L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

INTERMEDIATE MATRICULATION LEVEL
2018 FIRST SESSION

SUBJECT:	**Accounting**
DATE:	11th May 2018
TIME:	4:00 p.m. to 7:05 p.m.

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

Section A
Answer question 1. This question carries 24 marks.

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

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

SECTION A

Answer Question 1. This question carries 24 marks.

1. The Pigeon Fanciers Club ended its financial year on 31 December 2017 with a bank overdraft of €9,930. The committee, expecting to end up with a positive balance in the bank, considered that the treasurer did badly and sacked him. You are brought in to finalise the accounts and, in the committee's words, 'do a better job'.

   The club had the following assets and liabilities:

	1 January 2017	**31 December 2017**
	€	**€**
Fixtures	14,600	24,900
Equipment	9,400	11,500
Cash at bank	4,080	-
Suppliers for bar goods	4,500	800
Owing: Electricity	705	125
Wages	360	400
Rent	2,000	-
Prepaid: Rent	-	1,600
Bar Inventory	3,450	4,630
Subscriptions paid in advance	440	600
Subscriptions in arrears	720	960
Loan from president	4,000	4,000

   The club had the following receipts and payments during 2017:

Receipts	**€**	**Payments**	**€**
Bar sales	43,200	Bar purchases	17,860
Sale of equipment	7,320	Rent	8,400
Competition receipts	9,350	Equipment	12,900
Receipts from subscriptions	?	Electricity	5,800
		Wages	16,400
		Transport costs	6,720
		Entertainment costs	7,600
		Fixtures	12,800
		Loan interest	200

Additional information:

a) The annual subscription fee of Pigeon Fanciers Club is €40 per member. On 31 December 2017, the club had 386 registered members, excluding the 14 members who were struck off during the year because they had failed to pay their subscription for two consecutive years.
b) The club buys equipment, mostly timing devices, for its own use, but after a time it sells them to its members at book value.
c) The club also organises competitions of pigeon races, some of these starting from Sicily. The transport costs shown in the payments column above relates to the shipping cost of transporting the pigeons.

d) During 2017, fittings with a book value of €2,400 had been scrapped. No entry had been made for this.
e) The wages expense is attributed as follows: 60% to the barman and the rest to a handyman who looks after the rest of the premises.
f) Electricity, rent and depreciation of fixtures are to be shared between the bar and the club in the ratio of 2:3.
g) As the bank had refused to lend funds to the club in 2016, the president loaned €4,000 to the club at 5% per annum. It was agreed that the amount would be repaid in four equal annual amounts, with the first instalment falling due after three years. The annual interest on the loan is payable on 30 December.

Required:

A. For the year ended 31 December 2017, calculate the Pigeon Fanciers Club's opening Accumulated fund and prepare:
   i) the Subscriptions Account;
   ii) the Bar Trading Account;
   iii) the Receipts and Payments Account;
   iv) the Income and Expenditure Account;
   v) the Statement of Financial Position as at 31 December 2017. (20)

B. Give **TWO** possible reasons why the club ended with a bank overdraft, notwithstanding registering a surplus for the year. (4)

(Total: 24 marks)

Please turn the page.

SECTION B

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

2. During 2016, the board of directors of General Retailers Ltd decided to expand and implement a new business policy requiring further investments and, hence, become more efficient and increase profits. The reforms were implemented at the beginning of 2017. Below are summarised financial statements for the two years ended 31 December 2016 and 31 December 2017:

	2016		2017	
	€000	**€000**	**€000**	**€000**
Statement of Profit and Loss				
Sales		1,280		3,640
Cost of sales		(532)		(1,960)
Gross profit		748		1,680
Expenses: Selling	280		700	
Administration	190		350	
Depreciation	22		34	
Loan interest	8		12	
		(500)		(1,096)
Profit		**248**		**584**
Statement of Financial Position				
Non-current assets:				
Fixtures		230		480
Motor vehicles		180		340
		410		820
Current assets:				
Inventories	80		210	
Trade receivables	130		360	
Bank	22		--	
		232		570
		642		**1,390**
Equity:				
Ordinary shares (€1 each)		200		400
Retained earnings		248		584
		448		984
Non-current liabilities:				
8% debentures		100		150
Current liabilities:				
Trade payables	94		220	
Bank	--		36	
		94		256
		642		**1,390**

Note: Inventory on 1 January 2016 was valued at €64,000.

Required:

A. Compute the following ratios for General Retailers Ltd, for the two years ended 31 December 2016 and 2017:
   i) Gross profit margin;
   ii) Net profit on sales;
   iii) Return on Capital Employed (ROCE);
   iv) Trade receivables collection period;
   v) Inventory turnover;
   vi) Current ratio;
   vii) Acid test ratio. (15)

B. From the ratios computed in (A), which area(s) of the enterprise do you consider to have fared well and which area(s) do you think need further attention? (3)

(Total: 18 marks)

Please turn the page.

3. On 1 April 2017, the balances on the Cospicua Boutique Hotel's books included the following balances:

	Debit balances	Credit balances
	€	€
Insurance	260	-
Rent	-	320
Electricity	-	280
Wages	-	840
Commission receivable	250	?
Receivables	14,200	11,540

The bank account for the 12 months up to 31 March 2018 included the following receipts and payments:

		€
Receipts:	Commission receivable	1,640
Payments:	Wages	22,840
	Electricity	8,740
	Insurance	5,780

Other information:

a) Wages are paid weekly, every Friday, with two weeks' wages in arrears. The wages accrued on 1 April 2017 represent two weeks' wages. Note that 30 March 2018 fell on a Friday. On 1 January 2018, the weekly cost of wages increased by 50% over the previous year's.

b) Rent amounts to €1,200 monthly, payable quarterly in advance on 31 March, 30 June, 30 September and 31 December. The Cospicua Boutique Hotel had fallen behind with its payments during the year ended 31 March 2017, but by 31 March 2018, it had not only paid the current year's rent and the amount accrued from the previous year, but also the three months' rent in advance as per agreement.

c) On 31 March 2018, there was an unpaid bill of €310 for electricity. On the same date, insurance was prepaid by €180.

d) Commission is received from transport entities for exclusive rights to transfer the hotel guests during their stay. The hotel receives 5% of total transport payments made by its guests. On 31 March 2018, the hotel was owed commission on €3,200 transport payments.

e) The hotel's policy is to make an allowance for doubtful debts of 2.5% of its total receivables at the end of the year. Furthermore, on 31 March 2018, the hotel management felt it necessary to make a specific allowance for a trade receivable account amounting to €140.

Required:

A. For the year ended 31 March 2018, prepare the Ledger Accounts of the Cospicua Boutique Hotel for wages, rent, insurance, electricity, commission receivable and allowance for doubtful debts, including transfers to the Profit Statement. (14)

B. Briefly describe the accounting concept underlying end-of-year adjustments when preparing financial statements. (4)

(Total: 18 marks)

4. On 1 January 2017, Alhambra Engineering Ltd had the following non-current assets and related depreciation balances on its books:

Non-current assets	**Cost**	**Depreciation allowance**
	€	**€**
Machinery	180,000	85,000
Motor vehicles	73,000	39,000
Loose tools	5,200	-

The following transactions took place during the year ended 31 December 2017:

a) On 15 July 2017, a new machine was purchased for €23,400.
b) A machine, purchased 5 years ago for €16,400, was found not perfectly adapted for the particular production of the firm, and, on 21 August 2017, it was part-exchanged for another machine costing €24,800. The trade-in allowance for the old machine was agreed at €6,800.
c) Another machine required an attachment to make it more adaptable to the production process. The attachment was purchased for €8,400 on 15 September 2017. The cost of the attachment is to be fully written down over the remaining useful life of the machine it was attached to, that is, 6 years.
d) A motor vehicle, which originally had cost €14,000 and had accumulated depreciation of €10,200 at the beginning of the year, was disposed of for €3,000, and in its stead a new vehicle was purchased for €18,500.
e) During the year, additional loose tools were purchased for €1,100.

Further information:
- It is company policy to provide a full year depreciation provision in the year of acquisition of non-current assets, and none in the year of disposal.
- Machinery is written off over 10 years with no residual value. All machinery had been purchased not more than 7 years ago, except for one machine with an original cost of €18,000, which was still in use after 12 years.
- Depreciation on motor vehicles is 40% on written down value.
- Loose tools on 31 December 2017 were valued at €4,200.

Required:

A. Prepare the Ledger Accounts for machinery, motor vehicles and loose tools, for the year ended 31 December 2017. (6)

B. Prepare the Allowance for Depreciation and Disposal Accounts for the year ended 31 December 2017, including the end-of-year transfers to the Statement of Profit or Loss. (9)

C. Describe **THREE** causes of depreciation. (3)

(Total: 18 marks)

5. The following balances were extracted from the books of Electro Manufacturing as on 31 December 2017:

		€
Wage & Salaries:	Factory direct	160,000
	Factory indirect	52,000
	Sales & administration	45,400
Inventories:	Raw materials	16,500
	Finished goods	26,300
	Work-in-progress	8,200
Purchases		325,000
Sales		1,120,000
Carriage in		11,200
Carriage out		15,400
Power and lighting		51,200
Insurance		18,500
Advertising		28,300
Returns in		16,400
Returns out		31,200
Repairs to buildings		22,300
Royalties		15,900
Bad debts		12,600
Discounts allowed		22,000
Discounts received		10,200
Administration expenses		32,500

Further information:

a) Closing inventories have been valued as follows:

	€
Raw materials	24,500
Finished goods	18,400
Work-in-progress	12,400

b) The total depreciation charge for the year amounted to €68,000, 60% of which is to be attributed to the machinery, and the rest to fixtures and fittings.

c) The following expenses are to be shared between factory and offices as follows:

Expense	**Factory %**	**Offices %**
Repairs to buildings	60	40
Insurance	80	20
Power & lighting	75	25

d) As at 31 December 2017, €1,700 were owing for repairs to buildings, and €2,100 for power and lighting.

e) The advertising expense includes €3,800 for a promotional campaign starting in February 2018.

Required:

A. Prepare the Manufacturing Account of Electro Manufacturing, showing clearly the prime cost and the total cost of goods produced for the year ended 31 December 2017. (10)

B. Prepare the Statement of Profit or Loss for the same year. (5)

C. Explain why it is important for a manufacturing concern to distinguish between direct and indirect costs. (3)

(Total: 18 marks)

Please turn the page.

SECTION C

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

6. John Pavia Retailers were concerned because of difficulties caused by fluctuations in their inventory levels. Although not frequent, there were times when they were caught with not enough goods to sell; on other occasions, they had to rent extra storage facilities because of excessive inventories. They ask your advice on inventory management to avoid getting caught with too low or excessive inventory levels. You are given the following information:

Cost per unit	€10
Holding cost per unit per month	8% of unit cost
Cost of raising an order	€480
Approximate consumption per month	4,200 units
Maximum rate of consumption	280 units per day
Minimum rate of consumption	100 units per day
Maximum delivery time	12 days
Minimum delivery time	7 days

Required:

A. For John Pavia Retailers, compute the following inventory quantities and levels:
   i) The economic order quantity;
   ii) The reorder level;
   iii) Maximum level;
   iv) Minimum level. (16)

B. Explain what you understand by the term 'carrying cost of inventory', and mention **TWO** items that are included in the carrying cost of inventory. (4)

(Total: 20 marks)

Please turn the page.

7. The following are the forecast output and costs for the machine shop of Gamma Limited for the month of June 2018, and the corresponding data for Job No. SX4, which will start and end during the same month:

	Shop	**Job SX4**
Units produced	600	1
Material consumed	€81,000	€145
Direct labour cost	€108,000	€210
Machine hours	12,000	16
Labour hours	8,000	14
Overheads	€36,000	?

The enterprise operates at a uniform profit margin of 25%.

Required:

A. Calculate the cost of Job No. SX4, its selling price and profit, if absorption of overheads is based on:
   i) Machine hours;
   ii) Labour hours;
   iii) Units produced. (15)

B. Advise the management of Gamma Limited which of the three basis of absorption is to be used and explain why. (5)

(Total: 20 marks)

Please turn the page.

8. The following data has been provided by TL Ltd, referring to the months of June and July 2018:

Per month	
Production capacity	15,000 units
Fixed factory costs	€105,000
Fixed administration and selling costs	€75,000
Depreciation of machinery	€18,000

Per unit	€
Selling price	75
Direct material	22
Direct labour	25
Variable production overheads	3

	June	**July**
Units produced	15,000	15,000
Units sold	13,000	14,000

Inventory on 1 June is estimated to be 2,000 units. It is assumed that costs and production levels remain unchanged throughout the three months of May, June and July.

Required:

A. Calculate the value of closing inventory for the months of June and July using:
   i) Absorption costing;
   ii) Marginal costing. (8)

B. Prepare profit statements for the months of June and July, using the following inventory valuation techniques:
   i) Absorption costing;
   ii) Marginal costing. (8)

C. Briefly explain why the two inventory valuation techniques result in different reported profits (NB: a profit reconciliation statement is NOT required). (4)

(Total: 20 marks)