

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA
MATRICULATION EXAMINATION
INTERMEDIATE LEVEL
SEPTEMBER 2014

SUBJECT:	ACCOUNTING
DATE:	5th September 2014
TIME:	4.00 p.m. to 7.00 p.m.

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. Peter Stern has been running a small enterprise without keeping proper accounting records. He gives you the task to prepare proper records for his accounts and provides you with the following information for the year to 31 March 2014.

<i>Balances as at:</i>	<i>31 March 2013</i>	<i>31 March 2014</i>
	€	€
Premises	120,000	152,000
Fittings	58,000	54,000
Motor vehicles	45,000	52,000
Inventories	27,500	36,400
Trade receivables	7,900	11,800
Trade payables	5,200	4,600
Bank	7,400(<i>Cr. Bal</i>)	?
Cash	800	2,300

Peter Stern made it a point to bank all his takings, except for the following, which he paid out of cash takings:

- €80 a week which he paid to a cleaner;
- €600 a month he took home for living purposes;
- He also estimates that he pays €25 a week for small expenses.

Note : There are 52 weeks in one year.

Records show that discounts allowed to customers amounted to €6,400 while discounts received from suppliers totaled €9,100. An amount of €7,200 due from customers was considered as not recoverable and was written off during the year. A supplier, who is also a customer, had €2,300 set-off in his personal accounts.

Apart from drawings from the bank, Peter had also taken goods costing €820 for his own personal use.

Non-current assets acquired during the year included an extension to the warehouse costing €40,000 and new Fittings costing €12,000. Old Fittings with a carrying value of €8,200 were disposed of. A new motor vehicle was purchased for €22,000. Half of this amount was paid immediately while the remainder was to be settled during the next accounting period.

Hereunder is a summary of Peter's bank transactions:

	€		€
Receipts from customers	256,420	Premises	40,000
Cash	15,360	Fittings	12,000
Proceeds from disposal of fittings	3,500	Motor vehicle	11,000
		Payments for purchases	115,300
		Drawings	10,000
		Administration	48,230
		Selling & distribution	35,100

Required:

- A) Prepare Peter Stern's Statement of Comprehensive Income for the year ended 31 March 2014 and his Statement of Financial Position as at that date. *(24 marks)*
- B) Name FOUR sources of information required for the sales ledger control account and FOUR sources of information required for the purchases ledger control account. *(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 Sealovers Sports Club have recently appointed a new treasurer to finalise the accounts of the twelve months up to 30 June 2014. He submits the following Receipts and Payments Account:

Receipts & Payments Account			
	€		€
Opening Balance	510	Salaries & Wages	5,750
Subscriptions	12,095	Rent	5,680
Bar sales receipts	15,100	Electricity	3,120
Outing	860	Telephone	860
		Printing & Postages	2,137
		Bar purchases	10,300
		Coach hire	286
		Entrance fees	432
		Closing balance	--
	28,565		28,565

The Committee is not satisfied with the outcome and asks you to go over the data again and present adequate financial reports. You manage to find the following information:

	1 July 2013	30 June 2014
	€	€
Payable for bar purchases	410	750
Subscriptions due	960	1,200
Subscriptions paid in advance	480	240
Electricity in arrears	150	215
Bar inventories	925	840

The following are also to be considered:

- The entrance fees and coach hire were expenses in relation to the annual outing for members organised by the club.
- Provide €840 for depreciation of fixtures.
- Provide 5% of bar sales for barman's remuneration.
- Rent, electricity and telephone charges are to be shared between club and bar in the ratio of 4:1.

Required:

A) For reporting period ended 30 June 2014, prepare:

- The bar trading account;**
- The subscriptions account; and**
- The Income and Expenditure Account of the Sealovers Sports Club.**

(16 marks)

B) Distinguish clearly between *Receipts and Payments Account* and *Income and Expenditure Account*, explaining briefly the function that each fulfils.

(4 marks)

3. The Financial Reports of David Prow, a sole trader, for the years ended 31 December 2012 and 31 December 2013, are summarised below. Prow is worried about his deteriorating bank balance as he is finding it difficult to meet orders because of lack of cash.

	<i>31 Dec 2012</i>		<i>31 Dec 2013</i>	
<u>Profit Statement</u>				
		€000		€000
Sales		180		240
Cost of goods sold		<u>90</u>		<u>160</u>
Gross profit		90		80
Sundry expenses		58		65.5
Loan interest		<u>2</u>		<u>2.5</u>
Net profit		<u>30</u>		<u>12</u>
<u>Statement of Financial Position</u>				
	€000	€000	€000	€000
Non-current assets		80		60
Current assets:				
Inventories	10		30	
Trade receivables	20		50	
Cash at bank	<u>6</u>		<u>--</u>	
	<u>36</u>		<u>80</u>	
Current Liabilities:				
Bank overdraft	--		20	
Trade payables	<u>18</u>		<u>60</u>	
	<u>18</u>		<u>80</u>	
		<u>18</u>		<u>0</u>
		<u>98</u>		<u>60</u>
Financed By				
Opening capital	60		78	
Net profit for year	<u>30</u>		<u>12</u>	
	90		90	
Less: Drawings	<u>12</u>		<u>55</u>	
Closing capital		78		35
Long-term liability:				
10% Loan		<u>20</u>		<u>25</u>
		<u>98</u>		<u>60</u>

Required:

- A) Using the given data, calculate the following ratios for each of the two years for David Prow:

- i) Return on capital employed
- ii) Gross Profit mark-up
- iii) Net profit margin
- iv) Current ratio
- v) Liquid/acid test ratio
- vi) Rate of Stock Turnover, assuming inventory on 1 January 2012 amounted to €8,000.

(12 marks)

- B) Comment on Prow's liquidity and identify TWO possible causes that may have affected Prow's liquidity during 2013.

(8 marks)

4. The following is the Trial Balance of Johnny Scuba on 31 December 2013:

	€	€
Inventories:		
Raw materials	37,500	
Work in progress	41,000	
Finished goods	57,000	
Purchases - raw materials	574,590	
Direct expenses	62,000	
Direct wages	147,300	
Indirect wages	37,500	
Sales		1,064,810
Trade receivables	89,400	
Trade payables		38,900
Electricity	17,240	
Insurance	2,600	
Office wages	17,640	
Premises at cost/Depreciation	150,000	28,000
Plant & Machinery at cost/Depreciation	80,000	48,500
Bad debts	720	
Allowance for doubtful debts		3,180
Capital		140,000
Drawings	18,500	
Bank		15,400
Cash	5,800	
	<u>1,338,790</u>	<u>1,338,790</u>

The following information is also relevant:

- i) Inventories as at 31 December 2013:
- | | |
|------------------|----------|
| Raw materials | € 40,300 |
| Work in progress | 48,200 |
| Finished goods | 49,600 |
- ii) Electricity is €1,900 in arrears.
 iii) Insurance includes a prepayment of €80.
 iv) Depreciation is to be provided for as follows:
 Premises: 5% on cost
 Plant and Machinery: 30% using the reducing balance basis.
 v) The Allowance for doubtful debts is to be maintained at 5% of trade receivables.
 vi) Apportion the following costs between factory and office as shown:
- | | Factory | Office |
|-----------------------|---------|--------|
| Electricity | 5 | 1 |
| Insurance | 5 | 2 |
| Premises depreciation | 4 | 1 |

Required:

A) Prepare a Manufacturing Account and a Statement of Comprehensive Income for Johnny Scuba for the year ended 31 December 2013. (16 marks)

B) Give TWO examples of:

- i) **Indirect manufacturing costs;**
 ii) **Administration costs; and**
 iii) **Selling and distribution costs.**

(4 marks)

Section C

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

5. Reed Ltd manufactures one single product. Budgeted costs and selling price for the month of July 2014 were as follows:

Sales (units per month)	8,000
	€
Selling price per unit	44
Direct labour cost per unit	9
Direct materials cost per unit	24
Variable overhead per unit	3
Total Fixed overheads	55,000

The company is not satisfied with the resultant profit and was advised to take the following measures:

- Reduce selling price to €42;
- Sales volume would consequently increase to 10,000 units per month;
- Direct labour cost would increase to €10 per unit;
- Direct material cost per unit would decrease by €2; and
- Fixed costs would increase to €56,000 monthly.

Required:

- A statement to show the net profit for July 2014, clearly showing the contribution per unit. *(3 marks)*
- A statement to show the profit per month of the enterprise if all the above suggestions were to be implemented, clearly showing the total contribution. *(6 marks)*
- Illustrate your answer in (B) by drawing a break-even graph, and clearly indicate on the graph the break-even point and the margin of safety. *(6 marks)*

6. The following information relates to Job No. 19 being processed in a machine shop:

Direct material cost	€280
Direct labour cost	€312
Machine hours	16
Labour hours	13

The following annual budget information concerns the machine shop operations:

Total machine hours	15,000
Total labour hours	9,600
Total overhead costs	€144,000
Estimated number of jobs	600

Required:

- Find the production cost of Job No. 19 if overheads were to be absorbed on the basis of:
 - Machine hours;
 - Labour hours;
 - Number of Jobs. *(10 marks)*
- Distinguish clearly between direct costs and overheads, illustrating your answer with TWO examples of each. *(5 marks)*

7. Watson Manufacturing has three production departments, namely, Assembly, Painting, and Finishing; and a Maintenance department. The following are the budgeted annual overheads of each department:

	Assembly	Painting	Finishing	Maintenance
	€	€	€	€
Indirect Labour	12,630	28,700	8,680	14,400
Indirect Materials	4,200	5,500	2,600	7,200
Other indirect expenses	15,600	57,600	21,200	--

The cost of the maintenance department is allocated to the Assembly, Painting and Finishing departments in the ratio of 3:2:1.

The budgeted annual production is of 2,200 units. The standard number of hours required to process one unit of production are:

	Assembly	Painting	Finishing
Machine hours	3	3	2
Labour hours	2	4	2

Required:

- A) For each of the three production departments calculate the following overhead absorption rates:**
- A machine hour rate; and
 - A labour hour rate. *(9 marks)*
- B) Identify which basis of overhead absorption would best suit the type of operations in the production departments, and explain your answer.** *(3 marks)*
- C) Explain what you understand by over and under absorption of overheads.** *(3marks)*