

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD  
UNIVERSITY OF MALTA, MSIDA  
MATRICULATION EXAMINATION  
INTERMEDIATE LEVEL  
MAY 2015

---

<b>SUBJECT:</b>	ACCOUNTING
<b>DATE:</b>	4 <sup>th</sup> May 2015
<b>TIME:</b>	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 24 marks.**

**Section B**

**Answer any TWO questions from this Section. Each question carries 18 marks.**

**Section C**

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

**Section A**

**Answer Question 1. This question carries 24 marks.**

1. The Masthead Sailing Club presents you with the following Receipts and Payments Account for the year ended 31 March 2015:

<i>Receipts and Payments A/c</i>			
	€		€
Bal b/d	8,210	Rent	5,200
Subscriptions	12,400	Bar suppliers	9,350
From coach trips	1,120	<i>Wages: Bar</i>	8,400
Competitions	4,610	Other staff	5,600
Bar takings	25,850	Insurance	840
		Electricity	2,200
		Competition expenses	1,230
		Competition trophies	620
		New sailing equipment	5,500
		Coach hiring fee	480
		Office expenses	940
		Upkeep expenses	1,620
		Bal c/d	10,210
	52,190		52,190

You are also given the following details regarding the balances at the beginning and end of the accounting period:

	<i>1 April 2014</i>	<i>31 March 2015</i>
Sailing equipment	15,400	?
Furniture and fittings	6,800	?
Bar inventory	3,200	2,600
<i>Accruals: Barman's wages</i>	180	240
Electricity	450	580
<i>Prepayments: Insurance</i>	250	340
Trade payables for bar supplies	2,860	3,380
<i>Subscriptions: in arrears</i>	600	1,320
in advance	840	1,000

Other information:

- (i) Depreciation is provided for at 25% on equipment and 15% on furniture, both on net book value. A full year's depreciation is provided in the year of acquisition and none in year of disposal.
- (ii) Bar purchases amounting to €630 were returned to suppliers as these were past their due date.

- (iii) The bar sales were on a cash basis. The bar takings indicated above include a sale amounting to €45 where the members had no ready cash available and had promised to pay later. However, they never returned to the club since then. They also owed between them €240 in subscriptions, which amount is included in the subscriptions in arrears balances shown above. It was decided to write off these arrears.

**Required:**

- A. Prepare the Statement of Affairs of the club on 31 March 2014;** *(2 marks)*
- B. Prepare the Subscriptions Account and Bar Trading Account for the year ended 31 March 2015;** *(6 marks)*
- C. Prepare the Income and Expenditure Account for the year ended 31 March 2015 and the Statement of Affairs of the Masthead Sailing Club as at 31 March 2015;** *(10 marks)*
- D. Describe three differences between the Income and Expenditure Statement and the Receipts and Payments Account.** *(6 marks)*

*Please turn the page.*

**Section B**

Answer any TWO questions from this Section. Each question carries 18 marks.

2. The following balances have been extracted from the books of Bow Thrusters plc on 31 December 2014:

	€
Freehold premises	880,000
Plant and machinery	186,000
Motor vehicles	84,000
Fixtures	105,000
<i>Depreciation 1 January 2014:</i>	
Freehold premises	84,000
Plant and machinery	72,000
Motor Vehicles	36,000
Fixtures	42,000
<i>Inventories 1 January 2014:</i>	
Raw Materials	18,000
Work-in-progress	15,800
Finished goods	52,400
Raw materials purchases	243,000
<i>Factory Wages:</i>	
Direct	84,000
Indirect	32,000
Electricity	42,500
Insurance	32,400
Other Selling and distribution	26,200
Other Administration expenses	31,000
Financial expenses	18,800
Sales	718,000

Other information:

- (i) Freehold premises includes €400,000 for land.
- (ii) The depreciation charge per annum is as follows:

Freehold premises 2% on cost  
 Plant and machinery and Motor vehicles 20% on cost  
 Fixtures 10% on net book value

- (iii) Inventories on 31 December 2014 were:

	€
Raw materials	22,000
Work-in-progress	17,500
Finished goods	63,600

(iv) The following expenses are apportioned as follows:

	<i>Factory</i>	<i>Administration</i>	<i>Selling &amp; Distribution</i>
Depreciation:			
Premises	80%	10%	10%
Motor vehicles	40%	-	60%
Fixtures	60%	30%	10%
Electricity	60%	10%	30%
Insurance	50%	20%	30%

(v) Motor Vehicles are used to transport raw materials from suppliers to the factory and to deliver finished goods to customers.

(vi) On 31 December 2014, amount due for electricity amounted to €2,600.

(vii) Insurance includes the payment of €21,600 for a policy covering the period 1 February 2014 to 31 January 2015.

**Required:**

**A. Prepare the Manufacturing Account and the Statement of Comprehensive Income of Bow Thrusters plc for the period ended 31 December 2014, showing clearly the prime cost and the cost of manufactured goods. (14 marks)**

**B. Explain the difference between direct factory costs and indirect factory costs, and give two examples for each type of cost. (4 marks)**

*Please turn the page.*

3. Anglers Ahoy is a small retailer that started operating on 1 January 2012, acquiring the following non-current assets:

	Cost (€)
Motor Vehicles	57,000
Office Equipment	42,000

It did not acquire any new non-current assets during its first two years of business, and neither did it make any disposals. Anglers Ahoy always provided for depreciation on its non-current assets. Its policy is to provide depreciation for motor vehicles using the equal instalment method. Each vehicle is written off over four years with a residual value of 10% of its cost. Fixtures are depreciated at 30% using the reducing balance method. A full year's depreciation is provided in the year of acquisition but none in the year of disposal.

During the financial period ended 31 December 2014 the enterprise made the following changes in its non-current assets:

*15 February:* A new computer costing €5,600 was purchased while an old one, acquired on the opening of the business for €3,400 was given away to a non-profit organisation.

*24 May:* A van with an original cost of €32,000 was traded in for a new one costing €38,000. The trade in value of the van was €7,800. A down payment of €10,200 was made and the amount outstanding was to be paid in four equal instalments every six months.

**Required:**

- A. Prepare the Motor Vehicles Account and Office Equipment Account, and the corresponding Depreciation Allowance Accounts for the year ended 31 December 2014. (10 marks)**
- B. Prepare the Disposal Accounts of Anglers Ahoy for 2014. (4 marks)**
- C. Describe two factors that cause depreciation of non-current assets. (4 marks)**

4. Eliza Stern does not keep full accounting records. She has given you the following information in order to calculate her profit for the year 2014.

	31 December 2013	31 December 2014
	€	€
Buildings	55,000	55,000
Fixtures	32,400	32,400
Motor Vehicles	24,200	?
Depreciation:		
Buildings	18,000	?
Fixtures	13,400	?
Motor Vehicles	8,600	?
Inventories	4,400	5,300
Trade receivables	8,500	10,300
Trade Payables	7,100	9,800
Electricity accrued	1,520	--
Electricity prepaid	--	400
Insurance prepaid	380	520
Cash	3,510	110
Bank current account	5,600	?

Apart from the above, on 31 December 2013, Stern had an outstanding bank loan of €40,000, incurring 5% interest annually. The loan interest is paid on 31 December every year.

Receipts and payments through the bank during the year to 31 December 2014 were as hereunder:

<i>Receipts</i>	€	<i>Payments</i>	€
Trade receivables	85,740	Trade payables	56,800
Cash paid into bank	28,300	Salaries	25,200
		Electricity	9,400
		Insurance	5,300
		Deposit on new van	6,000
		Bank loan repayment on 1 January 2014	8,000
		Bank loan interest on 31 December 2014	?

The following information is to be taken into consideration:

- (i) All receipts were immediately banked with the exception of a donation of €120, and the following weekly payments (assume 52 weeks for the year)
  - Drawings                      €250 weekly
  - Cleaner                        €80 weekly
- (ii) Eliza also withdrew €360 worth of stock for her personal use.
- (iii) The cost of the new Motor Van was €24,000.
- (iv) Depreciation is calculated on cost as follows:
  - 5% on buildings
  - 15% on fixtures
  - 20% on motor vehicles
- (v) Returns inwards during the year amounted to €5,600 and returns out were €8,200.
- (vi) Discounts allowed were €4,100 and discounts received totalled €6,800.

**Required:**

- A. Prepare the sales and purchases ledger control accounts of Eliza Stern for the year ended 31 December 2014. (6 marks)**
- B. Prepare the Income Statement of the enterprise for the year ended 31 December 2014. (8 marks)**
- C. The bank balance did not increase as much as profits did, so errors must have been committed. Do you agree with this statement? Give reasons for your answer. (4 marks)**

5. The draft Trial Balance of Alice Bollard at 31 December 2014, the end of her financial year, failed to agree. Subsequent investigations revealed the following:
- (i) No entries had been made for depreciation of Motor vehicles, amounting to €15,400.
  - (ii) Software to serve as attachment for a computer, costing €8,100 was posted to purchases. Computer equipment is depreciated over three years using the straight line method, with no residual value.
  - (iii) Sales returns of €910 by a debtor was posted to the debit of his account, while €1,200 of returns out were correctly posted to the supplier's account but entered in the general ledger as €2,100.
  - (iv) A standing order payment for insurance amounting to €1,240 had not been posted from the cashbook.
  - (v) No entries had been made for €650 worth of goods withdrawn by Alice Bollard for her own personal use.
  - (vi) The Sales daybook was undercast by €3,400 and, similarly, the Purchases Daybook by €1,130.
  - (vii) Discounts allowed for the month of September, totalling €890, were posted to Discounts Received Account.
  - (viii) An entry in one of the accounts in the Trade Receivables Ledger, €420, was posted to the credit side when it should have been posted to the debit side.

**Required:**

- A. Prepare journal entries to correct the above errors. (8 marks)**
- B. Assuming declared profits amounted to €43,200 before any of the above was corrected, prepare a Statement of Corrected Profit. (6 marks)**
- C. Give two examples that illustrate how the totals of the Trial Balance would still be equal in spite of certain accounting errors. (4 marks)**



**Section C**

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

6. A company produces fishing rods and reels – its only two products. All units produced need to go through two production centres, namely, Centre A and Centre B. The details of the cost schedule to produce one unit of each product are as shown below:

	<b>Rods</b>	<b>Reels</b>
Material:	3 kgs at €6.50 per kg	1.75kg at €24.00 per kg
Labour:		
Centre A	2 hours at €6.00 per hour	3.5 hours at €6.00 per hour
Centre B	2 hours at €10.00 per hour	3.5 hours at €10.00 per hour
Machine Hours:		
Centre A	2 hours	3.5 hours
Centre B	2 hours	3.5 hours

The budget for 2015 was based on a production of 24,000 rods and 16,000 reels.

The total fixed production overheads for the year have been budgeted at €50,000 for Production Centre A and €40,000 for Production Centre B.

**Required:**

- A. Calculate the overhead recovery rate (correct to two decimal places) based on**
- (i) Machine hours for Production Centre A; and**
  - (ii) Direct Labour cost for Production Centre B.** *(8 marks)*
- B. Calculate the amount the company must charge for an order of 10 rods and 10 reels if it is to realise a profit margin of 25%.** *(6 marks)*
- C. Briefly describe three differences between management accounting and financial accounting.** *(6 marks)*

*Please turn the page.*

7. A company manufactures a GPS-type of unit for the marine industry. The following are details of its budget for the month of June 2015:

	€
Sales	325,000
Direct materials	90,000
Direct labour	128,000
Variable overhead	42,000
Fixed overhead	58,500

**Required:**

- A. Calculate the contribution/sales ratio for the month of June 2015. *(3 marks)***
- B. Calculate the break-even point in sales value. *(3 marks)***
- C. Calculate the margin of safety for the month of June 2015. *(3 marks)***
- D. What percentage increase in sales is required in order to double the budgeted profit for the month of June 2015? *(7 marks)***
- E. Describe two assumptions made in cost-volume-profit analysis which have to be considered when making decisions. *(4 marks)***

8. Sinker Retailers recorded the following stock movements in its main product during the month of January 2015:

Date	Receipts	Issues	Cost Price (€)
January			
9th	430		8.40
12th		460	
15th	520		8.52
22nd		380	
28th		110	
31st	580		8.65

On 1 January 2015, Sinker Retailers had 80 units in stock. These had been purchased during December 2014, and formed part of a consignment of 480 units costing €3,960.

Sinker Retailers estimates a demand of 10,000 units of their main product during the year 2015. It is expected that it will cost an average of €0.20 to hold one unit in the store. The cost of placing an order amounts to €2.50.

**Required:**

- A. Calculate the value of Sinker Retailers' inventory as at 31 January 2015 using the following methods:**
- (i) The First in First out method of stock valuation
  - (ii) The Average Cost method of valuing inventories *(8 marks)*
- B. In the circumstances existing in January 2015 regarding Sinker Retailers' inventory, which of the two methods would report higher profits? Would the method chosen always result in higher profits when compared with the other? Explain your answer.** *(4 marks)*
- C. From the data given in the question, calculate the economic order quantity for Sinker Retailers' main product.** *(4 marks)*
- D. Explain what the quantity calculated in (C) means and why it is important for management.** *(4 marks)*