

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA

SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2012 SESSION

SUBJECT:	Accounting
PAPER NUMBER:	I
DATE:	3 rd May 2012
TIME:	9:00 a.m. to 11:00 a.m.

Answer ALL questions. Question 1-10 are multiple choice and carry 2 marks each. Questions 11-14 carry 20 marks each.

Write on the booklet the correct **answer** for each of the following.

1. The purchases account is found in the
 - a) Purchases day book
 - b) Purchases ledger
 - c) Nominal ledger
 - d) Purchases ledger control account.

2. The payment by cheque of a part-time cleaner paid by the owner out of his own money should be recorded as

<i>Debit</i>	<i>Credit</i>
a) Wages account	Bank account
b) Wages account	Drawings account
c) Wages account	Capital account
d) Drawings account	Wages account.

3. Depreciation can be defined as
 - a) The day-to-day running of a non-current (fixed) asset to keep it working effectively
 - b) A means of putting aside cash for the eventual replacement of the non-current asset
 - c) A book-keeping transaction that reduces net profit and drawings
 - d) A charge for using the non-current asset.

4. A suspense account is used when
 - a) Goods sold on credit are recorded as cash sales
 - b) Goods sold on credit are not entered in the sales ledger
 - c) Goods sold on credit are recorded in the ledgers as a receipt from trade receivables
 - d) Goods sold on credit are wrongly treated in the books as credit purchases.

5. It is the policy of a business to add a mark-up of 25%. If the sales of a business during a year are €400,000, the gross profit is
- €60,000
 - €80,000
 - €100,000
 - €120,000.
6. Which one of the following is **not** entered in a Sales Ledger Control Account?
- Total receipts from trade receivables
 - Allowances for doubtful debts
 - Receipts from trade receivables in cash
 - Irrecoverable (bad) debts.
7. Dwardu started a business with €10,000 cash and a vehicle worth €5,000. At the end of his first year he has €2,000 in the bank and the vehicle is now worth €4,000. He has inventories valued at €5,000 and trade receivables amounting to €2,000. If he has withdrawn €2,000 from the business during the year for private expenses, he has made
- A loss of €1,000
 - Neither a profit nor a loss
 - A profit of €1,000
 - A profit of €2,000.
8. When a partner withdraws inventory for his own use, the entries should be
- | <i>Debit</i> | <i>Credit</i> |
|--|---------------------------|
| a) Appropriation Account | Partner's Current Account |
| b) Partner's Current Account | Purchases Account |
| c) Partner's Drawings Account | Partner's Current Account |
| d) Profit and Loss Account
(Income Statement) | Inventory Account |
9. The amount of members' subscriptions paid in advance is
- An asset
 - An expense
 - A liability
 - A surplus.
10. A debit balance in the firm's cash book will be shown as
- A credit balance on the bank statement
 - A debit balance on the bank statement
 - A nil balance on the bank statement
 - An overdrawn balance on the bank statement.

- 11.** a) What is the difference between an ‘Allowance for Depreciation’ and an ‘Allowance for Doubtful Debts’? (2 marks)
- b) State the main reason for creating an ‘Allowance for Depreciation’. (1mark)
- c) Name and explain **two** ‘accounting concepts’ that are applied when accounting for doubtful debts. (4 marks)
- d) Distinguish carefully between receipts and revenue. (1mark)
- e) Martin Borg started business as a retailer two years ago. The following figures relate to his second trading year, which ended on 31 December 2011.

	€
Sales	360,000
Wages to shop assistants	40,000
Rent paid	15,000
General expenses	1,800
Trade receivables	2,800
Allowance for doubtful debts 1 January 2011	1,500
Water and electricity	2,400
Communication bills	3,200
Non-current assets (cost €200,000)	120,000

Additional information as at 31 December 2011

- During the year the gross profit margin was 25% on sales.
- Rent paid covered the period from 1 January 2011 to 31 March 2012.
- It is the policy of the business to allow for specific doubtful debts at the end of each year. An allowance at 31 December 2011 is required for trade receivables amounting to €2,500.
- Martin employs four shop assistants whose weekly wage is €200 each.
- Accrued communication bills amount to €600
- Non-current assets are depreciated at 10 % per annum using the reducing balance method.

Required

An income statement for the year ended 31 December 2011.

(12 marks)

Please turn the page.

- 12.** a) What is the purpose of a manufacturing account? (1 mark)
- b) Distinguish between variable cost and fixed cost and list each of the following under the appropriate class of cost: (4 marks)
- i) Royalties.
 - ii) Raw materials.
 - iii) Machine operators' wages.
 - iv) Production manager's salary.
 - v) Insurance of machinery.
 - vi) Power to run the machines.
- c) What is meant by 'direct cost' and 'indirect cost'? Give an example of each. (2 marks)
- d) Name the classes of stock usually held by a manufacturing company. (3 marks)
- e) Cikka runs a small shop selling toys and stationery. The toys department occupies three quarters of the total business area, while the stationery section occupies the rest. The following information is available:

	Toys €	Stationery €
Sales	330,000	200,000
Purchases	220,000	140,000
Inventories		
1 January 2011	40,000	20,000
31 December 2011	32,000	24,000
General expenses	36,000	
Water & Electricity	24,000	
Rent	12,000	
Wages	22,000	

Rent and water and electricity are apportioned between the two departments in proportion to floor area, whereas wages and general expenses are divided equally between the two departments.

Required

An income statement for the year ended 31 December 2011 showing the gross and net profit for each department.

(10 marks)

- 13.** a) Describe the **nature** and **functions** of a trial balance and a statement of financial position. (2 marks)
- b) List and explain **four** errors which do not affect the trial balance. (4 marks)
- c) Distinguish between ‘nominal accounts’ and ‘real accounts’. Give an example of **each** class of account. (2 marks)
- d) Distinguish between a cash discount and a trade discount. Explain how they are treated in the accounts. (2 marks)
- e) Prepare the journal entries in the books of Censina for the following transactions and errors (narrations are **not** required).
- i) Censina took goods costing €1,200 for her personal use.
 - ii) She bought office equipment on credit from Office Tech Ltd for €6,000.
 - iii) An amount of €500 due from a trade receivable (debtor) was written off as an irrecoverable debt (bad debt).
 - iv) A cash sale of €200 less 5% cash discount has been recorded in the books as €200. No corrections have been made.
 - v) A payment of €320 for cash purchases was treated as a payment of a trade payable account (creditor).
- (10 marks)

- 14.** Study the following extract that has been taken from the financial statements and then answer the questions below.

Statement of Financial Position of Tiptap plc as at 31 March 2012

	€
Issued share capital	
€2 ordinary share capital	400,000
Share premium	50,000
Retained Earnings	350,000
	800,000

Note: the current market value of an ordinary share is €6.

- a) i) Distinguish between authorised share capital and issued share capital. (2 marks)
- ii) Distinguish between share premium and retained earnings. (2 marks)
- b) i) Calculate the number of ordinary shares that have been issued by the company to date. (2 marks)
- ii) Suggest **two** alternative ways how the company can raise finances other than through an issue of ordinary shares. (2 marks)

This question continues on page 6

- c) Distinguish between the nominal value of a share and its market value. (2 marks)
- d) The directors of the company paid an ordinary dividend of €0.20 (20 cents) per share. This was the only ordinary dividend for the year.
They also decided to retain €55,000 profit in the company.
- i) Calculate the total dividend that has been paid to the ordinary shareholders. (2 marks)
- ii) Calculate the net profit that has been earned by the company during the financial year ended 31 March 2012. (2 marks)
- iii) Calculate the amount of retained earnings as at 1 April 2011. (2 marks)
- e) Xandru currently holds 50,000 ordinary shares in Tiptap plc.
- i) Calculate the amount of dividend that he has earned during this financial year. (2 marks)
- ii) Xandru is considering selling 25,000 of the shares that he holds in Tiptap plc to finance the purchase of 7.5% Debentures that are shortly to be issued by another company. Advise Xandru.
Show the workings that you consider relevant to the decision. (2 marks)

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SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2012 SESSION

SUBJECT:	Accounting
PAPER NUMBER:	IIA
DATE:	7 th May 2012
TIME:	9:00 a.m. to 11:00 a.m.

Answer BOTH questions in Section A and ANY TWO questions from Section B.

SECTION A: Answer BOTH questions.

1. Casha, Dalli and Ellul have been in partnership for a number of years. The following is the trial balance of the partnership at 30 April 2011:

	€	€
Capital accounts 1 May 2010		
Casha		200,000
Dalli		160,000
Ellul		80,000
Current accounts 1 May 2010		
Casha	10,700	
Dalli		17,010
Ellul		7,370
Drawings		
Casha	10,200	
Dalli	15,000	
Ellul	18,100	
Inventory 1 May 2010	30,800	
9% Loan		75,000
Returns	8,600	10,500
Purchases and sales	285,000	530,000
Carriage inwards	11,800	
Water and electricity	30,000	
Carriage outwards	19,410	
Insurance	18,480	
Irrecoverable debts (bad debts)	8,300	
Sundry expenses	28,000	
Trade receivables and payables	135,000	60,000
Wages and salaries	68,000	
Loan interest paid	3,375	
Premises	370,000	
Motor vehicles (cost €75,000)	57,500	
Furniture and fittings (cost €80,000)	64,500	
Office equipment (cost €47,500)	28,200	
Cash in hand and bank overdraft	15,605	25,300
Discounts allowed and received	10,210	2,250
Allowance for trade receivables 1 May 2010		8,750
Rent received		70,600
	1,246,780	1,246,780

Additional information:

- Inventory at 30 April 2011 amounted to €35,680.
- Sundry expenses include a payment of €12,400 for the six months to 31 July 2011.
- Rent receivable for the year amounted to €95,000.
- The 9% loan was acquired on 1 January 2001 and is repayable on 30 April 2020. The interest expense for the year has not been paid in full.
- Water and electricity bills for the year totalled €36,000. Wages and salaries do not include overtime payment for April 2011 amounting to €16,900.
- Trade receivables include a debt of €1,200 that is irrecoverable. It has not yet been written off. Furthermore, a specific allowance of €15,000 is required at the end of the financial year due to a trade receivable that is facing serious liquidity problems.
- Non-current assets are depreciated as follows:
 - Motor vehicles at 20% per annum reducing balance method.
 - Office equipment at 15% per annum on book value.
 - Furniture and fittings at the rate of 10% per annum straight line basis.

No assets were purchased or disposed of during the year.

- Their partnership agreement states that:
 - each partner is entitled to an annual salary of €20,000.
 - interest on capital is received by the partners on their opening balances at the rate of 10% per annum.
 - profits and losses are to be shared between Casha, Dalli and Ellul in the ratio of 2:2:1 respectively.

Required

- a) An income statement for the year ended 30 April 2011. (18 marks)
 - b) An appropriation account for the year ended 30 April 2011. (6 marks)
 - c) The partners' current accounts. (6 marks)
- (Total 30 marks)

2. Salvu is a sole trader who does not keep a full set of accounting records. A list of his assets and liabilities at the beginning and at the end of the year were as follows:

	1 Jan 2011	31 Dec 2011
	€	€
Inventory at cost	10,500	18,620
Trade receivables	24,200	22,900
Trade payables	16,560	13,130
Motor vehicles (net book value)	45,000	35,000
Fixtures (net book value)	13,600	?
Rent prepaid	1,250	2,100
General expenses due	600	1,200
Cash	380	640
Bank	5,500	?
8% loan	20,000	20,000

His bank statement revealed the following transactions:

	€	€
Opening balance		5,500
Receipts from trade receivables		47,840
Cash sales banked		20,260
Wages and salaries	18,250	
Rent	3,900	
Water and electricity	5,570	
Payments to trade payables	46,630	
General expenses	4,280	
Fixtures	3,350	

Additional information:

- Salvu has withdrawn goods at cost for personal use worth €3,500. No accounting entries have been made for the withdrawal of these goods.
- Before banking cash sales, Salvu has paid general expenses €6,600 in cash and has withdrawn cash drawings of €8,900.
- A trade receivable who owed Salvu €2,200, was considered to be insolvent. His debt was written off during the financial year. Furthermore, due to the current economic conditions, it was considered prudent to create an allowance for doubtful debts equal to 5% of trade receivables at year end.
- Fixtures are depreciated at the rate of 10% per annum. A full year's depreciation is charged in the year of purchase and none in the year of disposal.
- Provide for the interest due on the loan.

Required

- a) The cash account. (7 marks)
 - b) The trade receivables (sales ledger) control account. (4 marks)
 - c) The trade payables (purchases ledger) control account. (4 marks)
 - d) An income statement for the year ended 31 December 2011. (15 marks)
- (Total 30 marks)

Section B is on page 4

SECTION B

Answer any **TWO** questions.

3. An extract of the statement of financial position of a local company, at the end of its financial year, 31 December 2010 was as follows:

Statement of financial position (extract) as at 31 December 2010

	€	€
Current assets		
Trade receivables	35,125	
Allowance for doubtful debts	<u>(6,100)</u>	29,025
Other receivables - prepaid insurance		575
accrued commission receivable		300
Current liabilities		
Other payables - water and electricity	650	
wages and salaries	1,750	

Additional information for the year ended 31 December 2011

- *Water and Electricity*
Bills received and paid during 2011 amounted to €12,100. A bill of €820 for the last quarter ended 31 December 2011 was received but it has not yet been paid.
- *Commission Receivable*
The company earns a commission of 5% from the sale of a particular product. Sales for the year ended 31 December 2011 were €85,000. A cheque of €3,250 was received on 30 September 2011.
- *Insurance*
During the year, an insurance premium was paid by cheque as follows:
April 1 €3,600 for a period of twelve months ending 31 March 2012.
- *Allowance for Doubtful Debts*
At 31 December 2011, trade receivables amounted to €41,300. On reviewing the balances, it was decided to adjust the allowance for doubtful debts to €9,550. This figure represents the amount due from two credit customers who are facing serious financial problems.

Required

Prepare for the year ended 31 December 2011:

- a) The water and electricity account. (5 marks)
 - b) The commission receivable account. (5 marks)
 - c) The insurance account. (5 marks)
 - d) The allowance for doubtful debts account. (5 marks)
- (Total 20 marks)

4. At 31 December 2010, Bertu Bartolo, a local businessman operating in the service industry, had the following non-current assets on his books:

	€
Motor vehicles at cost	125,000
Motor vehicles accumulated depreciation	70,000
Office equipment at cost	68,000
Office equipment accumulated depreciation	35,000

During the year ended 31 December 2011, the following transactions took place:

- 1 April** New office equipment was purchased on credit from Sapphire Ltd. for €15,500. Additional carriage and installation charges amounted to €4,100.
- 30 June** A delivery van which was bought for €28,000 on 1 October 2008 was scrapped. No proceeds were received.

It is the policy of the business to depreciate non-current assets as follows:

- Motor vehicles 20% per annum on cost and applied from the date of purchase to the date of disposal.
- Office equipment 25% per annum by the reducing balance method on the net book value of the assets held at the end of the financial year.

Required

Show the following accounts as they would appear in the ledger of Bertu Bartolo for the year ended 31 December 2011:

- a) The motor vehicles account; (4 marks)
- b) The accumulated depreciation – motor vehicles account; (7 marks)
- c) The office equipment account; (5 marks)
- d) The accumulated depreciation – office equipment account; (4 marks)
- (Total 20 marks)

Question 5 is on page 6

5. The following balances were extracted from the books of Franco Farrugia, a manufacturer as at 31 March 2012, the end of the financial year:

		€
Inventories as at 1 April 2011		
Raw materials		60,000
Work-in-progress		16,000
Finished goods		150,000
Factory power		35,000
Wages -	Direct	80,000
	Indirect	42,000
Purchases -	direct materials	280,000
	indirect materials	90,000
Factory rent		51,000
Royalties payable		5,000
Raw materials returned to suppliers		13,000
Carriage of raw materials		15,000
Inventories as at 31 March 2012		
Raw materials		47,000
Work-in-progress		14,000
Finished goods		?

The number of units produced during the year amounted of 40,000 while 38,000 units were sold. Inventory records reveal that 10,000 units were in stock as at 1 April 2011.

Required

- a) The manufacturing account for the year ended 31 March 2012. (14 marks)
 - b) The production cost of one unit at prime cost. (2 marks)
 - c) The production cost of one unit at full factory cost; (2 marks)
 - d) The closing inventory of finished goods as at 31 March 2012. (2 marks)
- (Total 20 marks)

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SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2012 SESSION

SUBJECT:	Accounting
PAPER NUMBER:	IIB
DATE:	7 th May 2012
TIME:	9:00 a.m. to 11:00 a.m.

Answer BOTH questions in Section A and ANY FOUR questions from Section B.

SECTION A: Answer BOTH questions in this Section.

1. Marju is a sole trader in the retail industry. He has little knowledge of accounting and therefore the trial balance prepared at 31 March 2012 failed to agree.

Investigations revealed the following errors, which when corrected eliminated the balance on the suspense account:

- i. The purchase of a motor vehicle costing €13,900 has been entered in the purchases account.
- ii. The receipt of €5,100 from Parnis, a credit customer, has been correctly entered in the cash book but no entry has been made in the trade receivables ledger.
- iii. Sales returns of €620 were incorrectly credited to the purchases returns account.
- iv. An insurance payment of €900 has been posted correctly to the cash book but it has not been transferred to the nominal account in the general ledger.
- v. Trade receivables of €750 are irrecoverable and are to be written off.
- vi. Cheque payment for water and electricity of €1,300 has not been recorded in the cash book.

Required

- a) Journal entries to correct the above errors. Narrations are **not** required. (13 marks)
 - b) A suspense account showing the difference in the trial balance. (7 marks)
- (Total 20 marks)

2. The treasurer of the Sunny Social Club has prepared the following receipts and payments account for the year ended 31 December 2011.

	€		€
Cash and bank balances	1,425	Clubhouse expenses	4,500
Subscriptions for 2010	1,800	Sundry expenses	3,795
Subscriptions for 2011	28,830	Part repayment of loan	2,350
Subscriptions for 2012	1,512	Bar credit suppliers	41,200
Bar takings	55,000	Fixtures and fittings	6,500
Sale of equipment	2,500	Water and electricity	2,700

The following were the club's assets and liabilities at 1 January 2011:

	€
Clubhouse (cost €180,000)	150,000
Fixtures and fittings	18,000
Equipment	8,500
Inventory of bar supplies	8,125
Amounts payable to bar suppliers	5,100
Subscriptions in arrears	1,800
Subscriptions in advance	250
Interest free loan	6,000

The following items are to be taken into consideration as at 31 December 2011:

- Bar inventory €7,625.
- Subscriptions due €1,300.
- Amounts payable to bar suppliers €3,400.
- The equipment sold during the year had a net book value of €2,500.
- Water and electricity accrued €150.
- Sundry expenses include an insurance payment of €180 for the year ended 31 March 2012.
- Depreciation is calculated as follows:

Clubhouse	2% on cost
Fixtures and Fittings	10% net book value
Equipment	20% net book value

Required

- a) A subscriptions account; (8 marks)
 - b) A bar trading account for the year ended 31 December 2011; (5 marks)
 - c) An income and expenditure account for the year ended 31 December 2011. (7 marks)
- (Total 20 marks)

SECTION B: Answer ANY FOUR questions from this Section.

3. The following figures were extracted from the books of a retailer for the year ended 31 December 2011:

	31 Dec 2011
	€
Sales	100,000
Expenses	25,000
Average stock	12,000
Capital	600,000
Current assets	60,000
Current liabilities	30,000
Long-term loan	50,000
Gross profit margin	40%

Calculate

- a) The cost of sales; (2 marks)
 - b) The gross profit; (1 mark)
 - c) The rate of stock turnover; (2 marks)
 - d) The net profit; (2 marks)
 - e) The net profit margin (%); (2 marks)
 - f) The current ratio; (2 marks)
 - g) The capital employed; (2 marks)
 - h) The return on capital employed. (2 marks)
- (Total 15 marks)
4. Gejtu Gatt is preparing his bank reconciliation for the quarter ended 31 March 2012. His bank statement revealed a balance of €954 while his cash book showed a balance of €1,210.

Upon investigation, the following differences were identified:

- i. A cheque paid to a supplier was incorrectly recorded in his cash book as €870. The cheque was correctly entered in the bank statement as €780.
- ii. Bank charges of €220 were not yet recorded in his cash book.
- iii. Three cheques totalling €1,509 have not yet been presented at the bank.
- iv. A deposit of €975 entered in Gejtu's cash book on 29 March, was not recorded on the bank statement.
- v. A credit customer's cheque for €660 was returned by Gejtu's bank in March as the customer had insufficient funds in his account. Gejtu has not yet recorded the return of the cheque in his records.

Required

- a) The cash book as at 31 March 2012; (8 marks)
- b) The bank reconciliation statement as at 31 March 2012. (7 marks)

(Total 15 marks)

5. Carmelina Caruana has failed to maintain proper books of account although she has been in business as a retailer for the last two years. She has asked you to estimate her profit for the year ended 31 December 2011.

Carmelina has provided the following information:

	31 Dec 2010	31 Dec 2011
	€	€
Trade receivables	35,000	45,500
Other receivables	6,200	5,300
Non-current assets	105,000	180,000
Inventory	45,000	70,000
Trade payables	20,000	17,500
Other payables	7,300	5,800
Cash and bank	14,900	30,200
8% bank loan	Nil	25,000

Additional Information:

- In October 2011, Carmelina won €90,000 from the Super 5 lottery. She decided to deposit this amount into her business bank account.
- Carmelina has withdrawn €1,000 per month from her business as part of her living expenses.

Required

Calculate the profit or loss account of Carmelina's business for the year ended 31 December 2011.

All workings are to be clearly shown.

(15 marks)

6. The following balances were taken from the ledger of Peppi Portelli, a local businessman, for the month of March 2012:

2012		€
March	1 Trade payables ledger: credit balance	21,500
	(purchases ledger) debit balance	190
	31 Total payments to suppliers	46,900
	Balances in the purchases ledger set off against balances in the sales ledger	1,510
	Discounts received	4,280
	Cash purchases	17,100
	Returns outwards	1,325
	Credit purchases	32,500

Required

The trade payables (purchases ledger) control account for the month of March 2012.

(15 marks)

7. Karla Falzon buys and sells home decorations. The information shown hereunder refers to the last week of March 2012:

March		€
26	Bought goods from P. Psaila	5,900
26	Sold goods to J. Bondin	1,860
27	Bought goods from S. Sant	3,520
27	Returned damaged goods to P. Psaila	250
28	Sold goods to E. Grima	2,280
28	Goods were returned by J. Bondin	210
29	Sold goods to A. Abela	800
30	Received a credit note from S. Sant for goods returned to him	125

All sales and purchases were on credit.

Required

- a) The purchases day book. (3 marks)
- b) The sales day book. (4 marks)
- c) Open the accounts that are kept in the general ledger (**only**) and show the relevant entries.

Do not balance off the accounts.

(8 marks)
(Total 15 marks)