreciation rate on cost at year-end.
f) Buildings originally acquired in April 2010 for €1,700,000, were sold for €1,975,000.
g) The cost of Plant and Equipment as at 31 March 2018 stood at €3,500,000. Plant and equipment is depreciated at 12.5% annually using the straight-line method.
h) During the year ended 31 March 2019, equipment bought 4 years ago for €465,000 was disposed of for €135,000.
i) Motor vehicles are depreciated at an annual rate of 20% using the reducing balance method. Motor vehicles worth €15,000 were acquired on 1 April 2018.

Required:

A. Prepare a Statement of Cash Flows for Sapporo plc for the year ended 31 March 2019. (20)

B. Briefly outline **TWO** reasons why a cash flow statement is highly beneficial for the users of financial statements. (5)

(Total: 25 marks)

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

L-Università ta' Malta

ADVANCED MATRICULATION LEVEL
2019 FIRST SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	II
DATE:	10th May 2019
TIME:	4:00 p.m. to 7:05 p.m.

This paper contains **THREE** Sections. Follow the instructions below.

Section A
Answer **ALL** questions in this Section. Each question carries 4 marks.

Section B
Answer question 6. **This question is compulsory** and carries 30 marks.

Section C
Answer any **TWO** questions from this Section. Each question carries 25 marks.

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 20 marks.

1. A manufacturing concern currently pays its direct labour according to a piecework remuneration scheme. It is considering replacing this scheme with a bonus system based on time saved. State **TWO** advantages and **TWO** disadvantages of **EACH** remuneration system. (4)

2.
   a) Explain why it is important to maintain an appropriate level of inventory. (2)
   b) Mention **TWO** suggestions to ensure that the stock level is maintained at the appropriate level. (2)

3. Explain the difference between normal loss and abnormal loss in process costing. Indicate clearly how each loss arises and how each is treated with respect to costing the product. (4)

4. The separation of semi-variable and semi-fixed costs is difficult in practice. Briefly describe a mathematical technique that assists accountants to separate costs into their fixed and variable elements. (4)

5. A business has limited resources and is currently analysing its operations in order to assess whether it may stop producing some products. Describe how management would determine which products may be discontinued, clearly indicating the type of costs that would be irrelevant for such a decision. (4)

SECTION B
Answer Question 6 in this Section. This question is compulsory and carries 30 marks.

6. Thestral Ltd operates a wholesale 'cash and carry' outlet. The company's projected statement of financial position as at 30 June 2019 is as follows:

	€	€
Non-Current assets		824,400
Current assets:		
Inventory	99,850	
Trade receivables	176,900	
		276,750
		1,101,150
Share capital	675,000	
Retained earnings	55,000	
		730,000
Current liabilities:		
Trade creditors	175,500	
Bank overdraft	195,650	
		371,150
		1,101,150

Thestral Ltd has experienced increased competition over the past year and had reported a net trading loss for the year ended 31 December 2018. The company decided that tighter control over cash resources would be exercised during 2019. The following projections are available:

a) All goods are purchased on credit. Thestral Ltd pays suppliers two months after purchase. The purchases for May and June 2019 are estimated at €83,700 and €91,800, respectively. As from July 2019, the managing director wishes to reduce purchases so that the inventory level at the end of each month covers 50% of the sales projected for the following month.

b) Sales provide a gross profit mark-up of 33⅓% and are budgeted as follows:

	€
July	144,000
August	135,000
September	93,700
October	134,240
November	85,000
December	75,000

c) 10% 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 May are expected to amount to €136,500 and during June €131,400.

d) Shop-soiled stock which cost €30,000 is to be sold for cash in July. It is anticipated that these goods will be sold for €25,000. This sale is not included in the sales figures provided in (b) above.

e) The annual rental for the company's premises is €120,000 payable monthly in advance. Other payments to be made are:

	July	August	September
Salaries and commission	25,500	28,500	19,500
Other expenses	8,400	10,200	9,150

f) Equipment surplus to requirements is to be sold in July for €40,000. The equipment cost €85,000 and depreciation to date of disposal is €40,000. The company's annual depreciation charge on the remaining non-current assets is estimated at €78,000.

Required:

A. Prepare a detailed monthly cash budget for the 3 months ending 30 September 2019 for Thestral Ltd. (18)

B. Draft a projected Profit and Loss Statement for the 3 months ending 30 September 2019 and a Statement of Financial Position as at that date. (12)

(Total: 30 marks)

Questions continue on next page

SECTION C
Answer any TWO questions from this Section. Each question carries 25 marks.

7. Aurora Ltd, a company established in Malta, manufactures and sells a premium quality commodity the "ZOLO". The Company operates a standard absorption costing system with the standard cost figures for each unit of "ZOLO" being as follows:

Material per unit	2.5 kilograms at € 13.50 per kg
Unskilled labour costs	9.5 hours at € 5.60 per hour
Skilled labour costs	1.8 hours at € 9.40 per hour
Selling price per unit	€ 256

Budgeted production and sales for the month of April 2019 were 13,392 units. Fixed production overheads were budgeted at €535,680 for the said month and were absorbed on a direct labour hour basis.

Actual results for the month of April 2019 were as follows:

Units produced and sold	13,590
Materials – Total	€ 572,003 for 41,450 kilograms
Unskilled labour costs – Total	€ 881,855 for 139,977 hours
Skilled labour costs – Total	€ 324,122 for 30,573 hours
Fixed production overheads – Total	€ 539,793
Selling price per unit	€ 263

Required:

A. Calculate the following variances for the month of April 2019:
   i) The sales price variance and the sales volume profit variance;
   ii) Total material variance analysed into price variance and usage variance;
   iii) Total labour variance analysed into rate variance and efficiency variance for both skilled and unskilled workers; and
   iv) Total fixed production overhead variance analysed into expenditure and volume variance. (13)

B. Calculate the actual and budgeted profit for the month of April 2019 and prepare a statement reconciling the **TWO** profit figures. (7)

C. Briefly explain the purpose and importance of variance analysis to businesses. (5)

(Total: 25 marks)

8. RYAL Ltd is an export-oriented company specialising in the production of high-tech products. The following projected data concerning the product "Cool Gadget" for the year ending 31 December 2019 is available:

Number of "Cool Gadget" – production and sales	12,000 units
	€
Selling price per unit	450
Direct costs per unit	60
Selling and Distribution costs:	
- Variable	1,650,000
- Fixed	155,000
Indirect costs:	
- Variable	1,230,000
- Fixed	145,000
Administration costs	
- Fixed	150,000

Required:

A. Calculate the contribution per unit. (4)

B. Draw on graph paper the break-even chart. (4)

C. From the break-even chart in (B), determine the break-even point and margin of safety in sales value and the profit for the year. (6)

D. Prepare separate statements showing the estimated profit for 2020 if:
   i) Unit selling price is decreased by 15% thereby increasing sales volume by 25% of 2019 level. Fixed selling and distribution costs are doubled;
   ii) Unit selling price is increased by 15% resulting in a decrease in sales volume of 35% of 2019 level. Indirect variable costs increase by 10%. (6)

E. Briefly explain **TWO** benefits of using break-even analysis. (5)

(Total: 25 marks)

Questions continue on next page

9. Following are the budgeted overheads of Stern & Transom for each of its five departments for the six months to 31 March 2019:

	Dept. A	**Dept. B**	**Dept. C**	**Dept. X**	**Dept. Y**
Overheads (€)	33,040	38,640	18,600	12,000	8,400

Departments A, B and C are involved in the production of goods. Departments X and Y provide a service to the production departments.
The service departments' costs are charged to the production departments on the following basis:

	Dept. A	**Dept. B**	**Dept. C**
Dept X	30%	50%	20%
Dept Y	40%	40%	20%

The budgeted levels of activity for the 6-month period were as follows:

Activity levels:	***Labour Hours***	***Machine Hours***
Dept. A	5,000	800
Dept. B	140	8,000

Overheads of Department C were absorbed at the rate of 40% of direct labour cost in that department.

Job No. 425, which was started and finished during the same six-month period, required 8kg of direct material costing €16.50 per kg. The job logged the following hours:

	Labour Hours	***Machine Hours***
Dept. A	12	1
Dept. B	2	14
Dept. C	5	1

Direct labour costs €20 per hour.
Jobs were invoiced at cost plus 25% margin.

Required:

A. For **BOTH** department A and department B, calculate an hourly overhead absorption rate. (9)

B. Explain your choice of the overhead absorption bases in (A). (5)

C. Prepare a cost sheet for Job No. 425 and calculate the invoice price. (11)

(Total: 25 marks)