L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

INTERMEDIATE MATRICULATION LEVEL
2020 FIRST SESSION

SUBJECT:	**Accounting**
DATE:	7th September 2020
TIME:	4:00 p.m. to 7:05 p.m.

This paper contains **FOUR** 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 carries 30 marks.

Section C
Answer any **ONE** question from this section. This section carries 25 marks.

Section D
Answer any **ONE** question from this section. This section 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 FIVE questions in this section. Each question carries 4 marks.

1. a) Define depreciation. Explain why an annual amount of depreciation is treated as a deduction from revenue. (2)
   b) Describe **FOUR** causes of depreciation. (2)

2. Distinguish between a public company and a private company. Your answer should include **TWO** main distinctive features. (4)

3. Explain the difference between time rate and piece rate methods of labour remuneration, indicating the circumstances when each method of remuneration would be preferable. (4)

4. Define the following types of costs, and provide **ONE** example for each:
   a) Fixed cost; (1)
   b) Variable cost; (1)
   c) Direct cost; (1)
   d) Indirect cost. (1)

5. a) Define the terms 'contribution' and 'break-even point'. (2)
   b) Explain **TWO** limitations of break-even analysis. (2)

(Total: 20 marks)

SECTION B

Answer Question 6. This question carries 30 marks.

6. William Randon is the owner of Wharf Retailers in Marsaxlokk, operating a popular shop selling fishing and boating material. The following is the trial balance extracted on 31 December 2019 from Wharf Retailers' books:

	€	€
Capital		200,000
Drawings	23,110	
Purchases/Sales	563,200	905,000
Returns in/Returns out	8,200	11,400
Discount allowed/received	24,600	33,700
Insurance	15,600	
Electricity	30,800	
Wages	85,900	
Warehouse rent	19,400	
Carriage in	5,800	
Carriage out	12,400	
Interest paid on loan	2,500	
5% loan		100,000
Trade receivables/Trade payables	29,600	17,100
Bad debts	9,100	
Bad debts recovered		1,160
Allowance for doubtful debts		1,680
Motor vehicles expenses	3,700	
Land and buildings/Depreciation allowance	380,000	58,000
Fixtures/Depreciation allowance	85,000	34,000
Motor vehicles/Depreciation allowance	64,000	42,000
Inventory	55,000	
Cash	530	
Bank		14,400
	1,418,440	**1,418,440**

Further information:

a) During the year ended 31 December 2019, a motor vehicle originally purchased for €18,500 and with accumulated total depreciation of €14,400, was sold for €3,200. This transaction was recorded by debiting bank and crediting the sales account with the sales proceeds.
b) The cost of inventories at the year-end amounted to €23,400; further checks showed that some inventory items, costing €2,400, were ruined during a winter storm and had to be scrapped.
c) Annual depreciation is to be provided as follows:

Buildings	5% on cost
Fixtures	20% on cost
Motor vehicles	40% on net book value

The Land and Buildings shown in the trial balance include land valued at €200,000.

d) The following are expenses due but not yet paid as at 31 December 2019:

	€
Bank overdraft interest	600
Wages	2,100
Electricity	4,100

e) The Warehouse rent is prepaid by €1,600.
f) The insurance account includes a payment of €3,360 for a particular premium covering the period 1 November 2019 to 31 October 2020.
g) The loan was drawn on 1 July 2015. The principal is payable in full on 30 June 2020. The interest is payable every 6 months in arrears.
h) Trade receivables as shown in the trial balance include an account with a debit balance of €1,400. William has decided to write off half of the amount. He considered the remaining half as rather doubtful and does not expect to recover it. Furthermore, three large customers, who in total owe €10,600, operate in a sector that is facing an economic downturn. Expected losses on these amounts are estimated at €2,120.

Required:

A. For the reporting period ended 31 December 2019, prepare for Wharf Retailers:
   i. The Statement of Profit and Loss; and (15)
   ii. The Statement of Financial Position. (10)

B. Why are expenses charged to the Statement of Profit and Loss not always equal to the amount paid? Identify **and** explain **ONE** accounting concept that is involved. (5)

(Total: 30 marks)

Please turn the page.

SECTION C

Answer any ONE question from this Section. Each question carries 25 marks.

7. The following information was extracted from the accounting records of The Capstan, a retail outlet dealing in marine goods for the 3 months ended 31 March 2020:

	€
Cash sales	112,000
Cash purchases	5,200
Credit sales	84,000
Credit purchases	105,000
Receipts from trade receivables	62,400
Payments to trade payables	79,000
Sales returns	8,200
Purchases returns	12,100
Bad debts written off	1,200
Bad debts recovered	840
Dishonoured cheques	1,200
Discounts allowed	2,200
Discounts received	14,200

Further information available:

a) On 1 January 2020, the Sales Ledger showed a debit balance of €8,450 and a credit balance of €530. The balance on the Purchases Ledger stood at €18,200 credit.
b) There were no credit balances in the Sales Ledger on 31 March 2020; but there was a debit balance of €400 in the Purchases Ledger on that date.
c) Returns are only allowed for credit transactions.
d) Dishonoured cheques relate to receipts from credit customers.
e) On 31 March 2020, Mr Roland Martin had accounts in both the sales and purchases ledgers of The Capstan. The sales ledger account had a debit balance of €940, while that in the purchases ledger had a credit balance of €630. It is normal practice for The Capstan to set off such accounts.

Required:
For the 3 months ended on 31 March 2020, prepare The Capstan's:

A. Sales Ledger Control Account; (12)
B. Purchases Ledger Control Account; and (10)
C. Mr Roland Martin's account after setting off the balances. (3)

(Total: 25 marks)

8. Push plc and Pull plc are two companies operating in the same business sector. The following are extracts from the financial statements of the two companies, for the financial year ended 31 December 2019:

	Push plc		**Pull plc**	
	€	**€**	**€**	**€**
Statement of Profit and Loss				
Sales		360,000		950,000
Opening Inventory	33,000		60,000	
Purchases	210,000		520,000	
Closing Inventory	(24,000)		(55,000)	
Cost of sales		(219,000)		(525,000)
Gross profit		141,000		425,000
Operating expenses		(75,000)		(320,000)
Interest on debentures		(2,500)		--
Net Profit		63,500		105,000
Statement of Financial Position				
Non-current assets, at net book value		220,000		300,000
Current assets:				
Inventory	24,000		55,000	
Trade receivables	30,000		57,000	
Bank	6,000		--	
		60,000		112,000
		280,000		**412,000**
Capital		150,000		200,000
Reserves		54,000		125,000
		204,000		325,000
Long term Liability:				
5% Debentures		50,000		--
Current Liabilities: Trade payables				
Trade payables	26,000		72,000	
Bank	--		15,000	
		26,000		87,000
		280,000		**412,000**

Required:

A. Calculate the following ratios for the two companies Push plc and Pull plc:
   i. Gross profit mark-up;
   ii. Net profit margin;
   iii. Return on Capital employed;
   iv. Current ratio;
   v. Acid test (Quick) ratio;
   vi. Inventory turnover. (21)

B. Based on the results of the ratio analysis carried out in part (A), comment and compare the profitability and liquidity situation of the two companies. (4)

(Total: 25 marks)

Please turn the page.

SECTION D

Answer any ONE question from this Section. Each question carries 25 marks.

9. Mrs Grey is concerned about her shop's overdraft facility because she is estimating that her bank balance at the end of the month of May shall be €15,400 overdrawn. She asks you to prepare a cash budget for the 4-month period ending 30 September 2020, based on the following information:

a) The projected sales and purchases are as follows:

Month	Sales €	Purchases €
May	74,000	42,000
June	85,000	54,000
July	82,000	50,000
August	85,000	52,000
September	78,000	46,000

b) 20% of sales are for cash. The remaining balance is settled in the month following the sale. It is expected that 5% of the credit sales are not paid, and these should be considered as bad debts.
c) All purchases are paid in the month following acquisition.
d) During the year 2020, gross wages amount to €12,000 per month, made up of €10,000 paid directly to workers on the last working day of each month, and the rest payable to the Commissioner for Revenue the following month.
e) Rent of €36,000 per annum is paid quarterly in advance on the first day of January, April, July and October.
f) Other operating costs amount to €8,000 monthly, €1,200 of which is for depreciation of non-current assets. It is envisaged that, from the month of August, operating costs, excluding depreciation, shall increase by 25% primarily due to an increase in professional and legal charges.
g) An installment of €4,500, for a motor vehicle acquired on hire-purchase during the previous year, falls due in September.
h) Mrs Grey expects her drawings to be as follows:

	€
June	5,200
July	4,700
August	6,500
September	4,200

Required:

A. Prepare a monthly cash budget for the 4 months ending 30 September 2020. (22)
B. Calculate the balances for trade receivables and trade payables remaining on the same date, which would be shown in the Statement of Financial Position as at 30 September 2020. (3)

(Total: 25 marks)

10. The completion of one of the products manufactured by Tiller plc requires a special component called "enzyte". The following are details relating to the purchase and utilization of "enzyte" during the month of April 2020:

Date			**No. of units**	**Unit cost (€)**
April	1	Opening balance	20	85
	1	Receipts	150	94
	1-7	Issues	125	
	7	Receipts	180	83
	8-14	Issues	155	
	14	Receipts	160	96
	15-21	Issues	55	
	21	Receipts	180	98
	22-28	Issues	140	
	28	Receipts	90	101

During the month of April, production almost grinds to a halt in the third week and the factory shuts down during the last three days of the same month.

Required:

A. Calculate the value of inventories of "enzyte" on 30 April using:
   i. First In First Out; and (9)
   ii. Average Cost method of inventory valuation. (9)

B. Calculate the level at which a new order for inventories should be made by Tiller plc, given that consumption is between 10 to 25 units per day, and it takes a maximum of 8 days and a minimum of 4 days between raising and receiving an order. (3)

C. The management accountant has estimated the Re-Order Quantity to be 300 units. Based on this information and that provided in (B), calculate:
   i. The maximum level of inventory; and (2)
   ii. The minimum level of inventory. (2)

(Total: 25 marks)