

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
INTERMEDIATE LEVEL
MAY 2014

SUBJECT:	ACCOUNTING
DATE:	30 th April 2014
TIME:	9.00 a.m. to 12.00 noon

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. Delfina Boats plc extracted the following trial balance at the end of reporting period 31 December 2013:

	€	€
Inventories: Raw materials	50,000	
Work-in-progress	15,000	
Finished goods	23,500	
Manufacturing wages: Direct	140,000	
Indirect	28,500	
Raw materials purchases	385,000	
Manufacturing expenses	68,200	
Royalties	27,600	
Administration expenses	40,600	
Selling & distribution expenses	52,300	
Allowance for doubtful debts		1,200
<i>Non-current assets/Depreciation Allowance</i>		
Premises/Depreciation	500,000	52,000
Plant & Machinery/Depreciation	145,000	48,000
Fixtures/Depreciation	107,200	26,000
Motor Vehicles/Depreciation	120,000	74,000
Trade receivables	28,000	
8% Debentures		100,000
Trade payables		15,400
Bank		11,800
Cash	4,100	
Sales		1 106,600
Retained Earnings b/f		100,000
Ordinary Share Capital		200,000
	1,735,000	1,735,000

The following information is to be taken into consideration:

a) Inventories on 31 December 2013 consisted of:

	€
Raw materials	62,000
Work-in-progress	23,380
Finished goods	34,500

b) 15% of the Manufacturing expenses are to be considered as direct costs.

- c) The value of premises in the trial balance comprises Land €250,000 and Buildings €250,000. Half of the buildings are utilised for the manufacturing process.
- d) Provide for depreciation as follows:
- | | |
|-------------------|-----------------------|
| Plant & Machinery | 12% on cost |
| Fixtures | 15% on cost |
| Motor vehicles | 40% on net book value |
| Premises | 8% on cost |
- e) 20% of motor vehicles depreciation is related to carriage in of raw materials.
- f) It is the company's policy to maintain an allowance for bad debts equal to 4% of trade receivables.
- g) Prepayments and accruals on 31 December 2013 were:

	<i>Accruals</i>	<i>Prepayments</i>
	€	€
Administration expenses	15,180	8,500
Selling and distribution	21,300	4,200
Audit fees	12,200	--
Directors' remuneration	34,000	--

- h) The debenture interest has not been paid by year end.
- i) The directors decide to transfer €50,000 to a general reserve and propose a dividend of €0.12 per ordinary share.

Required:

- A) For the reporting period ended 31 December 2013, prepare for Delfina Boats plc:
- i) The manufacturing account; **(8 marks)**
 - ii) The statement of comprehensive income; and **(8 marks)**
 - iii) The statement of financial position as at the year end. **(8 marks)**
- B) Distinguish between direct and indirect costs in a manufacturing concern **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.

2. The books of Stern plc showed the following balances on 1 April 2013, the start of its financial year:

	€
Insurance paid in advance	650
Rent paid in advance	900
Commission receivable due	1,540
Allowance for doubtful debts	3,750

The following information is to be taken into consideration:

- a) Insurance is due every 1 September but the annual premium for the year covering the period to 31 August 2014 was increased to €1,800. This was settled on time.
- b) Annual rent of €10,800 is paid quarterly, also in advance. During the year, the company paid all the rent payments on time except for the last instalment due on 1 February 2014. This was paid in May 2014.
- c) The total amount of commission earned during the year ended 31 March 2014 was €3,490. Cheques received for commission during the same period amounted to €4,870.
- d) It is the company's policy to make an allowance for doubtful debts of 5% of amounts due from debtors. On 31 March 2014, trade receivables totalled €89,400. Before providing for a general provision on all trade receivables, a particular debtor owing €15,800 was considered at risk of default and it was decided to create a specific allowance for this amount. This was over and above the general allowance on the remaining debtors.

Required:

- A)** Prepare ledger accounts for Insurance, Rent Payable, Commission Receivable and Allowance for Doubtful Debts. For each account, show the amount to be transferred to the profit statement and the amount to be carried down to the following accounting period. **(16 marks)**
- B)** Explain what you understand by the term 'Accruals concept'. **(4 marks)**

3. At 1 January 2013, the financial position of Alistair Mariner's retail business was as follows:

	€	€
Non-current assets		50,000
Inventories	40,000	
Trade receivables	14,500	
Prepaid expenses	1,000	
Bank balance	19,500	
	75,000	
Trade payables	15,750	
Accrued expenses	4,250	
	20,000	
Net current assets		55,000
		105,000
Capital		105,000

Alistair Mariner provided the following information for the year ended 31 December 2013:

- a) Sales amounted to €1,250,000 and closing inventory was valued at €35,000. A constant gross profit margin of 30% was earned during the year.
- b) As at 31 December 2013, trade payables and trade receivables amount to €18,000 and €16,250 respectively. All payments to trade payables and receipts from trade receivables were made through the bank.
- c) Mariner made the following payments from his bank account during the year:

	€
Shop fittings	25,000
Water and electricity	33,600
Fuel	22,150
Insurance	14,000
Wages	145,000
Drawings	60,000

- d) There were no prepaid expenses at the end of the year, however, accrued expenses amounted to €5,000.
- e) Mariner provides for depreciation at 20% of net book value, calculating a full year's charge in the year of acquisition. No non-current assets were disposed of during the year.

Required:

- A) Calculate the balance at the bank on 31 December 2013. *(10 marks)*
- B) Prepare a Statement of Affairs as at 31 December 2013, and calculate the profit realised by Alistair Mariner during the year. *(6 marks)*
- C) Describe **TWO** advantages for Alistair Mariner should he decide to operate through a limited liability company. *(4 marks)*

4. Gordon Mast extracted the following information from his books:

	€
Total non-current assets as at 31 March 2014	547,000
Current assets as at 31 March 2014	256,000
Total sales during year ended 31 March 2014	540,400
Inventories as at 1 April 2013	22,000

The following ratios relate to Gordon Mast's activities during the year ended 31 March 2014:

Gross profit mark-up	40%
Rate of Stock turnover	16 times
Current ratio	5:3
Acid test ratio	4:5
Expenses to sales ratio	20%
Return on capital employed	8%

Required:

A) Calculate

- i) Cost of sales
- ii) Gross profit
- iii) Net profit
- iv) Closing inventories
- v) Current liabilities
- vi) Net current assets
- vii) Capital employed

(8 marks)

B) From the results obtained in (A), calculate the percentage return on capital employed.

(2 marks)

C) Prepare a statement of comprehensive income for the reporting period ended 31 March 2014 and a statement of financial position as at the year end.

(6 marks)

D) Mention **TWO** benefits **and TWO** limitations of ratio analysis as accounting techniques.

(4 marks)

Please turn the page for Section C.

Section C

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

5. Starboard Enterprises needs to employ more workers on its two production processes. Production Process No.1 involves machining tables' legs, while Production Process No. 2 requires machining of chairs' legs which are smaller and less elaborate. Workers are remunerated either on a fixed rate per hour or on a fixed rate per complete unit. The following details are available:

	Process No.1	Process No.2
Time taken per unit	50 minutes	24 minutes
Rate per complete unit	€7.50	€3.40
Rate per hour	€9.50	€8.25

The company operates on an 8-hour day, five days a week.

Required:

- A) Calculate the gross wage for one week for each production process using (i) the time-rate; and (ii) the piece-rate methods of remuneration. *(10 marks)*
- B) All else being equal, which of the remuneration packages calculated in (A) is more advantageous to the employee? *(2 marks)*
- C) From the point of view of Starboard Enterprises, mention **ONE** benefit of using the time-rate method **and ONE** benefit of using the piece-rate method of remuneration. *(3 marks)*
6. As last year Bollard Engineering operated at a loss, management decided to revise its costing techniques and work practices for the current year. Last year's data was as follows:

Units sold	18,000
Proceeds from sales	€90,000
Fixed costs	€30,000
Loss for the year	€12,000

For the current year, the quality of the product is to be improved and the sales price increased to €6 per unit. This would entail an increase in fixed costs of €6,000 and an increase in variable costs of €0.50 per unit.

Required:

- A) How many units must Bollard Engineering sell this year to break even? *(5 marks)*
- B) If management projected a profit of €15,000 for this year, how many units must be sold to reach this target? *(2 marks)*
- C) Draw a break-even graph to illustrate the projections for the current year as in (B), showing clearly the sales, total cost, variable cost lines and the break-even point. *(4 marks)*
- D) Describe **TWO** limitations of a break-even graph. *(4 marks)*

7. The following data relates to the three production departments of Waters Manufacturing:

	Assembly	Spraying	Finishing
Floor area (m ²)	10,800	3,600	3,600
Equipment net book value (€)	25,000	12,500	17,500
Machine hours per unit	3	3	2
Labour hours per unit	2	4	2

The production level for the next financial year has been set at 10,000 units, and the following are the budgeted production overheads:

	€
Water and electricity	31,500
Factory rent	26,100
Insurance of equipment	13,750
Maintenance of equipment	42,000

Required:

A) For each of the three production departments, calculate the following overhead absorption rates:

- i)** A labour hour rate;
- ii)** A machine hour rate.

(Give you answers correct to 2 decimal places)

(10 marks)

B) Briefly describe how budgeting can act as a control tool for management.

(5 marks)