MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

INTERMEDIATE MATRICULATION LEVEL
2019 SECOND SESSION

SUBJECT:	**Accounting**
DATE:	30th August 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. Mention **FOUR** user groups of accounting information and briefly explain the various needs of each user group. (4)

2. Describe the difference between capital reserves and revenue reserves, providing **TWO** examples of each type of reserve. (4)

3. Highlight the main difference between:
   a) A public company and a private company; and (2)
   b) Authorised share capital and issued share capital. (2)

4. Describe how a pre-determined overhead absorption rate is calculated and explain why it is used. (4)

5. Mention and explain **TWO** limitations of break-even analysis. (4)

(Total: 20 marks)

SECTION B

Answer Question 6. This question carries 30 marks.

6. The following balances have been extracted from the books of Neptune plc as at 31 March 2019:

	€	€
Purchases	704,300	
Sales		1,215,000
Returns inwards	25,000	
Returns outwards		13,200
Administration expenses	98,000	
Selling and distribution expenses	151,160	
Freehold land	600,000	
Buildings	290,000	
Equipment	160,500	
Motor vehicles	82,200	
Allowance for depreciation b/f:		
- Buildings		84,300
- Equipment		43,500
- Motor vehicles		26,700
Inventory b/f	40,900	
Trade receivables	37,600	
Trade payables		27,820
Allowance for doubtful debts		2,390
Cash and bank	26,450	
Ordinary share capital (€0.50 per share)		600,000
Revaluation reserve		50,000
Share premium		40,000
Retained earnings		43,200
Dividends paid	30,000	
6% Debentures 2030		100,000
	2,246,110	**2,246,110**

The following information is available:

a) The end-of-year inventory held in the warehouse was valued at cost €52,300. This amount included goods awaiting delivery to customers. These goods, having a sales value of €11,900 representing a mark-up of 75%, have been invoiced to customers and credited to sales.

b) The annual depreciation charge of non-current assets is calculated as follows:

Buildings	2% on cost
Equipment	15% on cost
Motor Vehicles	40% on net book value

c) The debentures were issued on 30 September 2018, and are redeemable at par on 30 September 2030. Interest is payable semi-annually, in March and September.

d) The Selling and Distribution expenses, as shown in the trial balance, include €16,400 transport costs, 25% of which have been incurred in relation to purchases of goods for resale.
e) A bill for electricity amounting to €3,600, and €8,400 of salaries, are outstanding on 31 March 2019; while insurance at that date was prepaid by €5,800. Electricity, wages and insurance are all treated as Administration Expenses.
f) Sales personnel of Neptune plc are entitled to a commission of 1% of net Sales. No entries were made in this regard.
g) Following a review of amounts due from customers, it was determined that expected credit losses are estimated at 5% of amounts due.
h) The bank statement, received after the preparation of the trial balance, shows an entry for a payment of €1,425 for annual membership of a trade federation. This transaction has not been recorded in the books of Neptune plc.

Required:

A. Prepare the Statement of Comprehensive Income and the Statement of Changes in Equity of Neptune plc, for the year ended 31 March 2019. (16)
B. Prepare a Statement of Financial Position as at 31 March 2019. (9)
C. Two important concepts in Accounting are the Accruals and the Consistency concepts. Explain how these affect the preparation of the final accounts, by giving **TWO** examples for each concept as applied in practice. (5)

(Total: 30 marks)

Please turn the page.

SECTION C

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

7. The following are the summarized financial statements for the accounting 12-month period ended 30 June 2019 of Anchors Limited, a small trading enterprise in the cruise ship industry:

	30 June 2019 €	30 June 2018 €
Comprehensive Income Statement		
Sales	201,800	163,000
Opening inventory	11,600	18,800
Purchases	132,000	105,200
Closing inventories	(18,600)	(11,600)
Cost of sales	125,000	112,400
Gross profit	**76,800**	**50,600**
Expenses	(40,600)	(16,000)
Net profit	**36,200**	**34,600**
Statement of Changes in Equity (extract)		
Retained earnings b/d	22,100	10,000
Net profit for year	36,200	34,600
Dividends paid	(25,000)	(22,500)
Retained earnings c/d	**33,300**	**22,100**
Statement of Financial Position		
Non-current assets	81,200	62,300
Inventories	18,600	11,600
Trade receivables	15,200	43,500
Bank	29,600	0
Total current assets	63,400	55,100
Total assets	**144,600**	**117,400**
Share capital	50,000	50,000
Retained earnings	33,300	22,100
5% loan	30,000	30,000
Equity + long-term loans	113,300	102,100
Trade payables	15,200	8,500
Accrued expenses	16,100	5,200
Bank Overdraft	0	1,600
Current liabilities	31,300	15,300
Equity + Liabilities	**144,600**	**117,400**

Additional information:

a) The entire capital, made up of shares of €1 each, is owned by 5 shareholders who receive most of the profits in the form of dividends.
b) All dividends have been paid.
c) Expenses include the loan interest.

The five shareholders are extremely satisfied with the results achieved during the period ended 30 June 2019 as the bank has changed from an overdrawn balance to a positive healthy balance, profits have increased, and more non-current assets have been acquired.

Required:

A. For each of the two years under review calculate the following ratios:
   i. Gross profit margin;
   ii. Net profit margin;
   iii. Return on Capital Employed (ROCE);
   iv. Inventory turnover;
   v. Current ratio;
   vi. Acid test ratio;
   vii. Trade receivables collection period (assume that all sales were on credit); and
   viii. Trade payables payment period (assume that all purchases were on credit).

(16)

B. Based on the figures obtained in (A), prepare a report to the shareholders of Anchors Limited highlighting the performance of their business and its financial positon, also commenting on whether they are justified for being satisfied with the results obtained for the period ended 30 June 2019. (9)

(Total: 25 marks)

Please turn the page.

8. The following balances were extracted from the books of Tow Bar plc on 31 December 2018:

		€
Sales		1,025,000
Raw material purchases		485,000
Inventories 1 January 2018:		
	Raw materials	37,500
	Finished goods	50,800
	Work-in-progress	14,000
Direct wages		84,000
Indirect factory wages		64,000
Salaries		38,000
Factory power		26,000
Electricity		32,000
Royalties		50,000
Factory rent		38,000
Insurance		34,000
Carriage in		16,300
Carriage out		11,000
Returns in		24,200
Returns out		26,300
Administration expenses		31,600
Discounts allowed		16,200
Non-current assets net book value 1 January 2018:		
	Plant & Machinery	145,000
	Motor vehicles	24,800
	Office equipment	29,600
Loose tools valuation on 1 January 2018		11,200

Further information:

a) The net book values of the non-current assets and the valuations of other current assets on 31 December 2018 were as follows:

	€
Plant & machinery	128,000
Motor vehicles	26,800
Office equipment	25,600
Loose tools	12,800
Raw materials	46,500
Work-in-progress	18,600
Finished goods	45,200

b) During the year, a motor vehicle originally costing €13,600 and with accumulated depreciation of €5,400, was traded in for its book value, with another car costing €13,800.

c) Motor vehicles are used equally by the purchasing of raw materials department and the selling department.

d) An amount of €3,600 was spent on loose tools and was inadvertently charged to purchases.

e) Electricity and factory rent outstanding at period end were €6,200 and €3,000 respectively, while insurance was prepaid by €2,500.

f) One-tenth of the factory rent relates to the warehouse where finished goods are stored.

g) Apportion the following expenses as indicated:

	Factory	**Administration/Distribution**
Insurance	5	2
Electricity	3	2

Required:
For the twelve months ended 31 December 2018, prepare for Tow Bar plc:
A. the Manufacturing Account; and (15)
B. the Statement of Profit and Loss. (10)

(Total: 25 marks)

SECTION D

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

9. The store record for a special type of material X used in a manufacturing process shows an opening balance of 100 units costing €8.50 each, and the following purchases and issues to production during the first 3 months of 2019:

Date	**Purchases**	**Issues**
Jan 14		60 units
Jan 16	60 units @ €9.00 each	
Feb 5		80 units
Feb 20	120 units @ €8.00 each	
Feb 28		50 units
Mar 6	60 units @ €9.50 each	
Mar 14		70 units
Mar 29	50 units @ €12.00 each	

The annual usage of material X is estimated to be 1,600 units. Usage per day of material X varies from 2 to 8 units. The supplier of material X takes between 10 to 20 days to make a delivery. Every order costs €0.50. The annual holding cost per unit of X has been calculated as €1.

Required:
A. Calculate the value of inventory on 31 March 2019 using the:
   i) FIFO (perpetual inventory valuation method); (6)
   ii) AVCO (perpetual inventory valuation method). (6)
B. Calculate the following inventory control quantities for material X:
   i) The economic order quantity (EOQ); (4)
   ii) The re-order level; (3)
   iii) The minimum inventory level; and (3)
   iv) The maximum inventory level. (3)

(Total: 25 marks)

Please turn the page.

10. Pavia Riggings is preparing the budget for the last quarter of 2019. The projected balances for 30 September 2019 are as follows:

	€
Inventory	18,000
Bank balance (debit)	8,000
Trade receivables	17,400
Trade Payables (for August purchases)	12,600
Trade Payables (for September purchases)	27,000

The projected sales and payments for the last 3 months of the year are:

	October	**November**	**December**
	€	**€**	**€**
Sales	48,000	54,000	42,000
Payments for expenses:			
Wages and salaries	6,000	4,800	5,600
Other running costs	2,600	3,000	2,800

Notes:

a) 20% of sales are in cash.
b) Sales are made at a uniform profit margin of 33⅓%.
c) All trade receivables pay in the month following the sale.
d) Purchases are paid for: 10% in cash; and the rest in two equal instalments in the following two months.
e) Inventories are kept at a constant level of €18,000.

Required:
Prepare the monthly cash budget of Pavia Riggings for the three months ending 31 December 2019. (25)

(Total: 25 marks)