

IM 01.13s

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION

INTERMEDIATE LEVEL

SEPTEMBER 2013

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<b>SUBJECT:</b>	ACCOUNTING
<b>DATE:</b>	6th September 2013
<b>TIME:</b>	4.00 p.m. to 7.00 p.m.

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**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.**

**Question 1**

The following balances have been extracted from the books of Mirage plc on 31 March 2013:

	€	€
Ordinary Share Capital		400,000
General reserve		20,000
Purchases	1,182,500	
Sales		1,658,000
Retained earnings		40,000
8% Debentures		50,000
Dividends paid	20,000	
Wages	180,000	
Trade Receivables	95,000	
Trade Payables		72,100
Debenture interest paid	2,000	
Power and Lighting	37,400	
Administration expenses	35,450	
Promotional expenses	14,300	
Rent receivable		8,900
Inventories ( <i>1 April 2012</i> )	68,400	
Premises	440,000	
Equipment	180,000	
Motor vehicles	85,000	
Accumulated depreciation ( <i>1 April 2012</i> ):		
		18,000
		42,000
		28,700
Carriage in	5,200	
Allowance for doubtful debts		2,850
Cash	11,100	
Bank		15,800
	<b><u>2,356,350</u></b>	<b><u>2,356,350</u></b>

Additional information:

1. Mirage plc has an authorised share capital of 1.6 million ordinary shares with a nominal value of €0.50 each. Only half of these shares have been issued and fully paid up.
2. Depreciation is to be provided for as follows:

Premises	4% on cost
Equipment	15% on cost
Motor vehicles	30% on net book value

Premises include Land costing €200,000.
3. Inventories on 31 March 2013 amounted to €88,900.
4. An allowance of 4% is to be maintained for doubtful trade receivables.
5. An amount of €5,200 of promotional expenses relate to a campaign which is to be launched after 31 March 2013. Power and Lighting were in arrears by €4,750 and Rent receivable of €4,200 was still due.
6. The directors propose a final dividend of €0.12 per ordinary share and to provide for the remaining debenture interest. They also decided to transfer €50,000 to the General reserve.

**Required:**

- A) **Prepare the Statement of Comprehensive Income (Income Statement) of Mirage plc for the year ended 31 March 2013, and an extract from the Statement of Changes in Equity showing all movements on reserves.** (14 marks)
- B) **Prepare the Statement of Financial Position as at 31 March 2013.** (10 marks)
- C) **Distinguish between Capital and Revenue reserves and give TWO examples of each.** (6 marks)

*Please turn the page for Section B.*

**Section B**

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

**Question 2**

The following is the Income Statement of Big Buoys Ltd for the year ended 31 December 2012:

	€	€
Sales		420,000
Cost of sales:		
Opening inventory	56,000	
Purchases	309,750	
Closing inventory	(50,750)	
		315,000
Gross Profit		105,000
Administrative expenses	53,000	
Selling & Distribution expenses	12,000	65,000
Net Profit		40,000

On 15 March 2013, a fire broke out in Big Buoy's warehouse and all inventory held at that date was damaged beyond repair. The following information is available from the company's records:

1. During the period 1 January 2013 to 15 March 2013, cash purchases amounted to €12,000 and payments to credit suppliers €108,500. Trade payables as at 31 December 2012 amounted to €58,000, while the amounts due to credit suppliers as at 15 March 2013 were confirmed to be €68,000. No discounts are received from credit suppliers. Records showed that a consignment costing €18,500 was still at the Customs Department and had not been delivered to the warehouse.
2. All sales are for cash and are sold at a constant Gross profit percentage to sales, which is the same as that for the year 2012.
3. During the period 1 January 2013 to 15 March 2013, total sales amounted to €144,900. Goods costing €2,625 were returned by clients and stored in the warehouse. The company has a 'no refund' policy, and the clients were given credit notes for the sales value of these returns.

**Required:**

- A) Calculate the value at cost of the inventory damaged by the fire. *(16 marks)*
- B) Explain the terms Mark-up and Margin. *(4 marks)*

**Question 3**

Lighthouse plc is in the retail business selling lighting goods and equipment. It has three departments: Domestic Goods; Industrial Goods; Office Goods.

The following details were extracted directly from the records of each department for the year ended on 31 March 2013:

<i>Department</i>	<i>Domestic</i>	<i>Industrial</i>	<i>Office</i>
	€	€	€
Purchases	94,000	117,500	23,500
Sales	137,550	216,000	39,270
Opening inventory	12,500	41,500	8,000
Value of non-current assets	45,000	80,000	25,000
Gross Profit Mark-Up (%)	75%	80%	70%
Floor area ( <i>Square metres</i> )	80	120	40
Sales personnel ( <i>number employed</i> )	2	3	1

Other expenses of the business:

	€
Rent	9,600
Administration	24,600
Advertising	15,800
Carriage In	11,200
Electricity	6,300
Insurance	8,400
Wages	48,000
Depreciation	22,800

The following basis of apportionment are applicable:

Advertising	according to sales
Rent and electricity	according to floor area
Carriage in	according to purchases
Depreciation	according to non-current asset value
Wages	according to number of sales personnel
All other expenses are apportioned equally between the three departments.	

**Required:**

- A) Calculate the value of closing inventory in each department. (8 marks)
- B) Prepare a statement of profit for each of the three departments for the year ended 31 March 2013, and in total for the company. (8 marks)
- C) Explain why it may be beneficial to continue operating a particular department even though it is reporting a loss. (4 marks)

**Question 4**

Titan Haulage is in the transport business operating a number of heavy vehicles. As its vehicles are in constant use and subject to rather adverse operating conditions, it is company policy to change its vehicles every four years spreading their cost over the same period, taking into consideration a residual value of 25% of their original cost.

The following information was extracted from the books of Titan Haulage on 1 July 2012:

<b>Motor Lorry</b>	<b>Date of purchase</b>	<b>Cost €</b>
Red	15 September 2009	36,000
Blue	2 March 2011	48,000
Green	7 December 2011	40,000

The company has equipment with an original cost of €84,000 and which, up to 1 July 2012, had accumulated €38,000 in depreciation provisions. The company depreciates its equipment at 40% on the reducing balance method.

It is company policy to provide for a full year depreciation on acquisition of non current assets and none in the year of disposal.

During the year ended 30 June 2013 the following occurred:

1. Motor Lorry Red was traded in for €12,500 against Motor Lorry Brown costing €42,000.
2. Motor Lorry Green was involved in an accident and written off. The insurance company paid €32,000 in compensation. A new yellow lorry was purchased for €50,000.
3. Equipment bought for €15,000 two years ago was sold for €3,400.
4. New equipment costing €28,000 was purchased.

**Required:****A) Prepare for the year ended 30 June 2013:**

- i) **The Motor Lorries and Motor Lorries Depreciation Allowance Accounts including the transfer to the Income Statement and the balances to be carried down. (8 marks)**
- ii) **The Equipment and Equipment Depreciation Allowance Accounts including the transfer to the Income Statement and the balances to be carried down. (4 marks)**
- iii) **The Motor Lorries and Equipment Disposal Accounts. (4 marks)**

**B) Explain why it is not a waste of time to account for depreciation allowance. (4 marks)**

*Please turn the page for Section C.*

**Section C**

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

**Question 5**

Sinker plc is in the manufacturing business producing fishing products, mostly to customers' specifications. Following are the details of three jobs which were started during the month of June 2013:

Job No.	A3	B4	C5
Material cost	€2,560	€1,745	€1,220
Labour hours	120	85	80
Direct expenses	€395	-	€250

Workers on jobs A3 and C5 were paid at the rate of €8 per hour while those on job B4 receive €6 per hour.

Material costing €270 was found to be in excess of requirement in job C5 and returned to suppliers realising the full amount on refund.

Total fixed overheads for the month amounting to €3705 were absorbed on the basis of actual labour hours worked.

All the jobs were completed during the month and no other production took place.

Profit is calculated as 25% of *selling price*.

***Required;***

- A) Calculate the total cost of each of the three jobs. *(9 marks)*
- B) Determine the profit to be realised on each job. *(3 marks)*
- C) Distinguish between Job costing and Batch costing supporting your answer with an example. *(3 marks)*

**Question 6**

Marfields plc produces one product for the marine industry. The planned profit for the next twelve months was based on the following sales and costs:

	€	€
Sales (50,000 units)		1,500,000
Cost of production:		
Material	400,000	
Labour	350,000	
Variable Overheads	150,000	
Fixed Overheads	<u>375,000</u>	
		<u>1,275,000</u>
<b><i>Planned profit</i></b>		<b><u>225,000</u></b>

The company considers that profits are too low for the level of planned unit sales. The following three alternative suggestions were put forward in order to increase profit:

1. Decrease selling price by €2 per unit and sales volume would increase by 20%.
2. Replace delivery vehicles saving €75,000 of fixed overheads but variable overheads would increase by €0.80 per unit.
3. Use lower quality material, saving €1.20 per unit but sales quantities would drop by 10%.

**Required:**

- A) Using marginal costing techniques calculate the contribution per unit and the volume of sales required to break even under present conditions and if the planned suggestions were implemented. (8 marks)
- B) Determine which of the three options renders the highest profit. (4 marks)
- C) Explain the terms 'margin of safety' and 'break even'. Support your answer with a numerical example. (3 marks)

**Question 7**

Evenkeel plc produces a standard bathing platform for a variety of boats. Each bathing platform passes through four processes, which together with other details, are listed below:

<u>Process</u>	<u>Time/unit</u>	<u>Skill Level</u>	<u>Wage rate/Hour</u>
Cutting	30 minutes	A	€14.00
Assembly	40 minutes	B	€11.50
Finishing	50 minutes	C	€9.00
Polishing	20 minutes	D	€8.00

The company is planning to produce 240 units per week on a 40 hour week production.

**Required:**

- A) Calculate the number of workers required in each process for the planned level of production. (4 marks)
- B) Calculate the total labour cost for one week. (4 marks)
- C) Calculate the total labour cost of each unit produced. (4 marks)
- D) Explain the terms 'time rate' and 'piece rate', in relation to employees' remuneration. (3 marks)