L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

INTERMEDIATE MATRICULATION LEVEL
2023 SECOND SESSION

SUBJECT:	**Accounting**
DATE:	4th September 2023
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. The distinction between variable and fixed costs elements is important for Cost-Volume-Profit (CVP) analysis.
   (i) Explain the terms 'contribution', 'the break-even point' and 'the margin of safety'. (2)
   (ii) Draw a break-even chart, and mark the budgeted profit, break-even point and the margin of safety. (2)

2. Labour costs refers to the remuneration paid to employees. There are various ways how production workers can be remunerated. Describe the following methods of remuneration, explaining the ideal circumstances when **each** method should be used:
   (i) time rate and overtime; (2)
   (ii) piece rate; and (1)
   (iii) bonus on time saved. (1)

3. Referring to inventory control, explain how **each** of the following levels are calculated and the significance of **each**:
   (i) economic order quantity; (1)
   (ii) minimum inventory level; (1)
   (iii) maximum inventory level; and (1)
   (iv) the reorder level. (1)

4. (i) What is a Manufacturing account? Why is it prepared? (2)
   (ii) What is the link between the Manufacturing account and the Statement of Profit or Loss? (2)

5. Identify **FOUR** users of accounting information and their information needs. (4)

(Total: 20 marks)

SECTION B

Answer Question 6. This question carries 30 marks.

6. Jackson Limited extracted the following trial balance as at 31 March 2023:

	€	**€**
Ordinary share capital (€0.50 per share)		500,000
General reserve		70,000
Retained earnings		45,000
Premises / Depreciation allowance	850,000	80,000
Equipment / Depreciation allowance	152,000	58,128
Motor vehicles / Depreciation allowance	80,000	44,600
Trade receivables / Payables	43,500	31,600
Inventory	34,600	
Bank		28,400
Cash	3,200	
Bank Loan		100,000
Sales		1,430,000
Purchases	764,000	
Wages	76,000	
Salaries	78,000	
Electricity	33,500	
Bad debt	11,350	
Bank overdraft interest	710	
General distribution expenses	93,100	
Administration expenses	79,200	
Allowance for expected losses on trade receivables		2,175
Audit fees	7,800	
Insurance	14,300	
Warehouse rent	17,000	
Motor vehicles running costs	11,600	
Carriage in	2,400	
Carriage out	5,900	
Discount allowed / Discount received	38,428	26,775
Directors' remuneration	8,000	
Returns in / Returns out	17,600	23,010
Advertising expenses	17,500	
	2,439,688	**2,439,688**

Additional information:

a) Provide for depreciation on non-current assets at the following rates:

Premises	5% on cost
Equipment	15% on cost
Motor vehicles	40% on written down value

Note that 20% of the cost of premises relates to land.

b) Closing inventory at cost amounted to €44,390. It included goods originally purchased for €7,600, which are now outdated and can only be disposed of at a quarter of their initial cost.

c) All motor expenses, including the charge for depreciation of motor vehicles, are to be apportioned equally between carriage in and carriage out.

d) Amounts due at 31 March 2023 included:

	€
Administration expenses	6,300
Salaries	11,400
Audit fees	8,300

e) Prepaid expenses at 31 March 2023 included:

	€
Insurance	7,100
Warehouse rent	4,500

f) A credit risk assessment of the trade receivables at the end of the year, identified a balance of €5,200 as high risk to default.

g) The company borrowed the loan from the bank three years ago. It bears interest of 6%, payable annually.

h) Advertising costs included €5,600 incurred for a TV promotional campaign appearing in June 2023.

i) Apart from their remuneration, the directors' agreement stipulates that they are to share between them a commission of 10% of profit accruing during the year after charging same commission.

j) It is company policy to transfer 20% of net profit to the General Reserve.

Required:

A. Prepare Jackson Limited's Statement of Profit or Loss for the year ended 31 March 2023. (16)

B. Prepare the company's Statement of Financial Position as at 31 March 2023. (10)

C. Distinguish between Memorandum of Association and Articles of Association. (4)

(Total: 30 marks)

Please turn the page.

SECTION C

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

7. Fuselage plc is considering the take over of a new venture to expand its market share. Below are the summarised Statement of profit or loss and the Statement of financial position of Fuselage plc for the twelve months ended on 31 March 2023 and the corresponding results of the new venture:

		Fuselage plc		New Venture	
		€	€	€	€
Statement of Profit or Loss					
Sales		480,000		90,000	
Cost of sales		288,000		42,000	
		192,000		48,000	
Expenses		50,000		11,500	
Bank interest		4,000		500	
Profit		**138,000**		**36,000**	
Statement of Financial Position					
Non-current assets			160,000		60,000
Current assets:	Inventories	94,000		9,500	
	Trade receivables	82,000		4,500	
	Prepayments	16,000		1,500	
	Bank and cash	18,400	210,400	nil	15,500
			370,400		**75,500**
Share capital: 180,000 shares of €1 each		180,000			50,000
Share Premium		30,000			
Retained earnings		70,000	280,000		
Bank loan			60,000		
Current Liabilities:	Trade payables	22,800		16,500	
	Other payables	7,600		2,500	
	Bank Overdraft	nil	30,400	6,500	25,500
			370,400		**75,500**

Notes:

a) At the beginning of the twelve-month period under review, Fuselage's opening inventories amounted to €76,000 and those of the new venture were €13,500.

b) 30% of Fuselage plc sales and 10% of purchases were on cash terms; while 40% of the new venture's sales were for cash, but all purchases were on credit.

Required:

A. Compute the following ratios based on the data on page 4 for the year ended 31 March 2023 for **BOTH** Fuselage plc and the new venture:
   (i) gross profit margin; (2)
   (ii) return on Capital Employed (ROCE); (4)
   (iii) current ratio; (2)
   (iv) acid test or quick ratio; (2)
   (v) inventory turnover; (2)
   (vi) trade receivables collection period; (2)
   (vii) trade payables payment period; and (4)
   (viii) sales as a percentage of capital employed. (2)

B. Highlight the main strengths and weaknesses of the new venture and advise Fuselage plc on whether it should continue with its take over plans. (5)

(Total 25 marks)

8. The Statement of Financial Position of Aeronaut Trading Ltd as at 31 December 2021 showed the following non-current assets:

Asset	Original cost (€)	Date of acquisition
Lorry AC	18,000	1 April 2018
Lorry BD	11,400	1 January 2020
Motor Van	13,600	1 October 2019
Equipment	36,400	1 July 2019

	Valuation (€)
Loose tools	3,200

The motor van was purchased as a used vehicle and was expected to have a useful life of 4 years with 10% of its purchase price estimated as its residual value. The estimated residual value of all other assets is nil.
It is company policy to charge a full year's depreciation in the year of acquisition but none in the year of disposal. The company depreciates its non-current assets as follows:

Motor Vehicles (except for the motor van)	40% on net book value
Equipment	20% on original cost

During the year ended 31 December 2022, the following transactions took place:

a) On 1 March 2022, Lorry AC was part-exchanged for a new Lorry FG costing €32,800. The trade in allowance for the old lorry was €3,200.

b) Equipment includes computers. Computers with original cost €16,400 were considered outdated for the company's purposes and were donated to an educational institution. A new network of computers costing €28,000 was installed on 1 October 2022.

c) Other equipment was purchased on 1 March 2022 costing €7,600.

d) During the same year, €2,600 was spent on loose tools. On 31 December 2022, loose tools were valued at €4,200.

Required:

For the year ended 31 December 2022, prepare for Aeronaut Trading Ltd:

A. The ledger accounts for Motor Vehicles, Equipment and Loose Tools. (7)
B. The Allowance for Depreciation Accounts for Motor Vehicles and Equipment. (10)
C. The disposal accounts, including transfers to the Statement of Profit or Loss. (4)
D. An extract from the Statement of Financial Position. (4)

(Total 25 marks)

Please turn the page.

SECTION D

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

9. Rotate plc is a wholesaler of white goods. It is in the process of preparing its budgets for the four months commencing 1 January 2024. It has prepared the following estimates:

Sales:	**Year 2024**	**€**
	January	2900,000
	February	3200,000
	March	3600,000
	April	4800,000

In the months following the budget period, sales are projected to be maintained at the same level as April's.

Throughout the four months, 20% of sales are to be for cash. The sales for November and December 2023 are estimated to be €1,800,000 and €2,400,000, respectively. Sales are made at a uniform profit margin of 40%.

Purchases are to be made at the end of each month in amounts sufficient to supply the sales of the following month.

Trade receivables: 40% of trade receivables are to settle in the month following the sale and the rest a month later.

Trade payables: all suppliers of goods are to be paid in two equal instalments in the two months following the purchase.

Wages: Employees are paid at the end of each month. Wages amount to €16,000 monthly for January and February, but, according to an agreement already reached, this is to increase to €20,000 for the following months.

Expenses: In July, income tax for the year 2023 of €224,000 falls due and is to be settled. Rent of €76,000 per annum is paid in two equal instalments, one of which falls due in April 2024. Other running expenses amount to €28,000 per month. These are settled at the end of each month.

The projected bank balance as at 1 January 2024 is €21,400 (debit).

Required:

A. Prepare the Cash Budget of Rotate plc for the four-month period commencing January 2024, including balances to be carried down at the end of **each** month. (20)
B. Calculate the balances for trade receivables, trade payables, inventory, accruals and prepayments as at 30 April 2024. (5)

(Total 25 marks)

10. A company produces two products – masks and flippers. All units produced need to go through two production centres, namely, Centre Y and Centre Z. The details of the cost schedule to produce one unit of each product are as shown below:

	Masks	**Flippers (pair)**
Material A:	1.5 kgs at €4.00 per kg	3 kg at €4.00 per kg
Material B:	1 glass piece at €1.50 per unit	--
Labour:		
Centre Y	2 hours at €10.00 per hour	1 hours at €10.00 per hour
Centre Z	3.5 hours at €14.00 per hour	5 hours at €14.00 per hour
Machine Hours:		
Centre Y	1 hours	3 hours
Centre Z	2 hours	3.5 hours

The budget for 2023 was based on a production of 12,000 masks and 8,000 pairs of flippers. The total fixed production overheads for the year have been budgeted at €100,000 for Production Centre Y and €80,000 for Production Centre Z.

Required:

A. Calculate the overhead recovery rate (correct to two decimal places) based on:
   (i) Machine hours for Production Centre Y; and
   (ii) Labour hours for Production Centre Z. (10)

B. Calculate the amount the company must charge for an order of 10 masks and 10 pairs of flippers if it is to realise a profit margin of 25%. (15)

(Total 25 marks)