

IM 01.13m

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA
MATRICULATION EXAMINATION
INTERMEDIATE LEVEL
MAY 2013

SUBJECT:	ACCOUNTING
DATE:	26 th April 2013
TIME:	9.00 a.m. to 12.00 noon

This paper contains THREE Sections. Follow the instructions below.

Section A

Answer question 1. This question carries 30 marks.

Section B

Answer any TWO questions from this Section. Each question carries 20 marks.

Section C

Answer any TWO questions from this Section. Each question carries 15 marks.

Section A

Answer Question 1. This question carries 30 marks.

1. Below is the Trial Balance of Abela, Borg and Casha Ironmongers, as on 31 December 2012:

	<i>Dr</i>	<i>Cr</i>
	€	€
Capital A/cs: Abela		60,000
Borg		60,000
Casha		20,000
Current A/cs: Abela		2,800
Borg		3,000
Casha	800	
Sales		165,000
Inventories (<i>1 January 2012</i>)	18,100	
Drawings	8,000	
Premises	180,000	
Fixtures at cost	24,000	
Motor vehicles at cost	32,000	
Fixtures depreciation (<i>1 January 2012</i>)		8,500
Motor vehicles depreciation (<i>1 January 2012</i>)		12,400
Returns in>Returns out	1,400	950
Trade receivable/payable	7,200	10,920
Carriage in	850	
Carriage out	2,100	
8% Loan (<i>Long term</i>)		50,000
Purchases	92,000	
Discounts allowed	2,800	
Discounts received		2,300
Electricity	5,400	
Wages	14,600	
Insurance	4,200	
General expenses	3,200	
Advertising	1,100	
Cash	720	
Bank overdraft		2,200
Provision for Doubtful debts		400
	398,470	398,470

The agreement between the partners specified that interest on capital was to be 8% per annum and that profits were to be shared in the ratio of 2:2:1 (Abela : Borg : Casha). Furthermore, Abela was to receive a salary of €8,000 and Borg a salary of €5,000 per annum.

IM 01.13m

The €8,000 of drawings included in the Trial Balance were shared thus: Abela €3,200; Borg €3,700; and Casha €1,100. Additionally, an amount of €1,800 paid to two workers who carried out private work in Casha's house were included in Wages. Borg had also withdrawn goods costing €740 for his own private use.

As at 31 December 2012, take the following into consideration:

- i) Closing Inventories were valued at €26,400.
- ii) The following amounts were still owing:

Electricity	€800
Wages	€1,200
- iii) Insurance was prepaid by €400.
- iv) Provide for interest on the loan and €60 interest on overdraft as these were still outstanding.
- v) Provision for bad debts should be 5% of debtors as at year end.
- vi) Depreciation should be provided for as follows:

Fixtures	15% straight line
Motor Vehicles	40% reducing balance

Required:

- a. For the period ended 31 December 2012, prepare for Abela, Borg and Casha:
 - i. the Income Statement;
 - ii. the current accounts; and
 - iii. the Statement of Financial Position. *(24 marks)*
- b. Mention any **TWO** advantages and **TWO** disadvantages a partnership might have on a sole trader. *(6 marks)*

Please turn the page for Section B.

Section B

Answer any TWO questions from this Section. Each question carries 20 marks.

2. The Trial Balance at the end of the year of C. Caruana, a retailer, failed to agree. A suspense account was thus opened in order to achieve the balance. Subsequently the following discrepancies were discovered:
- i) A cheque for €1,520 from S. Savona had been entered in the cashbook as €1,250 but posted correctly in the personal account.
 - ii) The sales daybook was over-added by €1,300 while the purchases daybook was undercast by €800.
 - iii) The petty cashbook showed an expense of €840 for stationery. This amount had not been posted to the ledger account.
 - iv) An expense of €2,600 spent on an extension to the warehouse was charged to repairs and maintenance.
 - v) Discounts received of €2,500 were inadvertently treated as discounts allowed in the nominal ledger.
 - vi) The advertising account included an amount of €1,500 paid for an advertising campaign which is to be launched during the following year.
 - vii) A purchase invoice for €650 from Santex, a supplier, was not posted to the relevant accounts.

Required:

- a. Prepare journal entries to correct the above errors and prepare the suspense account to find the opening balance. *(12 marks)*
- b. Prepare a statement of corrected profit, given that the profit was calculated as €32,150 before the errors were adjusted. *(4 marks)*
- c. Mention and give a brief explanation of **THREE** errors that do not affect the Trial Balance. *(4 marks)*

IM 01.13m

3. JM Productions extracted the following data from its books for the month of April:

	€
Cheques received from credit customers	60,300
Cheques paid to credit suppliers	50,120
Credit sales	72,170
Credit purchases	58,160
Cash purchases	15,300
Discounts allowed	8,470
Discounts received	6,760
Bad debts written off	820
Sales returns	5,760
Purchases returns	6,110

A customer, C. Attard, was both a credit customer and a credit supplier. The amount of €640 outstanding in his account in the sales ledger was set-off by contra entry in the purchases ledger.

At the end of April, an amount of €720 was owing to a credit customer due to overpayment. At that date also, JM productions decided to create a provision of 5% on its trade receivables.

The following balances appeared on the ledger control accounts at 1 April:

	Dr (€)	Cr (€)
Sales Ledger Control Account	21,300	900
Purchases Ledger Control Account	614	30,760

Required:

- Prepare the Sales Ledger and the Purchases Ledger Control Accounts for the month of April. **(13 marks)**
- Show where and how the items of trade receivables and trade payables would appear in the Statement of Financial Position. **(3 marks)**
- Explain the purpose for the preparation of control accounts. Refer to at least **THREE** benefits. **(4 marks)**

Please turn the page.

IM 01.13m

4. J.J. Abdilla started business on 1 January 2012 with €800 in his business bank account and assumes that since on 31 December 2012 his bank account shows a balance of €2,300 he has made a profit of €1,500. He asks you, as an aspiring accountant, to check his profit giving you the following information:

When he started business, apart from the bank balance, he had bought goods for resale costing €9,500, €5,000 of which he had borrowed from the bank at an interest rate of 8% per year. He also had machinery and tools which he valued at €5,800 and a small second hand delivery van with a market value of €3,000.

On 31 December 2012, his books showed the following:

	€
Inventories	12,500
Due from customers	4,400
Owing to suppliers	3,800
Accrued expenses	1,450
Cash	140

He also had a small display cabinet which he had bought for €1,600 and a new van. The van cost €14,000. He had paid a deposit of €1,900 for the van, part-exchanged his old van for €2,100, while the remaining amount is to be paid by instalments starting from January 2013. No interest on the amount outstanding was to be charged during 2012.

The following is also to be taken into consideration:

- i) Provide for the interest on the loan because it was not paid. No repayment of the principal was done during the year, and the whole amount was still outstanding.
- ii) Provide for depreciation of machinery and fixtures at 15% per annum and on the van at 20% per annum. Depreciation is to be provided on cost for a whole year on assets on the books at year end and no depreciation on assets disposed of during the year.
- iii) JJ Abdilla has withdrawn €220 a week for his personal use.

Required:

- a. Statements of Affairs as on 1 January and 31 December 2012 showing all workings, and calculate the profit for the year ended 31 December 2012 realised by JJ Abdilla. **(16 marks)**
- b. Explain why profits of a business are not necessarily reflected in increases in bank and cash. **(4 marks)**

Section C

Answer any TWO questions from this Section. Each question carries 15 marks.

5. The following details relate to the production of AZONE, a component used in the telecommunications industry. The production process passes through two departments, namely, *Chassis* and *Bodies*.

The budgeted production for the month of April is 8,000 units of AZONE.

The budgeted monthly production overheads of these two departments are:

	€
Chassis	120,000
Bodies	84,000

The budgeted direct costs per unit are:

	<u>Dept. Chassis</u>	<u>Dept. Bodies</u>
Direct Labour	5 hours @ €8 per hour	3 hours @ €6 per hour
Direct material	2 sheets @ €14 per sheet	No additional material

Required:

- a. Calculate an overhead absorption rate on the basis of labour hours for each of the departments for the month of April. **(6 marks)**
- b. Calculate the cost of an order for 50 units of AZONE, using the same absorption rate calculated in (a). **(6 marks)**
- c. Give a brief explanation why fixed costs are treated differently from direct costs when establishing the cost per unit of production. **(3 marks)**

6. Joseph Josephs recorded the following stock movements for the three months from 1 June to 31 August 2012:

<u>Date</u>	<u>Receipts</u>	<u>Issues</u>	<u>Balance</u>	<u>Unit Price(€)</u>
June 1			120	7.40
2	300			7.80
19		220		
22	140			7.90
July 2	200			8.00
Aug 15		440		
25	350			7.95
29		420		

Required:

- a. Calculate Joseph Josephs' inventories on 31 August 2012 using:
 - i. FIFO method; and
 - ii. LIFO method. **(12 marks)**
- b. What effect would using FIFO have on declared profits when compared to LIFO? Explain what causes the difference. **(3 marks)**

IM 01.13m

7. Cirtex is a medium-sized enterprise producing one single product: a circuit used in the telecommunications industry. It has a production capacity of 5,000 units but its market share is only 4,200 and that is what it produces.

Its cost schedule is made up as follows:

Variable Costs per unit:	€
Material	80
Labour	75
Overheads	25
Annual fixed costs amount to	€140,000.

Selling Price per unit €220

Profit realised was considered too low for the level of investment and the following two suggestions to increase profit were made:

- i) Lower the selling price to €218 and, according to a market survey, the total production capacity of 5,000 units would be sold; OR
- ii) Invest a further €40,000 in fixed costs thus decreasing labour costs per unit to €70 and variable overheads by €5 per unit. Sales quantities and selling price would remain at the present levels.

Required:

- a. Calculate the present profit of Cirtex. *(3 marks)*
- b. Should any of the suggestions made be taken up? If so, which is the better suggestion? Support your answer with calculations and comparisons. *(9 marks)*
- c. Distinguish between fixed and variable costs, in each case, illustrating your answer with *ONE* example. *(3 marks)*