

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD  
UNIVERSITY OF MALTA, MSIDA  
MATRICULATION CERTIFICATE EXAMINATION  
INTERMEDIATE LEVEL  
SEPTEMBER 2012

---

<b>SUBJECT:</b>	ACCOUNTING
<b>DATE:</b>	7th September 2012
<b>TIME:</b>	4.00 p.m. to 7.00 p.m.

---

**This paper contains THREE Sections. Follow the instructions below.**

**Section A**

**Answer question 1. This question carries 30 marks.**

**Section B**

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

**Section C**

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

**Section A**

**Answer Question 1. This question carries 30 marks.**

1. Abela, Borg and Cassar have been in business for the past 10 years, you are asked to study the information below and answer the questions presented to you.

**Trial Balance of Abela, Borg and Cassar as at 31<sup>st</sup> March 2012**

	€	€
Inventory at 1st April 2011	42,800	
Sales		210,500
Purchases	137,190	
Carriage Inwards	1,500	
Carriage Outwards	850	
Returns Inwards	6,800	
Returns Outwards		5,400
Discount Received		60
Discounts Allowed	110	
Wages and Salaries	18,290	
Rent & Rates	2,565	
Rent Receivable		600
General expenses	950	
Motor expenses	3,940	
Postage & telephone expenses	2,450	
Bad Debts	1,230	
Provision for Doubtful Debts		1,800
Provision for Depreciation:		
Motor Vehicles		4,200
Office Equipment		2,700
Motor Vehicles at cost	12,500	
Office Equipment at cost	9,400	
Debtors	37,200	
Creditors		24,350
Cash at bank		1,205
Cash at hand	1,160	
Drawings:		
Abela	12,600	
Borg	9,400	
Cassar	7,200	
Current Account balances:		
Abela		1,310
Borg	1,050	
Cassar		2,060
Capital Account Balances:		
Abela		25,000
Borg		15,000
Cassar		15,000
	<b>309,185</b>	<b>309,185</b>

**Additional Information:**

- Inventory at 31<sup>st</sup> March 2012 was valued at €51,000
- Depreciation is charged at 20% per annum straight line method on both Motor Vehicles and Office Equipment
- A provision for Doubtful Debts is kept at 5% of Debtors
- During the year, Rates have been paid in advance for the amount of €165
- Motor Expenses to the value of €360 were still due at the end of the financial year
- Rent receivable to the value of €500 was still to be collected at the end of the financial year.
- Partners are to share profits at a ratio of 2:2:1 (Abela: Borg: Cassar)
- Partners salaries for the year are as follows: Abela: €500, Borg: €2,000
- Partners are charged an interest on Drawings of 5%
- Partners are allowed an interest on Capital of 10%

**Required:**

- a) The Income Statement of Abela, Borg and Cassar for year ending 31<sup>st</sup> March 2012. (7 marks)
- b) The Appropriation Account and Current Account of Abela, Borg and Cassar. (7 marks)
- c) The Statement of Financial Position as at 31<sup>st</sup> March 2012. (8 marks)
- d) The set of final accounts requested above needs to be presented in line with a number of accounting concepts. Identify these concepts explaining why these are so important for the preparation of the final accounts. (8 marks)

*Please turn the page.*

**Section B**

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

2. The NL Social Club has been in existence for the past 80 years. Members pay an annual subscription of €40 which entitles them to entrance to the exclusive club and free entrance to seminars organised by the social club.

On 1<sup>st</sup> January 2011, the club had the following assets and liabilities.

**Assets and Liabilities of NL Social Club**

	<u>€</u>
Cash in cash till	150
Cash in Bank account	2,500
Premises at valuation	50,000
Fixtures and fittings at book value	3,100
Furniture at book value	2,200
Subscriptions Due	400
Subscriptions paid in advance	1,600
Renting of club equipment prepaid	600
Insurance still due at 31st December 2010	350
Bar Debtors	50
Bar inventory at 1st January 2011	1,600
Bar Creditors	120

**On the 31<sup>st</sup> December 2011, the following information was available:**

Payments received from Bar Debtors by cheque:	5,200
Cash Sales from Bar:	7,500
Payments made to Bar Creditors by Cheque:	3500
Cash Purchases:	2,000
Sales Returns were to the amount of	400
Purchases Returns were to the amount of	250
Bar inventory at 31st December 2011 was	1,000
Bar Debtors at 31st December 2011 were	3,100
Bar Creditors at 31st December 2011 were	1,200
Wages paid to bar tender by cheque	10,600
Rent paid in cash during the year amounted to	900
Rent was still prepaid at 31st December 2011	100
Insurance paid by cheque during the year amounted to	800
Insurance was prepaid at 31st December 2011	150
Furniture of a book value of € 1000 was sold for € 1200 receiving cash	
Subscriptions received deposited into the bank	4,800
Subscriptions still due by 31 <sup>st</sup> December 2011	200
Subscriptions prepaid at 31st December 2011	2,000

**Required:**

- Prepare the bar Trading Account. (5 marks)
- Prepare the Receipts and Payments Account and an Income and Expenditure Account. (7 marks)
- Prepare a Statement of Affairs as at 31<sup>st</sup> December 2011. (3 marks)
- Distinguish between an Income and Expenditure Account and a Receipts and Payments Account. (5 marks)

3. Below is the non-current assets schedule of D. Dimech; a sole trader.

**Non current assets Schedule**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
	<u>€</u>	<u>€</u>	<u>€</u>	<u>€</u>
Furniture at cost	7,000	7,000	9,000	9,000
Accumulated Depreciation	1,400	2,800	1,800	3,600
Net Book Value	5,600	4,200	7,200	5,400
Motor Vehicles at cost	20,000	45,000	45,000	45,000
Accumulated Depreciation	4,000	9,000	16,200	21,960
Net Book Value	16,000	36,000	28,800	23,040
Office Equipment at cost	20,000	20,000	20,000	35,000
Accumulated Depreciation	4,000	8,000	12,000	13,000
Net Book Value	16,000	12,000	8,000	22,000

**Additional Information:**

- All Assets were bought in 2008
- Disposal of Furniture in 2010 (due to refurbishing) original cost being €7,000 was sold for €4,000
- Disposal of Motor vehicle in 2009 original cost being €20,000 was sold for €15,000
- Disposal of Office Equipment in 2011 (due to refurbishing) original cost being €10,000 was sold for €5,000

Note: A full year's depreciation is provided for assets purchased during the year but no provision is made for assets disposed

**Required:**

- a) Identify the method used in providing depreciation for Furniture, Motor Vehicles and Office Equipment. Show your workings to indicate how you have arrived at this conclusion. (3 marks)
- b) Prepare the Furniture a/c, Motor Vehicle a/c and the Office Equipment a/c and the provision for depreciation of the above assets, for the years 2008, 2009, 2010, 2011. (8 marks)
- c) Prepare the Disposal of Assets Account for 2009, 2010 and 2011. (4 marks)
- d) Identify and explain the three methods of depreciation. (5 marks)

*Please turn the page.*

4. Consider the following information. F. Farrugia presents you with incomplete records for the year 2011. As his advisor, you are expected to read the data and give him advice.

**Income Statement of F. Farrugia**

	<b>2010</b>		<b>2011</b>	
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Turnover		40,000		?
Inventory at 1st January	3,100		?	
Purchases	31,800		?	
Inventory at 31st December	4,900		?	
<b><u>Cost of Sales</u></b>		<b>30,000</b>		?
<b><u>Gross Profit</u></b>		10,000		?
Administration expenses	2,400		3,200	
Distribution expenses	1,500		1,700	
Interest on loan	1,100		1,100	
		<b>5,000</b>		<b>6,000</b>
<b><u>Net Profit</u></b>		5,000		?

**Statement of Financial Position of F. Farrugia**

	<b>2010</b>		<b>2011</b>	
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>Non-Current Assets</b>				
Furniture and Equipment at Book Value		30,000		28,000
<b>Current Assets</b>				
Cash at hand	5,700		4,800	
Cash in Bank	7,000		8,100	
Debtors	25,000		27,100	
Inventory at 31st December	4,900		?	
		42,600		?
<b><u>Liabilities falling due within one year</u></b>				
Creditors		<b>17,200</b>		18,700
		55,400		?
<b><u>Financed by:</u></b>				
Capital	30,000		?	
Net Profit	5,000		?	
Drawings	<b>2,000</b>		6,700	
		33,000		?
<b><u>Liabilities falling due after one year</u></b>				
Loans @ 5% per annum		22,000		22,000
		55,000		?

Additional information:

- All the firms' sales and purchases are done on credit.
- Payments received from debtors in 2011 amounted to: € 47,900
- Gross profit margin is calculated to be 25% for both 2010 and 2011
- Rate of stock turnover was constant both in 2010 and 2011

**Required:**

- a) The Income Statement and the Statement of Financial Position of F. Farrugia for 2011. (7 marks)
- b) Calculate the following ratios for 2010 and 2011.
  - i. Current ratio
  - ii. Acid Test ratio
  - iii. Debtors collection Period (3 marks)
- c) Calculate the following ratios for 2010 and 2011
  - i. Mark up
  - ii. Net profit margin
  - iii. ROCE (3 marks)
- d) Comment on the profitability and liquidity of F. Farrugia's business. Why is it important for firms to use accounting ratios? (7 marks)

**Section C**

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

5. The following costs have been identified in the short-run operations of a Pastizzeria.

<b>Production</b>	<b>20,000 cheese cakes/week</b>
Rent	€500/week
Direct Wages	€400/week
Direct Energy consumption	€100/week
Direct Materials	€500/week
Advertising	€100/week
Interest on Loan	€200/week

**Required:**

- a) Distinguish between fixed and variable costs of this business. Why are some costs considered fixed whilst others considered variable? (4 marks)
- b) Calculate the Fixed cost per cheese cake and the variable cost per cheese cake. (2 marks)
- c) If the price is set at 10c per cheese cake, how many Cheese cakes does the business need to sell in order to break even? (3 marks)
- d) Calculate the profit or loss the firm would be making be selling 20,000 cheese cakes a week. i.e. at full capacity. (assuming price is 10c per cheese cake). (2 marks)
- e) Consider the following situations:  
 Situation 1: Wages double and price of cheese cakes increases by 10%

Situation 2: Interest on loan and rent double as price of cheese cakes remains the same

For each situation calculate the break even point in units commenting on your result. (2+2 marks)

*Please turn the page.*

6. The following information relates to a manufacturing firm operating in Gozo that uses one type of material Y.

<u>Year</u>	<u>Units</u>	<u>Purchases</u>	<u>Issues to production</u>
<u>2011</u>			
January 1st	60 at € 9		
January 15th			25 units
January 31st		115 at € 9.50	
February 7th			50 units
February 20th		44 at € 8.50	
March 1st			70 units
March 15th		65 at € 9	
March 31st			40 units
April 9th		71 at € 9.50	
April 20th			50 units

**Required:**

- a) Calculate the value of the stock left on the 20<sup>th</sup> April using the following methods:
    - i. FIFO (perpetual method) (5 marks)
    - ii. AVCO (perpetual method) (5 marks)
  - b) Comment on the effect of each method used above on stock valuation and on cost of production. (5 marks)
7. Altam Ltd. Manufactures chairs. Because of the adverse economic climate, they expect their sales to drop unless they reduce their price. In order to do this, the firm turns to you, their accountant, for help.

**This information is available:**

		<u>Chair type 1</u>
		€
Direct labour		4,000
Direct materials		7,500
Direct expenses		3,000
		<hr/>
		14,500
		<hr/>
Budgeted production units	1,000	
Machine hours	100	
Labour hours	40	

**Additional information:**

Production overheads	4,000
Distribution overheads	3,000
Administrative overheads	1,000

**Required:**

- a) Prepare pre-determined overhead absorption rates:
  - i. Labour hour absorption rate (4 marks)
  - ii. Machine hour absorption rate (4 marks)
  - iii. Cost per unit rate (4 marks)
- b) Explain briefly the effects of under or over absorption of overheads. (3 marks)