IM 01.15s

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
INTERMEDIATE LEVEL
SEPTEMBER 2015

SUBJECT:	ACCOUNTING
DATE:	5th September 2015
TIME:	9.00 a.m. to 12.00 noon

THIS PAPER CONTAINS THREE SECTIONS. FOLLOW THE INSTRUCTIONS BELOW.

<u>Section A</u>
Answer question 1. This question carries 24 marks.

<u>Section B</u>
Answer any TWO questions from this Section. Each question carries 18 marks.

<u>Section C</u>
Answer any TWO questions from this Section. Each question carries 20 marks.

Section A

Answer Question 1. This question carries 24 marks.

1. Black Buoy plc presents you with the following Trial Balance for the year ended on 30 April 2015:

	€	€
1,200,000 Ordinary Shares of €0.50 each		600,000
Share Premium		60,000
General Reserve		80,000
Retained Earnings		90,000
Premises/Depreciation allowance	540,000	14,000
Equipment/Depreciation allowance	380,000	65,000
Motor vehicles/ Depreciation allowance	220,000	98,000
Trade Receivables/Payables	188,000	65,000
Advertising	53,000	
Inventories	132,000	
Purchases	596,000	
Sales		1,145,000
Carriage in	14,000	
Wages and salaries	88,000	
Electricity	35,000	
Motor Vehicles running costs	23,000	
Insurance	42,000	
Administration expenses	34,000	
Discounts Allowed/Received	23,400	32,000
Directors' remuneration	28,000	
Loss on disposal of motor vehicle	5,800	
Debenture interest	8,000	
8% Debentures		200,000
Interim ordinary dividends	60,000	
Bank		24,400
Interest on bank overdraft	3,200	
	2,473,400	**2,473,400**

Other information:

1. Inventory was valued at €198,000 on 30 April 2015.
2. The following expenses, relating to the year ended 30 April 2015, had not been paid: overdraft interest of €800; electricity €8,240; wages €9,000; and audit fees €32,000.
3. The remuneration package of the managing director includes the payment of a commission of 2% of the net profit for the year after charging commission. The commission is payable after the year end.
4. Insurance includes a premium of €40,800 for the period 1 July 2014 to 30 June 2015.

5. Depreciation is to be provided as follows:

Premises	2% on cost
Equipment	10% on cost
Motor Vehicles	40% on written down value

6. The Directors decided to transfer €80,000 to the General Reserve.

Required:

A. Prepare the Statement of Profit or Loss of Black Buoy plc for the period ended 30 April 2015. ***(9 marks)***

B. Prepare the Statement of Changes in Equity for the same period. ***(3 marks)***

C. Prepare the Statement of Financial Position as at year end. ***(6 marks)***

D. Briefly describe THREE differences between Ordinary Shares and Debentures. ***(6 marks)***

Please turn the page.

Section B

Answer any TWO questions from this Section. Each question carries 18 marks.

2. The accountant of the Stringer Yacht Club prepared the following Receipts and Payments Account for the year ended 30 June 2015:

	€		€
Balance b/d	9,200	Bar purchases	12,500
Sales of sailing gear	8,100	New equipment	3,950
Bar sales	31,400	General expenses	1,440
Subscriptions	12,250	Coach hire charges	830
		Repairs and maintenance	1,290
		Wages: Bar staff	8,550
		Handyman's wages	2,550
		Electricity	2,870
		Insurance	1,200
		Purchases of sailing gear	5,650
		Bal c/d	20,120
	60,950		60,950

The following information is also available:

1. The books of Stringer Yacht Club included the following balances:

	30 June 2014	30 June 2015
	€	€
Motor van (at net book value)	24,000	18,000
Premises (at net book value)	80,000	78,000
Equipment (at net book value)	32,000	31,950
Bar Inventories	1,845	1,400
Inventories of sailing gear	420	740
Subscriptions in arrears	475	?
Subscriptions in advance	175	?
Payables for bar supplies	4,300	2,800
Electricity accrued	620	850
Insurance prepaid	510	350

2. Of the subscriptions due at the beginning of the year, five failed to pay and these were struck off the register of members. At the end of the year 30 June 2015, 35 members had not paid their annual subscription, while 10 members paid their subscriptions for the year ending 30 June 2016. The annual subscription per member is €25 and has not changed for a number of years.
3. Two weeks barman's wages are still due as at 30 June 2015. Wages per week have remained constant throughout the year and there were no wages due on 1 July 2014.

Required:

A. Prepare the Trading Account for the Bar and the Trading Account for Sailing Gear, for the year ended 30 June 2015. ***(4 marks)***

B. Prepare the Subscriptions Account, the Income and Expenditure Account for the year ended 30 June 2015, and the Statement of Financial Position as at that date. ***(10 marks)***

C. Identify TWO differences between the Income and Expenditure and the Receipts and Payments account, supporting your answer with examples. ***(4 marks)***

Please turn the page.

3. John Skipper is the sole owner of a General Store and operates two departments: a retail outlet for stationery (Department A); and another for toys (Department B). The following list of balances was extracted from the books of the business on 31 December 2014:

	€
Buildings	79,280
Fixtures and Fittings at cost (1/1/2014)	74,200
Allowance for Depreciation on Furniture and Fittings (1/1/2014)	34,500
Motor Vehicles at cost (1/1/2014)	88,620
Allowance for depreciation on Motor Vehicles (1/1/2014)	34,620
Cash at bank and in hand	20,881
Purchases: Department A	100,500
Department B	95,850
Sales: Department A	252,000
Department B	168,000
Inventories (1/1/2014): Department A	7,400
Department B	6,960
Rent	3,466
Postage and Stationery	680
General Expenses	2,420
Carriage in on toys	960
Carriage out	1,280
Discounts allowed to credit customers for toys	1,490
Discounts received	2,415
Advertising	1,750
Salaries: Department A	66,130
Department B	26,780
Trade receivables	29,600
Trade payables	12,570
Capital Account	120,000
Drawings	16,400
Doubtful Debt Allowance (1/1/2014)	542

Additional information:

1. Inventories as at 31 December 2014 were valued at €11,360 in Department A and €8,830 in Department B.
2. Depreciation is to be provided as follows:
   - (i) Fixtures and Fittings at 10% per annum on cost
   - (ii) Motor Vehicles at 25% per annum on net book value
3. Rent payable amounting to €134 was still owing at 31 December 2014.
4. The allowance for doubtful debts is to be adjusted to 2% of trade receivables.
5. Unless specifically allocated to a department, expenses are apportioned to the departments in proportion to sales.

Required:

A. Prepare a Statement of Profit or Loss for the year ended 31 December 2014 that shows the gross and net profits of each department and the total for the business. ***(8 marks)***

B. Prepare a Statement of Financial Position of the business as at 31 December 2014. ***(6 marks)***

C. Explain TWO benefits for John Skipper when preparing the accounts in departmental format. ***(4 marks)***

4. J.B. Moris, whose business year ends on 30 April, is in the transport and removal business. At 1 May 2014, the following non-current assets were on his books:

- A Lorry, which had been purchased on 1 July 2011 at a cost of €25,000.
- Motor Van A purchased on 1 May 2013 at a cost of €30,000.
- Motor Van B purchased on 1 December 2009 at a cost of €36,000.
- An amount of spare parts which were valued at €1,450.

The lorry is depreciated with the reducing balance method at 40% per annum.

Because of heavy usage, the motor vans are written off over three years using the straight line method of depreciation, with 20% of original cost estimated as residual value. A full year's depreciation is charged in the year of purchase, but none in the year of disposal.

During the year to 30 April 2015, the following transactions occurred:

1. The lorry was traded in for €8,200 against a new one which cost €42,000. The balance was paid by cheque immediately.
2. Motor Van B was involved in an accident and was written off. The insurance company paid €3,200 as compensation, which amount was used as a deposit on a new vehicle - Motor Van C - which cost €21,000. The balance is to be paid in four equal monthly instalments, the first falling due in June 2015.
3. During the year, JB Morris spent €690 on new parts. On 30 April 2015 it was estimated that the inventory of spare parts had a value of €1,185.

Required:

A. Prepare the following accounts for the year ended 30 April 2015, including transfers to the Statement of Profit or Loss:
   (i) Motor Vans Account and Motor Vans Depreciation Account;
   (ii) The Lorry and Lorry Depreciation Accounts;
   (iii) The Motor Van and Lorry Disposal Accounts;
   (iv) The Spare Parts Account. ***(12 marks)***

B. Prepare a Statement of Financial Position extract showing the Non-Current Assets as at 30 April 2015. ***(2 marks)***

C. Explain the accounting concept which underlies the depreciation charged to profit. ***(4 marks)***

5. Hard Nails Ironmongery does not maintain double-entry records, but has produced the following cashbook extract for the year ended 31 December 2014:

Receipts	€	€	***Payments***	€	€
	Bank	*Cash*		*Bank*	*Cash*
Sales		?	Trade payables	68,700	
Trade receivables	75,000		Purchases		4,350
Cash	3,100		Expenses	9,618	1,365
			Drawings	1,800	?
			Delivery Van	12,000	
			Bank		3,100

Assets and liabilities were as follows:

	1 January 2014	31 December 2014
	€	€
Trade receivables	19,800	21,620
Trade payables	11,500	15,840
Expenses due	1,450	-
Expenses prepaid	-	1,930
Balance at Bank	5,800 (debit)	?
Cash balance	120	105
Inventory	7,500	11,600

Additional information:

1. Hard Nails Ironmongery makes a uniform profit margin of 20%.
2. The owner withdrew goods from stock, costing €930, for his own personal use.
3. Two credit customers, owing €2,800 between them, failed to pay and were written off as bad.
4. A Doubtful Debts Allowance of 5% of trade receivables is considered necessary at 31 December 2014.
5. The van is to be depreciated on a straight-line basis over five years, when it is estimated that it will have a resale value of €2,000. A full year's depreciation is charged in the year of acquisition.

Required:

A. Calculate the amount of *purchases, sales* and *cash drawings,* for the year ended 31 December 2014. ***(6 marks)***

B. Prepare for Hard Nails Ironmongery:

(i) The Statement of Profit or Loss for the year ended 31 December 2014; and

(ii) The Statement of Financial Position as at that date. ***(8 marks)***

C. Hard Nails Ironmongery ended up with a hefty bank overdraft weakening the liquidity position of the business. Suggest TWO ways how this situation could have been avoided. ***(4 marks)***

Section C

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

6. Seahound plc manufactures one particular type of life jacket. The budget for November 2015 is as follows:

	€
Direct Materials	24,000
Direct Labour	33,000
Factory Overheads:	
variable	12,000
fixed	12,000
Selling and Distribution Expenses:	
variable	9,000
fixed	11,000
Administration Expenses:	
fixed	16,000

The budgeted output for November 2015 is of 6,000 life jackets, with a selling price of €21 each. A supplier has offered to provide Seahound plc with 2,000 similar life jackets at €13.50 each.

Required:

A. Assuming that Seahound plc produces all the life jackets itself, calculate the budget profit for the month of November 2015, the break-even point and the margin of safety in units. ***(7 marks)***

B. Calculate the budget profit for the month of November 2015, should Seahound plc decrease its production by 2,000 life jackets and acquires them from the supplier. Assume that fixed costs are not affected in the short term. ***(5 marks)***

C. Advise Seahound plc whether it should take up the offer from the supplier, and calculate the minimum purchase price that would maintain the same level of profits for Seahound plc. ***(4 marks)***

D. Describe TWO non-financial factors that should be taken into consideration by Seahound plc when evaluating the suppliers' offer. ***(4 marks)***

7. The L.G. Silver manufacturing company's policy remunerates its workers on a weekly basis, according to the number of hours worked. Through time and motion studies, the company has established the minimum number of items each worker is expected to produce per hour. The remuneration rate of the workers depends on the skill required for the job.

Hereunder are the particulars of two of its employees:

Worker	A	B
Level	Skilled	Semi-skilled
Rate/Hour (€)	6.00	4.80
Hours/week	40	45
Minimum output (units)	300	300

According to the collective agreement, any units produced in excess of the minimum level required are to be remunerated at the same rate as normal production.

During week 24, the output of the skilled worker, A, amounted to 325 units and that of semi-skilled worker, B, to 340 units.

The company has offered the workers to be paid according to the piece-rate system, where, skilled workers would be paid €0.92 for each unit of output, while semi-skilled workers would receive €0.70 per unit of output.

Required:

A. Calculate the gross wages for both the skilled and semi-skilled workers, A and B, for week 24, according to the collective agreement. ***(6 marks)***

B. Calculate the gross earnings of both skilled and semi-skilled workers, A and B, should they accept the management's offer of remuneration according to the piece-rate system. ***(6 marks)***

C. Calculate the minimum rates per unit that the company should offer both levels of worker under the piece-rate system, so that A and B earn the same gross pay they are entitled to under the collective agreement. ***(4 marks)***

D. Describe ONE advantage and ONE drawback to management of piece-rate remuneration methods. ***(4 marks)***

8. Your company has received an order for one of its products, which order is logged as Job No. 64. The following are the estimated costs and other data for each department relating to Job No. 64:

	Machining	*Assembly*	*Finishing*
Direct material (€)	520	305	180
Direct wages (€)	80	180	260
Labour – number of hours	8	16	24
Machine – number of hours	36	21	9

The projected total data for each Department is given below:

	Machining	*Assembly*	*Finishing*
Direct wages (€)	63,000	157,500	252,000
Labour - number of hours	10,500	31,500	40,000
Machine - number of hours	114,000	52,000	24,000

Overheads for the whole production complex were estimated to be €189,000. The company's policy is to apportion overheads to each production department as a percentage of direct wages cost. Production overheads are then absorbed into job costs as a percentage of direct wages cost for each job.

The production manager wants to find out whether using other methods of apportionment would result in better pricing and hence render the product more competitive.

It was suggested that while the apportionment of overheads to cost centres should remain on the same basis as at present, absorption of each cost centre's overheads to output is to be made as follows:

Department	*Absorption basis*
Machining	Machine hours
Assembly	Machine hours
Finishing	Labour hours

Required:

A. Using the the direct wage percentage method, apportion overheads to each production department, and calculate the total production cost of Job No. 64. ***(6 marks)***

B. Determine the overhead absorption rate (*correct to 2 decimal places*) for each department should the suggestion be implemented. ***(3 marks)***

C. Calculate the total production cost of Job No. 64, using the overhead absorption rates calculated in (B). ***(4 marks)***

D. Compare the prices that would be charged for Job No. 64, for the current overhead absorption rates and the suggested method, if a profit of 25% margin is to be made. ***(3 marks)***

E. Give brief descriptions of what you understand by *Allocation, Apportionment and Cost centre*, where production overheads are concerned. ***(4 marks)***