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

SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2014 SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	I
DATE:	20th May 2014
TIME:	9:00 a.m. to 11:00 a.m.

Answer ALL questions. Questions 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. Which financial statement is used to show what the firm owns?
- a) Income statement
- b) Statement of financial position
- c) Manufacturing account
- d) Income and expenditure account

2. Which of the following is a book of original entry and is also part of the ledger?
- a) The journal
- b) The cash book
- c) The purchases returns journal
- d) The sales returns journal

3. Which of the following is ***not*** a current asset?
- a) Accounts receivable
- b) Inventory of finished products
- c) Inventory of raw materials
- d) Land

4. When partners receive interest on their capital the entries should be:

	Debit	*Credit*
a)	Bank account	Appropriation account
b)	Capital account	Bank account
c)	Current account	Appropriation account
d)	Appropriation account	Current account.

5. Which of the following equations is correct?
- a) Share premium = share issue price + nominal value
- b) Share premium = share issue price – nominal value
- c) Share premium = share issue price/nominal value
- d) Share premium = share issue price x nominal value

6. Which of the following transactions does ***not*** decrease cash/bank?
- a) Purchasing inventory for cash.
- b) Accruing operating expenses.
- c) Paying trade accounts payable.
- d) Purchasing non-current assets for cash.

7. How is the working capital calculated?
   a) Working capital = shareholders' equity (funds) and long-term debts – fixed assets
   b) Working capital = fixed assets – current assets
   c) Working capital = shareholders' equity and long-term debts + fixed assets
   d) Working capital = fixed assets + current assets

8. Which of the following accounts is expected to present a debit balance?
   a) Bank overdrafts
   b) Interest receivable
   c) Bank loan interest
   d) Bank loan

9. On 31 March 2013, a company grants a loan to one of its employees. Interest receivable on the loan is due on the anniversary of the loan. The annual interest on the loan is €120. How much is recorded in the Income Statement for the year ended 31 December 2013?
   a) €0
   b) €30
   c) €60
   d) €90

10. The opening Statement of Financial Position for each financial year must correspond to the closing Statement of Financial Position for the preceding financial year.
   a) True
   b) False
   c) Sometimes
   d) Only for a limited liability company

11. The cash book (bank columns only) of Maria, a retailer, for the month of April 2014 is shown below:

Cash Book

		€			€
1-Apr	Balance b/d	1,290	04-Apr	Rent	890
06-Apr	M Micallef	375	09-Apr	Insurance	500
14-Apr	Cash	750	22-Apr	P Pisani	125
18-Apr	Cash	1,000	29-Apr	M Calleja	2,000
26-Apr	Cash	2,000	30-Apr	T Cauchi	2,000
30-Apr	S Schembri	250	30-Apr	Bal c/d	150
		5,665			5,665

When comparing the bank statement received on 4 May 2014, Maria noted that:
i) Two cheques to Pisani and Cauchi were not presented by 30 April 2014.
ii) A direct debit of €65 for communication expenses appeared on the bank statement on 26 April 2014.
iii) The cash deposit of 26 April 2014 had not been credited by the bank.
iv) Bank charges of €30 for April appeared in the statement.
v) A credit transfer from A Gatt of €250 had been credited in the bank statement on 28 April 2014.

Required:

- **a) Update Maria's cash book as at 30 April 2014.** **(4 marks)**
- **b) Prepare a Bank Reconciliation statement as at 30 April 2014, and find the balance on the Bank Statement as at that date.** **(6 marks)**
- **c) Distinguish between a 'credit transfer' and a 'direct debit'.** **(4 marks)**
- **d) Explain the difference between a bank overdraft and a bank loan.** **(4 marks)**
- **e) What is a bank reconciliation statement?** **(2 marks)**

12. The following balances have been extracted from the books of the D&P Manufacturing Co Ltd as at 30 April 2014:

	€
Direct wages	35,000
General factory expenses	6,500
Factory equipment at cost	180,000
Water & electricity (factory ¾; general ¼)	26,000
Purchases of raw material	50,000
Inventory 1 May 2013:	
Raw material	6,000
Work-in-progress	9,000
Rent & insurance (factory ⅔; general ⅓)	21,000

Additional information:

i) Inventory at 30 April 2014
- Raw material €7,000
- Work-in-progress €8,000

ii) The factory equipment is to be depreciated at a rate of 15% per annum on cost.

Required:

- **a) Prepare D&P Manufacturing Co Ltd's manufacturing account for the year ended 30 April 2014.** **(10 marks)**
- **b) What is the purpose of the manufacturing account?** **(2 marks)**
- **c) What is (i) a direct cost, and (ii) an indirect cost? Give <u>one</u> example of each.** **(4 marks)**
- **d) Name the elements of cost that make up the 'prime cost'.** **(2 marks)**
- **e) Distinguish between fixed and variable costs.** **(2 marks)**

Please turn the page.

13. The membership fee of the Club was €10 per annum during 2012.

As at 31 December 2012, 10 members had not yet paid their membership fee.
The membership fee was increased to €15 per annum for 2013 and 2014.
During 2013, the Club received the following cash for membership fees:

- €80 for 2012 subscriptions
- €1,500 for 2013 subscriptions
- €150 for 2014 subscriptions

As at 31 December 2013, there were five members who had not paid their membership fee for 2013. The members who had not paid their subscription for 2012, cancelled their membership with the Club.

Required:

a) The subscriptions account for the club for the year ended 31 December 2013. (8 marks)
b) What is meant by a 'not-for-profit' entity? (2 marks)
c) What is an 'accumulated fund'? (2 marks)
d) Distinguish between a receipts and payments account and an income and expenditure account. (4 marks)
e) Name and explain <u>two</u> accounting concepts that are applied in the accounting for trade receivables. (4 marks)

14. Required:

a) Distinguish between a trade discount and a cash discount. Explain how they are treated in the accounts. (4 marks)
b) What is the purpose of the books of original entry? (2 marks)
c) List <u>four</u> books of original entry. (2 marks)
d) What is the purpose of the suspense account? (2 marks)
e) Prepare the journal entries in the books of Pippa Ltd for the following transactions and corrections of errors (narrations are not required).

i) The purchase of a machine on credit from Mcquick Ltd for €8,000.
ii) Discounts allowed of €250 were credited to the discounts received account.
iii) The write-off as an irrecoverable debt of an amount of €120 due from a trade receivable.
iv) A cash purchase of €300 less a 5% discount has been recorded in the books as €300.
v) A receipt of €600 from a cash sale was treated as a receipt from a trade receivable account.

(10 marks)

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SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2014 SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	IIA
DATE:	21st May 2014
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 in this Section.

1. The following trial balance was extracted from the accounting system of MK Ltd on 31 March 2014:

	€	€
Land & buildings (cost and accumulated depreciation 1/04/2013)	200,000	2,000
Plant & machinery (cost and accumulated depreciation 1/04/2013)	25,000	5,000
Office equipment (cost and accumulated depreciation 1/04/2013)	50,000	18,000
Inventory (1/04/2013)	30,000	
Purchases & sales	110,000	288,500
Selling & distribution expenses	12,000	
Interest on bank loan	1,360	
Water & electricity	8,000	
Wages & salaries	10,000	
Directors' remuneration	5,000	
Printing & stationery	6,010	
Communication expenses	7,112	
Rent & insurance	6,018	
Returns	8,000	6,000
Trade receivables and payables	50,000	22,000
Allowance for doubtful debts (1/04/2013)		5,000
Bank & cash	28,000	
Ordinary share capital		150,000
General reserve		8,000
Retained profits b/f (1/04/2013)		40,000
Bank loan		12,000
	556,500	556,500

The following additional information is available at the end of the financial year:

i) Closing inventory has been valued at €53,000.
ii) Rent & insurance were paid in advance to the extent of €1,000.
iii) Wages & salaries outstanding at 31 March 2014 amounted to €200.
iv) The purchase of an item of inventory costing €5,000 had erroneously been debited to the office equipment account.

v) MK Ltd started trading on 1 April 2011. All the non-current assets owned by the company were purchased during its first year of operations, and no assets have been sold. Depreciation is calculated on a straight-line basis, with a full year's depreciation in the year of acquisition. The land & buildings account includes the cost of land of €100,000.

vi) After the experience gained over its first three years of operation, the company has decided to revise its policy for allowing for doubtful debts. This will now be calculated as 2% of net sales for the year.

vii) The ordinary share capital of the company consists of ordinary shares with a nominal value of €0.25 per share. An interim dividend of 2 cents per share was paid during the year and recorded in the purchases account.

viii) The directors of MK Ltd have also decided to transfer an amount of €50,000 to the General Reserve.

Required:
From the above information, draw up an Income Statement for the financial year ended 31st March 2014 and a Statement of Financial Position as at that date. Show all workings and the appropriation of profit for the year. (30 marks)

2. Tony Attard owns a Hi-Fi shop and his annual accounting date is 31 December. Tony's Statement of Financial Position as at 31 December 2012 was as follows:

	€	€
Non-Current Assets:		
Shop fittings at cost	12,100	
Less depreciation	8,150	
		3,950
Shop equipment at cost	19,634	
Less depreciation	11,585	
		8,049
		11,999
Current Assets:		
Inventory	931	
Trade receivables	358	
Bank savings account	6,412	
Cash	200	
		7,901
		19,900
		=====
Financed by:		
Capital		17,718
Current Liabilities:		
Less: Trade payables	2,150	
Bank overdraft	32	
		2,182
		19,900
		=====

Tony's bank current account for the year ended 31 December 2013 is summarised as follows:

	Debit (€)		Credit (€)
Receipts from trade receivables	9,705	Balance 1 January 2013	32
Cash sales banked	50,500	Payments to suppliers	37,014
		Sundry trade expenses	1,792
		Personal drawings	1,047
		Wages	10,398
		Rent	7,500
		Water and electricity	1,201
		Bank charges	314
		Transfer to bank savings	500
		Balance 31 December 2013	407
	60,205		60,205

Other information relating to the year ended 31 December 2013 is given below:

i) Tony's sales are mainly cash sales but he has a few credit customers. All cash sales are banked with the exception of €5,500, which Tony withheld for personal expenditure, and a further €60 per week, which were paid for cleaning expenses.

ii) During the year, discounts amounting to €740 were received from trade payables and discounts of €120 were allowed to trade receivables.

iii) A trade receivable account of €58 had been long overdue and it was written off as an irrecoverable debt.

iv) At 31 December 2013, inventory was valued at €1,240; trade receivables amounted to €421; Tony owed his suppliers €786; cash in hand was €250.

v) Depreciation to be charged for the year is €1,210 in respect of the shop fittings and €1,422 in respect of the shop equipment.

vi) At 31 December 2013 rent was prepaid by €824 and water and electricity charges accrued were €210.

vii) The annual interest on the bank savings account was €195 and this interest was retained in the savings account.

Required:

a) The cash account for the year ended 31 December 2013. (5 marks)

b) The trade receivables (sales) ledger control account and the trade payables (purchases) ledger control account, for the year ended 31 December 2013. (9 marks)

c) An income statement for the year ended 31 December 2013 and a statement of financial position as at that date. (16 marks)

SECTION B: Answer any TWO questions from this Section.

3. Pearl Camilleri, a retailer, did not keep proper records during the financial year 1 April 2013 to 31 March 2014 but she can provide the following information regarding certain expenses and income:

		€
i)	Rent payable per calendar month	200
	Arrears on 1 April 2013	200
	Amount paid during the year to 31 March 2014	2,000
ii)	Commission Receivable due on 1 April 2013	50
	Amount received during the year to 31 March 2014	570
	Arrears on 31 March 2014	100
iii)	Insurance paid in advance on 1 April 2013	600
	Insurance paid for the year to 30 June 2014	3,600
iv)	Telephone expense accrued on 1 April 2013	1,800
	Telephone expense paid during the year to 31 March 2014	12,500
	Telephone expense accrued on 31 March 2014	950

Required:

a) Prepare the appropriate accounts for these <u>four</u> items <u>and</u> calculate, in each case, the amount to be shown as an expense or income in the Income Statement for the year ended 31 March 2014 . (14 marks)

b) Show the relevant extracts from Pearl Camilleri's Financial Statements for the year ended 31 March 2014. (4 marks)

c) Identify <u>and</u> describe the underlying accounting concept that is being applied when end of year adjustments as noted by Pearl Camilleri are taken into consideration in the preparation of financial statements. (2 marks)

4. The following is an extract from Win's statement of financial position at 31 December 2012:

Non-Current asset	**Cost**	**Accumulated Depreciation**	**Net Book Value**
	€	€	€
Land	400,000	--	400,000
Buildings	300,000	120,000	180,000
Plant	110,000	75,000	35,000
Vehicles	90,000	57,600	32,400
Furniture	40,000	25,200	14,800
Totals	**940,000**	**277,800**	**662,200**

Win's depreciation policy is as follows:

i) A full year's depreciation is charged in the year of acquisition, but none in the year of disposal.
ii) No depreciation is charged on land.
iii) Buildings are depreciated at an annual rate of 2% on cost.
iv) Plant is depreciated at an annual rate of 10% on cost after allowing for an estimated residual value of €10,000.
v) Vehicles are depreciated on a reducing balance basis at an annual rate of 40% .
vi) Furniture is depreciated on a straight-line basis. Estimated residual value is €4,000 and estimated useful life is 10 years.

Additional information regarding the year 2013:

- On 1 March 2013, a motor vehicle purchased two years ago was involved in an accident and had to be scrapped. The original cost of the motor vehicle was €10,000.
- On 1 September 2013, new furniture was purchased for the office. It cost €6,000 and has an estimated residual value of €600. The new furniture is to be depreciated on the same basis as the old furniture.

Required:

Prepare the following accounts of Win for the year ended 31st December 2013:

a) The allowance for depreciation of buildings account. **(3 marks)**
b) The allowance for depreciation of plant account. **(3 marks)**
c) The allowance for depreciation of vehicles account. **(6 marks)**
d) The allowance for depreciation of furniture account. **(4 marks)**
e) The disposal of vehicles account. **(4 marks)**

5. The following financial reports for the year ended 31 December 2013 relate to two companies, Red Ltd and Green Ltd, both operating a textile retail business:

	Red Ltd		Green Ltd	
	€	€	€	€
Income Statement				
Turnover		330,000		870,000
Opening Inventory	32,000		60,000	
Purchases	211,000		531,000	
Closing Inventory	26,000		52,000	
		217,000		539,000
Gross Profit		113,000		331,000
Expenses		66,000		284,000
Net Profit		47,000		47,000
Statement of Financial Position				
Non-Current Assets		210,000		220,000
Current Assets:				
Inventory	26,000		52,000	
Trade receivables	28,000		51,000	
Bank	5,000		--	
		59,000		103,000
Total Assets		269,000		323,000
Capital and reserves		240,000		240,000
Current Liabilities:				
Trade payables	29,000		67,000	
Bank Overdraft	--		16,000	
		29,000		83,000
Total Equity and Liabilities		269,000		323,000

Required:

a) **Calculate the following ratios for both Red Ltd and Green Ltd:**
   i) **The return on capital employed;**
   ii) **The net profit margin;**
   iii) **The gross profit margin;**
   iv) **The current ratio;**
   v) **The quick (acid test) ratio; and**
   vi) **The rate of stock turnover.** **(14 marks)**

b) **Comment briefly on the relative profitability and liquidity of Red Ltd and Green Ltd.** **(6 marks)**

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MAY 2014 SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	IIB
DATE:	21st May 2014
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. The books of Chess Ltd showed the following figures at 31 December 2013:

	Debit €	Credit €
Purchases and sales	700,000	1,100,000
Inventory at 1 January 2013	60,000	
Wages and salaries	150,000	
Insurance	10,000	
Advertising	5,000	
Rent	18,000	
Bad debts	3,000	
Water and electricity	20,000	
Office expenses	30,000	
Sundry expenses	15,000	
Stationery and postages	15,000	
Buildings	200,000	
Allowance for Depreciation: buildings 1 January 2013		20,000
Plant and equipment	180,000	
Allowance for depreciation: plant & equipment 1 January 2013		50,000
Motor vehicles	150,000	
Allowance for depreciation: motor vehicles 1 January 2013		40,000
Trade receivables	50,000	
Trade payables		55,000
Cash	3,000	
Bank		6,000
Retained profits 1 January 2013		18,000
General Reserve		20,000
Ordinary share capital		300,000
	1,609,000	1,609,000

The following information is also available at 31 December 2013:
i. Inventory is valued at a cost of €65,000.
ii. Accruals: wages €15,000; water and electricity €4,000.

iii. Prepayments: rent €3,000; insurance €1,500.
iv. Depreciation is provided on the assets held in the business at the end of the year. The depreciation charge for the year is to be calculated as follows:
- Buildings - 2% on cost;
- Plant and equipment - 10% on cost; and
- Motor vehicles - 20% on the net book value.

v. The Directors have decided to transfer €10,000 to the General Reserve.

Required:
Prepare the Income Statement of Chess Ltd for the year ended 31st December 2013, and a Statement of Financial Position as at year end. (20 marks)

2. Mary Zammit started trading on 1st April 2014, and her transactions during the first month were as follows:

	€
Cash Receipts:	
Capital contributed	12,000
Sales to customers	6,000
Cash payments:	
Goods for sale	8,000
Stationery	1,000
Travelling	1,200
Wages	5,800
Transfers to bank	1,000
Bank Receipts:	
Receipts from credit customers	34,000
Bank payments:	
Payments to credit suppliers	28,400
Rent	6,400
Water and electricity	400
Other transactions:	
Goods purchased on credit	37,000
Goods returned to credit suppliers	800
Goods sold on credit	44,000
Goods returned by credit customers	1,800
Discounts allowed to credit customers	2,200
Discounts received from credit suppliers	700

Required:
a) Write up a two-column cash book for Mary Zammit for the month of April 2014, showing the cash and bank balances at the end of the month. (8 marks)
b) Post the cash book entries to appropriate nominal ledger accounts. (5 marks)
c) Enter the other transactions in appropriate nominal ledger accounts. (7 marks)

SECTION B: Answer ANY FOUR questions from this Section.

3. Liam Borg prepares control accounts for the sales and purchases ledgers. The balances on the control accounts as at 31 March 2014 were:

Sales Ledger	€95,000
Purchases Ledger	€42,000

The following transactions took place during April 2014:

	€
Sales on credit	750,000
Purchases on credit	550,000
Cash sales	20,000
Cash purchases	12,000
Returns from credit customers	8,000
Returns to credit suppliers	5,000
Cash and cheques received from credit customers	650,000
Cash and cheques paid to credit suppliers	500,000
Discount received	8,500
Discount allowed	25,000
Irrecoverable debts	5,000

Required:

a) The Sales ledger (trade receivables) control account for the month of April 2014. (8 marks)

b) The Purchases ledger (trade payables) control account for the month of April 2014. (7 marks)

4. The following information is available in the books of Alex Cardona for the year ended 31 December 2013:

	€
Inventory at 1 January 2013	15,000
Purchases for the year	95,000
Returns to suppliers	20,000
Inventory at 31 December 2013	24,000
Total expenses as % of sales	10%

Mr Cardona adds 25% to his cost of sales to arrive at the selling price.

Calculate:

a) The cost of goods sold; (2 marks)

b) The value of average inventory; (3 marks)

c) The total sales for the year; (5 marks)

d) The total expenses for the year; (3 marks)

e) The net profit for the year. (2 marks)

5. The Statement of Financial Positions of Rita Mangion on 31 December 2012 and 2013 include the following items:

	2012		2013	
	€	€	€	€
Non-current assets	80,000		80,000	
Depreciation	(12,000)		(20,000)	
		68,000		60,000
Current Assets				
Trade Receivables	40,000		46,000	
Less Allowance for Doubtful debts	2,600		1,020	
		37,400		44,980
Prepaid rent		220		-
Current Liabilities				
Wages and Salaries owing		800		1,100
Rent accrued		-		640

During the year ended 31 December 2013, the following payments were made:

	€
Total rent paid	2,080
Total wages and salaries paid	14,200

Required:

Write up the following accounts for the year ended 31 December 2013, clearly showing the amounts transferred to the Income Statement:

a) The allowance for depreciation account; (4 marks)
b) The rent account; (4 marks)
c) The wages and salaries account; (4 marks)
d) The allowance for doubtful debts account. (3 marks)

6. Anne Chetcuti is the owner of a small business. She maintains a petty cash float of €350 using the imprest system. The following information relates to a summary of the petty cash transactions for the month of March 2014 in Chetcuti's books:

			€
March	3	Receipt petty cash float	350
	4	Stationery	22
	4	Office Cleaning	15
	5	Diesel for delivery van	25
	7	Bus fares	35
	10	Diesel for delivery van	10
	12	Stationery	24
	13	Delivery van service	75
	14	Office cleaning	30
	17	Diesel for delivery van	30
	18	Stationery	20

Required:

a) **Enter the above transactions in a suitable petty cash book with analysis columns for expenditure on stationery, transport, office cleaning and motor expenses. (12 marks)**

b) **Enter the receipt of the amount necessary to restore the petty cash float and carry down the balance. (3 marks)**

7. John Tabone runs a retail business having two main departments which sell clothes and shoes. At 31 December 2013, the balances in the books of the business were as follows:

	€	€
Capital		95,000
Sales - clothes		60,000
Sales - shoes		40,000
Purchases - clothes	45,000	
Purchases - shoes	28,000	
Inventory at 1 January 2013 - clothes	1,500	
Inventory at 1 January 2013 - shoes	2,550	
Salaries and wages - clothes	3,500	
Salaries and wages - shoes	2,400	
Discount allowed - clothes	200	
Discount allowed - shoes	300	
Drawings	5,000	
Premises (at cost)	55,000	
Advertising	1,750	
Rent	2,600	
Water and electricity	600	
Insurance of inventory	1,700	
Administration wages	3,000	
Shop fittings at net book value - clothes	24,000	
Shop fittings at net book value - shoes	20,000	
Trade receivables and trade payables	2,200	4,300
	199,300	199,300

Notes:

i. At 31 December 2013, inventory consisted of: clothes - €3,600; and shoes - €2,500.
ii. Accrued salaries and wages amounted to €400 in the clothes department and €250 in the shoes department.
iii. Rent prepaid amounted to €200.
iv. Apportion advertising and insurance of inventory equally between the departments.
v. Apportion rent, water and electricity, administration wages as follows: 2/3 to the clothes department and 1/3 to the shoes department.
vi. Provide for depreciation on shop fittings at 15 % of the net book value.

Required:

Prepare a departmental income statement for the year ended 31 December 2013, showing the gross profit and net profit for each department. (15 marks)