MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

INTERMEDIATE MATRICULATION LEVEL
2021 SECOND SESSION

SUBJECT:	**Accounting**
DATE:	9th October 2021
TIME:	4:00 p.m. to 7:05 p.m.

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

Section A
Answer any **FIVE** questions in this Section. Each question carries 4 marks.

Section B
Answer question 8. 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 any FIVE questions in this Section. Each question carries 4 marks.

1. Identify **FOUR** users of financial statements and give a reason why **each** user group would be interested in the financial reports of an enterprise. (4)

2. Describe the accounting concepts 'going concern' and 'business entity'. Illustrate your answer with an example for **each** concept. (4)

3. What is a 'book of prime entry'? Provide **TWO** examples of such books and describe why and how they are used. (4)

4. What are control accounts? List **TWO** benefits of using control accounts. (4)

5. What is the difference between a capital reserve and a revenue reserve? Provide **ONE** example of **each** type of reserve. (4)

6. Costs may be classified by function or by behavior. Distinguish between the following types of costs, and provide **ONE** example for **each**:
   a) production and non-production costs; (2)
   b) variable and fixed costs. (2)

7. Explain the difference between time rate and piece rate. Highlight the circumstances when **each** method of remuneration would be more suitable. Illustrate your answer with **ONE** example for **each** method. (4)

(Total: 20 marks)

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SECTION B

Answer Question 8. This question carries 30 marks.

8. The following Trial Balance was extracted from the books of Rockfast plc on 30 June 2021:

	€	€
Ordinary share capital €0.50 each		200,000
Share premium		20,000
General reserve		15,000
Retained earnings		56,000
5% Debentures		100,000
Premises	500,000	
Office equipment	64,000	
Motor vehicles	60,000	
Depreciation: Premises		50,000
Office equipment		16,000
Motor vehicles		32,000
Inventories	22,000	
Accounts receivable	25,400	
Accounts payable		12,200
Sales		532,400
Purchases	138,000	
Returns in	17,600	
Returns out		9,700
Carriage in	6,200	
Carriage out	14,300	
Wages and salaries	85,000	
Advertising	24,300	
Administration expense	17,800	
Selling expenses	26,100	
Directors' remuneration	11,800	
Discounts allowed/received	17,800	8,400
Bad debts written off	7,400	
Insurance	13,200	
Bank		7,400
Cash	5,700	
Debenture interest paid	2,500	
	1,059,100	***1,059,100***

Other information:

a) Inventories on 30 June 2021 amounted to €18,000 at cost price. Nevertheless, according to the store manager there was stock which had originally cost €5,000 which is now obsolete and has no value whatsoever.
b) Accounts receivable include a debtor who has been declared bankrupt. The amount due of €2,100 is to be written off as a bad debt.
c) 20% of advertising costs as shown in the trial balance represent a down payment for a promotional campaign starting after 30 June 2021.
d) Due to COVID19 impact, the directors have only been paid half of their annual remuneration. The introduction of online sales yielded good results, and recent forecasts are very encouraging. The remaining directors' fees due for the year ended 30 June 2021 were paid at the end of August 2021.
e) Other amounts owing and prepaid as at 30 June 2021:

	Owing	**Prepaid**
	€	**€**
Wages and salaries	12,400	
Audit fees	4,000	
Bank overdraft interest	500	
Insurance		3,800

f) Provide for depreciation as follows:
   i. Office equipment — Estimated useful life of 8 years with no residual value
   ii. Motor vehicles — 40% on net book value
   iii. Premises — 4% on cost
g) The directors decided to transfer €20,000 to the General Reserve.

Required:

A. Prepare Rockfast's Statement of Profit and Loss for the year ended 30 June 2021. (13)
B. Prepare the company's Statement of Changes in Equity. (3)
C. Prepare the Statement of Financial Position as at 30 June 2021. (9)
D. Distinguish between Equity and Long term debts. (5)

(Total: 30 marks)

Please turn the page.

SECTION C

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

9. Nautika Ltd manufactures a standard yacht tender. The company extracted the following trial balance from its books on 31 December 2020:

		€	€
Plant and Machinery		310,000	
Office equipment		84,000	
Motor vehicles		56,000	
Loose tools		3,200	
Depreciation allowance:	Plant and Machinery		58,000
	Motor vehicles		22,000
	Office equipment		36,000
Inventories:	Raw material	14,200	
	Work-in-progress	6,400	
	Finished goods	21,500	
Purchases:	Raw materials	192,400	
	Loose tools	1,200	
Sales			665,000
Returns inwards		7,600	
Returns outwards			11,200
Carriage inwards		5,300	
Carriage on finished goods		9,800	
Factory wages		164,000	
Office salaries		18,000	
Sales staff salaries		25,000	
Rent		28,600	
Water and electricity		34,200	
Machinery repairs		3,400	
Insurance		15,400	
Motor vehicles expenses		2,600	
Ordinary Share Capital			140,000
Retained earnings			100,000
Trade receivables		17,400	
Trade payables			23,600
Cash and bank		35,600	
		1,055,800	***1,055,800***

Additional information:

a) Closing inventories consisted of:

	€
Raw materials	18,000
Work-in-progress	12,300
Finished goods	22,400
Loose tools at valuation	2,950

b) Purchases of raw material included goods costing €4,800, which, though already invoiced and paid for, had not been received by 31 December 2020. The valuation of the closing inventory in (a) only reflects the value of raw material physically in the warehouse.

c) Depreciation is to be provided for as follows:
   i. Plant & Machinery 10% on cost
   ii. Office Equipment 40% on net book value
   iii. Motor vehicles written off over 5 years, with a residual value of 10% of cost.

d) Apart from direct wages, the factory wages shown in the trial balance includes:

	€
Supervisors' wages	28,000
Factory Maintenance personnel wages	15,500
Cleaners' wages	14,200

e) Accruals as at 31 December 2020 were:

	€
Direct Wages	13,500
Water and electricity	3,000
Office salaries	2,000

f) Prepayments as at 31 December 2020 were:

	€
Rent	5,800
Insurance	1,600

g) Apportion the following expenses as shown:

	Factory	**Office**
Insurance	5	3
Rent	2	1
Water and electricity	5	1
Cleaners' wages	4	1

h) Motor vehicle expenses are to be fully charged to the sales department.

i) The sales staff are entitled to a 5% commission on net sales, which was paid in March 2021 as an annual bonus.

Required:

A. Prepare the Manufacturing account of Nautika Ltd for the period ended 31 December 2020. (17)

B. Prepare the Statement of Profit and Loss for the same period. (8)

(Total: 25 marks)

Please turn the page.

10. On 1 April 2020, Flywheel plc had the following non-current assets on its books:

	Cost	Accumulated depreciation
	€	€
Premises	400,000	160,000
Machinery	380,000	145,000
Equipment	120,000	21,500
Motor Vehicles	80,000	24,000

The company's methods of depreciation are as follows:

Premises	4% straight line method
Machinery	Written off over 8 years with 10% residual value
Equipment	20% fixed instalment method
Motor vehicles	30% reducing balance method

Flywheel charges a full year's depreciation in the year of acquisition but none in the year of disposal.

The cost of machinery in the books on 1 April 2020 included €90,000 relating to machinery that was more than 8 years old. All other machinery held on that date had a remaining life of 5 years.

During the twelve months ended 31 March 2021, the following changes in non-current assets took place:

a) Machinery costing €98,000 purchased in June 2016 was sold for €21,500.
b) The company spent €54,000 on an attachment to one of the machines, which had been purchased in February 2018. The new attachment was to last till the end of life of the machine, with no additions to residual value.
c) A motor van bought in June 2019 for €28,000 was found to be inadequate and part exchanged for a new one costing €42,000. The trade in allowance was €18,000.
d) Equipment €25,000 bought in December 2017 was scrapped.
e) Other acquisitions for the year were:

	€
Equipment	75,000
Machinery	104,000

Required:

For the twelve months ended 31 March 2021, prepare the following accounts of Flywheel plc:

A. The Premises, Machinery, Equipment and Motor Vehicles Accounts; (8)
B. The Allowance for Depreciation Accounts for Premises, Machinery, Equipment and Motor Vehicles, including transfers to the Statement of Profit and Loss; (11)
C. The Disposal Accounts, including transfers to the Statement of Profit and Loss. (6)

(Total: 25 marks)

11. The trial balance of Allwares plc as on 31 December 2020 did not have equal totals for debits and credits. The discrepancy was entered into a Suspense Account and the draft final accounts reported a loss of €6,450.

Subsequently, the audit revealed the following errors and omissions:

a) A credit sale of €4,300 to Nails Ironmongery was completely overlooked and no entries were made.
b) Stationery items, €820, were correctly entered in the general ledger account but posted to the debit of the cashbook.
c) A standing order of €120 for association membership was credited only to the bank account. No other entry was made.

d) The value of inventory on 1 January 2020 was overcast by €3,800. The value of inventory included in the financial statements for the year ended 31 December 2019 was correct.
e) The sales account includes an entry of €1,500, which were the proceeds from the sale of a motor vehicle. The motor vehicle sold had a zero net book value.
f) Discounts received totalling €1,630, while correctly posted to the purchases ledger account, were debited in the discounts allowed account.
g) A credit sale of €380 to L. Magri was debited to L. Magrin's account instead.
h) Wages included €840 and purchases included €1,640, when both expenditures were used for the building of an annex to the office. Buildings are depreciated at 5% on cost.
i) A purchase of €4,200 had been entered in the purchases day book as €2,400, but correctly posted to the purchases ledger account.

Required:
A. Journalise the entries required to correct the above errors. Narrations are not required. (10)
B. Assuming that there were no other errors besides those revealed by the auditors as given in the question, prepare the suspense account and calculate the original difference in the Trial Balance. (5)
C. Prepare a Statement of corrected Profit and loss of Allware plc for the year ended 31 December 2020. (10)

(Total: 25 marks)

SECTION D

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

12. The projected overheads for the next three months of BonBon plc are as hereunder:

	€
Rent	24,000
Water and electricity	28,400
Canteen costs	11,200
Insurance of machinery	19,040

BonBon plc operates three departments, namely Assembly, Finishing and Maintenance. The Maintenance department services the other two production departments.

Details of each department are as follows:

	Assembly	**Finishing**	**Maintenance**
Floor area (square meters)	1,600	1,200	400
Electricity points outlets	240	140	20
Number of workers	45	30	5
Cost of Machinery (€)	80,000	48,000	8,000
Machine hours	25,000	8,000	850
Labour hours	4,000	18,000	2,000

The Maintenance Department's costs are allocated to the Assembly and Finishing departments in the ratio of 5:3.

During the three-month period, Job No. R07 logged the following details:

Direct Material (€)	380
Direct wages (€)	520
Machine hours: Assembly	52
Finishing	10
Labour hours: Assembly	8
Finishing	40

Please turn the page.

BonBon makes a uniform profit margin on sales of 25%.

Required:

A. Allocate and apportion the overheads to the departments using appropriate bases. Then calculate an overhead absorption rate for **each** of the two production departments based on (i) machine hours; and (ii) labour hours. (16)

B. Choose the more appropriate overhead absorption rate for **each** department as calculated in part (A), and present a cost schedule for Job No. R07, including the invoice price. (9)

(Total: 25 marks)

13. At the beginning of a twelve-week period, the inventory of Zeta Imports comprised of 55 units bought at €15.80 each. During the same period, movements of inventories were as below:

	Receipts (units)	**Cost per unit (€)**	**Issues (units)**
Week 1	140	16.20	
Weeks 1-3			155
Week 4	220	15.40	
Weeks 4-5			240
Week 6	180	17.20	
Weeks 6-8			190
Week 9	200	18.00	
Weeks 9-12			150

Management was rather preoccupied with the haphazard method of purchasing inventories, especially since at one stage the enterprise almost ran out of goods to sell. The accountant was asked to establish systematic levels of purchasing and keeping inventories.

The accountant compiled the following details about the costs involved in purchasing and warehousing the merchandise that the enterprise imports for the next twelve weeks:

Total consumption for 12 weeks	1,920 units
Cost per reorder	€12
Holding cost per unit	€1.50
Maximum consumption	250 units
Minimum consumption	170 units
Average consumption	210 Units
Minimum reorder period	4 days
Maximum reorder period	8 days

Required:

A. Calculate the inventory valuation at the end of Week 12 using:
   i. First in First out method (FIFO); (6)
   ii. Average cost method (AVCO). (9)

B. Calculate the following from the data provided for the next 12-week period:
   i. The economic order quantity;
   ii. The reorder level;
   iii. Maximum inventory level;
   iv. Minimum inventory level. (10)

(Total: 25 marks)