L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

ADVANCED MATRICULATION LEVEL
2019 SECOND SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	I
DATE:	2nd September 2019
TIME:	9:00 a.m. to 12:05 p.m.

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

Section A
Answer all **FIVE** 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. (i) What is the difference between a bonus issue and a rights issue of shares? (2)
   (ii) Describe **ONE** reason why a listed company may decide that a bonus issue of shares would be advantageous. (2)

2. What is the difference between a provision and a reserve? Provide **TWO** examples of each. (4)

3. (i) List **TWO** different depreciation methods. (1)
   (ii) On what basis would a company decide that a particular depreciation method is suitable for a category of asset? Illustrate your explanation with **TWO** examples. (3)

4. Why are ordinary subscriptions and life membership fees accounted for differently by a non-profit organisation? (4)

5. (i) Briefly describe the accruals concept and explain, with the use of **ONE** example, how it affects the preparation of a set of financial statements. (2)
   (ii) Briefly describe the going concern concept and explain, with the use of **ONE** example, how it affects the preparation of a set of financial statements. (2)

SECTION B

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

6. Mariners' Delight provides catering services for the shipping industry. The following is its Trial Balance as at 31 March 2019:

	€	€
Ordinary share capital (€0.05 per share)		800,000
Share premium		60,000
General reserve		24,000
Retained earnings		80,000
Provision for unrealised profit		8,000
Sales		1,385,000
Carriage in	12,600	
Carriage out	18,500	
Returns	48,600	32,100
Opening Inventories: Raw materials	63,400	
Finished goods	88,000	
Work-in-progress	38,600	
Purchases of loose tools	2,300	
Purchases - Raw materials	598,000	
- Finished goods	75,200	
Direct wages	136,000	
Indirect factory wages	54,000	
Salaries	87,500	
Factory maintenance	26,400	
Electricity	36,000	
Factory rent	113,400	
Insurance	35,500	
Administration expenses	21,600	
Trade receivables/Trade payables	42,000	54,400
Allowance for doubtful debts		1,620
Bank		23,780
Cash	6,500	
Loose tools	12,200	
Machinery/Allowance for depreciation	940,000	94,000
Motor Vehicles/Allowance for depreciation	95,000	36,000
Office equipment/Allowance for depreciation	64,000	16,400
	2,615,300	2,615,300

The following information is to be taken into consideration:

a) Finished goods are transferred from the factory at cost plus 10% manufcturing profit.
b) Inventories at 31 March 2019 were:

	€
Raw materials	84,700
Work-in-progress	60,540
Finished Goods	167,200

c) At times when total manufacturing output falls short of demand, in order not to lose its customers, Mariners' Delight purchases the finished product from third parties through direct ordering. These goods are sold immediately and there are no returns or inventory.

d) On 31 March 2019, loose tools were valued at €9,600.
e) Annual depreciation is calculated as follows:

Machinery	10% on cost
Office Equipment	25% on cost
Motor Vehicles	40% on net book balance

f) Apportion the following costs as follows:

	Manufacturing	*Profit Statement*
Insurance	2	1
Electricity	3	2
Motor Vehicles Depreciation	2	3

g) The motor vehicle is used by the factory for the sole purpose of transporting raw material to the factory.
h) Indirect factory wages amounting to €16,000 were inadvertly debited to salaries.
i) Other amounts due but not yet paid at year end were administration expenses amounting to €14,600 and commission to salesmen calculated at €18,400.
j) The insurance account includes a payment of €24,600 for an annual premium up to 31 July 2019.
k) Additional factory premises were leased on 1 March 2019 for an annual rent of €36,000 payable quarterly in advance.
l) After assessing the collectability of trade receivables at year end, the directors estimated that expected credit losses amount to 3% of trade receivables.
m) On 1 January 2019, the company made a bonus issue of 1 ordinary share for every 16 existing ordinary shares, using its capital reserve. The bonus issue has not yet been accounted for.
n) Before the presentation of the final accounts to the shareholders, the board of directors decided to transfer €40,000 to the general reserve and proposed a dividend of €0.05 per share.

Required:
Prepare the financial statements of Mariners' Delight for the year ended 31 March 2019, comprising:

A. The Manufacturing Account; (10)
B. The Statement of Comprehensive Income; (8)
C. The Statement of Changes in Equity; and (3)
D. The Statement of Financial Position Statement. (9)

(Total: 30 marks)

Please turn the page

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

7. The following is the statement of financial position for Iroh Ltd, importer of fine oriental teas, as at 31 December 2017:

Statement of Financial Position as at 31 December 2017

ASSETS	**€**	**€**	**€**
Non-Current Assets			
Freehold Premises			135,000
Office furniture			5,000
Motor vehicles			17,000
			157,000
Current Assets			
Inventories		175,000	
Prepayments		13,000	
Trade Receivables		230,000	
Cash and Cash Equivalents		34,490	
			452,490
Total Assets			**609,490**
EQUITY AND LIABILITIES			
Equity and Reserves			
Ordinary Share Capital			236,320
Retained Earnings			36,500
			272,820
Non-Current Liabilities			
Bank Loan		230,000	
Current Liabilities			
Trade payables	103,220		
Interest payable	3,450		
Total Current Liabilities		106,670	
			336,670
Total Equity and Liabilities			**609,490**

The following transactions have occurred during the year ended 31 December 2018:

a) Sales of €554,000 were generated, whilst Purchases amounted to €265,000.
b) The total sales & distribution costs and administration expenses paid amounted to €210,000. The prepayment of €13,000 as at 31 December 2017 relates to licensing and professional fees. As at 31 December 2018, €19,000 of professional services relating to 2018, were still unpaid.
c) At the beginning of 2018, premises for a new retail outlet worth €275,000 were purchased as part of the strategic plan to expand the business operations. This acquisition was partly paid in cash and partly financed by a new bank loan of €180,000, which has been granted at the same interest of 3% per annum as the existing loan. The new outlet also had a new POS system installed worth €11,000. On the accountant's advice, this equipment was to be depreciated at 20%, using the straight line method. There were no other additions or disposals of non-current assets during the year.

It is the company's policy not to depreciate land and buildings. On the other hand, office furniture and motor vehicles are depreciated using a 25% and 15% reducing balance method, respectively.

No loan repayments or dividends were paid during the year ended 31 December 2018.

You are also given the following information regarding balances as at 31 December 2018:

	€
Trade receivables	189,000
Trade payables	280,000
Inventory	246,000
Loan interest outstanding	6,150

Required:

A. Prepare a calculation showing Iroh Limited's profit for the year ended 31 December 2018. *A complete statement of Profit or loss is not required.* (7)

B. From the information provided, prepare a Statement of Cash Flows for Iroh Limited for the year ended 31 December 2018. (13)

C. Iroh Limited's cash generated from operations was far greater than the actual profit generated from its operations. Explain why this could be the case, and outline **TWO** sources from where Iroh Limited has enhanced its liquidity position. (5)

(Total: 25 marks)

Questions continue on next page

8. You are the manager at Fujiyama Investment Bank, and you are evaluating the opportunity of investing in the gaming industry by providing a substantial loan to one of the following two companies: Azalea-On plc and Begonia Flare plc.

The following are extracts from the most recent published financial statements of Azalea-On plc and Begonia Flare plc, both market leaders in video game software development.

	Azalea-On plc		**Begonia Flare plc**	
Statement of Financial Position				
ASSETS	**€**	**€**	**€**	**€**
Non-Current Assets				
Property Plant and Equipment		17,559,556		13,283,400
Development costs		310,000		930,000
		17,869,556		14,213,400
Current Assets				
Trade Receivables	6,500,000		370,000	
Cash and Cash Equivalents	1,260,000		989,000	
		7,760,000		1,359,000
Total Assets		**25,629,556**		**15,572,400**
EQUITY AND LIABILITIES				
Equity and Reserves				
Ordinary Share Capital		6,000,000		7,750,000
Share Premium		1,265,000		650,000
Revaluation Reserve		1,740,000		949,000
Retained Earnings		4,045,000		1,714,000
		13,050,000		11,063,000
Non-Current Liabilities				
Debentures	7,987,100		3,600,000	
Loan	2,000,000		380,000	
	9,987,100		3,980,000	
Current Liabilities				
Trade Payables	2,100,000		518,000	
Interest Payable	80,000		11,400	
Tax Payable	412,456		0	
Total Current Liabilities	2,592,456		529,400	
		12,579,556		4,509,400
Total Equity and Liabilities		**25,629,556**		**15,572,400**

Statement of Profit and Loss				
Turnover		21,850,000		18,982,000
Cost of Sales		10,404,762		10,545,556
Gross Profit		11,445,238		8,436,444
Other Income		12,000		42,000
		11,457,238		8,478,444
Administrative Expenses	4,200,000		1,900,000	
Finance Costs	399,613		134,600	
		4,599,613		2,034,600
Profit Before tax		6,857,625		6,443,844
Income tax Expense		2,400,169		2,255,345
Profit for the Year		**4,457,456**		**4,188,499**

Required:

A. Prepare a memo to the Board of Directors of the Fujiyama Investment Bank, comparing and contrasting the financial performance and positions of the **TWO** companies, using the relevant accounting ratio analysis, with particular emphasis on the following sections;
   i) Profitability Considerations (3 ratios);
   ii) Liquidity Considerations (2 ratios);
   iii) Capital Structure (Gearing)/ Investment Considerations (2 ratios). (14)

B. Using your results from (A), and any other relevant analyses from the information provided, recommend, with reasons, the better company from the two, to which the loan should be provided. (6)

C. Potential investors are one group of external users of financial statements. Name **TWO** other users of financial statements and **TWO** ratios which might be of interest to them, briefly explaining why they might be useful to them. (5)

(Total: 25 marks)

Questions continue on next page

9. In the early hours of the morning of 1 April 2019, a major fire broke out in Ms Anna Seguna's warehouse, extensively damaging the building's contents and a substantial portion of her inventory. Fortunately, she had taken out a comprehensive insurance policy that covers the value of inventory lost as at the incident date. Unfortunately, Ms Seguna's accounting system was also affected due to a loss of the server back-up data following a major power surge caused by the fire; however, the following balances were extracted from the accounting system on 28 February 2019:

	€
Equipment (Net Book Value)	713,520
Trade Receivables	90,000
Inventory as at 1 January 2019	109,000
Bank overdraft balance	45,000
3.75% Bank Loan	258,000
Capital	250,000
Drawings	13,080
Sales	585,600
Purchases	185,000
Returns inwards	27,500
Returns outwards	18,300
Water and Electricity	1,300
Salaries and Wages	17,500

Ms Seguna's financial year end is 31 December. You are given the following information following the incident:

a) The inventory as at 1 January 2019 included outdated goods originally costing €15,000. However, Ms Seguna could have only ever sold them for half their cost. These goods were completely destroyed in the fire.
b) The total purchases for March 2019 amounted to €226,000. These were paid for in cash as Ms Seguna does not hold trade payables.
c) All Sales are made at a constant gross profit mark-up of 150%.
d) During March 2019, there were €150,000 worth of credit sales plus an unknown amount of cash sales. It is established that 40% of all debtors pay within the month of sale and the rest pay within the following month.
e) For the month of March, 10% of all credit sales were returned by customers and 15% of all purchases were returned to suppliers and fully refunded.
f) Ms Seguna also bought and paid for Equipment amounting to €12,000 on 20 March 2019. Depreciation on non-current assets is calculated at year end.
g) She paid wages and utility bills of €10,990 and €1,800, respectively, and withdrew €6,000 cash for personal use.
h) You are informed that her bank balance as at 31 March 2019 was positive and stood at €37,510.

Required:

A. Calculate the value of Ms Seguna's closing inventory as at 31 March 2019. (12)
B. Draw up a trial balance as at 31 March 2019 (prior to the fire incident), taking into account the information provided in (a) to (h) above (8)
C. State how IAS 2 *Inventory* requires inventory to be valued and identify the underlying accounting concept being applied. (3)
D. Identify the **TWO** inventory valuation methods that are acceptable under IAS 2 *Inventory*.(2)

(Total: 25 marks)

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MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

ADVANCED MATRICULATION LEVEL
2019 SECOND SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	II
DATE:	3rd September 2019
TIME:	9:00 a.m. to 12:05 p.m.

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

Section A
Answer all **FIVE** 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. The 'Margin of Safety' refers to the amount by which budgeted sales exceed the break-even point.
   a) Describe **TWO** ways how the 'Margin of Safety' can be increased. (2)
   b) Illustrate your answers in (a) on break even graphs (graph paper is not required). (2)

2. Briefly explain absorption of overheads and give **TWO** circumstances which lead to over/under absorption of overheads. (4)

3. Compare the marginal and absorption costing approaches to inventory valuation and their effect on reported profits. (4)

4. Describe the term 'Corporate Social Responsibility' (CSR). Explain why businesses have a vested interest in investing in CSR. (4)

5. Briefly explain the differences between job costing and process costing, and mention **TWO** industries that use job costing and **TWO** industries that use process costing. (4)

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

6. RAC Ltd was set-up in early 2019 and manufactures stuffed toys. Ms. Kate Cachia, the shareholder of RAC Ltd, has requested you, as the accountant of the company, to be present at the upcoming board meeting to discuss the forecasted cash position of the company for the first quarter of 2020.

The following is the projected Statement of Financial Position of RAC Ltd as at 31 December 2019:

	€	€	€
Non-current assets	*Cost*	*Dep.*	*NBV*
Property, Plant and Equipment	180,000	18,000	162,000
Current assets			
Inventories - Raw Materials		55,000	
Inventories - Finished Goods		26,400	
Trade receivables		254,500	
Other receivable		150	
Bank		2,500	
			338,550
Total assets			**500,550**
Equity			
Ordinary share capital			50,000
Retained earnings			374,350
			424,350
Current Liabilities			
Trade payables			76,200
Total equity and liabilities			**500,550**

Ms. Cachia also has the following information at hand:

a) Selling price per stuffed toy is projected at €35 for 2020.
b) The forecast production and sales in units are as follows:

	January	**February**	**March**
Production – units	14,800	19,350	22,800
Sales – units	12,220	17,550	19,575

c) 45% of the sales are made to retailers. The credit terms established during 2019 shall continue during 2020, that is, 40% of the sales revenue to retailers will be received during the month the soft toys are sold, whilst the other 60% will be received in the following month. Individual customers are expected to pay cash, and these benefit from a 5% discount.
d) Inventory of finished goods is valued using the first-in first-out method of valuation.

e) The production department confirmed that the variable production cost per unit for the first quarter of 2020 is projected to be €1 lower when compared to the last quarter of 2019, and is made up as follows:

Variable Production Cost per unit for 2020	**€**
Material	12
Direct Labour	8
Production Overhead	2
Total	22

f) The purchasing department forecasts that purchases of raw materials for the first four months of 2020 are as follows:

January	**February**	**March**	**April**
€220,400	€310,300	€320,880	€345,690

RAC Limited shall continue adhering to the credit terms of 2019, that is, 40% of purchases are settled in the month in which they are made, and the remaining 60% shall be paid in the month following that of purchase. The trade payables of €76,200 shown in the projected statement of financial position as at 31 December 2019 are amounts due to suppliers of raw materials.

g) All other variable production costs (except for material) are paid for in the same month when incurred.

h) During the first week of every quarter, RAC Limited is required to pay in advance the rental expense of €2,000 which covers the rental cost for that quarter.

i) Given that RAC Limited is planning to increase its work force, additional computer hardware costing €7,600 will be acquired in January 2020. RAC Limited has agreed with the supplier to pay a deposit of 50% on delivery in January and settle the remaining balance in two equal monthly instalments in February and March.

j) Property, plant and equipment are to be depreciated over a period of 10 years and computer hardware over a four-year period. The residual value of all the assets shall be deemed to be nil.

k) RAC Limited has taken up an insurance policy to cover eventual damage to the company's assets. An amount of €150 is to be paid monthly in advance. The other receivable of €150 shown in the projected statement of financial position as at 31 December 2019 relates to prepaid insurance.

l) Other office expenses (excluding rent, insurance and depreciation) are projected to amount to €15,500 per month, and are settled in the month in which they are incurred.

Required:

A. Prepare a monthly cash budget for the three months ending 31 March 2020. (14)

B. Prepare a budgeted Income Statement for the three months ending 31 March 2020 and a budgeted Statement of Financial Position as at that date. (16)

(Total: 30 marks)

Please turn the page

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

7. Ebona Limited is a newly established company in the local market involved in the production of jeans. The results for the first quarter of operations, October to December 2018, have been presented to the directors. The directors commented that the budgeted and actual profit figure differed considerably and have requested you, as the company's accountant, to explain the reasons for this difference at an extra board meeting set specifically for this purpose. You have compiled the following data for the period October to December 2018:

	Budgeted data	**Actual data**
Units produced and sold	22,400	23,300
Material per unit	16 kilograms	15 kilograms
Material cost per kg	€0.80	€0.75
Labour hours per unit	3 hours	3.40 hours
Labour cost per hour	€7.60	€8.40
Variable overhead – Total	€26,880	€26,020
Fixed overhead – Total	€11,200	€9,800
Machine Hours – Total	12,000 hours	14,200 hours
Selling price per unit	€42.00	€44.00

Variable and fixed overheads are absorbed on the basis of machine hours.

Required:

A. Calculate the following variances for the period October to December 2018:
   i. The sales price and sales volume profit variances;
   ii. Total material cost variance analysed into price and usage variances;
   iii. Total labour cost variance analysed into rate and efficiency variances;
   iv. Total variable overhead variance analysed into expenditure and efficiency variances; and
   v. Total fixed overhead variance analysed into expenditure and volume variances. (14)

B. Calculate the company's budgeted and actual profit for the three-month period October to December 2018. (4)

C. Prepare a statement reconciling the budgeted profit with the actual profit, highlighting the variances which led to the difference in profit. (2)

D. Based on the results obtained in (C), prepare a short report to the board of directors explaining the main causes of the difference between the actual and budgeted profit. (5)

(Total: 25 marks)

8. Pearl Ltd manufactures two products, X and Y. The following is a summary of the Statement of Profit and Loss for the year ended 30 April 2019:

	€	€
Sales :		
X at €160 each	576,000	
Y at €150 each	450,000	
		1,026,000
Cost of Sales:		
Material	165,000	
Labour	181,500	
Overheads	120,000	
		466,500
Profit		559,500

a) Pearl Ltd operates for 50 weeks during a year, and the basic week is of 40 hours. It has 5 production employees, who are paid a basic wage rate of €15 per hour. Overtime is paid at time and a half for any time worked over and above the 40 hour per week.

b) During the year ended 30 April 2019, production and sales volume were the same. Products X and Y require the same amount of raw material. They are produced by the same labour force, however, one unit of X takes 1½ hours to make and a unit of Y takes 2 hours.

c) The Budgeted Production and Sales for the year to 30 April 2020 are 4,000 units of X and 3,500 units of Y. No changes are expected in the usage and price of the raw material, therefore, material cost per unit will remain the same as in 2019. However, the labour wage rate increased by €2 per hour from 1 May 2019, following a productivity agreement, whereby the standard time to make a unit of X will fall by 20% and the standard time for a unit of Y will fall by 25%. Any overtime shall continue to be paid at time and a half. The annual overheads are fixed and will remain the same. No change is planned in unit selling prices.

d) Assume that there is no restriction on the amount of labour hours which could be made available, if required.

Required:

A. Calculate the budget profit for the year ending 30 April 2020 without the new productivity agreement, that is, applying last year's wage rates and conditions. (12)

B. Calculate the effect on profit of the incentive scheme, that is, applying the new wage rate with improved standard time requirements. (8)

C. What do you understand by a "piece rate scheme"? Describe **TWO** advantages and **TWO** disadvantages of such a scheme. (5)

(Total: 25 marks)

Please turn the page

9. The Boggart Production Company Ltd is divided into four departments. The Pressing, the Fabrication and the Painting departments are all production departments, while the Maintenance department is a service department for the production departments.

The budgeted overheads for the six months ended 30 June 2019 were as follows:

	€
Supervision	30,000
Rent	20,000
Power	18,000
Water and electricity	2,000
Fire insurance	10,000
Plant repairs	12,000
Plant depreciation	9,000

The following information is available about the four departments:

	Pressing	**Fabrication**	**Painting**	**Maintenance**
Area (square metres)	1,500	1,100	1,900	500
Employees	20	15	10	5
Value of plant (€)	480,000	360,000	360,000	Nil
Kilowatt hours	300,000	180,000	120,000	Nil
Budgeted activity for the 6-month period:				
Machine hours	27,000	10,000	10,000	Nil
Direct labour hours	10,000	15,400	8,000	Nil
Actual activity for the 6-month period:				
Machine hours	27,500	9,000	10,200	Nil
Direct labour hours	11,000	15,800	8,800	Nil
Actual overheads incurred for the 6-month period (€)	46,232	27,420	27,968	n/a

Required:

A. Apportion the budgeted overheads to the **FOUR** departments using the most suitable method, and state clearly the bases you have used. (7)

B. Apportion the total of the Maintenance department's expenses to the production departments on the basis of Plant Value. (3)

C. Calculate the overhead absorption rate (to two decimal places) for each of the production departments. (3)

D. Calculate the amount of overheads over and under absorbed during the 6-month period. (3)

E. Calculate the production cost of a job carried out by the Boggart Production Company Ltd during the 6-month period, with the following information:

	Pressing	**Fabrication**	**Painting**
Direct materials (€)	420	160	90
Labour rate per hour (€)	9.00	7.00	5.00
Direct Labour hours	15	12	32
Machine hours	25	20	5

(4)

F. Distinguish between overhead allocation, overhead apportionment and overhead absorption. Give examples to illustrate your answer. (5)

(Total: 25 marks)