

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD  
UNIVERSITY OF MALTA, MSIDA  
MATRICULATION EXAMINATION  
ADVANCED LEVEL  
SEPTEMBER 2017

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<b>SUBJECT:</b>	ACCOUNTING
<b>PAPER NUMBER:</b>	I
<b>DATE:</b>	4 <sup>th</sup> September 2017
<b>TIME:</b>	9.00 a.m. to 12.05 p.m.

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Answer **ALL** questions in **SECTION A**.

Answer the question in **SECTION B**. **This question is compulsory.**

Answer any **TWO** questions from **SECTION C**.

You must show the working leading up to your answers.

Candidates may only use non-programmable calculators in this examination.

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### SECTION A

Answer **ALL** questions in this section. This section carries a total of **22** marks.

1. Distinguish between the accounting treatment of purchased goodwill and internally generated goodwill. (3 marks)
2. 'According to IAS 2, inventory is valued at the lower of cost and net realisable value.'  
Define net realisable value, and describe the accounting concept underlying the requirements of this financial reporting standard on inventory valuation. (3 marks)
3. 'Investing in R&D is creating a new asset which will generate income in future years'.  
Discuss this statement and explain why research costs and development costs are accounted for differently. (4 marks)
4. a) Mention **THREE** different methods of depreciation. For each method, describe a situation where it could be best implemented. (3 marks)  
b) What is the accounting concept underlying depreciation? (1 mark)
5. 'The Statement of Cash Flows is more useful to users of Financial Statements than the Statement of Profit and Loss'.  
a) Discuss this comment, giving reasons for your answer. (2 marks)  
b) Mention and explain **TWO** differences between the Statement of Cash Flows and the Statement of Profit and Loss. (2 marks)
6. Explain the difference between capital and revenue reserves and give **TWO** examples of each type of reserve. (4 marks)

**SECTION B**

**Answer Question 7 in this Section. This question is compulsory and carries 26 marks.**

7. The following Trial Balance was extracted from the books of ABC Limited on 31 December 2016:

	€	€
Ordinary Share Capital (€1 per share)		500,000
Revaluation Reserve		75,000
Share Premium		57,500
6% Debentures		175,000
Retained Earnings		51,550
Land	385,000	
Buildings	282,000	
Motor Vehicles	89,200	
Fixtures & Fittings	305,900	
Allowance for depreciation b/f:		
Buildings		52,900
Motor Vehicles		7,200
Fixtures & Fittings		69,800
Inventories (31 December 2015)	26,600	
Trade Receivables/Payables	272,600	95,750
Bank		1,900
Purchases/ Sales	501,500	815,000
Wages and Salaries	52,500	
Carriage In	9,600	
Bad debts written off	9,400	
Water & Electricity	17,600	
Administrative expenses	18,100	
Advertising Expenses	90,700	
Rent prepaid b/f	3,500	
Rent paid	12,000	
Suspense		174,600
	<b>2,076,200</b>	<b>2,076,200</b>

The following information is also available:

- a) The value of stock held at year end amounted to €33,550. Included in this amount are items costing €2,500 which were damaged. It is estimated that these can be repaired at a cost of €250 and then sold for €1,000.
- b) Rent is paid on 1 March every year. The €12,000 paid in 2016 covers the period 1 March 2016 to 28 February 2017. Other expenses incurred but still unpaid at year end were administrative expenses €1,500 and wages and salaries €2,350.
- c) As at 31 December 2016, an architect valued the land at €400,000.
- d) Depreciation of non-current assets is provided as follows :
  - i. Buildings at 2%, Straight-Line Method;
  - ii. Motor Vehicles at 25%, Reducing Balance Method;
  - iii. Fixtures and Fittings at 15%, Reducing Balance Method.
- e) One of the debtors, owing €15,600, is facing financial difficulties. On 10 January 2017, an agreement was reached wherein the company accepted that the debtor pays 75c for every €1 outstanding in full settlement of the amount due.
- f) An internal investigation of the outstanding balance on the suspense account revealed the following:
  - i. In 2016, the company started providing promotional services to its customers. An advertising campaign carried out for one of the customers, costing €12,300, was included in the books as purchases in the purchases account and as an advertising expense. The amount in respect of this was still outstanding at year end but is not included in trade receivables.
  - ii. In 2016, 100,000 new shares were issued at a premium and were fully paid up. The proceeds from the share issue (equal to the remaining balance in the suspense account) were recorded in the cash account. No further entries were carried out.
- g) The 6% debentures were issued on 1 May 2016 and mature on 30 April 2027. Interest thereon is payable in arrears every May.

**Required:**

- A. For the year ended 31 December 2016, prepare the following statements for ABC Limited:
  - i. A Statement of Profit and Loss and Other Comprehensive Income. (15)
  - ii. A Statement of Changes in Equity. (5)
- B. Prepare a Statement of Financial Position as at 31 December 2016. (6)

**SECTION C**

Answer any TWO questions from this Section. Each question carries 26 marks.

8. Mondeo plc produces and retails its own products. Hereunder are the balances extracted from its books for the accounting year ended on 31 March 2017:

	€	€
Ordinary share capital (€0.50 per share)		500,000
Share premium		120,000
General reserve		180,000
Retained earnings		260,000
Sales		1,770,000
Raw material purchases	797,000	
Returns in>Returns out	52,800	15,600
Premises	500,000	
Motor vehicles	284,000	
Machinery	606,000	
Office equipment	143,000	
Shop fittings	272,000	
Allowance for depreciation – 1 April 2016:		
Premises		120,000
Motor vehicles		138,000
Machinery		187,000
Office equipment		56,000
Shop fittings		140,600
Inventories – 1 April 2016:		
Raw material	134,000	
Finished goods	92,400	
Work-in-progress	43,280	
Direct wages	254,800	
Administration wages and salaries	145,300	
Factory supervisors' wages	31,400	
Power and electricity	68,000	
Insurance	29,300	
Motor Vehicles running costs	15,800	
Maintenance and repairs	18,900	
Royalties	32,000	
Rent	16,000	
Trade receivables/payables	86,600	100,630
Bank		34,200
Cash in hand	7,850	
Provision for unrealized profit		8,400
	<b>3,630,430</b>	<b>3,630,430</b>

Additional information:

a) Inventories on 31 March 2017:

	€
Raw materials	154,000
Finished Goods	135,300
Work-in-progress	48,830

b) Finished goods are transferred to inventory at production cost plus a 10% mark-up.

c) The following amounts were incurred but not yet paid at the end of the financial year:

	€
Electricity	5,600
Rent	4,800
Factory direct wages	9,200
Bank overdraft interest	2,320

d) Insurance prepaid as at 31 March 2017 amounted to €6,400.

e) Premises include €200,000 for cost of land.

f) The company's depreciation policy is as follows:

Premises	4% straight line method
Office equipment	15% straight line method
Retail Outlet fittings	15% straight line method
Motor Vehicles	40% on net book value
Machinery	20% on net book value

g) Depreciation on premises is to be charged fully to factory costs. 75% of insurance, maintenance and repairs, and power and electricity are to be charged to factory costs, and the rest to administration and selling expenses. Rent and motor vehicle costs are exclusively related to the retail outlet.

h) The directors of Mondeo plc propose a transfer of €40,000 to the General Reserve.

**Required:**

- A. Prepare the manufacturing account and the statement of profit or loss of Mondeo plc for the year ended 31 March 2017. (14)
- B. Prepare the statement of financial position of Mondeo plc as at 31 March 2017. (7)
- C. Distinguish between revenue and capital expenditure, supporting your answer with examples. (5)

9. The secretary of Swan Sailing Club prepared the following Receipts and Payments Account for the year ended 30 June 2017:

<i>Receipts</i>	€	<i>Payments</i>	€
Subscriptions	9,320	Bal b/d	3,215
Competition registrations	1,230	Bar purchases	8,100
Social activities	1,860	Wages	9,800
Sale of equipment	4,520	Competition expenses	1,630
Bar receipts	17,800	Equipment for sale	2,750
Competition tickets	3,640	Competition trophies	1,440
Disposal of fittings	1,400	Fittings	4,700
		Electricity	1,080
		Rent	4,200
		Bal c/d	2,855
	€39,770		€39,770

The opening and closing balances on the club's books include the following:

	<i>1 July 2016</i>	<i>30 June 2017</i>
	€	€
Fittings at book value	14,800	?
Subscriptions in arrears	720	880
Subscriptions in advance	400	360
Bar inventories	1,560	1,150
Competition trophies	85	110
Accruals: Electricity	120	260
Rent	--	320
Bar purchases	1,650	2,065
Wages	1,200	800
Rent paid in advance	450	--
Equipment inventory	360	520

The following are to be taken into consideration:

- a) The club's subscription fee is €40 per annum. It is the club's policy that members who fail to pay their subscription fee for the second consecutive year are struck off the register and any amount due is written off. After striking off these members, the club had 240 members on its register as at 30 June 2017. The amount of subscriptions in arrears as at 30 June 2017 does not include subscriptions written off during the year.
- b) 40% of wages and rent, and 30% of electricity are to be charged to bar expenses.
- c) The bar provided refreshments having a total cost of €760 for the club's social activities.

- d) During the year, fittings with a carrying value of €2,200 were disposed of for €1,400.
- e) Fittings are depreciated at 25% of net book value.
- f) The club purchases equipment with the intention of selling it to its members at discounted prices.

**Required:**

- A. Calculate the Accumulated Fund of the Swan Sailing Club as on 1 July 2016. (2)
- B. Prepare the Subscriptions Account and the Bar Trading Account for the year ended 30 June 2017. (9)
- C. Prepare the Income and Expenditure Account for the year ended 30 June 2017, and the Statement of Affairs at the year end. (10)
- D. Explain the accounting treatment of donations to clubs, distinguishing between donations of a revenue nature and those of a capital nature. (5)

*Questions continue on next page*

10. The following are the summarised financial statements of Joystick Enterprises Ltd, a trading company:

**Statement of Profit or Loss for the years ended 31 December:**

	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
Sales	3,000	2,100
Cost of sales:		
Opening inventory	420	350
Purchases	2,190	1,470
	<u>2,610</u>	<u>1,820</u>
Closing inventory	510	420
	<u>2,100</u>	<u>1,400</u>
Gross profit	900	700
Expenses	447	353
Net profit before tax	453	347
Tax	113	87
Net profit after tax	<u>340</u>	<u>260</u>

**Statement of Financial Position as at 31 December:**

	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
Non current assets:		
Property, plant and equipment	2,100	1,700
Current assets:		
Inventory	510	420
Trade receivables	450	400
Bank and cash	120	100
	<u>1,080</u>	<u>920</u>
	<b><u>3,180</u></b>	<b><u>2,620</u></b>
Equity:		
Ordinary shares (€1 each)	1,500	1,250
Share premium	604	250
Retained earnings	453	233
	<u>2,557</u>	<u>1,733</u>
Long term liabilities:		
12% debentures	--	400
Current liabilities:		
Trade payables	380	340
Accruals	130	60
Taxation	113	87
	<u>623</u>	<u>487</u>
	<b><u>3,180</u></b>	<b><u>2,620</u></b>



Additional information:

- a) 90% of all sales are on credit.
- b) All purchases were made on credit.
- c) Trade receivables and trade payables figures at year end may be taken as representative average for each year.
- d) Dividends of €90,000 and €120,000 were paid during the years 2015 and 2016, respectively.

**Required:**

- A. Write a report comparing the profitability, efficiency and liquidity of Joystick Enterprises Ltd over the two years. Calculations for any ratios used are to be clearly shown. (20)
- B. List and describe **THREE** limitations of ratio analysis. (6)

11. On 12 November 2016, the warehouse and office buildings of Cosicot plc suffered extensive damage because of flooding. Most of the records stored on computers were irretrievable. The company’s stock of goods also suffered great damage and the majority were either lost or became unusable. Nevertheless, some data which the accountant kept in another part of the building proved helpful to determine the amount to be claimed from the insurance company. Cosicot’s financial year ends on 31 December. The data below could be ascertained from the records salvaged on the day following the flooding incident:

	€
Purchases	325,000
Sales	448,000
Returns in	15,400
Returns out	22,500

- a) Goods purchased for €8,400, though invoiced, had not been received by the day of the incident. On the same day, goods sold for €2,580 had not been delivered and were still in the warehouse, even though the sales invoice was issued.
- b) Goods with a sales value of €6,800 had been sent to one of the company’s customers on a sale-or-return basis.
- c) On 1 November 2016, Cosicot’s manager had taken goods costing €1,260 for his own personal use.
- d) Inventory with a sales value of €3,480 had been borrowed by a customer for promotional purposes and had not been returned by the day of the flooding.

*Question continues on next page*

- e) Goods stored on the first floor of the warehouse, costing €4,250, were salvaged. However, part of another batch costing €1,250, was only partly saleable. It was estimated that this damaged batch could be sold at a discounted price of €850.
- f) Cosicot plc sells its goods at a uniform mark-up of 33 %.
- g) The statement of financial position as at 31 December 2015 showed inventory valued at €85,000.

**Required:**

- A. Calculate Cosicot plc's inventory loss, showing all your workings. (21)
- B. Explain the term 'goods on sale or return basis'. Describe how such goods affect the valuation of inventories of the seller and the buyer. (5)

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<b>SUBJECT:</b>	ACCOUNTING
<b>PAPER NUMBER:</b>	II
<b>DATE:</b>	5 <sup>th</sup> September 2017
<b>TIME:</b>	9.00 a.m. to 12.05 p.m.

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Answer **ALL** questions in **SECTION A**.

Answer any **THREE** questions from **SECTION B**.

You must show the working leading up to your answers.

Candidates may only use non-programmable calculators in this examination.

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**SECTION A**

Answer **ALL** questions in this section. This section carries a total of 22 marks.

1. Briefly describe **THREE** differences between management accounting and financial accounting. (3 marks)
2. What is the meaning of an abnormal gain in process costing and how is it accounted for? (3 marks)
3. Describe **TWO** causes of labour turnover and give **TWO** examples of the related costs. (4 marks)
4. Describe the term 'Corporate Social Responsibility' and explain why businesses have a vested interest in embracing such a policy. (4 marks)
5.
  - a) Why is it important to control inventory levels?
  - b) State and briefly describe **THREE** types of costs that may arise when excessive stock is held. (4 marks)
6.
  - a) Why is it important to calculate sales variances?
  - b) Give **TWO** possible causes of an adverse sales variance. (4 marks)

**SECTION B**

Answer any **THREE** questions from this Section. Each question carries **26** marks.

7. CSB Ltd manufactures 'Sital' ovens and is currently preparing budgets for the final quarter of 2017. The production of each oven requires the use of 6 identical electrical components which are assembled in-house. The materials required to assemble one electrical component are as follows:

<u>Materials</u>	Price per microchip - €	No. of microchips required per component
Microchip A	5.00	4
Microchip B	10.00	8

CSB Ltd operates a just-in-time stock system and no stocks of microchips are held. The microchips are acquired from Gefee Ltd. CSB Ltd has an agreement with Gefee Ltd to pay 10% of total purchases in cash upon acquisition in order to benefit from a 5% cash discount on the total amount due. Credit purchases are paid within two months. Credit purchases for August 2017 and September 2017 were €900,000 and €1,300,000, respectively.

In September 2017, CSB Ltd sold 2,000 ovens at €800 per oven. The number of ovens sold are expected to increase by 5% per month during October and November 2017 and by a further 20% in December 2017. 20% of the sales are for cash. 40% of the credit sales are received within one month and the remaining balance within two months. Credit sales during August 2017 were €56,000.

**Required:**

- A. Prepare the following functional budgets for the quarter ending 31 December 2017:
- i) Sales Budget;
  - ii) The Debtors Budget;
  - iii) A total Purchases Budget, in quantity and value; and
  - iv) The Creditors Budget. (20)
- B. Functional budgets are useful within a large organisation as they encourage cross-functional co-operation. Mention **THREE** benefits of preparing budgets. (6)

8. The board of directors of a local company producing a popular product has been presented with the following information for the quarter ended 30 June 2017:

Number of units sold and produced	18,000 units
	€
Selling price per unit	80.00
Material cost per unit	15.00
Labour cost per unit	12.00
Variable overhead per unit	2.00
Total Fixed Overheads:	
Production	350,000
Selling, Marketing and Distribution	180,000
Administration	220,000

A product, very similar to that produced by the company, has recently been released on the market and this is expected to have a negative effect on the company's profitability. Following a brain storming session, the following options have been presented to the company's board of directors for their consideration for the final quarter of the year:

- a) Enhance the product packaging, resulting in a 5% increase in demand. The material cost of the company will increase by €5. The selling price is increased by 15%. Production overheads are expected to increase by €5,000 and selling and distribution overheads are expected to increase by €60,000.
- b) Decrease the selling price by 5%. This should result in an increase in demand of 20%. This proposal will result in an increase in fixed production overheads of €25,000 and an increase in selling and distribution overheads of €15,000.
- c) Increase the selling price by 20%. An extensive marketing campaign is to be conducted which will increase selling and distribution overheads by €80,000. Following such a campaign, the decrease in demand is estimated to be of 10% despite the substantial increase in selling price.
- d) The production process of the company is divided into three processes. One of the processes is to be sub-contracted. Currently this process involves the production of 20,000 pieces per quarter at a variable cost of €6.00 per piece. These are available from the sub-contractor at a price of €8 per piece. This proposal will result in a decrease in fixed production overheads of €12,000 and a decrease in fixed administration overheads of €8,000.

**Required:**

- A. For the quarter ended 30 June 2017, calculate the contribution per unit, the break-even point and the margin of safety, and prepare a profit statement. (6)
- B. For each of the proposed options, calculate the contribution per unit, the break-even point and the margin of safety, and prepare a profit statement for the final quarter of the year 2017. (16)
- C. Identify the best option that has been suggested to the Board and explain why. (4)

9. A small local manufacturing company manufactures three products. The company's financial adviser has submitted a proposal to the company's director for the introduction of an incentive scheme. The financial adviser has proposed three types of schemes, namely the time rate scheme, piecework scheme with a guaranteed minimum and a bonus on time saved scheme.

The following information is available for three employees of the company:

	Alan	Bernard	Carl
Units produced - X	60	22	62
- Y	34	38	134
- Z	-	46	-
Actual hours of work (hours)	36	40	44
Rate of pay per hour (€)	5.00	6.00	7.00

The standard time allowed per unit is as follows:

Product X	12 minutes
Product Y	18 minutes
Product Z	22 minutes

For piecework calculations, the rate per minute is calculated at €0.10.

**Required:**

- A. Calculate the remuneration for each employee using the following method of labour remuneration:
- Hourly rate (Basic salary).
  - Piecework with the remuneration guaranteed at 80% of the basic salary.
  - Individual bonus whereby the employee receives 75% of time saved in addition to the hourly pay. (20)
- B. Describe **ONE** advantage and **ONE** disadvantage related to each remuneration scheme being considered by the company. (6)

10. Boats Limited is a company involved in the boat-building industry in line with customer requirements. The company has been approached from two potential customers who have asked for a quote for the building of two boats. The first job relates to the building of a yacht and the second job relates to the building of a fishing vessel. Both jobs are to be completed within four weeks. The company has approached you to determine the costs of these two jobs and the selling prices to be quoted. The following information is available:

a) Three types of material will be required as follows:

	Job: Yacht	Job: Fishing Vessel
Material X – €10 per kg	8,000 kg	3,800 kg
Material Y – €8 per litre	5,000 lt	2,600 lt
Material Z – €6 per unit	4,200 units	1,900 units

b) An element of scrap is expected on the use of Material Y. Such scrap can be recycled and sold. Based on past information, it is expected that scrap will amount to 5% of material used and that it will be sold at €1 per litre.

c) The company employs both skilled and unskilled workers. The labour hours required for each job are as follows:

	Job Yacht	Job Fishing Vessel
Skilled labour hours	1,200	1,000
Unskilled labour hours	1,180	1,400

The company employs 12 skilled workers and 14 unskilled workers. The hourly cost of skilled workers is €2.00 per hour and that of unskilled workers is of €7.00 per hour. All employees work a forty-hour week. The total number of hours available are to be divided equally between the two jobs. Any excess skilled labour hours required to complete the jobs are to be completed by overtime which is paid at one and a half times the normal rate. Any excess unskilled labour hours required are to be completed by the recruitment of part-time employees who will be paid at €8.00 per hour.

d) Production overheads are absorbed into production on the basis of labour hours worked. An absorption rate of €5.00 per labour hour is charged.

e) Fixed overheads of €8,600 are to be shared between the two jobs as follows:

Job Yacht	60%
Job Fishing Vessel	40%

f) Electrical works on both jobs are to be subcontracted. The subcontracting charge is expected to be €2.00 per kg of Material X used. An additional subcontracting charge for the yacht job is expected to be €15,800.

g) The company's policy is to fix selling prices at a mark-up of 20%.

**Required:**

- A. Calculate the cost of both jobs. (18)
- B. Calculate selling price to be quoted for each job. (4)
- C. Briefly explain the differences between job costing and process costing. Mention **TWO** types of industries that make use of job costing. (4)

11. Trumpet Limited manufactures one type of product, the tuba. During the current year, the company celebrates its 20<sup>th</sup> anniversary since starting its operations in Malta. To commemorate this event, the company had decided to manufacture a special edition of the tuba. Production commenced on 1 June 2017. The following cost information is available for the months of June, July and August:

	June	July	August
	€	€	€
Direct materials	126,000	120,000	128,000
Direct labour	90,000	82,500	98,000
Variable overheads	36,000	33,750	38,000
Fixed factory overheads	45,000	54,000	56,000
Selling and administration expenses	27,000	30,500	32,800

Units produced and sold during the months of June, July and August were as follows:

	June	July	August
Sales – Units	7,000	8,000	8,500
Production – Units	9,000	7,500	8,000

The selling price was set at €2 per unit for the month of June but was then increased to €3 per unit for the month of July and to €5 per unit for the month of August. Trumpet Ltd values inventory using the FIFO method.

**Required:**

- A. Calculate the production cost per unit for the three months using:
- marginal costing;
  - absorption costing. (6)
- B. Prepare statements of profit/loss for the three months using:
- marginal costing approach to valuing inventory;
  - absorption costing approach to valuing inventory. (15)
- C. Using the figures obtained above, briefly explain the reasons for the difference in profit when using the different valuation methods. (5)