IM01.19m

L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE
EXAMINATIONS BOARD

INTERMEDIATE MATRICULATION LEVEL
2019 FIRST SESSION

SUBJECT:	**Accounting**
DATE:	10th May 2019
TIME:	4:00 p.m. to 7:05 p.m.

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

Section A
Answer all **FIVE** questions in this section. Each question carries 4 marks.

Section B
Answer question 6. This question carries 30 marks.

Section C
Answer any **ONE** question from this section. This section carries 25 marks.

Section D
Answer any **ONE** question from this section. This section carries 25 marks.

You must show the working leading up to your answers.
Candidates may only use non-programmable calculators in this examination.

SECTION A

Answer all FIVE questions in this section. Each question carries 4 marks.

1. Describe **FOUR** differences between financial and management accounting. (4)

2. Describe **TWO** ratios that you would use to measure the profitability of a company and **TWO** ratios to measure its liquidity. (4)

3. Explain the difference between time rate and piece rate methods of labour remuneration, indicating the circumstances when each method of remuneration would be preferable. (4)

4. What is a budget? Describe **TWO** fundamental reasons why budgets are prepared. (4)

5. Why is it important to control inventory levels? Mention **THREE** techniques used to control inventory. (4)

(Total: 20 marks)

SECTION B

Answer Question 6. This question carries 30 marks.

6. The following is the Trial Balance extracted from the books of Dinghy Manufacturing Ltd on 31 December 2018:

	€	€
Plant/Allowance for Depreciation	320,000	98,000
Motor vehicles/Allowance for Depreciation	80,000	44,000
Shop fixtures/Allowance for Depreciation	84,000	28,000
Trade receivables/Trade payables	53,200	63,400
Loose tools	8,200	
Bank		20,500
Share capital		180,000
Share premium		30,000
Retained earnings		48,400
Dividends paid	18,100	
Allowance for doubtful debts		2,660
Sales		726,000
Purchases	294,000	
Inventories: Raw materials	41,000	
Finished good	38,500	
Work-in-progress	21,600	
Factory wages	105,000	
Supervisors' wages	34,000	
Administration expenses	19,800	
Selling expenses	32,600	
Returns in/Returns out	14,500	17,300
Discount allowed/Discounts received	23,400	12,740
Factory general expenses	14,400	
Electricity	8,700	
Rent	60,000	
	1,271,000	**1,271,000**

The following are to be taken into consideration:

a) Inventories on 31 December 2018:

	€
Raw materials	54,000
Work-in-progress	16,380
Finished Goods	42,020

b) The figure for purchases in the trial balance includes €3,800 relating to a purchase of loose tools. The value of loose tools at the end of the reporting period was €9,200.
c) As at 31 December 2018, factory wages and electricity still unpaid amounted to €15,000 and €3,800, respectively.
d) Rent prepaid at end of year amounted to €6,000.
e) The depreciation charge for the year is calculated as follows:

Plant	8% on cost
Motor Vehicles	40% on net book value
Shop fixtures	20% on cost

f) The assessment of trade receivables at the end of the year showed that 4% of trade receivables are considered as unrecoverable.
g) €98,000 of factory wages were paid to workers who are directly involved in production. The rest were for factory indirect wages.
h) Motor vehicles are used by two departments on an equal basis, namely, by the Purchasing Department when buying raw materials and by the Sales Department when delivering goods to customers.
i) Rent and electricity are apportioned 60% to factory and 40% to administration.

Required:

A. For the reporting period ended 31 December 2018, prepare for Dinghy Manufacturing Ltd:
   i) A manufacturing account, showing clearly the prime cost and the cost of goods manufactured; (10)
   ii) A Statement of Comprehensive Income; and (9)
   iii) A Statement of Financial Position. (6)

B. i) Distinguish between direct and indirect factory costs, giving **TWO** examples of **each** type of cost. (3)
   ii) Explain why it is important for a manufacturing concern to make a distinction between direct and indirect factory costs. (2)

(Total: 30 marks)

Please turn the page.

SECTION C

Answer any ONE question from this Section. Each question carries 25 marks.

7. The Statement of Financial Position on 1 April 2018 of Masthead plc included the following balances:

	Cost	Accumulated Depreciation
	€	€
Motor Vehicles	140,000	52,000
Equipment	64,000	32,760

During the 12-month period ended 31 March 2019, the following disposals and acquisitions of Motor Vehicles and Equipment took place:

a) On 15 May 2018, a motor vehicle costing €14,000 which had been purchased on 12 November 2015 was sold for €3,200.
b) On 15 June 2018, a motor van was purchased for €22,000.
c) On 14 August 2018, equipment which had been in use for more than 10 years was scrapped. It had an original cost of €18,000.
d) Another item of equipment, originally costing €8,000 when purchased 4 years ago, was found to be no longer adequate to meet production requirements. On 1 February 2019, it was exchanged for new equipment costing €12,800. The trade-in allowance of the old equipment was agreed at €3,800.
e) In March 2019, a pick-up van which had been purchased in April 2017 was equipped with a new awning for its carrier at a cost of €2,700. The remaining useful life of the pick-up was 3 years and the cost of the awning was to be written off in equal instalments over these 3 years.

Other information:

- The policy of Masthead plc is to depreciate only those non-current assets on its books at year end. A full year's depreciation is provided for acquisitions during the year.
- Motor vehicles are depreciated at 40% of their written down value.
- Equipment is written down in equal instalments over 10 years with an estimated scrap value of 10% of the original purchase price. Except for the old equipment that was scrapped on 14 August 2018, all the equipment held on 1 April 2018 was purchased 4 years ago.

Required:

A. Prepare the ledger accounts for the Motor Vehicles, Equipment, Motor Vehicles Depreciation Allowance and Equipment Depreciation Allowance, for the period ended 31 March 2019. (18)
B. Prepare the Disposal Accounts and an extract from the Statement of Financial Position of Masthead plc as at 31 March 2019, showing the non-current assets. (7)

(Total: 25 marks)

8. Big Buoy, trading in nautical goods, does not keep complete accounting records but can provide you with the following information for the 12-month period ended 31 December 2018:

a) Bank records

	€
Receipts:	
Deposits	169,440
Proceeds from sale of non-current assets	8,200
Payments:	
Trade payables	142,300
Rent	17,500
Purchase of new equipment	18,000
Electricity	6,400

b) Big Buoy conducts all sales transactions at a uniform gross profit margin of 33⅓%.
c) Not all receipts were banked as, apart from cash purchases costing €22,500, the owner withdrew €2,000 on a monthly basis for his personal use, paid a cleaner €40 every Friday (for 52 weeks) and an assistant €940 monthly for wages.
d) The owner of Big Buoy is sure that a number of trade receivables had defaulted during the year and that he had erased their records; but he cannot quantify the amount. On the other hand, his records show that total discounts allowed amounted to €23,900, and €17,200 were discounts received.
e) From credit notes it was ascertained that returns inwards were €9,800 and returns outwards €7,400.
f) The proceeds from non-current assets were received from the disposal of two motor vans which were in excess to requirements. Their net book value was €12,500 in total.
g) Other balances:

	1 January 2018	31 December 2018
	€	€
Non-current assets (net book value)	36,400	35,800
Trade payables	21,500	29,600
Trade receivables	23,600	41,250
Inventories	16,200	19,800
Bank	19,400 (credit balance)	?
Accruals:		
Electricity	1,800	1,960
Rent	4,500	--
Prepaid:		
Rent	--	3,000

Required:

On the basis of the information provided by Big Buoy, prepare:

A. The Statement of Profit and Loss for the year ended 31 December 2018; and (17)
B. The Statement of Financial Position as at 31 December 2018. (8)

(Total: 25 marks)

Please turn the page.

SECTION D

Answer any ONE question from this Section. Each question carries 25 marks.

9. Bollards plc budgeted the following factory overheads for the six months ending 30 June 2019:

	€
Machinery depreciation	36,000
Electricity	26,000
Insurance of factory building	18,300
Power	11,655
Indirect labour	208,000

The enterprise operates two production departments and a warehouse, with details as below:

	Assembly	**Finishing**	**Warehouse**
Floor area (square metres)	20,000	12,000	8,000
Cost of machinery (€)	250,000	150,000	--
Direct material cost (€)	350,000	50,000	--
Indirect labour hours	15,600	20,800	3,600
Direct labour hours	35,000	45,000	--
Machine hours	40,000	30,000	--

The overheads of the warehouse are shared between Assembly and Finishing in proportion to number of direct labour hours. Direct labour in both production departments costs €12.50/hour.

During March 2019, Job XY2 was started and completed. Direct material costs charged to the job were 65 kg at €6.20/kg. Job XY2 passed through both production departments, where it logged the following hours:

	Assembly	**Finishing**
Direct labour hours	18	25
Machine hours	35	15

Required:

A. Choosing appropriate bases, apportion the budgeted indirect expenses to the two production departments and to the warehouse. (13)
B. Apportion the warehouse costs to the two production departments. (2)
C. Calculate a machine hour absorption rate for the Assembly Department and a labour hour absorption rate for the Finishing Department. Round your answers to the nearest two decimal places. (2)
D. Using the absorption rates calculated in (C), find the production cost of Job XY2. (8)

(Total: 25 marks)

10. All Screws Ltd manufactures and sells standard fenders for the boating industry. The company's planned activity for the three months ending 30 September 2019 is as follows:

Production in units	12,000
	€
Direct material	180,000
Direct labour	108,000
Variable overheads	72,000
Fixed overheads	135,000

Contribution is planned to be 50% of variable cost.

The management accountant suggested that if the selling price per unit was to decrease by €1, sales would increase to 15,000 units resulting in an increase in profits. At the same time, because of more intensive activity, fixed costs would increase to €142,800.

Required:

A. Calculate the selling price and contribution per unit, the breakeven point in units, and estimated profit if:
   i) the accountant's suggestion is not taken up; (8)
   ii) the accountant's suggestion is implemented. (6)

B. For the situation in A(i) only, draw a break-even chart showing the breakeven point, the profit area and the margin of safety. Use the graph paper provided. (8)

C. If the accountant's suggestion is implemented, would the margin of safety increase or decrease? (3)

(Total: 25 marks)