

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA
MATRICULATION EXAMINATION
INTERMEDIATE LEVEL
SEPTEMBER 2017

SUBJECT:	ACCOUNTING
DATE:	1st September 2017
TIME:	4:00 p.m. to 7:05 p.m.

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 following is the trial balance of Classic Toys plc for the year ended 30 June 2017:

	€	€
Ordinary share capital		700,000
8% Debentures		200,000
Freehold property	900,000	
Motor vehicles	450,000	
Office equipment	210,000	
Allowance for Depreciation: Buildings		30,000
		Motor vehicles 180,000
		Office equipment 94,000
Inventories	85,000	
Sales		2,250,000
Returns in	124,000	
Returns out		82,000
Carriage in	104,000	
Carriage out	38,000	
Purchases	1,450,000	
Wages and salaries	50,780	
Administrative expenses	74,860	
Distribution expenses	44,600	
Motor vehicles running costs	38,200	
Discounts allowed	56,300	
Discounts received		93,400
Directors remuneration	28,300	
Debenture interest	8,000	
Interim dividend	48,000	
Bank		32,000
Trade receivables	192,400	
Trade payables		150,900
Cash	21,960	
Retained earnings		110,000
Allowance for doubtful debts		2,100
	3,924,400	3,924,400

Further Information:

- a) Issued Share Capital is made up of ordinary shares of €0.50 each.
- b) The Debentures were issued on 1 April 2012, and are redeemable on 31 March 2022.
- c) Freehold Property includes land valued at €400,000.
- d) Depreciation is to be provided for as follows:
 - i. Buildings, at 1% under the equal instalment method;
 - ii. Motor vehicles, at 20% under the equal instalment method;
 - iii. Office equipment, at 30% of net book value.A full year's depreciation is provided in the year of acquisition of a non-current asset. No depreciation is provided in year of disposal.
- e) A motor vehicle purchased for €18,000 with an accumulated depreciation at the start of the year of €14,800 was sold for €5,200 during the year. The amount received was debited to bank and credited to sales. No other entries were made.
- f) The company makes an allowance for doubtful debts of 2.5% on trade receivables.
- g) At the year end, wages in arrears amounted to €2,300, and an accrual for audit fees of €8,500 is required. Administration expenses include €6,500 for rent paid in advance.
- h) On 30 June 2017, inventories valued at cost amounted to €112,000. A closer inspection revealed that €14,000 of these items were obsolete with no value whatsoever.

Required:

- A. Prepare the Statement of Profit or Loss of Classic Toys plc for the year ended 30 June 2017, and the Statement of Financial Position as at year end. (20)
- B. Explain briefly what you understand by the Accruals Concept and its relevance to the final accounts of an enterprise. (4)

(Total: 24 marks)

Please turn the page.

SECTION B

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

2. The following are the financial statements of Nauticus Ltd for the financial years ended 31 March 2016 and 31 March 2017:

Statement of Profit or Loss

	2016		2017	
	€'000	€'000	€'000	€'000
Sales	1,800		2,000	
Less: Cost of sales	<u>900</u>		<u>1,080</u>	
Trading profit		900		920
Less: Expenses		<u>754</u>		<u>811</u>
Net Profit		<u>146</u>		<u>109</u>

Statement of Financial Position

Non-current Assets		350		456
Current assets:				
Inventories	80		98	
Trade Receivables	220		200	
Bank	<u>95</u>		<u>60</u>	
		395		358
Total Assets		<u>745</u>		<u>814</u>
Share Capital	400		400	
Retained Profits	<u>150</u>		<u>259</u>	
		550		659
Long term liabilities:				
8% Debentures		100		100
Current Liabilities:				
Payables		<u>95</u>		<u>55</u>
Total equity and liabilities		<u>745</u>		<u>814</u>

Notes:

- Inventories on 31 March 2015 amounted to €60,000.
- All sales are on credit.
- Dividends of €37,000 were paid during the year ended 31 March 2017.

Required:

A. Calculate the following ratios for both years ended on 31 March 2016 and 31 March 2017:

- i) Gross profit margin;
- ii) Return on capital employed;
- iii) Inventories turnover rate;
- iv) Collection period of receivables;
- v) Current ratio;
- vi) Acid test ratio.

(12)

B. From your analysis in (A), comment briefly on the profitability and liquidity of Nauticus Ltd. (6)

(Total: 18 marks)

Please turn the page.

3. Peter Paul runs a small woodworks manufacturing business producing standard chairs for the catering industry. He presents to you the following information relating to the costs of the twelve months ended 31 March 2017:

	€
Purchases of raw material	173,000
Wages and salaries	65,000
Motor vehicles running costs	6,500
Power and electricity	18,400
Rent of premises	24,000
Depreciation of factory machinery	18,500
Depreciation of motor vehicles	9,300
Depreciation of office equipment	4,200
Supervisors' wages	22,500
Royalties	12,000
Administration expenses	17,510
Selling and distribution expenses	20,810

Peter Paul furnishes you also with the data below:

- | a) Inventories: | <i>1 April 2016</i> | <i>31 March 2017</i> |
|---------------------|---------------------|----------------------|
| | € | € |
| Raw materials | 22,400 | 28,900 |
| Semi-finished goods | 8,900 | 7,220 |
- b) As the factory occupies 75% of the premises, 75% of the rent, power and electricity costs are to be attributed to the factory, and the remaining shared equally between administration and distribution.
- c) Electricity is in arrears by €2,400 and supervisors' wages by €1,500. Administration expenses are prepaid by €800.
- d) As Peter Paul uses his own transport in the purchasing process, 90% of motor vehicles depreciation and running costs are to be considered as carriage in. The rest is to be shared equally between Administration and Selling and Distribution.
- e) €48,000 of wages and salaries relate to direct factory wages, and the remainder is to be divided equally between factory indirect costs and administration.
- f) The chairs are produced under licence for which the enterprise is charged royalties for each unit produced.
- g) 15,000 chairs were produced and sold during the current accounting period.

Required:

- A. Prepare the Manufacturing account of Peter Paul for the year ended 31 March 2017. (9)
- B. Calculate the total Administration and Selling and Distribution overheads for the year. (3)
- C. Assuming that all costs of production have remained unchanged during the past two years, calculate the total cost of each chair produced and sold during the year, and estimate the selling price that leaves a profit margin of 20%. (3)
- D. Distinguish between direct costs and overheads, supporting your answer with **TWO** examples of each. (3)

(Total: 18 marks)

Please turn the page.

4. Frida Balzan runs a haberdashery retail outlet. She is quite good at running the business but she leaves much to be desired where keeping adequate accounting records is concerned. You offer to help and she provides the information below:

	<i>31 December 2015</i>	<i>31 December 2016</i>
	€	€
Equipment, at book value	8,400	15,400
Inventories	10,600	11,800
Trade receivables	14,200	16,300
Trade payables	13,700	25,300
Owing: Electricity	1,050	840
Advertising	760	-
Prepaid: Advertising	-	420
Rent	530	380

The following is a summary of Frida's bank account for the year ended 31 December 2016:

Receipts	€	Payments	€
Opening balance	1,800	Trade Payables	114,200
Trade receivables	132,750	Advertising	2,450
Cash sales	32,360	Rent	5,600
		Wages	12,800
		Electricity	5,210
		Equipment	10,500
		Drawings	9,000

Further information:

- Before banking receipts from cash sales, Frida paid workers tasked with repairs to her residence €800 and she also paid €25 a week for cleaning the business office.
- During the year, discounts allowed to customers amounted to €6,800 and debts of €260 were written off. Returns in amounted to €13,630 and goods returned to suppliers were €8,600.
- Although Frida kept strict records of sales activities, she failed to do the same where purchases were concerned. In fact, she was certain suppliers had allowed her discounts, which she could not quantify.
- All sales were made at a uniform gross profit mark-up of 25%.
- Frida Balzan operated her retail outlet for 52 weeks during 2016.

Required:

- Prepare Frida Balzan's Statement of Profit or Loss for the year ended 31 December 2016, in as much detail as possible. (15)
- Explain why drawings are not treated as costs to the business, and identify the relevant accounting concept. (3)

(Total: 18 marks)

5. Quickfix plc extracted the following information from its books for the year ended 31 December 2016:

	€
Total banked receipts from trade receivables	154,000
Total paid to trade payables	84,200
Credit notes to customers	5,800
Credit notes from suppliers	9,300
Discounts allowed	16,700
Discounts received	11,400
Debts written off	8,500
Bad debts recovered	3,900
Cash received from customers, not banked	7,200

It is also to be noted that:

- a) A customer's outstanding balance of €3,100 was set off against her balance in the purchases ledger.
- b) Trade receivables and trade payables at the beginning and end of the accounting period were as follows:

	1 January 2016	31 December 2016
	€	€
Trade receivables	12,700	11,600
Trade payables	15,400	9,800

Required:

- A. Prepare Quickfix's Trade Receivables and Trade Payables Control Accounts for the 12 months ended 31 December 2016. (14)
- B. Identify **TWO** data sources for the preparation of the Trade Receivables Control Account and another **TWO** data sources for the Trade Payables Control Account. (4)

(Total: 18 marks)

Please turn the page.

SECTION C

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

6. John and Jack are two of the employees in the assembly department of an electronic manufacturing enterprise.

John works a 40-hour week at a flat rate of €6.00 per hour. In his section, workers are allowed 2 hours for the production of each unit. A bonus is paid for time saved. This is calculated at 50% of the flat hourly rate. Defective units are discarded, and no bonus is paid for them.

Jack is engaged on piece-rate conditions. He is paid at the rate of €12.50 per unit produced, excluding defective units. Jack's working conditions also stipulate that he is to produce at least 15 good units per week. If he does not reach the weekly quota, his remuneration rate shall be reduced by 10%.

The following is the schedule of production of John and Jack during a 4-week period:

	<i>John</i>		<i>Jack</i>	
	<i>Units Produced</i>	<i>Defective Units</i>	<i>Units Produced</i>	<i>Defective Units</i>
Week 1	24	1	18	-
Week 2	19	-	25	2
Week 3	22	-	28	3
Week 4	20	2	12	-

Required:

- A. Calculate the wages earned by John and Jack for the 4-week period. (16)
- B. Distinguish between time rates and piece rates, and, for each remuneration method, mention **ONE** benefit and **ONE** drawback for the enterprise. (4)

(Total: 20 marks)

7. Histyle plc, catering for the fashion industry, has three production departments and two service departments. Hereunder are the overheads recorded for each department for a period of six months:

<u><i>Production Departments:</i></u>	€
Cutting	36,800
Sewing	28,000
Finishing	21,800
<u><i>Service Departments:</i></u>	
Maintenance	5,000
Stores	8,000

For the six-month period, the total number of machine and labour hours in each production department are as follows:

<u>Production Department</u>	<u>Labour Hours</u>	<u>Machine hours</u>
Cutting	225	900
Sewing	1200	300
Finishing	600	180

Labour costs €12 per hour in the Cutting and Sewing Departments, and €13 per hour in the Finishing Department.

The Service Departments' expenses are to be apportioned as follows:

	<u>Cutting</u>	<u>Sewing</u>	<u>Finishing</u>	<u>Stores</u>	<u>Maintenance</u>
Maintenance	60%	20%	10%	10%	--
Stores	40%	40%	20%	--	--

Job BB2 required input material cost of €2,415 and the following quantities of labour and machine hours in each production department:

	<u>Cutting</u>	<u>Sewing</u>	<u>Finishing</u>
Labour hours	3	8	3
Machine hours	5	5	2

Administrative expenses are absorbed at 50% of cost of production. Histyle sells its items at a profit margin of 25%.

Required:

- A. Calculate the overhead absorption rate for each production department, in each case using basis you deem most appropriate. (10)
- B. Prepare a statement of costs for Job BB2 and calculate what the customer should be charged. (6)
- C. Explain why you consider the absorption basis chosen in (A) to be the most appropriate in the circumstances. (4)

(Total: 20 marks)

Please turn the page.

8. Paloma plc produces standard stainless steel sinks for industrial use. Presently, it produces 200,000 units per annum, representing 80% of its productive capacity. Each unit is sold for €60. The cost of production at this level of capacity is as follows:

	€'000
Material	3,600
Direct labour	4,400
Factory indirect costs	2,500
Distribution costs	400
Administration costs	800

40% of Factory indirect costs are variable. Distribution and administration costs are fixed.

On the suggestion of one of its directors, Paloma plc is considering increasing output to full capacity. According to the management accountant, the selling price has to be reduced by 10% in order to sell all the units produced at full capacity. Furthermore, the cost of material per unit would decrease by €5 due to quantity discounts, however: labour cost per unit would increase by €1; the fixed factory overheads would increase by €1,000; and the distribution and administration costs would increase by 10%.

Required:

- A. Calculate Paloma's present contribution per unit and break-even point in units. (5)
- B. Calculate the new contribution and break-even point in units, should Paloma increase production to its maximum capacity. (5)
- C. Calculate the margin of safety and profit, for both the present output and at maximum capacity level. (6)
- D. Based on your results calculated in (A), (B) and (C), advise Paloma plc whether it should act on its director's suggestion and operate at full capacity. (4)

(Total: 20 marks)