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MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

UNIVERSITY OF MALTA, MSIDA

MATRICULATION CERTIFICATE EXAMINATION
INTERMEDIATE LEVEL
MAY 2012

SUBJECT:	ACCOUNTING
DATE:	26th April 2012
TIME:	9.00 a.m. to 12.00 noon

This paper contains THREE Sections. Follow the instructions below.

<u>Section A</u>
Answer question 1. This question carries 30 marks.

<u>Section B</u>
Answer any TWO questions from this Section. Each question carries 20 marks.

<u>Section C</u>
Answer any TWO questions from this Section. Each question carries 15 marks.

Section A

Answer Question 1. This question carries 30 marks.

1. The St George is a private members club for members of a Higher Education Institution. It is funded partly from subscriptions of 10 Euro per person per year and partly from the bar which sells drinks and refreshments.
   The following is a list of assets and liabilities the club (all in Euro) had at 31 March 2010:
   Bar Fixtures and Equipment at cost, 5,300, (Depreciation 1,750), Bar Stocks 2,100, Cash in hand 60, Cash at bank 3,200, Creditors for bar stocks 1,010, Rent accrued 1,100.

   The cash takings from the bar amounted to 40,000 Euro. Payments in cash included 11,000 Euro for stock purchases, barman wages12,900 Euro, cleaning 102 Euro, New Bar Equipment 200 Euro, Christmas party expenses 170 Euro, cash deposited into bank 15,628 Euro.
   The treasurer collected members' subscriptions amounting to 5,000 Euro which he deposited directly into the bank.
   Cheque payments included 13,550 Euro to suppliers of bar stocks, 260 Euro for cleaning, 1,500 Euro for new fixtures, 3,800 Euro for general overheads and 1,100 Euro for rent.
   The bar makes a gross profit of 40% of sales. No stock taking was made on 1st April 2011. Provision is to be made for rent due 500 Euro. Depreciation on the Bar Fixtures and equipment is at the rate of 20% on cost. New additions during the year are charged for the full year. At the end of the year subscriptions were still receivable from 100 members and 950 Euro were still payable to stock creditors.

Required:

a) A Receipts and Payments Account with two columns, one for cash and one for bank for the year ended 31st March 2011. (10 marks)
b) A bar Trading Account and an Income and Expenditure Account for the year ended 31st March 2011. (8 marks)
c) A Statement of Financial Position as at 31st March 2011. (6 marks)
d) Explain the term "Accumulated Fund". (6 marks)

Section B

Answer any TWO questions from this Section. Each question carries 20 marks.

2. The following list of balances as at 30th April 2010 has been taken from the books of Viktor Manufacturing plc which started business on 1st May 2009:

	Euro
Ordinary shares of 1 Euro, each fully paid	240,000
Share Premium	60,000
Factory plant and machinery at cost 1 May 2009	240,000
Motor vehicles at cost 1 May 2009	50,000
Purchases of raw material	82,000
Sales of finished goods	273,000
Direct factory wages	84,000
Wages factory supervision	14,000
Plant and machinery repairs	17,420
Heat, light and power	49,500
Rates and insurance	5,100
General administrative expenses	18,800
Administrative Salaries	24,180
Debtors (Trade receivables)	12,000
Creditors (Trade payables)	14,200
Bank overdraft	9,800

Additional information:

i) At 30th April 2010 stocks included Raw material 6,000 Euro, work in progress 48,000 Euro, finished goods 15,000 Euro.
ii) On this date, rates and insurance were prepaid by 1,200 Euro, while heat, light and power were accrued by 4,600 Euro.
iii) All expenses mentioned in ii) above are to be apportioned 75% to Manufacturing and 25% to Profit and Loss.
iv) Depreciation is to be provided on cost at the following rates:
Plant and Machinery 10% per year, Motor Vehicles 25% per year.
v) A general reserve of 5,000 Euro is to be made from profits and a dividend of 4% is to be provided for the Ordinary Shareholders.

Required:

a) A manufacturing Account to show the Prime cost and the cost of Production for the year ending 30th April 2010. (5 marks)
b) An account to show the gross and the net profits made at the end of this year (8 marks)
c) A statement to show the financial position of the firm on 30th April 2010. (3 marks)
d) Explain clearly the difference between direct and indirect costs. (4 marks)

3. Fenech, Muscat and Lungaro trade in partnership. The following information has been extracted from their books for the year ended 31 October 2009.

   i) The balances on the partner's capital and current accounts at 1 November 2008 were:

	CAPITAL	CURRENT
	Euro	Euro
Fenech	54,000	cr 27,930
Muscat	120,000	cr 13,950
Lungaro	99,000	cr 6,510

   ii) Cash drawings during the year amounted to Fenech 16,500 Euro, Muscat 18,600 Euro and Lungaro 14,700 Euro. All cash drawings took place on 30th April 2009.

   iii) Each partner had taken goods for his own use during the year at cost as follows: Fenech 9,600 Euro, Muscat 5,700 Euro, and Lungaro 7,500 Euro but no entries had been made in the books to record these transactions.

   iv) The partnership had disposed of some fixtures with a book value of 18,300 Euro for 12,600 Euro during the year. The sales proceeds were recorded as profit while the book value of the fixtures were transferred to a suspense account.

   v) Repairs to Muscat's private car amounting to 690 Euro were charged to the partnership Profit and Loss Account.

   vi) The partnership net trading profit, before any adjustments had been made, amounted to 216,570 Euro. The adjusted profit is to be appropriated in the following ratios Fenech 1, Muscat 2 and Lungaro 2.

   vii) Partners are to be credited with interest on their capital accounts at the rate of 9% per annum while interest is to be charged on cash drawings only at the rate of 10% per annum.

Required:

a) A statement of corrected net profit for the year ended 31st October 2009. (6 marks)

b) The Profit and Loss Appropriation Account for the year ended 31st October 2009. (5 marks)

c) The Capital and Current Accounts of the partners as they would appear in the Statement of Financial Position on this date. (5 marks)

d) Explain the term Goodwill, how it can be created and why it is not kept in the books. (4 marks)

4. The summarised accounts for the year ending 31st December 2010 of two firms, Borg plc and Duca plc, two companies selling similar goods are given below:

Statement of Profit/Loss as at 31st December 2010

	Borg plc		Duca plc	
	Euro 000	Euro 000	Euro 000	Euro 000
Sales		720		1,800
Stock b/f	70		160	
Purchases	430		1,060	
Stock c/f	(50)		(100)	
Cost of Sales		450		1,120
Gross Profit		270		680
Less expenses:				
Administration	116		360	
Selling/Distribution	54	170	220	580
Net Profit		100		100

Statement of Financial Position as at 31st December 2010

	Euro 000	Euro 000	Euro 000	Euro000
Fixed Assets (net)		600		800
Current Assets:				
Stocks	50		100	
Amounts Receivable	60		120	
Bank	20		-	
	130		220	
Current Liabilities:				
Amounts Payable	70		150	
Bank overdraft	--		40	
Net current Assets:		60		30
Total Assets Less Current Liabilities		660		830
Ordinary Shares of 1 Euro each		500		700
Reserves		160		130
Capital employed		660		830

Required:

a) Calculate six ratios to compare the profitability and the liquidity of the two firms. (6 marks)
b) Comment on the relative performance of the two firms during this year. (9 marks)
c) Distinguish between Working Capital (Net Current Assets) and Capital Employed. (5 marks)

<u>Section C</u>

Answer any TWO questions from this Section. Each question carries 15 marks.

5. The following information relates to a manufacturing firm operating in Malta:

Budgeted Labour Hours	51,000	Budgeted Overheads	Euro	892,500
Actual Labour Hours	47,568	Actual Overheads	Euro	877,200

   a) Based on the data given above, calculate the budgeted labour hour overhead absorption rate. (4 marks)
   b) Calculate the actual amount of overheads absorbed from customers. (4 marks)
   c) Calculate the amount of overhead under or over absorbed. (4 marks)
   d) Explain the terms:
      i) overhead absorption;
      ii) overhead under-absorption;
      iii) overhead over-absorption. (3 marks)

6. Ledger Records for a special type of material used in a manufacturing process show:

Year 2010	Units	Purchases	Issue to Production
Jan. 1	100 @10 Euro		
14			60 units
16		60 @ 10.5 Euro each	
Feb. 5			80 units
20		50 @ 11.0 Euro each	
28			50 units
Mar. 6		90 @ 11.0 Euro each	
14			70 units
29		90 @ 12.0 Euro each	
Apr. 1			90 units
16		60 @ 12.0 Euro each	
28			60 units

Required:

   a) Calculate the value of stock left on the 30th April 2010 using the:
      i) FIFO (perpetual method); (5 marks)
      ii) AVCO (perpetual method). (5 marks)
   b) What effect does each method used above have on the valuation of stock and on the cost of production? (5 marks)

7. Calleja plc produces and sells garden statues. In the next financial year starting on 1st January 2012 the firm had planned to produce and sell 20,000 statues based on the following cost and income estimates:

Per unit		EURO
Selling Price		100
Variable Costs:	Material	40
	Labour	24
	Overheads	12

Total fixed costs of Calleja plc are estimated to amount to 192,000 Euro for the year.

The managing director is concerned with the expected market conditions for the product. Marketing Research has identified two main possibilities:

i) Sales and production would fall by 25% from the original estimates; assuming costs and selling price remain the same.
ii) Reducing selling price by 5% would increase sales volume by 15%; however, the extra units above the original estimate of 20,000 would have to be produced overtime and unit labour costs would increase by 6 Euro per unit assuming other costs per unit remain the same

Required:

a) A statement to show cost, contribution and profit if the original estimate was worked out. (3 marks)
b) A statement to show cost, contribution and profit for each of the possibilities i) and ii) above. (6 marks)
c) Describe the terms 'Break Even' and 'Margin of Safety'. (6 marks)